



PROCEEDINGS

of the
9th ASECU YOUTH INTERNATIONAL CONFERENCE AND SUMMER SCHOOL &
10TH JUBILEE SUMMER SCHOOL OF THE FACULTY OF ECONOMICS – SKOPJE,
UKIM

ENHANCING AND MANAGING COMPETITIVE ECONOMICS AND BUSINESS ENVIRONMENT: CHALLENGES FOR THE SOUTH EASTERN EUROPEAN COUNTRIES AND THE BLACK SEA REGION

Organized by
**Ss. Cyril and Methodius University in Skopje (UKIM), Faculty of Economics –
Skopje**
In cooperation with
**ASECU - Association of Economic Universities of South and Eastern Europe
and the Black Sea Region, Greece**

June 2021

ISBN: 978-608-212-075-1

**The 9th ASECU Youth International Conference and Summer School &
10th Jubilee Summer School of the Faculty of Economics – Skopje, UKIM**
has been organized by



ENHANCING AND MANAGING COMPETITIVE ECONOMICS AND BUSINESS ENVIRONMENT: CHALLENGES FOR THE SOUTH EASTERN EUROPEAN COUNTRIES AND THE BLACK SEA REGION

Proceedings of the **9th ASECU Youth International Conference and Summer School & 10th Jubilee Summer School of the Faculty of Economics – Skopje, UKIM,**
organized by

Ss. Cyril and Methodius University in Skopje, Faculty of Economics - Skopje
ASECU - Association of Economic Universities of South and Eastern
Europe and the Black Sea Region, Greece

ISBN: 978-608-212-075-1

Proceedings include papers that reflect results of scientific research of graduate and post-graduate students of the South-Eastern Europe universities. Presented papers covered issues of modern economic science, relevant issues of development of world economy and economy of countries of Southern and Eastern Europe, including different industrial aspects.

For more information, please
contact: ASECU Secretariat
University of Macedonia,
156 Egnatia, PO 54006 Thessaloniki, Greece
E-mail: asecu@uom.gr • Web: <http://www.asecu.gr>

© ASECU, 2021. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording scanning or otherwise, except with a prior written permission of the publisher or authors.

Address by the President of the Scientific Committee

Distinguished ASECU & ASECU Youth partners, professors, and students,

Faculty of Economics – Skopje, at Ss. Cyril and Methodius University in Skopje (UKIM), as nationally and internationally recognizable academic, research and project institution, is, on a continuous and systematic bases, focused at creating, developing and integrating of various national, regional and international forms of cooperation, with respected academic institutions, research centers, NGO's, as well as with the representatives of the local and national institutions.

Within numerous publications, events and activities for the purpose of celebrating our 70th Jubilee of our Faculty of Economics – Skopje, UKIM, we are especially proud and happy, having co-organized the 9th ASECU Youth International Conference and Summer School & 10th Jubilee Summer School of the Faculty of Economics – Skopje, UKIM, titled „Enhancing and managing competitive economics and business environment: Challenges for the South and Eastern European countries and the Black Sea region“, with our consistent international partners, i.e. ASECU & ASECU Youth, during the period 14-16 September, 2020, in an entirely on-line format, due to Covid-19 world pandemia.

In this context, we especially feel sincerest satisfaction for the fact that this was the first, entirely on-line organized and implemented ASECU Youth International Conference and Summer School, whereas for our Faculty of Economics – Skopje, UKIM, we had the honor to celebrate our 10th Jubilee summer school.

Currently implemented 9th ASECU Youth International Conference and Summer School & 10th Jubilee Summer School of the Faculty of Economics – Skopje, UKIM is, in fact, our second ASECU co-organizing event, besides our co-organization with ASECU of the 9th International Conference of ASECU "Systemic Economic Crises: Current Issues and Perspectives", effected over the period 30-31 May, 2013, at the premises of our Faculty of Economics – Skopje, UKIM.

We fully believe that fostering and implementing various modalities of regional and international cooperation among ASECU and ASECU Youth member states, indicated through annual conferences, summer schools, network research activities, project preparation and implementation etc. firmly contributes to broadening the capacities, network integration and academic, research and, in general, expert oriented profile of the academic staff of the Faculty of Economics – Skopje, as a prominent member of the oldest and most qualitative national university, i.e. Ss. Cyril and Methodius University in Skopje (UKIM).

Finally, I feel pleasure for the degree of achieved mutual understanding, support and respect that the Faculty of Economics – Skopje, UKIM consistently develops with ASECU - Association of Economic Universities of South and Eastern Europe and the Black Sea Region, Greece, as well as with ASECU Youth.

We remain entirely dedicated to enhancement of our future cooperation with ASECU and ASECU Youth,

Wishing you entire success,

**Prof. Predrag Trpeski, Ph.D.,
Dean of the Faculty of Economics – Skopje, UKIM
President of the Scientific Committee of the
9th ASECU Youth International Conference and Summer School &
10th Jubilee Summer School of the Faculty of Economics – Skopje, UKIM**

Address by the President of the Organizing Committee

Esteemed ASECU & ASECU Youth Colleagues & Participants

In the year when the Faculty of Economics – Skopje, at Ss. Cyril and Methodius University in Skopje (UKIM) celebrated its 70th fruitful anniversary and inspiring tradition, dedication and quality in educational, research and project oriented activities, it has been a profound satisfaction and enriching experience co-organizing the 9th ASECU Youth International Conference and Summer School & 10th Jubilee Summer School of the Faculty of Economics – Skopje, UKIM during the period 14-16 September, 2020.

Covid-19 pandemic environment has changed our working and living circumstances and it determined the on-line format of our traditional and internationally recognizable youth, student conferences and summer schools, for the purpose of securing health and prosperity of all participating students and professors. Within the general working topic, identified as: „Enhancing and managing competitive economics and business environment: Challenges for the South and Eastern European countries and the Black Sea region“, due to the impressive students research focus and analytical approach, have been developed the following 3 thematic, daily structured, scientific working session categories, i.e.:

- ✓ Economic and social advancements in South – East Europe and Black Sea Region.
- ✓ Contemporary business environment in South – East Europe and Black Sea Region.
- ✓ Competitive economics in South – East Europe and Black Sea Region.

At the 9th ASECU Youth International Conference and Summer School & 10th Jubilee Summer School of the Faculty of Economics – Skopje, UKIM have participated 59 students, originating from 14 countries, as of North Macedonia, Greece, Russia, Romania, Poland, Albania, Kirgizstan, Belorussia, Moldavia, Bulgaria, Armenia, Turkey, Ukraine and Egypt, as well as 12 professors have presented their expert lectures, originating from 7 national economies.

Traditionally, at ASECU Youth International Conference and Summer School, 7 presented scientific-research students papers have been selected for the prestigious Tsekouras Price for Young Economists, from universities in North Macedonia, Greece, Russia, Bulgaria and Romania.

Finally, I am deeply convinced that our 9th ASECU Youth International Conference and Summer School & 10th Jubilee Summer School of the Faculty of Economics – Skopje, UKIM has entirely achieved its key purpose, i.e. to serve as a connecting bridge for closer and more intensive cooperation and trust among numerous students and professors, originating from faculties and universities belonging to the ASECU family members.

**Looking forward to our future joint projects,
With sincerest regards,**

**Prof. Leonid Nakov, Ph.D.,
Full Professor at the Faculty of Economics – Skopje, UKIM
Secretary General of ASECU,
President of the Organizing Committee of the
9th ASECU Youth International Conference and Summer School &
10th Jubilee Summer School of the Faculty of Economics – Skopje, UKIM**

SCIENTIFIC COMMITTEE

The Scientific Committee of the 9th ASECU Youth International Conference and Summer School & 10th Jubilee Summer School of the Faculty of Economics – Skopje, UKIM has been composed of the following internationally prominent professors and researchers:

Prof. Predrag Trpeski, Ph.D., President, Faculty of Economics – Skopje, UKIM, Dean

Prof. Grigoris Zarotiadis, Ph.D., Aristotle University of Thessaloniki, Greece, President of ASECU

Milena Balanova, M.Sc., Rostov State University of Economics, Russia, President of ASECU Youth

Prof. Mijalce Santa, Ph.D., UKIM, North Macedonia

Prof. Oleg Bodyagin, Ph.D., Rostov State University of Economics, Russia

Prof. Leonid Nakov, Ph.D., UKIM, North Macedonia

Prof. Paskal Zhelev, Ph.D., University of National and World Economy, Bulgaria

Prof. Bogdan Wierzbinski Ph.D., University of Rzeszow, Poland

Prof. Vesna Karadzic, Ph.D., University of Montenegro, Montenegro

Prof. Zaklina Stojanovic, Ph.D., University of Belgrade, Serbia

Prof. Fatmir Memaj, Ph.D., University of Tirana, Albania

Prof. Dejan Mikerevic, Ph.D., University of Banja Luka, Bosnia & Herzegovina

ORGANISING COMMITTEE

The Organizing Committee consists of the following dedicated academic staff from the Faculty of Economics – Skopje, UKIM:

Prof. Leonid Nakov, Ph.D., President

Prof. Ezeni Brzovska – Tesik, Ph.D.

Prof. Igor Ivanovski, Ph.D.

Prof. Aleksandra Janeska – Iliev, Ph.D.

Prof. Dimitar Jovevski, Ph.D.

Prof. Elena Naumovska, Ph.D.

Prof. Aleksandar Naumoski, Ph.D.

Assist. Ivan Dionisiev, M.Sc.

Assist. Ljuben Kocev, M.Sc.

Assist. Marijana Cvetanovska, M.Sc.

Marijana Cvetkovska, M.Sc.

TABLE OF CONTENTS

SECTION 1: ECONOMIC AND SOCIAL ADVANCEMENTS IN SOUTH – EAST EUROPE AND BLACK SEA REGION	11
Economic Consequences of Covid-19 Lockdown in the Major Services Sectors: An Overview for Selected SEE Countries	12
Globalization, International Business and Renewable Energy – Changes In 2020	22
Plastic Waste Management in Norway and Their Economic and Other Environmental Benefits	32
The Connectivity of the Added Value Growth and GDP Growth	38
Public Interest in Competition Policies in the Covid-19 Process	43
Reviewing the Strategic Role of the Port of Thessaloniki for the Economic Development in South-Eastern Europe: A Qualitative and Quantitative Research of the Port of Thessaloniki and its Impact on the Growth of the Region Involved	51
The Evolution of South-eastern European Countries In-Between Crises	63
Multicultural Coworking	71
SECTION 2: CONTEMPORARY BUSINESS ENVIRONMENT IN SOUTH – EAST EUROPE AND BLACK SEA REGION	77
The Mini Schengen Zone Impact on Contemporary Business Environment	78
Financial Education, a Challenge for the South and Eastern European Countries - Case Study: Romania	87
Impact of Outsourcing Sector on Business Environment and Competitiveness in Eastern Europe	97
Kurt Lewin’s Change Management Model Implemented in Textile Industry in North Macedonia	104
Why is it Important for Companies to Adapt to Change?	113
Challenges Business Owners Face Expanding to International Markets, Overcoming Competition and the Importance of Having a Strategy	120
Improving the Business Environment in the Countries of Eastern Europe and the Black Sea Region Trough Interventions to Increase Financial Literacy	129
Customs Measures Ensuring National Security and Supporting Russian Economy During the World Pandemic	139

SECTION 3: COMPETITIVE ECONOMICS IN SOUTH – EAST EUROPE AND BLACK SEA REGION	149
State Regulation of Platform Companies in China and Russia	150
The Effects of Blockchain Technology in the New Digital Era with a Special Focus on Accounting	163
Diversity, Equity and Inclusion – Contemporary Aspects of Strategic Leadership	173
Modeling an Industrial Policy for Bulgaria	179
The Economics of New Enterprises, the Number of Businesses and Economic Growth Across the EU During 2008-2017	191
Infrastructure of the Modern Market Economy	201
Patterns and Shifts in the Labor Market Equilibria in Manufacture in the EU and the Balkans During 2008-2017	208
From the Great Depression to the Great Recession: Applied Rethinking	218
Enhancing and Managing Competitive Economics and a Sustainable Business Environment in Romania	224



9th ASECU Youth International Conference and Summer School &
10th Jubilee Summer School of the Faculty of Economics - Skopje



Section 1: Economic and Social Advancements in South – East Europe and Black Sea Region



Economic Consequences of Covid-19 Lockdown in the Major Services Sectors: An Overview for Selected SEE Countries

Nikolay Boshnakov

University of National and World Economy

Sofia, Bulgaria

nboshnakov_19160107@unwe.bg

ABSTRACT: *The common expectations for the Covid-19 pandemic lockdown were to generate a substantial economic fallout in South East European economies in the second quarter of 2020 and beyond. This paper is motivated by recent analyses of international institutions e.g. OECD, IMF, The World Bank etc., concerning the economic slowdown of the world economy – globally and in some regions. Except some general macroeconomic forecasts, there is rarely a quantitative assessment of the expected economic effects, especially concerning particular economic sectors within regions. The paper presents quantitative results about the dynamics of some short-term indicators for selected services sectors of several South East European countries in the first two quarters of 2020. The main statement here is that the lockdown effects of the Covid-19 pandemic are quite uneven among the SEE economies, and in the same time, the most affected are the services sectors in the majority of SEE countries. Using Eurostat data, a suggested descriptive analysis is focused on the accommodation and food service activities; information and communications sector; retail sector, including food-beverages-tobacco and automotive fuel subsectors. The study is conducted as a cross-country comparative analysis of sectoral monthly dynamics of chosen indicators in selected SEE countries for the period January 2019 – May/June 2020.*

Keywords: *comparative analysis, Covid-19, services sectors, South East Europe, turnover dynamics.*

INTRODUCTION

Almost half a year passed since the launch of the restriction measures implemented in most countries in the world against the Covid-19 pandemic, especially in Europe. South East European region is not an exclusion – a variety of measures have been implemented in order to provide social distancing and limiting the spread of the disease. In the start of this period, the common expectations about the Covid-related lockdown were to induce a substantial economic fallout in South East European (SEE) economies in the second quarter of 2020 and beyond. The actual development of the events confirmed these expectations which was indicated by the analyses and forecasts of different international organizations.

According to a World Bank report on Western Balkans the countries of this region may experience a severe collapse facing the Covid-19 consequences (WBG, 2020). This is especially valid for those relying most on tourism related services sectors where the aggregate demand is anticipated to shrink substantially. The majority of consumers should avoid such services as far as these expose them directly to high risk of infection. In the spring of 2020 the expectations for the upcoming summer tourism season were quite unfavourable (valid not only

for the Western Balkans but also for countries like Greece, Turkey, and Bulgaria). Another demand problem arose from the delay in any possible “nonessential consumption and investment” for an unclear future period – until the crisis is overcome. The aggregate supply was also affected as much as the governments imposed constraints on many supplementary businesses that could not operate with “social distancing” rules. In the same time, companies in some services sectors were capable of running their businesses from distance, e.g. teleworking, online sales, distance learning education, supplies of goods by post or courier, etc. In any way, the Covid-related disturbance in transportation and supply chains negatively affected manufacturing. In general, services that involve physical interaction, were expected to suffer the most – e.g. hotels and restaurants, international and domestic public transport, and any activity requiring close in-person servicing.

In its World Economic Outlook IMF reports its findings about the economic downturn, particularly predicting severe contractions due to anti-pandemic measures in most SEE economies by 3% to 10% on annual basis (IMF, 2020). Preliminary forecasts for particular countries indicate pessimistic scenarios for their GDP growth in 2020 (e.g. Romania: -5%; Serbia: -3%; Croatia: -9%; Montenegro: -9%; North Macedonia: -4%; Albania: -5%; Bulgaria: -4%; Turkey: -5%; most affected country expected to be Greece: -10%). Moreover, Western Balkan countries – and in some extent Bulgaria and Romania – rely also on a continuous inflow of remittances that support the domestic demand and investment, however, remittances are expected to decline because of travel restrictions as well as losses of jobs in host countries (especially in Greece, Spain, Italy, and other Western EU countries). OECD report on Western Balkans suggest that the supportive anti-crisis policies can only partially offset the negative consequences but cannot entirely compensate the effects from implemented lockdown measures (OECD, 2020b).

OECD analysis on SEE economies outlines several structural weaknesses specific for the Western Balkans – and in great extent for former market transition countries like Bulgaria and Romania – that can put additional pressure on the labour markets along with the Covid-19 pandemic (OECD, 2020a). Such identified weaknesses are: high share of informal employment; high rates of unemployment, particularly for youth (not in employment, education or training); lower rates of female participation in labour market; systematic brain drain through emigration (i.e. young skilled workers, particularly in health professions, seeking job opportunities outside SEE); large share of workers in the high-skilled segment that have no prior experience with teleworking.

ECONOMIC DYNAMICS IN SERVICES SECTORS: AN OVERVIEW

Dynamics of turnover in selected services sectors

The following descriptive analysis uses data from the Eurostat Database (Eurostat, 2020a) for Short-term business statistics, Turnover in Services, for the period January 2019 – May 2020. The database provides data about this indicator for only 5 SEE countries: Bulgaria, Croatia, Romania, Slovenia, and Turkey. Figure 1 presents the dynamics of the Index of Turnover for “Accommodation and food service activities” (with base level for 2015=100). It can be noted that the turnover level of this sector in these 5 countries at the beginning of lockdown (April-May 2020) is few times lower than the level in the same months one year ago. Particularly, the average index for these 5 countries in April 2019 is 130.4 which drops 5 times to 29.2 in April 2020. The ratio for the next month is 3 times lower: 148.5 for May 2019 decreasing to 48.5 in May 2020. The decline is apparently higher for Turkey, Romania, and Slovenia.

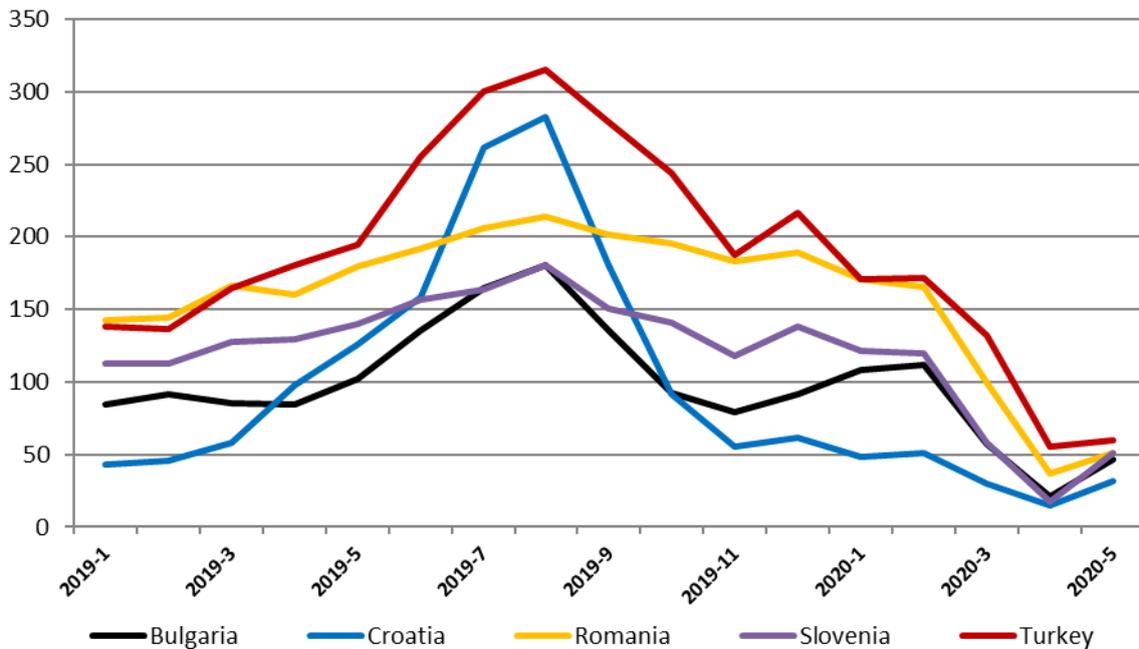


Figure 1. Turnover in Services: Accommodation and Food (Seasonally unadjusted; Index 2015=100; Source: Eurostat)

Moreover, the dropdown is much higher for the operations of tourism and travel agencies subsector which was widely announced by the media. Figure 2 presents the dynamics of the Index of Turnover for “Travel agency, tour operator and other reservation service and related activities”. In the first months of the lockdown the level of operations in this subsector is 9.1 (April 2020) and 11.0 (May 2020) compared to the average levels of 125.0 (April 2019) and 155.2 (May 2019). This provides evidence that one of the most heavily affected businesses are

those facilitating tourism and international traveling – an official decline of turnover more than 10 times!

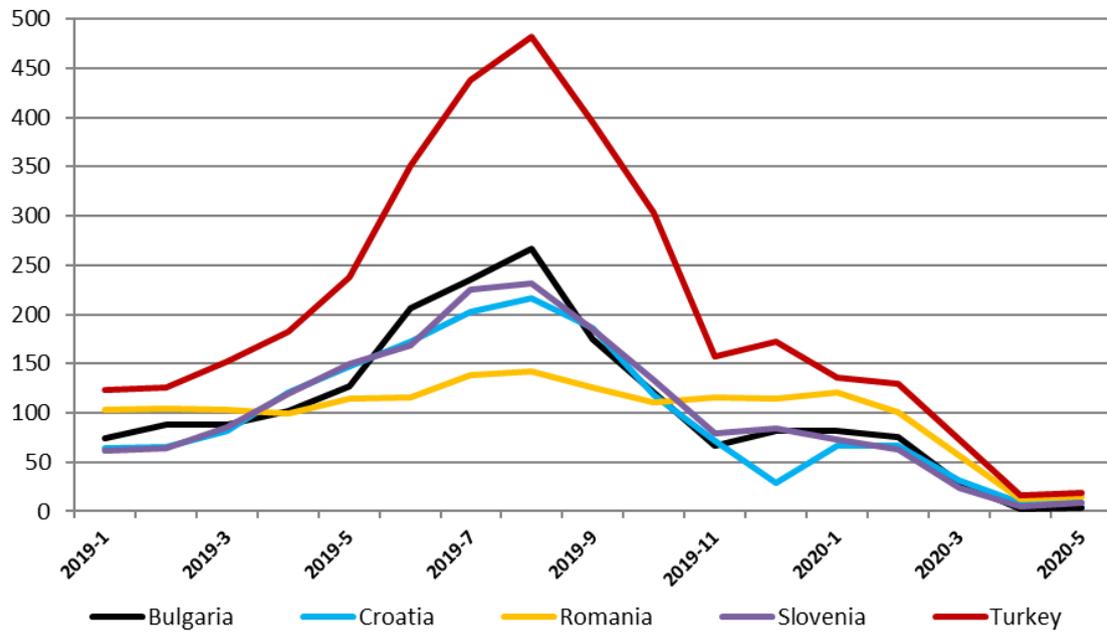


Figure 2. Turnover in Services: Travel agency, tour operator and other reservation service and related activities (Seasonally unadjusted; Index, 2015=100; Source: Eurostat)

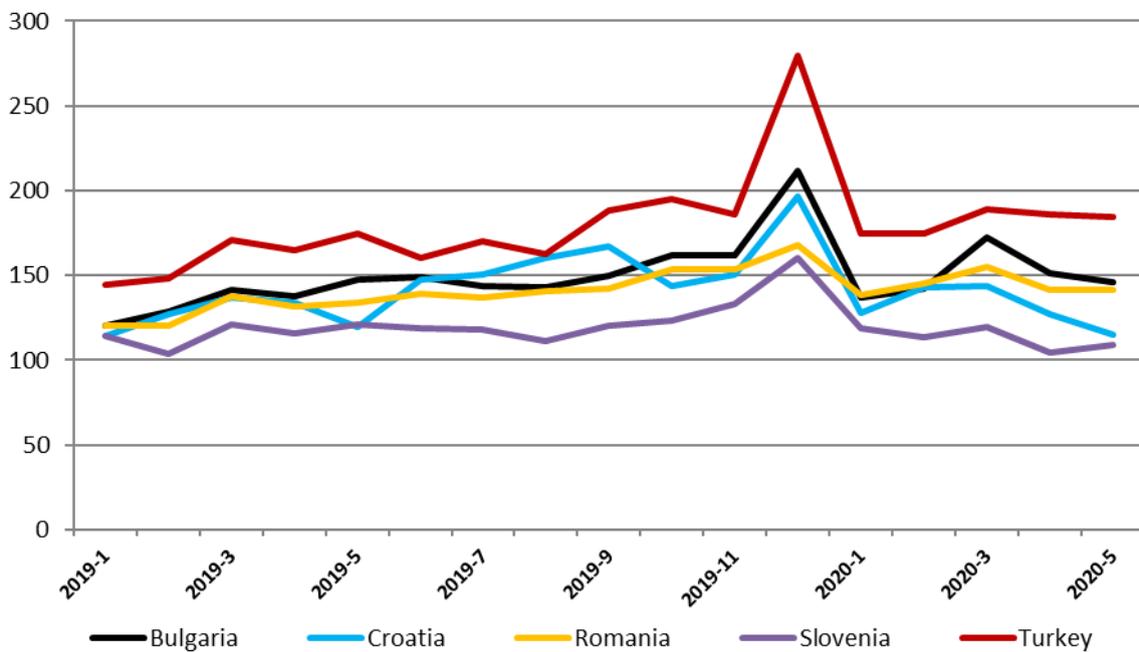


Figure 3. Turnover in Services: Information and communication (Seasonally unadjusted; Index 2015=100; Source: Eurostat)

In contrast, one of the typically non-disturbed fields is the ICT services, including telecommunications; internet and information system services; computer programming and

consultancy; video and television programme production and broadcasting; etc. Figure 3 presents the dynamics of the Index of Turnover for ICT sector (Code J, NACE Rev.2) for the five countries. The average index for April 2019 is 136.8 which fairly expands to 142.0 in April 2020 (the index for May 2019 and 2020 is the same: 139.3). A slight decrease by just few percentage points is observed in Croatia and Slovenia.

Dynamics of retail trade in selected goods

In order to demonstrate how diversely different businesses have been affected by Covid-19 lockdown, two types of goods have been selected for description of their short-term dynamics. Figure 4 presents the dynamics of the Index of Deflated Turnover for “Retail sale of automotive fuel in specialised stores” (with base level for 2015=100). Data from the Eurostat Database for Short-term business statistics, Turnover and volume of sales in retail trade, January 2019 – May 2020, is available about “automotive fuel” for 8 SEE countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Romania, Slovenia, and Turkey (Eurostat, 2020a).

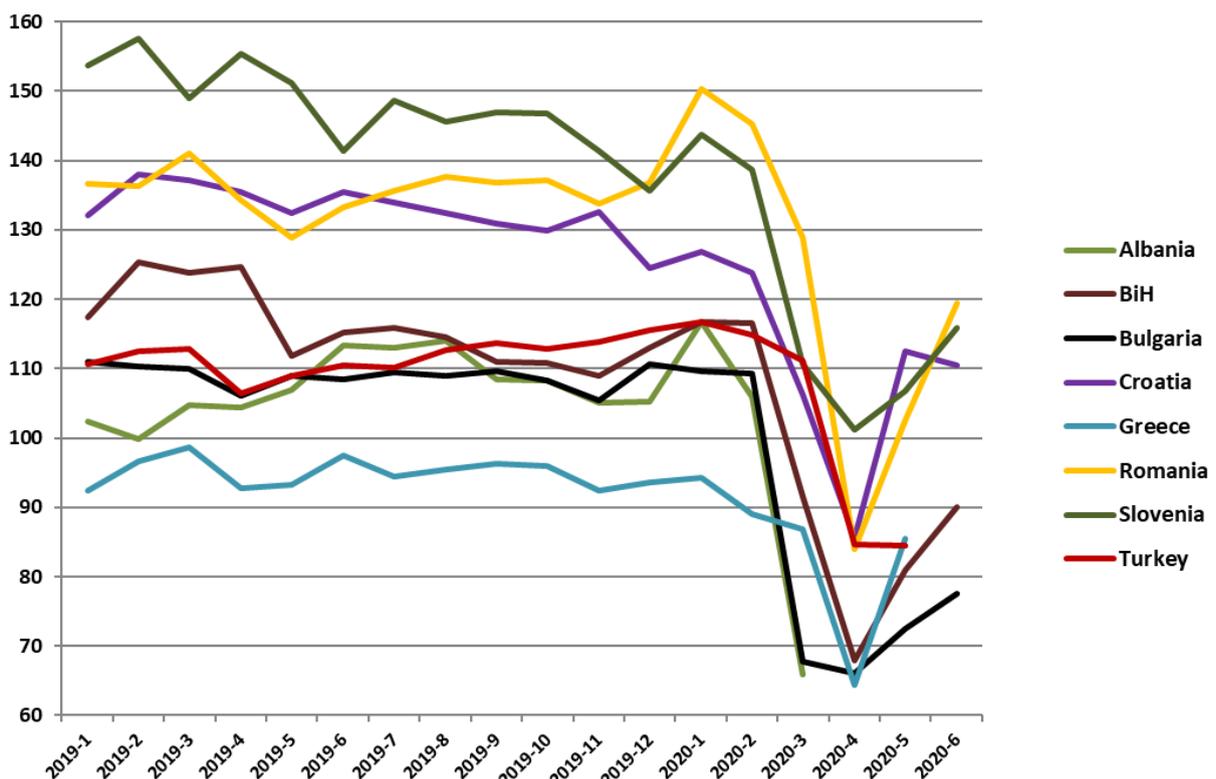


Figure 4. Retail sales of automotive fuel in specialised stores (Seasonally adjusted; Index, 2015=100; Source: Eurostat)

The limitations of physical mobility, “unnecessary travels” and related measures caused a substantial dropdown in the retail sales of automotive fuels. Figure 4 shows that the initial shock is strongest in April 2020 when some countries experienced a severe loss of retail sales

of fuels. The shock is recorded for two countries already in March 2020: the sales dropped down to 65.9 (from 104.8 in March 2019) in Albania and to 67.8 (from 110.0 in March 2019) in Bulgaria. Similar decline – to about two thirds of the level in 2015 – is observed in April 2020 for Greece and BiH. The decrease of fuel sales seems lower in other 3 countries – Croatia, Romania, and Turkey – by about 40 percentage points (84.8 on average in April 2020 compared to 125.4 in April 2019). The data shows a rapid restoration of the levels of sales after lifting many limitations in the start of the tourist season in June 2020.

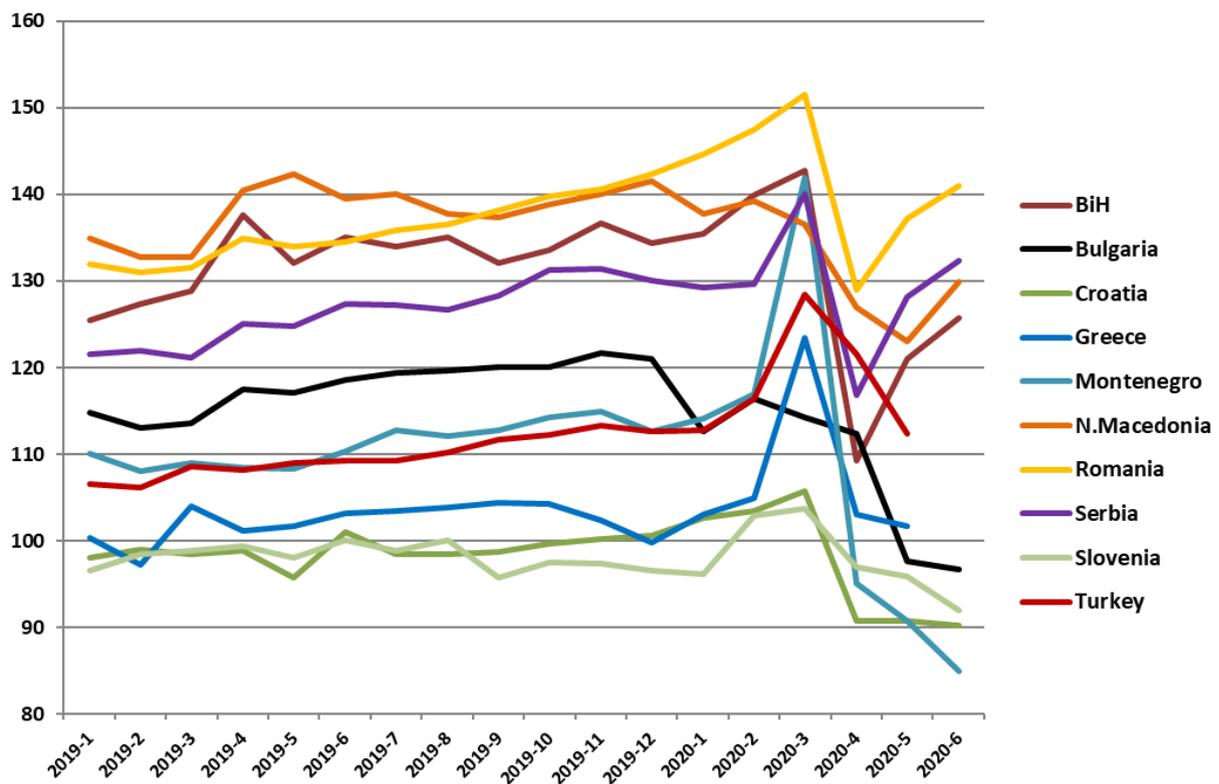


Figure 5. Retail sales of food, beverages, and tobacco (Seasonally adjusted; Index, 2015=100; Source: Eurostat)

Substantial diversity in the lockdown shock in April 2020 is observed for the retail sales of an important category of goods: “Food, beverages, and tobacco”. Figure 5 presents the dynamics of the Index of Deflated Turnover for “Turnover and volume of sales in wholesale and retail trade: Retail sale of food, beverages and tobacco” (with base level for 2015=100) for the studied period. Here an interesting phenomenon is observed in the first month of the lockdown measures – a jump in retail sales to average level of 128.9 (March 2020, compared to 114.7 in March 2019) for ten SEE countries. This effect can be explained by a temporary behavior of consumers to “stockpile” reserves of food supplies in a very uncertain global and domestic situation. The jump is most obvious in Montenegro (from 109.0 in March 2019 to 142.0 in

March 2020) and Romania (131.6 to 151.6) and Serbia (121.2 to 140.1). This peak is followed by the expected dropdown in April 2020 succeeded by 3 scenarios for three groups of SEE countries in June 2020. The first group (Romania and Serbia) fully restored their pre-crisis levels of sales; this is valid also for Greece and Turkey where no dropdown is recorded. The second group (BiH and N. Macedonia) shows an obvious trend to recover these levels, but not yet achieved in June 2020. The third group (Bulgaria, Croatia, Montenegro, and Slovenia) do not show any sign of restoring their pre-crisis levels of retail sales of “Food, beverages, and tobacco” in June 2020 yet.

SHORT-TERM EXPECTATIONS OF BUSINESSES

The initial lockdown from March-May 2020 has been followed by relaxation of many restrictions in order to provide opportunities for businesses to restore their operations. The expectations of business managers in the Services sectors in SEE countries are particularly important to reveal the perspectives for recovery as seen by the business people in the region.

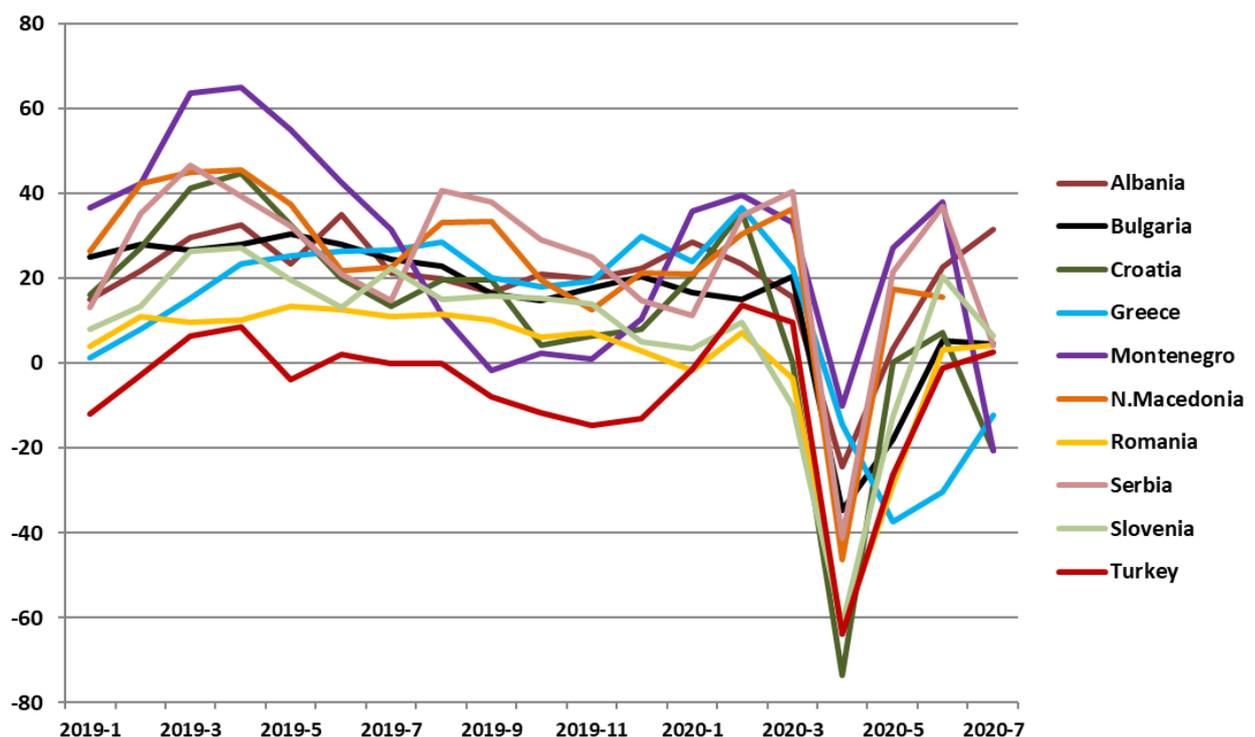


Figure 6. Expectation of the demand over the next 3 months (Seasonally unadjusted; Balance = Share(+) minus Share(-); Source: Eurostat)

Figure 6 presents the dynamics of the Balance Indicator estimated by pan-European questionnaire surveys among samples of business managers in “Services”. The indicator

measures the difference between the shares of those responded positively and negatively to a question about “Expectation of the demand over the next 3 months” in the respective country. The lockdown effect clearly caused a severe shock in April 2020 where much larger share is estimated for the managers with negative than positive expectations about the demand in services (-43.2 percentage points on average for 10 SEE countries). This divergence is largest for Croatia (-73.5), Turkey (-63.7), Romania (-62.5) and Slovenia (-61.6). In June 2020 the expectations have returned to positive in several countries, e.g. Montenegro (+38.0), Serbia (+36.9), Albania (+22.5) and Slovenia (+20.5). However, the expansion of infection rates during the summer of 2020 caused a reversal and more cautionary and balanced expectations are recorded in July 2020 (e.g. Serbia and Slovenia: +4 to +6 percentage points; negative in Croatia, Greece and Montenegro: -12 to -20).

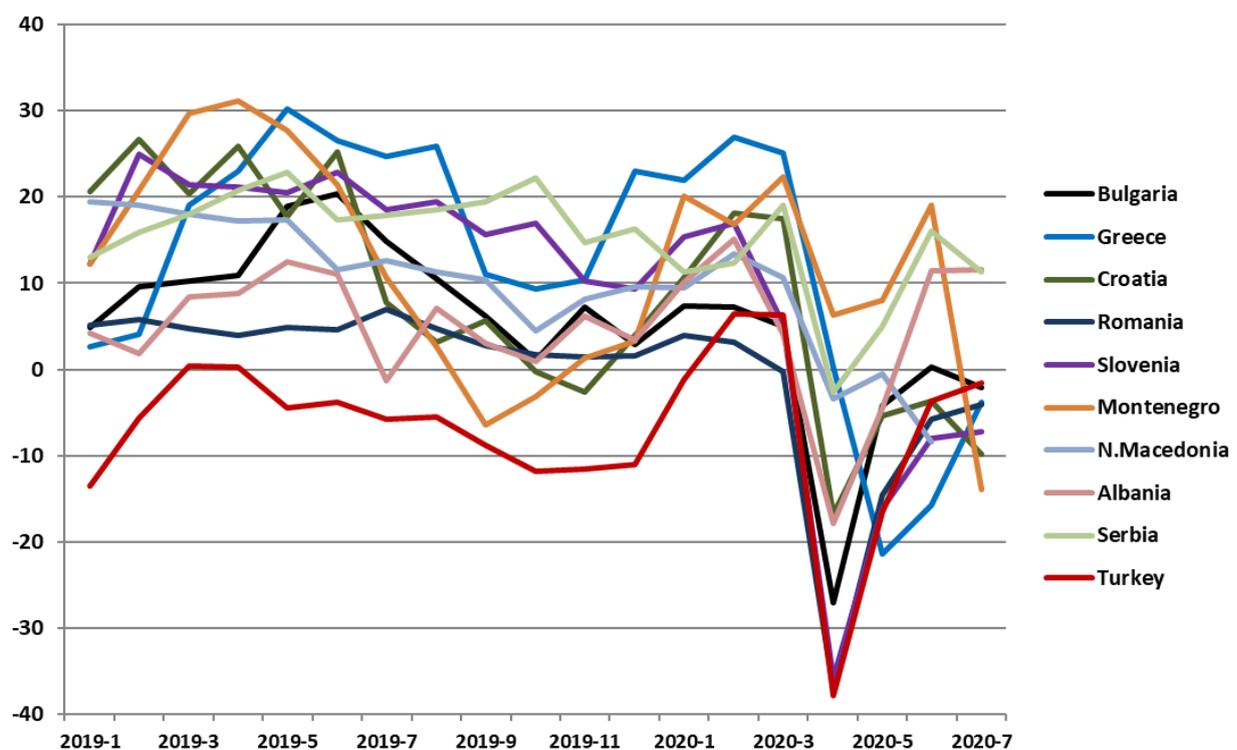


Figure 7. Expectation of the employment over the next 3 months (Seasonally unadjusted; Balance = Share(+) minus Share(-); Source: Eurostat)

Figure 7 presents the dynamics of the Balance Indicator estimated about “Expectation of the employment over the next 3 months” by the business managers in the services sector. The downturn in April 2020 reflects the overall shock from the lockdown measures, however, the expectations about the employment of personnel are more negative than the demand expectations. Negative balances of the indicator are recorded in most of the 10 SEE countries

in May and June 2020. This continues slightly also in July 2020 except for Albania (+11.6) and Serbia (+11.3) where positive balances for employment expectations are estimated. Business managers in the Services sector are still concerned with the opportunities for employing personnel in the uncertain future of August-October 2020 in light of the expanding infection in Europe and worldwide.

CONCLUSIONS

The paper provides a descriptive analysis of the dynamics of some indicators for Services sectors in selected SEE countries for the period January – May/June 2020. For this purpose, most recent data for these short-term business indicators is used from the Eurostat database. The results showed evidently the scale of the economic downturn in these sectors in the SEE region. In light of this, societies in SEE countries rely on a focused public policy to limit the distress evaluated as even more severe than the global financial crisis of 2008-2009. It is clear that any measures should rapidly support the most affected businesses and employees, with a special focus on the health care system economy. Particularly concerning the Western Balkans, *“as countries in the region come out of the crisis, their policies need to shift from crisis-fighting to restarting the economy”* (WBG, 2000).

Analyses of international organizations (e.g. WB, IMF, OECD) outline some major directions for the economic support to be implemented in the region to meet the immediate challenges of Covid-19 pandemic. Such are oriented to supporting: (i) SMEs in their efforts for surviving in uncertain times; (ii) tourism businesses and their sustainable recovery; (iii) employment policies of businesses to retain the valuable personnel; (iv) education and training that provides skills for teleworking and distance learning; (v) digitalization as a key tool for assisting any possible social distancing and remote operations by digital platforms (OECD, 2020b). Other specific areas of policy focus should not be excluded, for example environmental and plastics pollution issues, potential gender imbalances due to restrictions, investment and trade stimulation by taxation policies, etc. Although a substantial financial support from the EU anti-crisis package of measures is expected in SEE region, *it is of major responsibility of local governments* to mobilize all domestic resources to counteract the massive negative consequences of the global Covid-19 pandemic.

REFERENCES

- EUROSTAT (2020a). Eurostat Database. Industry, Trade, and Services: Short-term Business Statistics. (<https://ec.europa.eu/eurostat/data/database>; Extracted on: 14.08.2020).
- EUROSTAT (2020b). *Industrial production up by 9.1% in both Euro area and EU*. News Release: Euro Indicators, August 2020.
- IMF (2020). *World Economic Outlook Update: A Crisis Like No Other, An Uncertain Recovery*, June 2020, International Monetary Fund.
- OECD (2020a). *Covid-19 Crisis Response in South East European Economies*. OECD Policy Responses to Coronavirus (COVID-19), April 2020, Paris: OECD.
- OECD (2020b). *The Covid-19 Crisis in The Western Balkans: Economic impact, policy responses, and short-term sustainable solutions*. Tackling Coronavirus (Covid-19), Contributing to a Global Effort. Paris: OECD.
- WBG (2020). *The Economic and Social Impact of COVID-19: Setting the Stage*. Western Balkans Regular Economic Report No.17, Spring 2020, The World Bank Group.

Globalization, International Business and Renewable Energy – Changes In 2020

Ivan Dimitrov

PhD student at the University of National and World Economy (UNWE)
Sofia, Bulgaria

E-mail: ivan_dimitrov_unwe@abv.bg

ABSTRACT: *The process of globalization has a key role in the modern society. It has shaped the international business and supported the rise in the usage of renewable energy. As a consequence, the world has become a united place in social, economic, political and environmental context. International trade and people's natural curiosity about the unknown have always been the leading stimuli for the development of globalization. But in the beginning of the year the whole system was changed from a single event from Asia. The pandemic has spread like a wild fire across the Globe. At the same time the current economic crisis has begun. It will affect all aspects of the economy and the international business, including the renewable energy. This report examines the current changes in the international business environment and the possible effects on the renewable energy sector in the near future. The goal of the research has been achieved through analysis and synthesis of empirical information, content analysis of various publications on economic, environmental and climate change topics. The results of this review show that the measures of social distancing and the temporary closure of some businesses have triggered the change to a new phase of the economic cycle. The recession will have an impact on the investments in renewable energy and will change the status quo in political and economic sense.*

Keywords: *globalization, international business, renewable energy*

INTRODUCTION

At the beginning of the year, the world faced an unprecedented crisis. Initially, the pandemic began as a health crisis, but with the introduction of measures by governments against it, it grew into an economic one. Subsequently, processes of social discontent and political instability began in a number of countries. The year 2020 will be remembered as a time when the world economy is moving into a new cycle - that of a recession. The globalization is one of the key drivers of the world economy, and when it is in a difficult situation, the international business also suffers. However, the interesting thing is that not all business sectors were affected and even some have registered subsequent profits. These are almost all online services, health products and the IT industry. The areas of the life where there is direct contact between people, such as transport and tourism, were the most affected. Our goal with this short article is to make a forecast for the future development of the global economy, international business and renewable energy. For this purpose, we will make a brief review of the main changes in 2020 and their possible outcome in the near future.

Globalization and international business in 2020

Globalization is a force that has effects on every corner of the Globe. Without its influence, our world would not be the same. It has effects that affect the lives of every individual, enterprise and country. Its main effects are summarized briefly in the following table from a previous science research (Zhelev, 2015, p. 16;):

Table 1. Pros and cons of the globalization according to its supporters and its opponents

<i>Pros of the globalization:</i>	<i>Cons of the globalization:</i>
- increasing the efficiency of the usage of limited resources worldwide;	- job losses in the industry of developed countries;
- lower prices for goods and services;	- increasing pollution of the environment;
- faster economic growth;	- strengthening the gap between rich and poor countries;
- higher income for consumers and higher standard of living.	- loss of national sovereignty and cultural identity.

We can distinguish the two groups as positive and negative effects. For the purpose of the current short review we will focus only on the more controversial effects, such as those from the first group, which are about the lower prices of goods and services and the higher income for consumers, and from the second are the loss of jobs in the industry of developed countries and the loss of national sovereignty and cultural identity. It always depends on the case. For example, one of the leading motives for the so-called Brexit was precisely the refugee crisis, the consequences of the lack of work for the locals and the loss of cultural identity. But this is a very controversial topic, because for highly skilled workers, a low-skilled emigrant would hardly be an obstacle in finding a job, and we can say that modern society is a mixture of previous events in history. Britain's exit from the 'European family' is unlikely to force the people of Indian or other descent to leave the country and seek their livelihood elsewhere. On the contrary, some people see this as a sign of segregation in the society of the United Kingdom, and this is simply unacceptable. At a time when the human race must strive to conquer new planets, it is illogical to go back to the past and the narrow boundaries of national space with new economic isolation. We may wonder whether the prosperity of society is more important than the political interests and narrow-mindedness of some individuals. In support of the claim

that human happiness is the most important, we can point the Roman Empire as an example. After the disintegration of its western part, the people from Gaul and Iberia continued to live without significant resistance to their new masters. It did not matter to them who held power, as long as they lived well and normally according to the understandings of the past.

The modern business is full of examples of companies that have benefited from the economic globalization and its impact. Especially in the 21st century, there is a leading role of the multinational corporations in the markets on all continents. Moreover, they are gaining more influence not only on the markets and on the consumers' preferences, but also on governments. As an example, we can give the previous economic crisis and the existence of the so-called 'too big to fail companies' or in other words corporations that are too big to be left bankrupt. The US government then took a number of measures to rescue huge organizations and banks that had inefficient management and failed to anticipate their business risks and reserve enough in the event of a crisis. But even in that case, the issue was to save jobs and employees of companies, not their corrupt managers. Nowadays the situation is similar. Some of the world's largest companies continue their policy of taking large amounts of risk and debt. Even after the onset of the current crisis, the market is experiencing major imbalances. Furthermore, the uncertainty affects the future foreign investments. On the other hand, the ongoing pollution of the environment is outright. The reason is not only the mass production with the usage of machines, but also in the short-sighted policy of a number of international corporations, which do not take enough measures to protect their employees and to reduce the harmful footprint of their factories on the environment.

The higher income of consumers and their better standard of living, as well as lower prices of goods and services are questionable in relation to the current situation. Most often they depend on market indicators and the stage of the business cycle. For example, in a state of crisis, consumers' incomes fall and unemployment rises and this lowers their standard of living. Depending on the type of crisis, goods and services have different price changes. For example, in the current situation, the prices of necessities, medicines and medical supplies have risen significantly, while others such as clothing have fallen. This also applies to services - the IT sector is experiencing unprecedented growth, but hoteliers, transport companies and restaurateurs have barely managed to stay on the market.

The Nobel laureate Joseph Stiglitz is considered to be one of the most prominent modern economists. Some think of him as an opponent to globalization, but in reality, he is not. In his opinion, it brings huge benefits, citing the rise of East Asian countries through better trade opportunities and new technologies. He also recognizes that the development of health and

global civil society is direct consequence of globalization. According to him, the problem is not in globalization, but in the way, it is managed. In his book “Globalization and its discontents” (2002) Stiglitz's main criticism is directed at the international economic institutions - the International Monetary Fund (IMF), the World Bank (WB) and the World Trade Organization (WTO) and their prescriptions, which were aimed primarily at benefiting developed industrial countries and not at supporting of the developing economies. The author highlights his idea of the need for better governance of the process of globalization, especially through its economic manifestation. The reasons are the growth of poverty and the division between rich and poor around the Globe. The book also gives a number of examples for global events of the late twentieth century that are a direct result from globalization. For example, the rapid development of countries in Asia and Africa, the influence of the United States on the international scene, the role of the IMF and the WTO after the Second World War, the economy of Russia after the collapse of the Soviet Union, and the crises of 1997 and 2001.

We can summarize that the mentioned book is interesting, in which the author's opinion on the effects of globalization and recommendations for its further development are systematized in a short and precise statement. It is important to note that economic globalization is not a perfectly devised mechanism for improving the lives of people and the economies of states. Like every other thing, it has its pros and cons and there is always room for improvement. We can say that it is to this way of thinking that Joseph Stiglitz tries to guide readers and encourage them to think about the future of global society. Nearly twenty years after the book was published, we have witnessed government actions which point to the conclusion that some lessons have been learned, but some are not. Many things have happened since the beginning of the current crisis, but many measures were with the aim of reducing the impact on the business.

Changes in the renewable energy sector and international business in 2020

Alongside with the changes in the economy and the social status quo, there are some changes in the environment and the renewable energy. The phenomenon called Global Warming is still a major issue and the year 2019 is an example of this with the rise in temperatures around the world and records in some countries, but also some cases even escalated into natural disasters such as the bushfires in Australia (Guy J., 2020).

It is important to note that in the European Union the scope of general economic measures for environmental protection is enriched and supplemented every year. All this shows that the government of the EU is taking the measures against environmental change to heart and striving

to preserve the ecological balance in Europe. The establishment of the European Environment Agency (EEA) is evidence in support of this thesis. Since 1994, the organization has assisted member-states in making informed decisions to preserve and improve the environment, as well as economic measures with the same goal.

The modern economy is changing at any moment - digitalization, automation, urbanization and the rise of renewable energy are just some of the innovations. They are all direct effects of globalization and happen because of it. But along with the positive effects, there are also some negative ones, such as the spread of all kinds of crises. In these conditions, companies must adapt to the changing business environment in order to stay in the market and retain their customers. The renewable energy business is part of this global system and is susceptible to various changes in the economy or politics. The increase in the use of such energy sources is mainly driven by investment and government policies. Private investors are looking for profits from renewable energy sources, and governments see them as a measure to reduce the effects of Global warming.

Renewable energy capacity has continued to grow over the past year. As proof we can use the following graph:

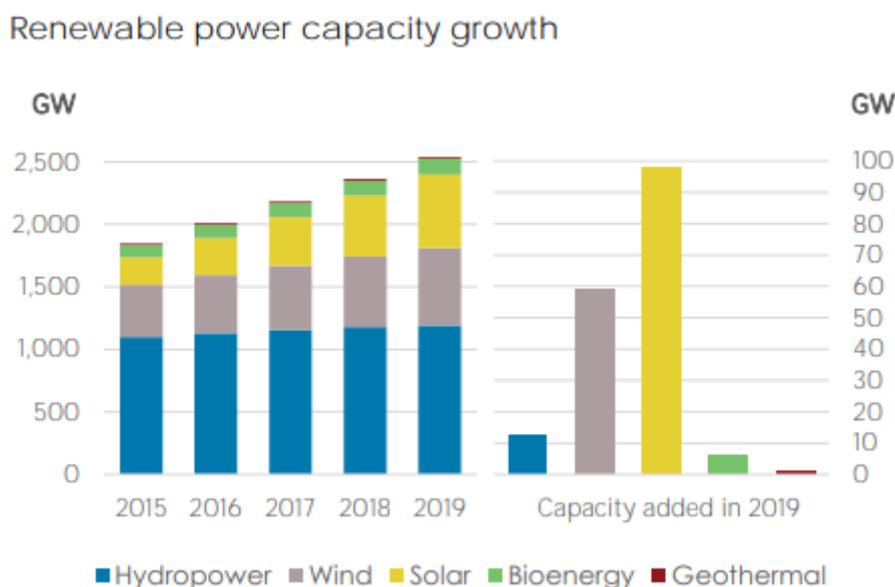


Figure 1. Capacity growth of renewable power by different sources (Source: IRENA)

As can be seen from the graph, in 2019 the use of renewable energy continues to rise gradually. There is still no definite data for 2020, but we can predict that the role of ‘green energy’ will continue to grow. The crisis is unlikely to seriously affect the sector, given the fact that governments take measures to support the development of renewable energy. Also, we should note that the usage of solar and wind energy continues to be very significant. Both sources

continue to dominate the market and to dictate the trend. The reason lies in better technologies, lower manufacturing prices and increased energy production from them. Therefore, they are still more preferred for business and personal consumption. Also, in the previous crisis there was a very short temporary decline, and then the growth accelerated at an even greater pace. In other words, the previous financial crisis had a minimal effect on the renewable energy sources and their use.

Business has a huge importance on every aspect of the life on the planet and one of its strongest impacts is on the natural environment. Global climate changes, acid rain, deforestation, depletion of fish and seafood resources, air and water pollution - all these serious problems are caused by the way that people do business and consume the resources. The impact of business on the environment is growing exponentially. Therefore, scientists in a previous research (Boeva B., et al., 2014) have analysed the role of economic globalization and business on the environment. In the case, the business has a negative effect on nature, at least as far as its modern dimension is shown, and the pace of its impact is progressively increasing. But that may change in the future. Renewable energy sources are a possible solution. They have a smaller environmental footprint compared to conventional energy sources and are a suitable alternative for preserving the environment for future generations. Economic globalization has the opportunity to assist for more investments in 'green energy'.

The companies, which are working with renewable energy sources, are increasing with each passing year. To use free energy from natural sources, each of them must have sufficient start-up capital or initial funding to build the plant. Numerous government measures by leading countries in this field, such as the United States, China, India, Australia, Japan, the United Kingdom, Germany, the Netherlands, France and the Nordic countries, are stimulating a smooth transition from fossil fuels to renewable energy. Bulgaria is also one of the countries where renewable energy sources are widespread, especially the ones using sunlight. Our country strictly sticks to the EU's targets for the usage of 'green' energy. We can assume that the favourable natural conditions, the Bulgarian entrepreneurial thinking and the relatively good business climate have contributed to this. Therefore, for companies in Bulgaria, the transition to 'green' energy is not only recommended, but becomes a necessity with each passing day.

As a conclusion of this part of the current research we can state that in the near future, we can expect changes in the investments and prices of renewable energy sources, but at a more modest pace than those of conventional fuels, which are much more sensitive to market fluctuations. It is certain that the usage of fossil fuels will fall significantly and this process will affect many

sectors. There was a signal about this in the beginning of the year when the price of crude oil dropped significantly. This is also a direct effect of globalization, the scale of which allows the instantaneous spread of not only positive but also negative phenomena around the world. However, if we look objectively at the problem under consideration, we will come to the logical conclusion that in the long run, globalization as a process brings more benefits than harm to the economy and society as a whole.

Future prognosis

Economic globalization combines the competitive advantages of countries. The share of intellectual labour, information services and the new knowledge-based economy, and at the same time the partnerships between private and public institutions is increasing. This creates a basis for a fairer distribution of income and risks. The global interconnected state is achieved through cooperation and conflicts between countries around the world, expressed economically and politically. The international situation is highly dependent on the resolution of global and regional conflicts, creating conditions for the participation of more countries in economic cooperation. The role of the emerging markets such as Brazil, Russia, India, China and others is increasing. The governments create a competitive environment through international policies and strategies in economics, security, science, education and culture.

The near future of the world economy is not so bright. Many economists predicted L-shaped or U-shaped recovery. At the moment we can say that the crisis in its economic part is still in its initial stages. Even after the end of the health crisis, the consequences of the economic one will have a great effect on the companies and people. As a result, the chain reactions will lower the world's GDP. There is a new prognosis of the International Monetary Fund from this year, which represents their idea about the change in the GDP by countries in the next two years. It is about the world's output by the top economies and the possible effects from the crisis. Here is how the change looks like measured in real GDP by percentage:

Growth Projections

(real GDP, annual percent change)	PROJECTIONS		
	2019	2020	2021
World Output	2.9	-4.9	5.4
Advanced Economies	1.7	-8.0	4.8
United States	2.3	-8.0	4.5
Euro Area	1.3	-10.2	6.0
Germany	0.6	-7.8	5.4
France	1.5	-12.5	7.3
Italy	0.3	-12.8	6.3
Spain	2.0	-12.8	6.3
Japan	0.7	-5.8	2.4
United Kingdom	1.4	-10.2	6.3
Canada	1.7	-8.4	4.9
Other Advanced Economies	1.7	-4.8	4.2
Emerging Markets and Developing Economies	3.7	-3.0	5.9

Figure 2. Prognosis for the future change of GDP by countries in percentage (Source: IMF)

The data shows that it is expected all countries to be affected by the economic crisis. Some economies will have more problems than the others. For example, the emerging markets and the developing economies are expected to be less affected by the already advance with only 3% drop in the real GDP in 2021. The impact on the business for the Euro Area is expected to be at least three times higher. This means that the labelled as advanced countries will need more time to recover and to pass the recession. The prognosis of the IMF shows their view that in 2021 the global economy will return to its previous levels and the GDP will rise again. This is a short period for such a recovery, but it will depend mostly on the decisions of the governments. Again, the economy will depend on the politics and since there is a social unrest in many countries the situation is very difficult to predict. One way or another the recession will stop eventually, but there are too many variables on which the outcome of the crisis depends.

As far as it goes to the renewable energy, we can be certain that their role will increase and the investments in them will continue, but during the crisis with very slow increase. Nowadays the

large international corporations that have made significant profits from the exploitation of fossil fuels over the past two hundred years must change their way of doing business or face extinction before the end of this century. Some of them are already investing a lot of money in their research and development departments in order to be part of the new energy market and to have a fair share in it. Many governments are also involved in the transition process with their policies and measures aimed at facilitating the integration of renewable energy sources into business and ensuring the further development.

It is important to be aware of the changes in the international business environment, because this affects the economies of all countries around the world. Due to globalization, there is no country that can remain isolated and keep its economy intact for a long period of time from external international threats or positive innovations. International business connects economies as part of a single whole, and only one single event in a particular part of the world can spread in a short time and affect the entire globe. In this way, the previous crisis in the United States grew into an international one and spread from one sector to all. This is how the pandemic has spread to almost all continents in just one month.

CONCLUSION

With the introduction of the state of emergency caused by the pandemic, in March 2020 the fears of many people became a reality not only in terms of their health but also in terms of their income. The economic crisis began in parallel with social distancing measures, which significantly accelerated it. In a matter of days, the life in Europe and subsequently in the United States moved into a new regime of restrictions, panic and stagnation. At this point, the course of action of governments has changed, with their attempts to sustain the economy and to limit damage through subsidies, significant economic incentives, and changes in laws in favour of the business. The outcome of all these measures is to be understood in the future, but in the meantime disputes have arisen between economists over the measures and their implementation. We will have to wait for the results of the actions of governments around the world. Then we will know the answer to the question about which country has taken the right measures and in what way. Until then, we can only say that the blockage of the economy happened suddenly and is a precedent in world history.

The current trend is that every next global problem spreads at an ever-increasing pace over time, but also with mutual support between the different countries and institutions it can be overcome more easily and with greater range of available resources than in the past. Perhaps this is the biggest plus of the globalization – the mutual aid. At the heart of every great

civilization in the human history is cooperation and unification in order to achieve certain goals. Nowadays, in a period of uncertainty and crisis, it is not the time to separate, but on the contrary - we must look for new ways to unite and help each other in order to deal with the difficulties around the Globe.

REFERENCES

- Boeva B., Stoychev I., Pavlova V., Vasileva A., Zhivkova S. (2014). *Global challenges in environmental protection and changes in international business*. Sofia, Bulgaria: UNWE publishing complex;
- Guy J. (2020, August 25). Australian bushfires likely to happen again - and they could be even worse, inquiry warns. *CNN*, retrieved from: <https://edition.cnn.com/2020/08/25/asia/australia-bushfires-likely-report-climate-scli-intl-scn/index.html>;
- International Monetary Fund (2020, June). World economic outlook update. *IMF*;
- International Renewable Energy Agency (2020, March 31). Renewable Capacity Highlights. *IRENA*, retrieved from: https://www.irena.org/media/Files/IRENA/Agency/Publication/2020/Mar/IRENA_RE_Capacity_Highlights_2020.pdf?la=en&hash=B6BDF8C3306D271327729B9F9C9AF5F1274FE30B;
- Stiglitz J. (2002). *Globalization and its discontents*. New York, USA: W.W. Norton & Company;
- Zhelev P. (2015). *Theory of international economic relations*. Sofia, Bulgaria: UNWE publishing complex.



Plastic Waste Management in Norway and Their Economic and Other Environmental Benefits

Mateja Josifovska

University of Ss. Cyril and Methodius, Faculty of Economics - Skopje
Skopje, North Macedonia
mateja.josif@yahoo.com

ABSTRACT: *We are facing the problem of plastic waste more and more in the world. Waste is all around us, in the deepest waters of the oceans and on the highest peaks of the mountains, and even researchers has found it in the whale's womb and in the groundwater reserves from which humanity is supplied with drinking water. About one megaton of plastic is produced daily; enough to make nearly 22 trillion bottles of water, and more than 90% of this plastic is not recyclable. Plastic destroys and kills our planet and our waters.*

Through an organization called Infinitum, Norway has created one of the most efficient and environmentally friendly ways to recycle plastic bottles, and the results are so impressive that many other countries are trying to do the same with more or less success. This program allows Norway to recycle 97 percent of plastic waste and only less than 1% of plastic bottles end up in the environment.

This paper takes the example of Norway and its way of dealing with plastic waste and the economic benefits of the model. Information on other models from EU countries was also used for comparison. Pigou model and WTP are used for economic analysis and the findings are presented in the conclusion.

Keywords: *Waste management; Plastic waste; Norway; Economy; Environment; Economic Analysis; PIGU; WTP;*

INTRODUCTION

We are facing the problem of plastic waste more and more in the world. Waste is all around us, in the deepest waters of the oceans and on the highest peaks of the mountains, and researchers has even found it in the whale's womb and in the groundwater reserves from which humanity is supplied with drinking water.

About one megaton of plastic is produced daily; enough to make nearly 22 trillion bottles of water, and more than 90% of this plastic is not recyclable.

Plastic destroys and kills our planet and our waters. The ratio between plastic waste and marine organisms in the oceans is currently 1: 5, but according to forecasts by 2050 it will be 1: 1!

When it comes to recycling plastic waste, Norway is one step ahead. It is one of the few countries in the world that is seriously engaged in finding solutions for plastic waste management, in terms of generation and adequate profit from energy production from waste.

Through an organization called Infinitum, Norway has created one of the most efficient and environmentally friendly ways to recycle plastic bottles, and the results are so impressive that

many other countries are trying to do the same with more or less success. This program allows Norway to recycle 97 percent of plastic waste and only less than 1% of plastic bottles end up in the environment.

In 2012 The UK paid for the delivery of 45,000 tons of waste to Norway from households in Bristol and Leeds. Waste is a commodity of value on the European market, so much so that Norwegians accept waste from other countries to meet the capacity of incinerators.

1. PRODUCTION PLANTS

In Norway there are 3 incinerators or so-called "Energy plants", in Haraldrud, Clemesrud and Romerike Biogas.

Haraldrud is the first waste-to-electricity plant built in 1967. It has the capacity to recycle and process 100,000 tons of waste per year.

The Klemetsrud plant has a recycling capacity of 310,000 tons of waste per year.

In 2012, the Romerike biogas plant was named the largest biogas plant. It produces biogas and biofertilizers based on food waste (organic waste) and has a capacity of 50,000 tons per year.



Figure 1. Recycling process in Norway (Source: www.positive.news/)

The incinerator takes only "clean garbage", and the municipality carefully selects everything that may be dangerous. Norwegians are precise in their waste sorting process by dividing it into three bags:

- Blue - for collecting plastic;
- Green - for waste of organic origin (food) to create biogas;

- White - for everything else that goes to the waste plant.

When waste is incinerated, the smoke that is released passes through the purifiers comes out as 99 percent steam. "Four tons of waste has the same amount of energy as one ton of fuel oil," said Pal Mickelsen, director of the Waste Energy Agency. Mickelsen says a ton of fuel oil can heat a house in half a year (www.bbc.com).

2. NORWEGIAN EXPERIENCE APPLIED IN THE EU

Europe as a whole currently dumps 150 million tons of waste each year, so there is obviously a lot of potential for energy production. Energy waste has become the most preferred method of waste disposal in the EU, and today there are 420 plants in Europe equipped to provide heat and electricity to more than 20 million people.

In addition, 97% of recycled bottles are produced as a high-quality material, can be reused in beverage bottles. In this case, the same material can be used up to 50 times.

The Norwegian model is based on a loan scheme, which means that when a consumer buys a plastic bottle, they are charged a small additional tax, equivalent to about 13 to 30 US cents.

The Norwegian model is based on a borrowing scheme, which means that when a consumer buys a plastic bottle, he is charged a small additional tax.

That money can be recouped in several ways. Consumers can take the bottle to special machines that return the money after scanning the bar code of the bottle. On the other hand, they can return the bottle to a number of outlets and get their money back. Store owners also receive a small fee for each recycled bottle, and some say it has improved their business.

The first plastic bag fee was applied in 1974 at NOK 0.25 per bag. However, this practice of paying taxes did not continue in the following years.

NEA wanted to apply a plastic bag tax to fill the government budget, but it was not clear enough how the government would distribute the money from the fee.

On the other hand, the Trade Association (TA) requested that the compensation go to a special environmental fund, so that the funds in this case would be used to financially support various projects that would solve the problem of plastic waste, pollution, and cleaning ocean plastics.

The European Committee summarized the four main methods that were theoretically and empirically implemented as follows:

- To tax the manufacturer of plastic bags;
- To tax the final consumer on the basis of choice which bag he will use;
- Double taxation of both the producer and the user;
- Limited quota for the use of plastic bags per user;

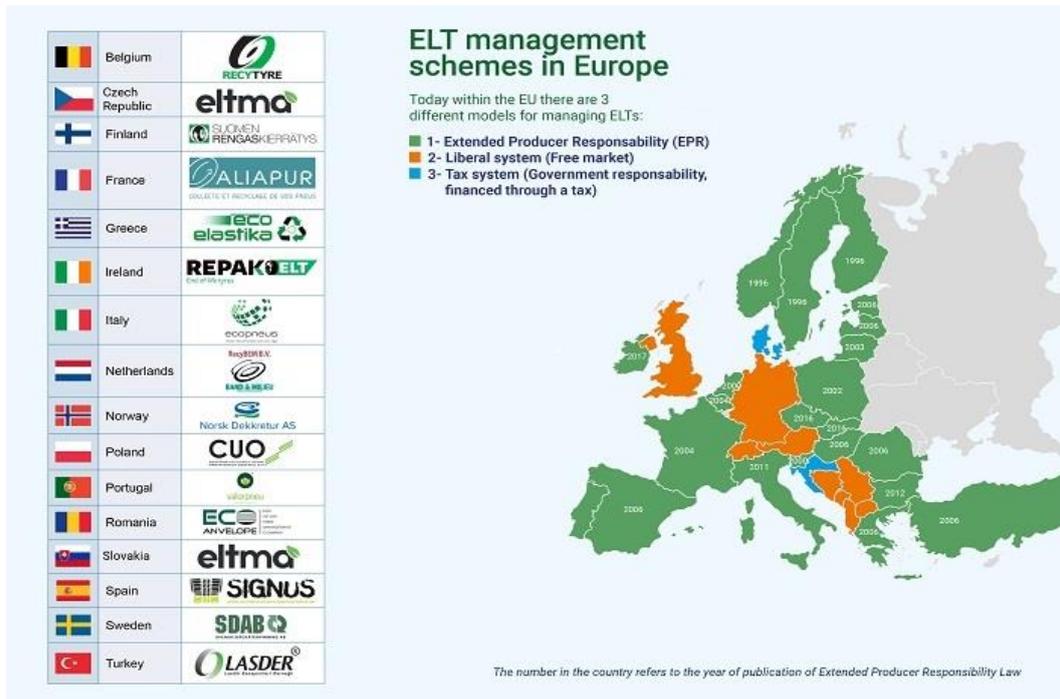


Figure 2. Management schemes in Europe (Source: www.etrma.org)

3. ECONOMIC ANALYSIS (PIGU, WTP)

Consumption of plastic bags includes a double cost:

The first is the cost of acquisition, including production and transport costs; a

The second is a negative external effect on the environment due to the removal of the bag.

The store owner can decide how much they want to charge for the social costs of each bag.

This resulted in different buying prices on the green market, grocery stores and supermarkets.

Since the regulation was implemented, the findings showed that there was only a 49 percent reduction in the use of plastic bags. Due to the lack of WTP Consumer Survey, China's regulation did not have as good an effect as expected, as opposed to the case of Ireland, which proved that WTP constructs the fundamental basis for policy success.

Table 1. The result of the analysis of WTP data for Norwegian grocery buyers

	Willingness to pay for plastic bag	Percentage
Scenario 1: Tax	Yes – 85	91.4%
	No – 8	2,1%
	Other / I do not buy plastic bag - 6	6.5%
Scenario 2: Fund	Yes – 81	91.0%
	No – 7	3.4%
	Other / I do not buy plastic bag - 5	5.6%

Source: nmbu.brage.unit.no

The table shows how many of the respondents are willing to pay more than 1 NOK, nothing, or have another opinion. The majority for both cases had a high percentage of willingness to pay for a plastic bag.

The idea of taxation is basically the Pig concept for MEC (marginal external costs) and should directly affect the source of pollution, which in our case is the manufacturer of the plastic bag. To ensure greater efficiency of the parameters the value of the harmful emission tax is directly correlated with the amount of pollution of the manufacturer. However, direct measurement of predefined emissions or emission parameters is required.

Developed from the original idea of Pigou (1960), the tax regulation for plastic bags is now presented in two forms:

- Tax for the manufacturer of plastic bags
- Tax for the consumer / user of plastic bags.

For that purpose, vending machines are used in which a used and empty plastic bottle is left, and in return a tax refund is paid per bottle, in order to facilitate and speed up the recycling process.

Plastic has many features that make it more practical for everyday use than other materials; it is lightweight, flexible and durable.

CONCLUSION

Today worldwide are produced 340 million tons annually, and by 2050 it is expected to be produced 1 124 billion tons per day.

That's a significant increase, especially given world trends: 91 percent of the plastics produced today are non-recyclable and overwhelming - 8 million metric tons end up in the oceans each year. In the United States, the recycling rate of plastic bottles is around 30 percent, and in the United Kingdom it is between 20 and 45 percent.

Norway has also introduced a tax on plastic producers, which can be reduced by improving the quality of production. Thus, if recycling is greater than 95 percent nationwide, then every producer is exempt from paying taxes. Although this seems like a difficult goal to achieve, the Norwegians have been achieving it for seven years in a row!

After the introduction of the unique "Infinitum" scheme, representatives from many countries, including Scotland, India, China, Australia and others, became interested and visited it. All

these countries have the potential to copy this model. Germany and Lithuania are among the few countries that can compete with Norway and use similar systems.

This year, Infinitum estimates that 150 000 bottles will not be returned, and if they are returned, enough energy will be saved to supply 5 600 households.

REFERENCES

- Cassella, C., 2019. *Norway's Insanely Efficient Scheme Recycles 97% Of All Plastic Bottles They Use*. [online] Science Alert. Retrieved from: <https://www.sciencealert.com/norway-s-recycling-scheme-is-so-effective-92-percent-of-plastic-bottles-can-be-reused?fbclid=IwAR2tNHdu0pM-vekXOdV5FkclKGe7M05esuE6BUClORvSKZw91cRa5-17ke8>.
- Hage, I., 2016. *Waste Management in Norway*. [online] Ntnuopen.ntnu.no. Retrieved from: https://ntnuopen.ntnu.no/ntnu-xmlui/bitstream/handle/11250/2433833/14679_FULLTEXT.pdf?sequence=1&isAllowed=y.
- Hung, W., 2018. *An Additional Fee on Plastic Bag: Norwegian Consumers' Choice On Tax Or Fund Based On Willingness To Pay Study*. [Online] nmbu.brage.unit.no. Retrieved from: <https://www.positive.news/environment/norway-recycles-97-of-its-plastic-bottles-a-blueprint-for-the-rest-of-the-world/>.
- Price, M., 2013. *Norway Uses Waste as Eco-Friendly Fuel*. [online] BBC News. Retrieved from: <https://www.bbc.com/news/world-europe-24209185>.
- Russell, H., 2013. *Trash To Cash: Norway Leads The Way In Turning Waste Into Energy*. [Online] the Guardian. Retrieved from: https://www.theguardian.com/environment/2013/jun/14/norway-waste-energy?fbclid=IwAR0Ng9y0fC7VBoWOrEBhNM9OKbmI-Ka_ZsegiYNVOj25vemEnxIFpsg2NcY
- Yeung, P., 2019. *Norway Recycles 97% Of Its Plastic Bottles: A Blueprint For The Rest Of The World? - Positive News*. [online] Positive News. Retrieved from: <https://www.positive.news/environment/norway-recycles-97-of-its-plastic-bottles-a-blueprint-for-the-rest-of-the-world/>



The Connectivity of the Added Value Growth and GDP Growth

Riste Kostovski

University of Ss. Cyril and Methodius, Faculty of Economy – Skopje
Skopje, Republic of North Macedonia

riste_riste@yahoo.com

ABSTRACT: *In this article is analysed the connectivity between the added value of manufacture and the growth of gross domestic product. The results indicate a strong positive correlation between these two variables. Explanations for such conclusions can be sought in the conjuncture of GDP growth itself. Namely, according to the very structure of GDP, it can be seen whether and how much the Macedonian economy generates added value at all. As one of the recommendations in order to improve this situation, the creation of an industrial strategy should be considered.*

Keywords: *GDP, Manufacture, Added value growth.*

INTRODUCTION

Historically, the manufacture had crucial role in the economic development of the nations. The report of European Commission in 2014 indicates on the significance of the real economy and the robustness of manufacture as driver of employment and economic development (European Commission, 2017). The manufacture base was observed as fundamental for the European competitiveness and economic prosperity.

The goal on the research is to find how manufacturing contribute for economic growth in the period from 1992 to 2018. In the next section, a literature review on this field is performed. In the next part the methodology, data and the results of this research are presented

LITERATURE REVIEW

Karami, Elahinia & Karami (2019) find that positive correlation between manufacture and economic growth exists.

Dan Su and Yang Yao (2016) find that manufacture is still the key engine of middle-income economies.

Libanio and Moro (2006) based on the Kaldor's Model indicate positive correlation.

METHODOLOGY

Regression analysis is used as methodological instrument, where GDP is used as dependent variable. At the same time, in order to prevent the phenomenon of false regression, the first differentials of these two series were placed in the regression model.

Table 1. Data of GDP growth and Added value growth in Manufacture

GDP		Added	
Year	growth	Year	value growth
1992	-6.6	1992	-15.8
1993	-7.5	1993	-14.4
1994	-1.8	1994	-7
1995	-1.1	1995	-8.9
1996	1.2	1996	5
1997	1.4	1997	-6.1
1998	3.4	1998	0.5
1999	4.3	1999	2.4
2000	4.5	2000	10.1
2001	-3.1	2001	-5.7
2002	1.5	2002	3
2003	2.2	2003	9.1
2004	4.7	2004	7.2
2005	4.7	2005	10.5
2006	5.1	2006	12.6
2007	6.5	2007	-12.9
2008	5.5	2008	-2
2009	-0.4	2009	4.1
2010	3.4	2010	-0.2
2011	2.3	2011	12.1
2012	-0.5	2012	-1.2
2013	2.9	2013	3.6
2014	3.6	2014	21.5
2015	3.9	2015	5
2016	2.8	2016	-1.5

2017	0.2	2017	1.5
2018	2.7	2018	5.6

Source: World Bank, Descriptive statistics

Table 2. Descriptive statistics of Added value growth of manufacture and GDP growth

	GDP Growth	Added value growth
St.dev.	3.445563645	8.809973951
Average	1.696296296	1.411111111

Table 3. Empirical test of impact of added value growth in manufacture and GDP growth

Dependent Variable: BDP

Method: Least Squares

Sample: 1992 2018

Included observations: 27

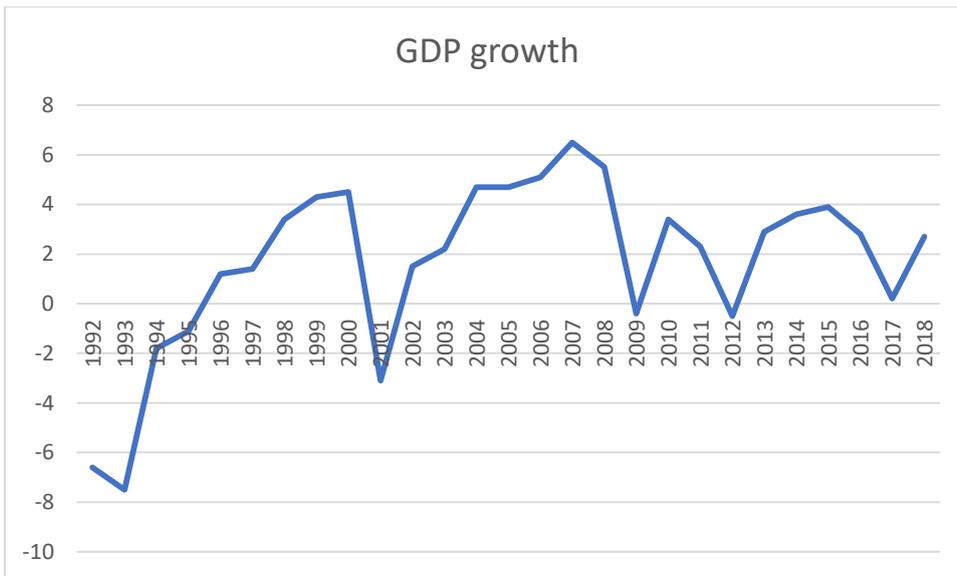
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.371538	0.553989	2.475752	0.0204
DOD_VREDNOST	0.230143	0.063243	3.639040	0.0012
R-squared	0.346279	Mean dependent var		1.696296
Adjusted R-squared	0.320130	S.D. dependent var		3.445564
S.E. of regression	2.841013	Akaike info criterion		4.997385
Sum squared resid	201.7838	Schwarz criterion		5.093373
Log likelihood	-65.46470	Hannan-Quinn criter.		5.025928
F-statistic	13.24261	Durbin-Watson stat		1.319966
Prob(F-statistic)	0.001244			

Table 4. Unit root test / Unit root of added value

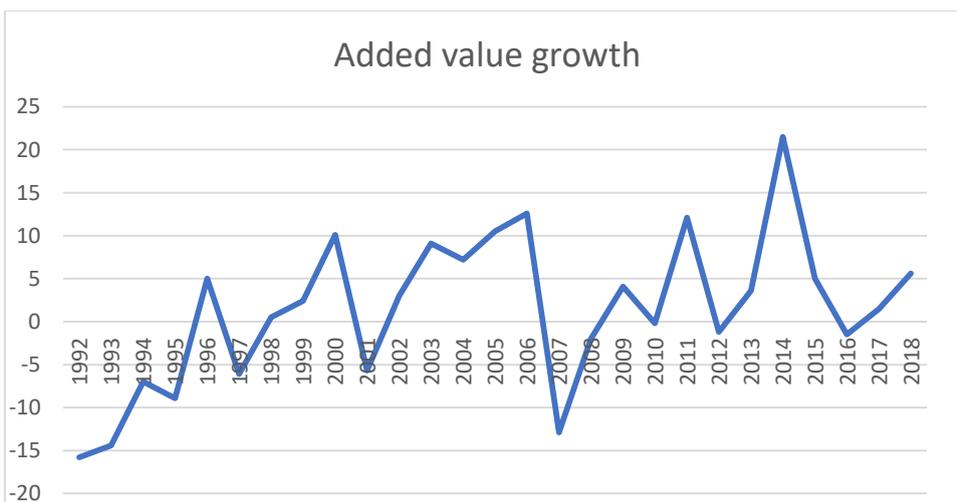
	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-4.098755	0.0040
Test critical values:		
1% level	-3.711457	
5% level	-2.981038	
10% level	-2.629906	

Null Hypothesis: GDP has a unit root

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-3.262867	0.0275
Test critical values:	1% level	-3.711457	
	5% level	-2.981038	
	10% level	-2.629906	



Graph 1. GDP graphic time series (Source: World Bank)



Graph.2. Added value of manufacture time series (Source: World Bank)

CONCLUSION

According to the used literature, a positive relationship was found between the added value of the manufacture and the annual growth rate of the gross domestic product, but its intensity should also be taken into consideration.

The explanation of the reasons for this correlation can be sought in the complexity of the products that are produced in the Macedonian economy.

Interactively, as topics for future research in this area can be made in relation to competitiveness and added value of production with more complex econometric methods.

REFERENCES

- European Commission. (2017). Commission for Economic Policy Report - The future of industry in Europe.
- GDP growth (annual %) - North Macedonia. (n.d.). [Www.Data.Worldbank.Org](http://www.Data.Worldbank.Org).
<https://data.worldbank.org/indicator/NV.IND.MANF.KD.ZG?locations=MK>.
- Karami M., Elahinia N., Karami S. (2019) *The effect of manufacturing value added on economic growth: Empirical evidence from Europe*.
- Libanio G. and Moro S. (2011). *Manufacturing industry and economic growth in Latin America: A Kaldorian approach*. Proceedings to the 37th Brazilian Economics Meeting.
- Manufacturing, value added (annual % growth) – North Macedonia (n.d.).
Data.Worldbank.Org.
<https://data.worldbank.org/indicator/NV.IND.MANF.KD.ZG?locations=MK>.
- Su D. and Yao Y. (2016) *Manufacturing as the Key Engine of Economic Growth for Middle Income Economies*, Working paper. ABDI Working Paper Series No. 573/2016.

Public Interest in Competition Policies in the Covid-19 Process

Anil Kurt

Anadolu University

Eskişehir, Turkey

anil.kurt@windowslive.com

ABSTRACT: *Policies regarding the field of competition have an important share in economic policies. Undoubtedly, the implementation of these policies is shaped by countries' regulations on competition law. European Union countries, of which many Balkan countries are also members, have reflected the regulations on European Union Competition Law into their own laws. In this process, the Republic of Turkey has regulated its domestic legal system in accordance with the rules of the European Union. The known objectives of competition law include ensuring the protection of the competition and preventing the abuse of the dominant position by examining agreements or decisions that may obstruct, distort or restrict competition in the goods and services markets. It is debatable whether the observance of the public interest as a principle in competition law is a purpose of competition law or a policy on competition. During the Coronavirus 19 outbreak, which spread around the world from Wuhan, China, it is not possible to say for sure what the place of the privileges granted to commercial enterprises in competition law is.*

This Paper will examine how competition law regulations have developed in the Republic of Turkey and whether the public interest has been observed as a principle on the basis of the decisions made by the Turkish Competition Authority as a result of these developments.

In addition, during the Coronavirus 19 pandemic outbreak, whether the competition legislation for various sectors such as medicine, medical materials, transportation can be loosened and implemented; And if implemented, what meaning will this process have for the principle of Public Interest will be evaluated in terms of the policies followed by various countries in the Covid-19 process.

Keywords: *Competition Law, Covid-19, Exemption, Public Interest,*

INTRODUCTION

Social sciences have to keep up with the times due to their nature. Undoubtedly, law, which organizes the flow of life, comes first among these areas. The law, which aims to ensure the smooth progress of people's relations with each other, begins to revise itself when the conditions of the period change. Competition Law has emerged as the necessity of the age. The emergence of Competition Policies begins to take shape as a result of the efforts to control the supply-demand balance, which has been disrupted by the emergence of companies holding the dominant position as a result of market failures and liberalization views that emerged with the views of classical economists. For this reason, the emergence of competition policies goes back to classical economists. These competition policies, which are implemented, later turn into competition law by taking the sanction power of the state behind them. Especially since the beginning of the industrial revolution, the European Union countries such as England,

Germany and the United States are the first countries where competition law is discussed. Competition Law has a high importance in terms of both preventing monopolization and preventing market failures. (Dthukuk, 2020)

HOW DID COMPETITION LAW DEVELOP?

Before defining the Competition Law, if it is necessary to define the term "Competition", Competition can be defined as the relationship between businesses that offer the same type of goods or services to their customers to a consumer group. Competition is an indispensable element of the system in effectively operating markets. (Dthukuk, 2020) Law No. 4054 on the Republic of Turkey

Competition: It is defined as the race that enables economic decisions to be made freely between undertakings in the goods and services markets. (TBMM, 1994)

Competition Law, on the other hand, is a branch of public law that includes regulatory, supervisory and prohibitive norms in order to prevent violations of competition in order to ensure economic efficiency, to create and protect the free competition order in the goods and services markets, and to eliminate competition violations. In another definition, competition law is the implementation of policies with state sanctions to ensure efficiency in markets that have deteriorated as a result of the liberalization movement and to maintain the established order.

Regulations regarding the first Competition Law were accepted as the Sherman Act, known as the senator, who made a proposal for the elimination of the tendency of trust (advanced form of monopoly) in the United States at the end of the 19th century. Although the principles, which later introduced some prohibitions and regulations, were accepted by the parliament, these principles became applicable with ijtihads. (Kurumu, 2001)

In the European Union countries, regulations for competition emerged with the European Coal Steel Community and the European Economic Community, which are regarded as the leading institutions of the European Union established after the second world war. In the Treaty of Rome, which is the founding treaty of the European Economic Community, articles and competition law have been regulated in terms of ensuring and controlling competition in the EEC internal market. Later, the countries that joined the European Union, based on the Rome agreement, established a common competition legislation by regulating their domestic legal systems. Whether this legislation is implemented or not is controlled by the European court of justice. (European Competition Network, 2020)

In Turkey it was adopted in 1994 Law No. 4054 on the Protection of Competition entered into force. The purpose of Law No. 4054 on the Protection of Competition, competition in goods and services markets blocker, distorting or restrictive agreements, decisions and concerted practices and undertakings which dominate the market to prevent the abuse of dominance, it is to ensure the protection of competition by the regulation and supervision for. Republic of Turkey 167th article of the Constitution to the State; "Taking and developing measures to ensure the healthy and regular operation of money, credit, capital, goods and service markets"; The entry into force of the Law is the result of the fulfillment of the requirements of this Constitutional provision. (Competition Authority, 2001)

Another issue in the preparation of Law party is because international treaties the Republic of Turkey. In particular, the Republic of Turkey and the tax treaty signed with the partnership between the European Economic Community, is intended to implement the partnership relations in areas such as competition. The Republic of Turkey has also created space on the source of basing law on the 4054 law, competition law and the Rome treaty. The Law No. 4054 has been amended 9 times since its entry into force. Finally, with the changes made this year, some concerns regarding Mergers and Acquisitions were changed, and the "MINIMIS" rule was adopted as a principle. As a result of these changes, the relevant law has become more compatible with European legislation (TBMM, 1994).

DISCUSSION OF PURPOSE IN COMPETITION LAW

Competition law is intertwined with the economy as it includes both benefiting from economic data and sanctions on the economic field. For example, in order for the free market mechanism to lead to the allocation of resources that will provide the highest level of social welfare, it must operate in a competitive manner. The natural functioning of the free market mechanism can be in a way that weakens this competition process. In this case, the competition process must be protected by law. Therefore, Chicago school thinks that competition law serves the purpose of ensuring economic efficiency and does not accept other opinions. (Gürkaynak, 2003)

Another serious movement that believes in the existence of other values that cannot be expressed in an economic model in terms of competition law and therefore includes other purposes in the analysis of competition law as well as the purpose of "protection of economic efficiency" and which considers the role of economics in the field of competition law relatively limited is that of "small enterprises. "Protection from big enterprises", "protection of consumers", "prevention of gathering economic and political power in one hand", "ensuring a fair distribution of income", "preserving ease of entry to the market", "encouraging honesty in

the commercial attitudes of enterprises and even impersonal business of giant companies. considers issues such as the obstruction of the way of seeing as "aim" in competition law. (Gürkaynak, 2003)

In short, according to a definition, the purpose of Competition Law is the prescription of the welfare of the consumer. (Gürkaynak, 2003)

Turkey is also the purpose of competition law in the reasoning of the law No. 4054 can be summarized as follows:

With the protection of the competition process, the distribution of the country's resources according to the demands of the people will be ensured, while the positive contributions will be made to the general welfare with the increased economic efficiency (social welfare). Competition among those who participate in commercial activities brings along more efficient production and management, while using less resources, producing with less cost (cost efficiency), technological innovations and developments

It will undertake a role of encouraging its emergence (dynamic activity). This will result in an opportunity to buy higher quality goods and services cheaper, thus increasing the welfare of consumers and society as a whole (consumer welfare and social welfare). With the competition order, it is aimed to achieve secondary objectives in addition to the above-mentioned objectives. First of all, the competition order helps the protection of small enterprises (protection of small enterprises) by removing barriers to entry into the market ... On the other hand, the competition order also contributes to the spread of integrity and honesty in the market. (fight against inflation). Another important issue that is expected to be resolved with the Competition Law is the revitalization of the entrepreneurial spirit in the country. (encouraging entrepreneurship)" (Gürkaynak, 2003).

Another argument is whether Competition Law serves the same purpose in all countries. For example, the European Union Competition legislation stipulates the goal of integration into the common market and regulations that serve the purpose such as limiting the aid of states to companies in their own countries have been introduced. However, because the competition legislation of the Republic of Turkey in terms of both inflation as well as a full European Union member European Union is not intended to be integrated into the common market. Below we examine the incentives for states in the European Union countries it has been limited but is not subject to any international organization controls the government encouraged Turkey.

PUBLIC BENEFIT IS A CONCLUSION IN COMPETITION LAW

When we look at the purpose of competition law discussion above, we saw that competition law can serve different purposes. We can observe that in the justification of the generally

accepted law numbered 4054, the aim is to protect consumers and small businesses. It would be correct to say that the definition of the most accepted purpose of competition law is the prescription of the welfare of the consumer. In this context, it can be said that Competition Law has a purpose not only in terms of economy but also socially. It is controversial whether the principle of public interest is fully adopted in competition law. Because some places all their public policy objectives on competition law. Another view is that consumer welfare or other public policy objectives other than social welfare in some countries are not considered within the scope of competition law. At this point, the Covid-19 epidemic we are in has undoubtedly caused policy changes in many areas, and these decisions have affected countries in many ways.

As we mentioned above, competition law includes regulations for the protection or enhancement of consumer welfare in accordance with its purpose. Therefore, competition law and public interest are related. Undoubtedly, transactions for consumer welfare will also bring public benefit as an effect. For this purpose, Article 5 of Law No. 4054 and Article 101 of the source legislation are the regulations created to provide these exemptions.

THE ATTITUDE OF FOREIGN COMPETITION AUTHORITIES IN THE COVID-19 PROCESS

In the Covid-19 process, many sectors in countries were affected by the measures brought due to the progress of the epidemic. The measures taken especially in important sectors such as health, food and transportation have led to many problems such as price increases in products, failure to maintain supply-demand balance and black market. Competition boards of the countries had taken various decisions to prevent these problems. One of the most important of these is the decision published by the European Competition Network (ECN) on 23 March 2020.

According to the relevant decision (European Competition Network, 2020)

- Companies suffering from economic crisis conditions under the current situation
- In this extraordinary situation, cooperation can be made to ensure the fair supply of scarce products to consumers, and temporary measures may be taken in this regard and ECN will not interfere with this.
- Since the products that are important during the epidemic (Mask, Disinfectant) should continue to be sold in a competitive environment, ECN will intervene in the event that the dominant companies disrupt this market.

It has been announced that the maximum price can be determined for the products.

The decisions of the countries that can be given as an example after COVID-19 areas follows. (Şahin, 2020)

Italy started to conduct exorbitant price reviews and audits on E Commerce sites.

Greece has started auditing on E Commerce sites.

After the Mask company in Poland terminated its contract with the hospital and tried to sell masks to the public, the court decided to sell masks to the hospital.

The Dutch Competition Authority's decisions regarding mergers and acquisitions are left to investigate later.

Certain cartels are allowed in the UK. (Stock information etc.)

Private hospitals have been expropriated temporarily in France.

State aid has been liberalized within the European Union.

Germany has provided incentives to support Lufthansa airlines.

Denmark has prepared an aid plan for its own companies.

Stock sharing of Medicines is allowed within the European Union.

Sharing of cartels for vaccine development is permitted.

Internet infrastructure in Australia has been opened to 4 companies.

In South Korea, a prison sentence has started to be imposed in addition to fines against stockpiling of medical supplies.

Greece declared that the Competition Board will not conduct an audit in determining the maximum selling price.

Norway suspended legislation for airlines.

Covidien-19, the attitude of the Competition Authorities in the process of Turkey

Republic of Turkey Competition stated that examines action to take for the distortion of competition in this industry and keep sanctioned its first statement on Covidien-19 outbreak of process from the Authority on March 23, 2020, mainly Fresh Fruit and Vegetable Food Piyaya. (Competitiveness, Competition.gov.tr, 2020) Later, it launched an investigation against 29 companies, including many market chains, for their actions to disrupt the competitive environment due to the Covid-19 outbreak. (Competitiveness, Competition.gov.tr, 2020) As

seen in many European Union countries, a maximum price application has been passed on certain points, and these decisions have been made by the relevant ministries, not through the competition board. (Şahin, 2020) For example, the face mask will be a maximum of 1 Turkish Lira, and a price per kilometer has been applied for bus trips.

In addition, exorbitant price control was carried out for products related to the epidemic, which could not be regulated.

With the legislative changes made in June 2020, the De Minimis rule was adopted and the obligation to apply to the Competition Board in agreements that do not affect the competitive environment was removed. (Balcıoğlu, 2020)

In addition, when the decisions of the board were examined, it was observed that various pharmaceutical companies such as Bayer and Abdi İbrahim were granted exemptions from making agreements between them. (Competition Authority, competition.gov.tr, 2020)

CONCLUSION

Competition Law is an area related to law and economy that emerged as a result of the necessity of the age. Although the regulation was made in the USA in the field of competition law, Competition law was regulated in detail by the EU due to the creation of the common market in the European Union. Turkey is a result of the agreement with the European community is acquainted with competition law. Although the purpose of competition law for countries is controversial, the general opinion is that it is aimed at protecting or enhancing consumer welfare. In this context, in competition law, which takes consumer welfare as its primary objective, the welfare of the consumer brings the public benefit as a result.

Competition law audits issues that may affect the competitive environment such as mergers or acquisitions of companies, but sometimes it may provide exemptions in these areas according to the legislation. These exemptions have undoubtedly been brought to the agenda in the Covid-19 process we are in. When the decisions of various countries during the covid-19 period were examined above, it was observed that the competition legislation was suspended, the cartels that would be problematic in the normal period were ignored, and the competition authorities in the health and food sectors did not make almost any distorting decisions.

When these last decisions are examined, it is clear that all of them are aimed at improving the situation and that, in fact, despite the fact that the public interest is not adopted as a principle, it appears by itself.

REFERENCES

- Balcıođlu, S. (2020). *Rekabet ve Regülasyon*. [https:// www.rekabetveregulasyon.com](https://www.rekabetveregulasyon.com).
- Dthukuk. (2020). *Dođan Turan Hukuk*. www.doganturan.av.tr:
<https://www.doganturan.av.tr/rekabet-hukuku/> 09 12, 2020
- European Competition Network. (2020). *European Competition Network*. tec.europa.eu:
https://ec.europa.eu/competition/ecn/index_en.html 09 12, 2020
- Gürkaynak, G. (2003). *Türk R. Hukuku Uygulaması İçin Amaç Tartışması*. ANKARA: Rekabet Kurumu.
- Rekabetkurumu. (2001). *docplayer*. 2020 tarihinde Rekabet Hukukunun Tarihsel Gelişimi, 4054 Sayılı Kanun, Genel Deđerlendirme 1.1. Rekabet Hukukunun Tarihsel Gelişimi: <https://Docplayer.Biz.Tr/19326765-Rekabet-hukukunun-tarihsel-gelisimi-4054-sayilikanun-genel-degerlendirme-1-1-rekabet-hukukunun-tarihsel-gelisimi.html>
- Rekabetkurumu. (2020). *rekabet.gov.tr*. <https://www.rekabet.gov.tr/tr/SonkurulKararlari>
- Şahin, S. Y. (2020). Ahir Zamanda Rekabet Hukuku [By Lawpodcast Recorded]. İstanbul.
- TBMM. (1994). 4054 Sayılı KANUN. 2020. ANKARA: Türkiye CUMHURİYETİ. 09 10, 2020

Reviewing the Strategic Role of the Port of Thessaloniki for the Economic Development in South-Eastern Europe: A Qualitative and Quantitative Research of the Port of Thessaloniki and its Impact on the Growth of the Region Involved

Miltiadis Theofanis

Economics School, Aristotle University of Thessaloniki

miltiadistheof@gmail.com

ABSTRACT: *The port of Thessaloniki is a multipurpose international port that handles all kinds of cargo traffic and hosts all types of passenger movements. It is the second biggest port in Greece in terms of total throughput, while it is the major port as regards the dry bulk cargoes. Regional ports, as infrastructure in regions, influence transport and regional development policies and planning. Among the various types of transport infrastructure, ports are considered as particularly strategic because of the increasing importance of maritime transport in connecting territories. The study estimates the potential added value that the investments create in terms of brand awareness of the port, services provided but also the improvement of the rail road network. Furthermore, the strategic alliances with neighboring countries are evaluated such as the cooperation with North Macedonia after the Agreement of Prespa. Finally, a general strategic approach is presented and proposed based on three cores; port bound strategy, beyond the port strategy and management strategy, in order to transform the port of Thessaloniki, from a regional port to a regional leader in the South-Eastern Europe.*

Keywords: *port investment plan, port traffic and employment relation, infrastructure extension, Balkan Area rail-road network*

INTRODUCTION

Thessaloniki port constitutes the country's second largest port. Following the acquisition of 67% of the port's shares by South Europe Gateway Thessaloniki Ltd. (SPV), the SPV developed by the consortium of Belterra Investments Ltd., Deutsche Invest Equity Partners GmbH and Terminal Link SAS, the port has set a goal to enlarge its catchment area and become the leading port in the Balkans. The port of Thessaloniki occupies a total space of 1.5 mil. m² and spreads across a length of 3.5 km. It includes 6 piers spreading on a 6,200-meter-long Quay and a sea depth down to 12 meters, with open and indoor storage areas spreading on a total of 600,000 m², suitable for servicing all types of cargo as well as passenger traffic. Global container trade appears to have moved back into a more positive phase of expansion and it is expected to exhibit a robust rate of demand growth. Global trade routes will continue to migrate towards the Asian continent, while cargo flows (of raw materials) from Africa are also on the rise. The Port of Thessaloniki enjoys an advantageous geographic location and is considered a

gateway port primarily for South-East Europe and particularly for the southern Balkan countries, with population of approximately 24 mil., as well as for countries located at the wider south-eastern and central European area. The long-term development of the port equals the rise of the region involved in terms of goods, employment and economic growth.

METHOD

Port of Thessaloniki

The port of Thessaloniki is part of the Trans-European Core Transport network. It is located on an advantageous position, linked to the maritime transportation network of the Balkans and Black Sea countries, but also in the cross-European and national land transportation network. Following the acquisition of 67% of the port shares by the consortium of Belterra Investments Ltd., Terminal Link SAS and Deutsche Invest Equity Partners GmbH, the port is expected to undertake obligatory investments of €180 mil. (Figure1).



Figure 1. Shareholder Structure *Note.* Percentage of SEGT Shares = 67, Percentage of HDRAF S.A. shares =7,3, Percentage of various investors shares = 25,7.

The profit centre of the port is the Container Terminal, the Conventional Cargo, the Passenger Terminal and the real estate that are located inside the port. The Container Terminal is 585m. long and 340m. wide and can birth ships with a draught of 12m. It covers a surface of 254,000 m with an on-site storage capacity of 5,000 twenty-foot equivalent unit (TEUs) in ground slots. The Conventional Cargo is accommodated in the Terrestrial Zone of Thessaloniki's port in an area extending on a total surface of approximately 1,000,000 m and it occupies the largest area of the port of Thessaloniki, across Piers 3,4,5 and the eastern part of sixth Pier. It serves general cargo, solid and liquid bulk as well as Ro-Ro vehicles. Rail connection to all berths makes the port very accessible. The Passenger Terminal is located between Piers 1 and 2 and includes the building of the Passenger terminal, the Warehouse No8 as well as the land area of the second Pier. It has a Quay of a total length of 400m with a depth of 8m. Thessaloniki Port Authority

(ThPA) has a series of warehouses, sheds and open spaces that are leased (short- and medium-term leases) to third parties for storage and value-added services (Figure2).

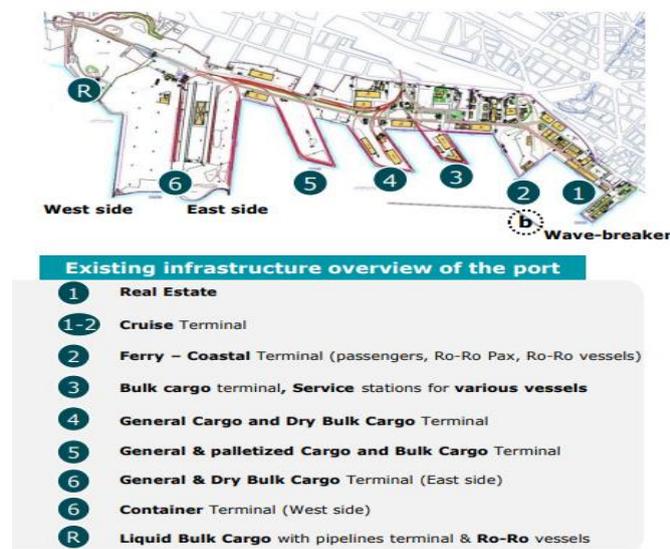


Figure 2. Existing Infrastructure of the port

Container throughput grew at a compound annual growth rate (CAGR) of c. 7% over the 2015-2017 period, reaching 402 th. TEUs in 2017. 2018 H1 volumes amounted to 209 th., increased by 10.8% compared to the same period in 2017, mainly driven by domestic throughput. The domestic market represents the majority of the port's container throughput, followed by the transit market which still remains relatively low. Conventional cargo exhibited volatility between 2015 and 2017, dropping at 3,663 tons in 2017, driven mainly from the decrease in dry bulk throughput during the same period. Cruise passenger traffic decreased significantly during the 2015-2017 period, affected by the geopolitical environment in the region, while ferry passenger traffic picked up after the temporary termination of services in 2015. Container Terminal and Conventional Cargo activities account for more than 96% of ThPA's annual turnover and are the two main profit centres contributing to the Company's overall profitability. ThPA's total revenues increased by 12.8% in 2017, reaching €54.2 mil., driven mainly from the increase in container volumes during the same period. The Company's profitability, at EBITDA level, decreased by €5 mil., mostly due to extraordinary provisions and expenses that were recorded.

Investment Plan

ThPA's investment plan comprises the expansion of the western part of Pier 6 (container terminal), civil and infrastructure works, as well as acquisition of new equipment. In addition, the Management of the port will also consider the expansion of the eastern part of Pier 6 (dry bulk), as well as the unification and extension of Piers 4 and 5 (general cargo), provided that the required subsidy is secured through EU funds. The expansion of the western part of Pier 6 constitutes the most significant development initiative of ThPA's investment plan, aiming at increasing the capacity of the container terminal to 1,260 th. TEUs (+760 th. TEUs). The extension of the civil works infrastructure of Pier 6 includes at least the following: Construction of one of new additional Quay wall, as a straight line extension of existing Quays, with a continuous length of 440 m., out of which at least 400 m. providing a minimum draught of -16.50 m. Mean Sea Level(MSL), construction of additional yard area, at least 300 m wide, alongside the above new Quay wall, construction of all complementary infrastructure works needed for the full operation of both the new Quay wall and the corresponding yard, including dredging of navigation channel and ship manoeuvring area at a minimum water depth of -16.50 m. MSL, pavements at the yard area, utilities networks, etc. but excluding purchasing of any terminal equipment with a cost of €130,000,000. At Pier 6, Container Terminal equipment and Bulk Terminal equipment with a cost of €30,000,000 and the general Port Development, including the Remedial Works for Old Customs building 20,000,000. The total cost of the mandatory investments is €180,000,000. (Figure 3)



Figure 3. Sixth Pier site plan- Mandatory Investment

Furthermore, conditional investments are also considered. The expansion of Quay 24 (Figure 4), as well as the unification and extension of Piers 4 and 5 (Figure5).

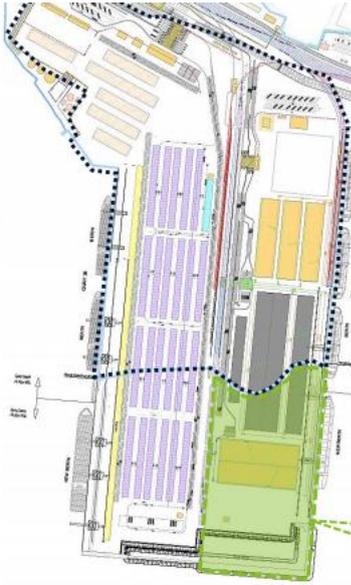


Figure 4. Sixth Pier site plan- Conditional Investments

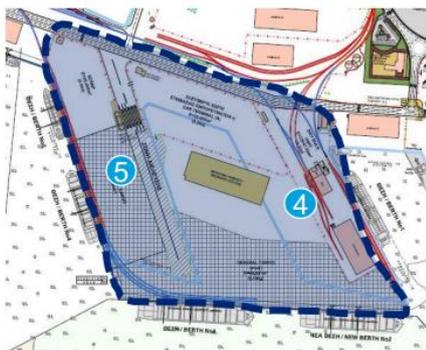


Figure 5. Fourth and Fifth Pier site plan- Conditional Investment

These investments, estimated at €114 mil., are not financially viable and cannot be borne by ThPA's own funds. However, they will greatly benefit the bulk traffic in the region of Northern Greece and neighbouring countries, therefore ThPA will implement them, provided that European Union (EU) funding can be secured.

Furthermore, a SWOT analysis has been conducted. The Strengths are the position in the country's port system, as it constitutes Greece's second largest export and transit port, the advantageous geographical location, making it a gateway port primarily for South-East Europe and particularly for the southern Balkan countries. In addition, the port is strategically located on the core Trans-European transport network, the maritime transportation network of the Balkans and Black Sea countries, but also in the national land transportation network. Long-term experience in managing key clients and well-established, close relationships with major

partners (shipping companies, industries, local businesses), as well as local entities of the city of Thessaloniki and the long-term experience of existing personnel, which is further enhanced by the involvement of Terminal Link in ThPA's management, due to its international experience and extensive know-how of the ports industry is a major strength. Furthermore, the strong financial performance, including high profitability, low working capital requirements, while the company is also debt-free. The advantageous position within Thessaloniki's historical and commercial center, comprising a large stock of exploitable assets (buildings, facilities) within the port's premises. The Weaknesses are the limited quay depth for serving large vessels, as the port has currently operational depth -12 m. MSL. Also, the need for upgrading the existing equipment – part of major equipment is outdated (more than 20 years old), resulting in increased maintenance costs. In addition, the low capacity of container terminal, with limited (two) berths. Insufficient local road accessibility and connectivity, which is hindered by the delay in the completion of the direct link of Pier 6 of the Port of Thessaloniki with the Patra – Athina – Thessaloniki - Evzoni (PATHE) and Egnatia Motorways is also a weakness. Insufficient rail accessibility and connectivity, which is hindered by the delay in the completion of the new rail link of Pier 6 of the Port of Thessaloniki to the national rail network and lack of regular rail connections, increasing the relevant unit costs, which has a negative impact on the port's competitiveness are also considered as weaknesses. Opportunities that may appear are potential to increase the port's hinterland and role, subject to the completion of the proposed investment plan including the planned expansion of the container terminal. Also, the infrastructure upgrades throughout the EU as part of the TEN-T program, which will be completed by 2030. In particular, the upgrading of the Western Internal Ring road of Thessaloniki and collateral roads, as well as the new rail link of Pier 6 to the international railway network (to be completed by 2022), constitute crucial developments for Thessaloniki port. Also, the increased demand in the containership market – the changes facing today's landscape in the ports and shipping sector support Greece's role as an important factor in the context of China's "Belt & Road Initiative - BRI" strategy and is seen as the European bridgehead for the Maritime Silk Road. In addition, increased potential to develop non-core port activities such as commercial, recreational and cultural activities, taking advantage of the port's central location in the heart of Thessaloniki's historical and commercial centre, as well as the numerous important tourist and archaeological sites of the Central Macedonia region. Threats that may appear are the high dependence on the completion of the proposed investment plan, and especially the expansion of the container terminal (Pier 6), so as to increase the current capacity of the port and maintain its competitiveness, high dependence on the

completion of planned infrastructure upgrades, and especially the new rail link of the port to the international rail network, as the state of road and rail infrastructure within the port's catchment area is considered critical for the evolution of the transit market, negative developments within the targeted area (e.g. changes in trade relations with Greece and / or the EU, changes in tariffs, economic crisis, etc.) and intensifying port competition in the Adriatic and Black Sea region, in terms of infrastructure and equipment upgrades, as well as increasing service levels.

Port Competitive Analysis

Thessaloniki port is well located and currently competes with smaller feeder ports like Varna, Burgas and Durrës, to serve North Macedonia southwest Bulgaria and southern Serbia. Adding direct mainline or regional service calls to Thessaloniki would improve its hinterland reach to compete with Asyaport, Piraeus, ports in black sea and ports in northern Adriatic. The location of the port of Thessaloniki enables it to become one of the most strategic shipping gateways to Southeast and Central Europe. Additionally, Greece is an important actor in the context of China's "Belt & Road Initiative - BRI" strategy and is seen as the European bridgehead for the Maritime Silk Road. The port enjoys a privileged position being located at the crossroad of land transportation networks: East to West, (Egnatia Motorway) and South-North (PATHE Motorway PatrasAthens-Thessaloniki-Evzoni or Idomeni) which continues towards the north, not only as an eastern corridor - eastern Mediterranean, of the Central network of the Trans-European Transport Networks (TEN-T Core Network Corridor Orient - East Med), but also as the pan-European route Ten X. The wider Balkans region is served by regional ports that link direct main line calls and smaller ports that are linked by feeder services. Current potential of Thessaloniki to serve transit markets is limited being served by feeder services; this can be improved by direct main line services to the port, provided that new port infrastructure will be able to accommodate mainliner container vessels. (Figure 6)

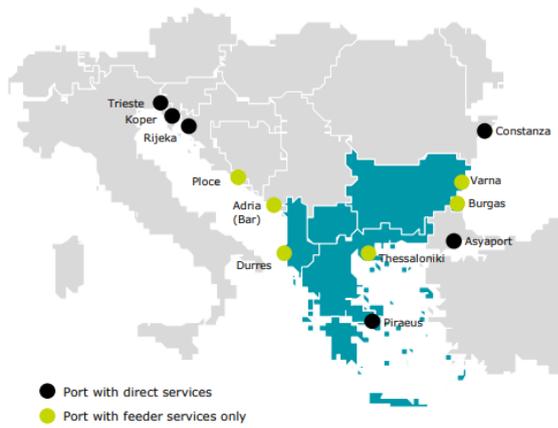


Figure 6. Competitive Ports Map

Catchment Area

Gateway Port for the Balkan Region the port of Thessaloniki is a gateway port serving a greater geographic area that, depending on the distance and the opportunities that exist, can be divided into two zones: Direct Market which includes North Macedonia, Serbia, Bulgaria, Albania, Bosnia and Montenegro, with a population of 24 mil., countries considered as direct and mid-term targets. The secondary Market includes Romania, Croatia, Hungary, Slovenia, Slovakia and Czech Republic with a population of 52 mil., countries considered as long term targets. Access to secondary and direct markets is heavily dependent upon the provision of an efficient rail transportation network. To that effect the state of rail infrastructure within the port’s catchment area, is considered critical for the evolution of the transit market. (Figure 7)



Figure 7. Thessaloniki Port Catchment Area

Rail-Road Network Improvement

Two pan-European corridors cross Thessaloniki, namely Corridor IV and Corridor X-East / Med Corridor. According to EU, the Trans-European Transport Network TENTEC will be completed by 2030 and will upgrade infrastructure throughout the EU. Over €1.3 bn. of Cohesion Policy funds will be invested in infrastructure projects in Greece with c. €92 mil. being invested for better connectivity in the region of Northern Greece. The TEN-T program consists of hundreds of projects, with an ultimate goal to ensure the interconnectivity and

interoperability of the EU's transport network. At its core are nine transport corridors — due to be completed by 2030 — spread across Europe. The Corridor IV constitutes the shortest land connection between Greece and Central Europe completely on EU territory. Greece is doing well in the completions of its TEN-T Core Network with 76% of the core road network and 80% of the conventional rail network completed. Since January 2014, the EU implements a new transport infrastructure policy aimed at closing the gap between the Member States' transport networks, eliminating the bottlenecks that continue to impede the smooth functioning of the internal market and overcoming technical obstacles (€24 bn. by 2020). (Figure 8) Out of the €1.3 bn., €92 mil. will be dedicated to develop better connectivity in Northern Greece. Over €64 mil. were invested in the upgrading of the Western Internal Ring road of Thessaloniki and collateral roads, for a better and faster connection from the city to major road networks – the Egnatia highway, the PATHE motorway and the Orient/East-Mediterranean TEN-T corridor. In addition, almost €28 mil. is invested in the completion and upgrade of motorway N°29 (also part of the Orient/EastMediterranean corridor), on the section between Koromilia and Krystallopigi, in the Western Macedonia region. Works will result in a reduction by half of the travel time between the two cities and in a significant improvement of road safety. (Figure 8)

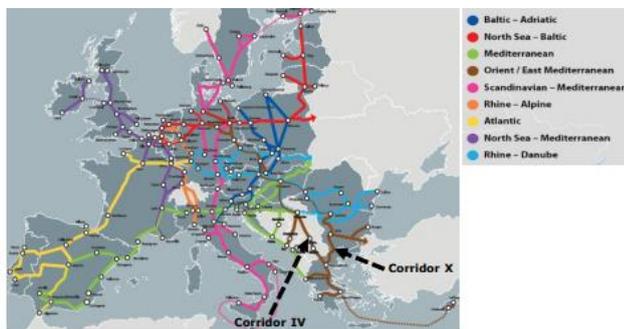


Figure 8. Rail-Road network

RESULTS

Effects on the employment

The direct effects of the port in the employment of the city of Thessaloniki are accounted at 57 agents, 1 environmental security company, 1 accounting company, 5 marine and forwarding & marine logistics company, 1 marine engineering & naval Architect, 3 marine insurance company, 1 maritime consulting company, 1 ship registration company, 4 shipbroking company, 1 shipbuilding & breaking company, 24 ship-managers and operators, 12 marine equipment companies, 2 towing companies, 2 travel agencies, 1 Association and 2 legal services companies. It is estimated that one employee that operates in the port cluster reflects

on three to four employees in the economic environment of the port. Furthermore, a link between the port volume and the port related job exists (Merk, 2013) (Figure 9). The TEU's that go through the port are accounting a major rise of 16,7%, 6,7% for the 2018 and 2019 while a continuous growth of 5% is expected in the following years. At 2015 the number of TEU's were 352,000, at 2016 were 344,000, at 2017 were 402,000, at 2018 were 429,000, at 2019 450,000 while the projection for 2020 are 473,000, at 2021 are 497,000 and 2022 are 521,000, including the impact of the investment plan on the rise of the port volume. A volume of 500,000 TEU's equals approximately 6,000 port related jobs. (Figure 9)

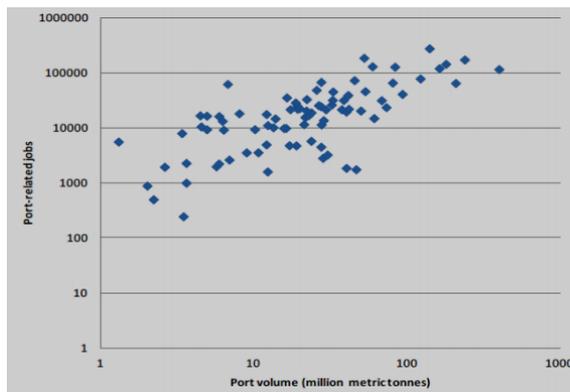


Figure 9. Port volume – port related jobs relation (Source: Merk O. The Competitiveness of Global Port-Cities: Synthesis Report, OECD, 2013)

Beyond the port activities-Dry ports

The port of Thessaloniki can also serve some countries of its target market through beyond the port activities. The port of Thessaloniki plans to expand its territory through the creation of dry ports. First at Sofia, Bulgaria and Skopje, North Macedonia. Then at Serbia, unknown place. As far as Serbia concerned, the country has no direct connection to the sea port, while matters of tradition connect the two countries. This creates a fruitful environment for trade and further cooperation. Also, as stated, there is a continuous contact between Greek and Serbian executives (Bellos, 2020). Also, North Macedonia is a target market through the operation of a dry port. The political environment of Greece has affected the potential of the cooperation of the port with local enterprises, through the Agreement of Prespa. (Bellos,2020). At last, Bulgaria is a place that the port of Thessaloniki aims to be connected through the creation of a dry port. The west side of the country has no direct connection to a local port, even though the country has two ports Burgas and Varna. It is underlined that the port of Thessaloniki has equal competition to Varna and Burgas, according to the competitive map, as the ports provide feeder services only.

The expansion of the provided services using beyond the port activities is expected to create added value to the port, rise its brand awareness, growth in the volume of goods distributed and minimize the transport costs.

Economic Impact of the Port of Thessaloniki

The economic impact of a leader port in the Northern Greece is major, basically in the sector of transportation. As soon as the privatization of the port happened, the improvement of rail and road network begun. Furthermore, great impact in the Northern Greece and Thessaloniki in terms of employment, improvement of the rail and road network and growth of revenue due occurred due to the raise of exports and trade. An important impact for the North Macedonia, Bulgaria and Serbia was also detected, in terms of improvement of the rail and road network and growth of revenue due to the raise of exports and trade. These impacts are referred in a qualitative way, because the link between the growth of the port and the economic growth in the Balkan Region is not estimated in this paper.

DISCUSSION

The port of Thessaloniki has the ability to transform from a regional port to a regional leader in the port market through modernization and development. Based on the above information and analysis, the transformation of the port is relied on three major strategic decisions. The approach of these as far as the port concerned is a vital decision but also critical point in the development of the port as a leader in the area of Balkans and South-East Europe.

The port bound strategy

First of all, the port bound strategic decisions should focus on developing a high performance Container terminal via expansion, deeper Quays and modern handling & storage equipment, as well as front-end digital technology, in order for the port to be well connected to the digital systems of other ports and / or entities ,develop a state-of-the-art Conventional port with increased bulk cargo vessel accommodation capacity, improved rail transport use and special cargo handling capabilities, to serve both import and export needs of the port, setting the ground for the development of the regional conventional cargo market. Also, the development of a modern Passenger port and associated supporting activities via establishing Thessaloniki as a cruise destination (home port) and a new cruise terminal could lead to increasing traffic on the port.

Beyond the port strategy

The beyond the port strategic decisions must rely on the creation of leverage on port's location to establish a combined transportation network for Balkans and South East Europe countries.

Furthermore, the development of a logistics centre adjacent to port facilities but also the operation of dry ports or other rail-related freight facilities within strategically selected areas of the direct market neighbouring countries (Bulgaria, North Macedonia & Serbia) is a priority.

The management strategy

The Management decisions should focus on the development of a unified management strategy across port activities to exploit synergies in market and support operations but also the setup of a lean and efficient organizational structure. The simultaneous application of these strategic decisions is considered a key activity in order to achieve maximum outcome (Ferrari, 2011)

REFERENCES

- Bellos Elias, (2020) *The role of the port of Thessaloniki is empowered in the area of Balkans*, Kathimerini
- Chai Stanley Ndenge (2005) *Can ports contribute to the economic development of the regions they serve? :an examination of the potential, if any, of using the Kenya Ports Authority as an engine for Kenya's economic recovery and development*. World Maritime University
- Chen Shu Ling, Quazi Sakalayen, Stephen Cahoon, (2017) *The strategic role of ports in regional development conceptualising the experience from Australia*, Maritime Policy and Management
- Ferrari Claudio, (2011) *Port and Regional Development: A frayed relation*, University of Genova, Italy
- Ferrari Claudio, (2010) *Ports and Local Development: Evidence from Italy*, University of Genova, Italy
- Frans A.J. Van Den Bosch Rick Hollen Henk W. Volberda Dr Marc G. Baaij (2011) *The strategic value of the Port of Rotterdam for the international competitiveness of the Netherlands: A FIRST EXPLORATION*, Port of Rotterdam Authority
- Hamburg Port Authority, (2012) *Hamburg is staying on Course The Port Development Plan to 2025*, Hamburg Port Authority
- Mertzanidis Manolis, (2019) *Maritime Container Transportation: The case of Thessaloniki Container Terminal*, Aristotle University of Thessaloniki
- Munim Ziaul Haque and Hans-Joachim Schramm (2018), *The impacts of port infrastructure and logistics performance on economic growth: the mediating role of seaborne trade*, Journal of Shipping and Trade
- Pierros Yiannis, Thanos Mavros (2016) *Re-positioning Greece as a global maritime capital*, Ernst and Yung
- Salim Akhil, (2015) *Review on the Role of ports in the Development of a Nation*, Oregon State University
- Spendos Ioannis, (2017) *Port Investments and its impact on the Country*, University of Piraeus

The Evolution of South-eastern European Countries In-Between Crises

Ana-Maria Pricop

Alexandru Ioan Cuza University of Iași
Iași, Romania
pricopanamaria59@gmail.com

ABSTRACT: *This article starts from the assumption that as time passes, countries become more prepared for a financial crisis. To test this hypothesis, this paper focuses on the years preceding two global economic crises - 2006 (for 2007-2008 GFC) and 2019 (for 2020 GFC). As we are still in the COVID-19 period, data and studies on this topic are scarce and still at their very beginning. In the article, we propose a statistical analysis of different variables (eg. GDP, unemployment rate) for the countries in South and Eastern Europe for the years mentioned previously. Thereby, this paper can serve as a basis for predicting the end of the economic crisis we are currently undergoing.*

Keywords: *financial crisis, gross domestic product, statistical models, unemployment rate.*

INTRODUCTION

This paper highlights data on the way in which South and Eastern Europe changed throughout almost ten years regarding their level of development. The information analysed is supposed to show that between time and the degree of a nation's evolution there is a directly proportional relation. Thus, the hypothesis we refer to is that as a society advances in terms of time, the extent to which the country is more resilient to critical situations is greater.

In order to demonstrate this premise, we will use data retrieved from the European Union database on two important years - 2006 and 2019, years that precede a financial crisis. Two different macroeconomic indicators will be used, namely the GDP (€) and the unemployment rate (%). We will study and create based on the assumptions that can be used in further research for predicting the end of an economic crisis.

The article is organized as follows: The first part introduces the topic, which is presented in more detail in the Literature review. Further, the methods used are described in the Data & Research methodology section, followed by the data analysis carried out in the Empirical study. Finally, the Conclusions sum up the research conducted, and the data used is given in the Annexes.

LITERATURE REVIEW

The COVID-19 era started at the beginning of 2020 and, as it is well underway, the subject is still in the spotlight. There is a relatively large amount of articles from a macroeconomic view regarding the influence of this period on the economic field. There is also a considerable body of research dedicated to the previous financial crisis, as it was more than 10 years ago.

The present pandemic came along with many new rules that made some companies go bankrupt, especially the ones dependent on offline contact with their clients. During the 2007-2008 economic crisis, some firms also went bankrupt mainly due to different reasons than now. This is the first impression. However, “in general, markets failed because of poor corporate governance and incompatible executive remuneration structures.” It is about “leading through anxiety” (Morra Aarons-Mele, HBR). Some studies show that during a financial crisis, what changes the outside of a company comes from the level of leadership that exists within it. Thus, a difficult period from an economic point of view brings to light how healthy the inside of a business is.

Every movement that takes place at microeconomic level, at the level of SMEs or enterprises, is reflected in the macroeconomic indicators. Thus, we considered two indicators that present an overview of the steps taken in each sector of activity, namely GDP per capita and Unemployment rate. Their values will show how the world met the economic crisis of 2007 and how it entered the 2019 one. However, it is said that overall “the last global economic crisis was a financial heart attack. This one might be a full-body seizure.” This paper will focus just on the beginning of the two mentioned crises and not on how they evolved during their course.

DATA & RESEARCH METHODOLOGY

This paper aims to find an answer to the central question by using two dependent variables which are closely linked to the topic. Both are used to measure the nations’ prosperity, namely the GDP per capita and the Unemployment rate. The paper will explore the data for the years 2006 and 2019. The statistical methods used for achieving the objectives of this study are the paired t-test, boxplot and Pearson correlations. In the following paragraph, we will present the purpose of each means used.

The scope of the paired t-test is to see if there exists a mean difference between the same variable in two separate moments in time, especially if there is a relevant difference from zero. The boxplot method will be used in order to summarize our data by incorporating it into an interval and to find the outliers and their values. Also, it can be seen if the distribution is symmetrical or if the data is tightly grouped. The bivariate correlation will help us discover the

relation between GDP per capita and the Unemployment rate. More specifically, we will use the Pearson's correlation coefficient (r) to underline the strength between the two variables.

The units of measurement of the variables used are the following:

GDP	Euro (€)
Unemployment rate	Percentage (%) from the total labor force

EMPIRICAL STUDY

For this study, we will focus on 17 countries and their values for GDP and unemployment rate from 2006, respectively 2019. Nine of them are from Eastern Europe and eight from Southern Europe, as follows:

East: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia.

South: Croatia, Cyprus, Greece, Italy, Malta, Portugal, Slovenia, Spain.

The analysis will be divided into three parts. The first one focuses on the paired t-test, the second focuses on the boxplot and the third on the Pearson correlations.

A. Paired t-test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Real GDP per capita 2006 - Real GDP per capita 2019	-2601.765	2622.061	635.943	-3949.904	-1253.625	-4.091	16	.001

Figure 1. Paired t-test for GDP from 2006 and 2019

The null hypothesis, H_0 , assumes that the mean difference, μ_d , is equal to zero, where H_0 means that countries do not change over time when discussing macroeconomic indicators. As we can notice in Figure 1, the level of significance is higher than zero. Thus, the null hypothesis is incorrect and there is a difference between the two years taken into consideration. The Sig. (2-Tailed) value in our example is 0.001. This value is less than .05. Because of this, we can assume that there is a statistically significant difference between the mean GDP 2006 and GDP 2019.

Below mean, there is a value of -2601.765, which represents the mean differences between the two variables. As it is a negative number, our Paired Samples Statistics box revealed that the Mean for GDP 2019 is higher than the Mean for the GDP 2006. Therefore, we can conclude that it is an improvement in the countries' economies as "per capita GDP is a global measure for gauging the prosperity of nations."

The rest of the tables are listed in the Appendix.

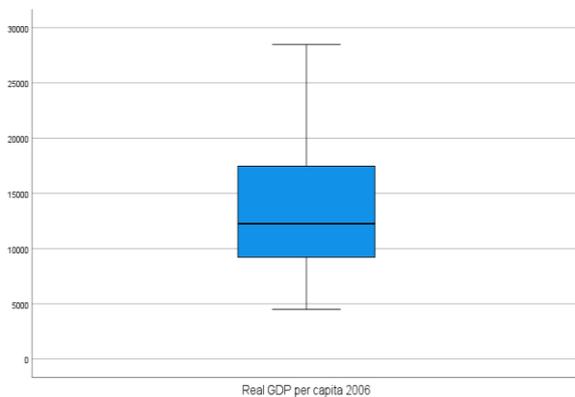
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Total Unemployment Rate 2006	8.106	17	2.5864	.6273
	Total Unemployment Rate 2019	6.418	17	4.0128	.9733

Figure 2. Paired t-test for Unemployment rate for 2006 and 2019

From Figure 2, it can be noticed that for 2019, the mean of Total unemployment rate is smaller than for 2006 by 1.68%. This variable is relevant for our analysis because it is an important economic indicator that can measure the health of an economy. The positive value of our subtraction highlights the fact that the Unemployment rate has dropped over the years.

The rest of the tables are listed in the appendix.

B. Boxplot



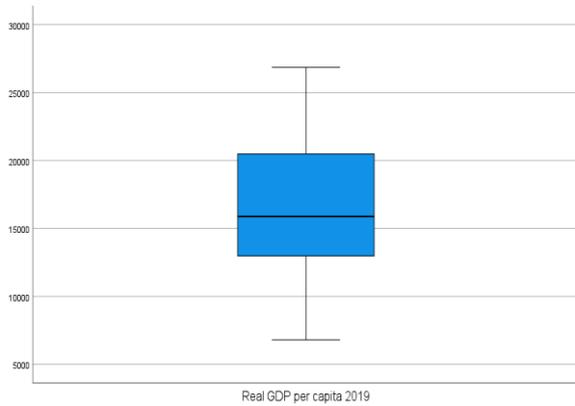


Figure 3. Boxplot for GDP 2006 and GDP 2019

It can be noticed in Figure 3 that the minimum value for GDP per capita is higher for 2019 than for 2006, with a change from 4500€ to 6800€.

2006: The smaller value is 4500€ (Bulgaria) and the highest one is 28480€ (Italy).

2019: The smaller value is 6800€ (Bulgaria) and the highest one is 26860€ (Italy).

As it can be seen from the minimum and maximum values and the boxplot made for both years, the possibility of fluctuation is lower than what will happen with the unemployment rate in the next paragraph.

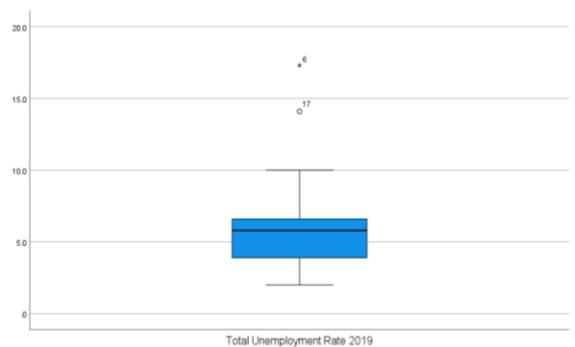
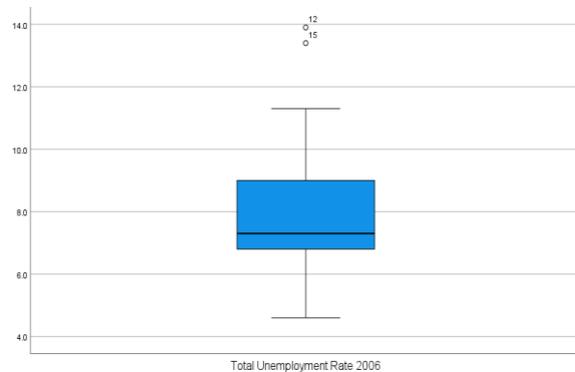


Figure 4. Boxplot for the Unemployment rate in 2006 and in 2019

As shown in Figure 4, the group of examined countries is characterised by a higher heterogeneity in 2006 than in 2019, regarding the values of the unemployment rate. Furthermore, over the years, this rate has generally decreased.

2006: The smaller value is 4.6% (Cyprus) and the highest one is 11.3% (Croatia), with the exception of the outliers - Poland with 13.9% and Slovakia with 13.4%.

2019: The smaller value is 2% (Czech Republic) and the highest one is 10% (Italy), with the exception of the outliers - Greece with 17.3% and Spain with 14.1%.

C. Bivariate correlations - Pearson

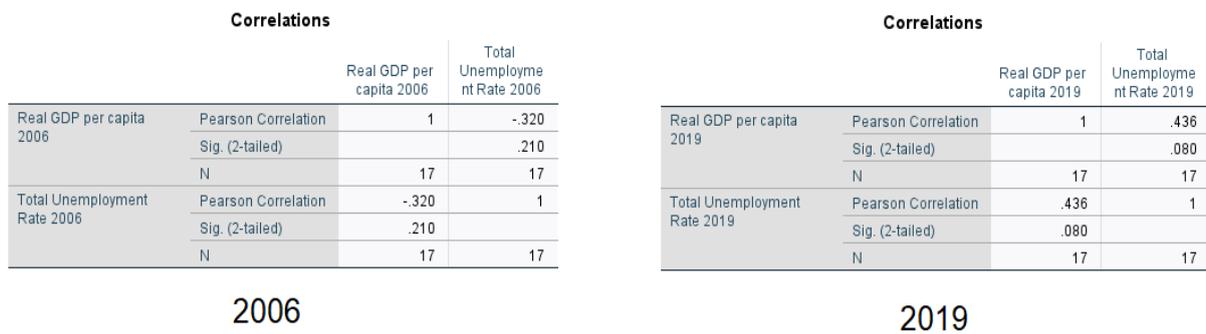


Figure 5. Bivariate Correlations

As shown in this analysis, Pearson's r is negative (-0.320) for 2006. This means that as one variable increases in value, the second variable decreases. Thus, we can conclude that when the GDP increases (our first variable), the Total unemployment rate (our second variable) decreases and vice versa. In 2019, Pearson's r is positive (0.4360). This means that over the years, the relation between these two variables changed and became positive. This means that as one variable increases in value, the second variable also increases. Similarly, as one variable decreases in value, the second variable also decreases. Since our example Pearson's r is positive, we can conclude that when the GDP increases (our first variable), the Total unemployment rate (our second variable) also increases and vice versa.

Moreover, as it is strange to have such a big difference from 2006 to 2019 regarding the correlation between the two variables, it is also worth taking a look at the value. As Pearson's r for 2019 is positive, the relationship between the two variables can be expressed as very weak or very strong, where very weak is a value closer to zero, and very strong is a value closer to one. Our value, 0.436, is closer than 0, even if it is very close to the middle of the range. This means that there is a weak relationship between these two variables. This involves that changes in one variable have a small impact on changes in the second variable.

The weak relationship is also proved by the value of the 2-tailed significance value – which in this case is higher than 0.05 for both years. 0.210 and 0.080 represent a very weak significance.

CONCLUSIONS

A financial crisis can have many causes. The one from 2007 was mostly caused by trust issues between banks, and the economic crisis from 2020 is the result of a pandemic's impact. The way these long-term events affect the population is quite the same. A factor that makes the difference instead is represented by the “weapons” a nation uses in the “battle”. A higher GDP, a smaller unemployment rate and, overall, a better score on macroeconomic indicators can make the difference in the way in which countries deal with a crisis.

From the analysis, it can be seen that any change that occurs locally, nationally or globally can change the way a community works, especially from an entrepreneurial point of view. It can also be seen that in 2019, the unemployment rate was lower than in 2006, which means that in this financial crisis, more than 10 years later, countries have generally entered with fewer unemployed people. During a crisis, available jobs are fewer and harder to find, and people who own companies prefer to lay off employees to reduce costs. Also, since 2006 there has been a general increase in GDP per capita, the second indicator that shows the prosperity of a nation.

As we mentioned in the introduction, this article intended to demonstrate that the more a country progresses in time, the better prepared it is to face difficult situations. As we have seen, taken as a whole, GDP per capita has risen and the Unemployment rate has fallen, which is an essential step in the health of a nation. It can be stated that overall, the south-eastern part of Europe has entered this economic crisis better prepared, according to the two macroeconomic indicators. From more detailed analyses it can be taken from the past financial crises and it can be analyzed the beginning and the end of the crisis period. Thus, interpreting the start of the 2020's crisis, some economic forecasts can be made regarding the end of this period.

ANNEX

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Real GDP per capita 2006	14241.18	17	6963.997	1689.017
	Real GDP per capita 2019	16842.94	17	5642.428	1368.490

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Real GDP per capita 2006 & Real GDP per capita 2019	17	.935	.000

Paired Samples Test

		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference		t	df	Sig. (2-tailed)
					Lower	Upper			
Pair 1	Total Unemployment Rate 2006 - Total Unemployment Rate 2019	1.6882	4.7265	1.1463	-.7419	4.1184	1.473	16	.160

REFERENCES

- Eurostat database, available at <https://ec.europa.eu/eurostat/data/database>
- <https://www.investopedia.com/terms/p/per-capita-gdp.asp>
- <https://www.britannica.com/topic/unemployment-rate>
- <http://ftp.iza.org/dp6671.pdf>
- https://www.researchgate.net/publication/227490224_Effects_of_Global_Financial_Crisis
- <https://hbr.org/cover-story/2020/05/leading-through-anxiety>
- <https://foreignpolicy.com/2020/03/18/coronavirus-economic-crash-2008-financial-crisis-worse/>
- Nastase, M. & Cretu, A. & Stanef, R. (2010). *Effects of Global Financial Crisis*. Revista Review of international comparative management 10. 691-699.
- Ozili, P. K., & Arun, T. (2020). *Spillover of COVID-19: Impact on the Global Economy*. MPRA Paper.
- UKEssays. (November 2018). *Impact of the Global Financial Crisis on Businesses*. Retrieved from <https://www.ukessays.com/essays/economics/impact-global-financial-crisis-5545.php?vref=1>

Multicultural Coworking

Darya Stefanovich

Student of Cracow University of Economics
Cracow, Poland
stefanowicz2001@gmail.com

ABSTRACT: *As I am a foreigner in Poland, I find interesting the topic about how Polish people and foreigners communicate with each other and what kind of problems appear while working in multicultural teams.*

The issue of foreigners in Poland is very popular and it is a relatively new phenomenon. As Poland is situated near Ukraine and Belarus, there we can meet lots of Slavic students. But not only students are interested in moving to Poland. Different international corporations have a staff which consists not just of Polish people but also of people with different nationalities.

Because of that I made a decision to search whether people are open for coworking with foreigners. And how many companies are ready to support international employees and help them to accommodate in Poland.

I think that this issue is very popular all around the world and people have the same problems in understanding each other. In addition, this problem depends not only on people but also on the companies in which they are working. If a company has policies that don't create a healthy climate in teams, it complicates the process of multicultural coworking.

While this topic is rather new for the present generation, I decided to monitor among student's environment a few issues:

What are their thoughts about this situation in the country?

How are they dealing with this international cooperation?

What kinds of problems do they face?

As well as a lot of students are working in different companies with multicultural staff, they can tell us much more objectives about:

How do companies support or help foreigners?

Which attitudes they have towards Polish people?

If companies make integration events to bring the team together?

Hypothesis that I want to verify:

Companies are open-minded in foreigner's employment;

The Polish people haven't got any difficulties in interaction with international workers;

Foreigners have lots of problems with settling in;

Companies support immigrants.

Moreover, basing on these results of the experiment we can make a more particular conclusion about how effective international integration works and how companies should develop their skills to improve the idea of multicultural coworking.

Keywords: *coworking, hypothesis, multicultural, solution.*

INTRODUCTION

I want to tell you about multicultural coworking and specially to get into the problems, which are appearing between people with different nationalities in communicating.

As I am a foreigner in Poland, I find interesting the topic about how Polish people and foreigners communicate with each other and what kind of problems appear while working in multicultural teams.

The issue of foreigners in Poland is very popular and it is a relatively new phenomenon. As Poland is situated near Ukraine and Belarus, there we can meet lots of Slavic students. But not

only students are interested in moving to Poland. Different international corporations have a staff which consists not just of Polish people but also of people with different nationalities. I think that this issue is very popular all around the world and people have the same problems in understanding each other. In addition, this problem depends not only on people but also on the companies in which they are working. If a company has a policy that they don't create a healthy climate in teams, it complicates the process of multicultural coworking.

In my opinion, that is why this problem is relevant nowadays and it makes sense to explore the problem and, as a main aim, to find the solutions for it by influence of the universities and firms, which work with multicultural students.

Hypothesis that I want to verify:

Companies are open-minded in foreigner's employment;

The Polish people haven't got any difficulties in interaction with international workers;

Foreigners have lots of problems with settling in;

Companies support immigrants.

PART I

To investigate the problem, I used the questionnaire. Among these people who made a survey are 80% of women and 20% of men. Also, I want to add that as I'm a student, most of the people who make a survey are from my social circle. There are 83% of people in the age of 18-23 and 17% of people in the age of 24-30.

While this topic is rather new for the present generation, I decided to monitor among our student's environment a few issues:

What is their attitude to foreigners?

How are they dealing with this international cooperation?

What kinds of problems do they face?

And I found out that no one of them hasn't got a negative attitude towards foreigners. They have neutral and positive attitudes, but personally for me, neutral is also a positive, because maybe it doesn't cause any breathtaking emotions, but at the same time it doesn't cause any negative.

What's more, here we have people, who study only, work only or combine it. 63% of people work and they could tell us much more objective about:

How do companies support or help foreigners?

Which attitudes they have towards their employees?

If companies make the integration events to bring the team together?

But looking at the results I have a question, why do foreigners and citizens have problems in communication if they haven't got any negative attitudes to each other.

Based on my experience, I can tell you that I have good relations with my groupmates, but I am not a part of their circle and they are not of mine not because of the bad attitudes, but from my side because of the embarrassment and problems with understanding, if they accept me or not.

In my opinion, this situation repeats, because people always try to find a zone of comfort in a new place, to make it less stressful. As a result, we have two or more separate groups of people. For example, when he or she comes to a new place of study or work, the person tries to find people with the same interests. In our situation - first of all - the same culture, the same language and only then the same interests.

Comfort zones are those things we have learned to do that allow us to move through our days without constantly asking, "What next?"

PART II

It is the survey in which 52% of the foreigners and 48% of the Polish citizens took part (depends on the place where they work or study).

And there are different opinions who have much more communication problems. Results of the experiment shows 71% of people chose a variant with "foreigner" and another 29% - "citizen". And now we are going to look more detailed, what kind of problems young people face up with.

After asking people who took part in this search about the problems of misunderstanding for both sides, I noticed the next:

MAIN PROBLEMS OF POLISH (Domestic) CITIZENS:

Cultural differences;

Language barrier;

Differences in mentality;

Differences in behavior;

Sometimes foreign language that we have learnt with a tutor is not overtaking the language in real life;

Unawareness of foreigner's problems;

English language level.

MAIN PROBLEMS OF FOREIGNERS:

Language;
Cultural misunderstanding;
Nationality;
Aggressive people;
Stress;
Missing family and home country,
Feeling alone;
Lack of English-speaking Polish citizens;
Racists and stereotypes;
Pronunciation.

MAIN COMMON PROBLEMS OF MISUNDERSTANDING:

Language barrier - poor vocabulary; problems with the pronunciation; education with tutors and real talk have differences;

Cultural differences - lack of knowledge about different nationalities, their traditions and mentality.

Stress of being out of the zone of comfort

PART III

According to the survey 69% of people answered that their place of work or study supports the idea of multicultural coworking and 29% even do not know about opportunities in their places of work or study. That is great, that the majority of the institutions support this idea. Let us look at what they offer in more detail:

UNIVERSITIES OFFER:

Erasmus;
Studies in English, foreign internships;
Student exchange;
Work and travel;
Language course;
International sports competitions.

Based on the results of the test, the most answers were the foreign internships, Erasmus and student exchange, but If we talk about our daily routine, there weren't any solutions to such problems. I think that it complicates the process of multicultural coworking and cooperation at all. And how we can talk about successful coworking, while at the start of the career students

have such problems.

FIRMS OFFER:

Integration dinners for teams;

Parties;

Trips outside of place for a picnic;

Business trips to share knowledge;

Help with settling in for foreigners;

Participating in different projects.

PART IV - CONCLUSIONS

To sum up, there are these hypotheses that I wanted to check:

Companies are open-minded in foreigner's employment - TRUE

Companies support immigrants - TRUE

The Polish haven't got any difficulties in interaction with international workers - FALSE

Foreigners have lots of problems with settling in - TRUE

SOLUTIONS FOR THE UNIVERSITIES:

Lectures in foreign language;

Lectures about the culture of different nationalities;

Work only in groups, where is a mix of foreigners and citizens, if it is possible;

Cultural-days or weeks.

No matter what language students have lectures, there should be one or more lectures in foreign language (relevant *English*). It could be not a specific lecture, but the base that all of the students have in the first year of study. And then they will have an opportunity to choose the language of this lecture and at the same time to improve his or her skills with practicing this language. Because there is a lack of practicing.

From my point of view, such lectures about culture of different nationalities are "*must have*" at the first year of studies. Then students will understand each other better. And what's more, not only each other, but first of all, to understand yourself and then to make the right decision about moving somewhere or going to Erasmus. To be aware of the specific things of different cultures.

In my opinion, teachers have to put more emphasis on work in multicultural groups, if it's possible. As I told you before, a lot of people always try to find the zone of comfort, and such things like work in multicultural groups can help easily to make students more confident in themselves and in the people they are working with.

As most answers were “cultural differences” and “cultural misunderstanding”, I propose to organize cultural days or weeks with the participation of representatives of this nationality. It can make people closer to each other and to cause interest in some of them, because they will find something new.

Also, as a kind of co-working, such events can have a few sessions with different topics and It makes sense for a coworking of the representatives of this nationality and citizens, for example. It could be a help with the organization of such events, and what is attractive, students can get marks or points in their subject of study, of course if the topic of session has something in common with the subject of studies.

SOLUTION FOR FIRMS:

To create more places for students’ interns;

Offer single projects with the participation of students;

Make a workshop for students;

Cooperate with the universities and provide it with different events and case-studies;

“Week as an employee”.

Cooperating with the universities by creating projects with the participation of the students, what will help them to understand how their future work looks like and to clarify how is going on the work in multicultural groups.

Also, it could be a different workshop for students. In this way, corporations or smaller firms can attract employees and grow up the students to hire them later. In addition, it will develop the skill of decision making.

“Week as an employee” to show how the process of work is looking like. And the main aim is to collect the different nationalities in one place as it’s possible.

Conclusion is that we need to do our best in spreading the importance of learning foreign languages and different cultures, the importance of work in international groups and going out of our comfort zone.

Disclosure – The paper is based on the author’s own analysis based on personal finding



9th ASEC Youth International Conference and Summer School &
10th Jubilee Summer School of the Faculty of Economics - Skopje



Section 2: Contemporary Business Environment in South – East Europe and Black Sea Region



The Mini Schengen Zone Impact on Contemporary Business Environment

Ratko Danevski

University “Goce Delcev”, Faculty of Economics, student
Shtip, North Macedonia
ratkodanevski@hotmail.com

Angela Dimitkova

University “Goce Delcev”, Faculty of Economics, student
Shtip, North Macedonia
angeladimitkova@yahoo.com

ABSTRACT: *The benefits and drawbacks of being part of the Mini Schengen Zone can be seen throughout the analysis and statistics that are going to be stated in addition. The countries that have joined in this union can start seeing the advantages of it a few years from the implementation itself. Regarding that, the analysis and statements will show all the factors and implications that are going to occur of political, socio – demographic and most importantly economic nature.*

Keywords: *Benefits, Drawbacks, Implementation, Implications*

INTRODUCTION

The content of this thesis starts with the idea, initiative and actions that were taken to make this agreement possible and to be implemented by the countries that are a part of it. The agreement itself has a lot of factors that are considered to be of great value that will help the involved countries develop in every aspect they can, regarding political, economic, socio – demographic and other segments that are considered to be of great importance for a country to flourish.

MINI SCHENGEN ZONE – IDEA, INITIATIVE AND ACTIONS

Even though all the WB countries, including Kosovo, are a part of CEFTA agreement, CEFTA does not have the ability to sanction taxes, therefore Mini Schengen appeared.

‘Mini-Schengen’ came after the regional cooperation slowed down, since the introduction of 100% taxes on goods from Serbia and BiH largely blocked regional cooperation, not only in the area of trade, but overall. Sanctions are impossible because UNMIK represents Kosovo in CEFTA, and simply the mechanism does not work when it comes to Kosovo and the trade measures it implies.

On October 11th, 2019, in the northern Serbian city of Novi Sad, the declaration of intent to establish the free movement of people, goods, services and capital between the three countries, has been signed. The project, promoted by the Serbian President, aims to improve regional cooperation between the countries and to arouse the interest of neighbours, laying the foundations for what could be a common space for the Balkan area in the future, which is not already part of the EU. The three leaders also affirmed that the initiative is open to the remaining members of the 'Western Balkans Six' (WB6), inviting Bosnia-Herzegovina, Montenegro and Kosovo to join them as soon as possible and move forward to the project. *(EU-LOGOS, 26 February 2020)*

What the Mini Schengen Zone Does?

The action plan, which is supposed to be implemented by 2021, includes: free movement between the countries with identity cards only, 24/7 control services at border crossings and a fast lane for trucks transporting goods and products, mutual recognition of all documents from veterinary agencies and other administrative institutions, recognition of professional qualifications and greater mobility of students and youth, automatic recognition of academic titles and strengthening police cooperation for cross-border contrast to crime, terrorism, illegal migration, and emergencies. *(OBC Transeuropa, 12.12.2019)*

Social – demographic Implications

Advantages

Freedom of movement, reducing unemployment, better standard of living, recognition of professional qualifications and greater mobility of students and youth, automatic recognition of academic titles, stronger police cooperation for cross-border contrast to crime, terrorism, illegal migration, and emergencies, system which would allow working permits for the possibility to work in some of the Mini – Schengen countries.

Disadvantages

Exporting highly qualified & skilled workers, migrating to foreign bigger and more developed cities and leaving behind the smaller towns.

Political Impact of The Mini Schengen Zone

Advantages

Increased and improved diplomatic relations, one of the conditions for candidate and potential candidate countries to join the EU is establishing effective regional cooperation before joining, thus, Mini Schengen does that. Sign of maturity and possibility for new political collaborations between the potential Mini – Schengen countries.

Disadvantages

Considering the timing of the initiative, it is obvious that the project is primarily about the political and diplomatic plans of Serbia and Albania, and secondarily about the economy. Also, along the same political logic, N. Macedonia needs to show good neighborly initiative before the EU, claims that Mini-Schengen project could be dysfunctional if all countries do not join in as well as risk of putting an end to the European integration of the region.

Economic Implications

Advantages

The trade exchange between N. Macedonia and all Western Balkan countries in the last years is approximately 10% (*OBC Transeuropa, 12.12.2019*) of the total exchange, so there is a huge margin for further economic collaboration within the region. Solving the problems with the slow transport of goods and services through state borders, lowering the price of many goods and service, faster growth of GDP, good for increasing the tourism, creating more jobs, attracting more foreign investment, lowered travelling costs.

Disadvantages

From the economic point of view, the initiative could be problematic because North Macedonia cannot compete financially with Serbia and Albania, requires many more institutional reforms before its implementation, all potential Mini – Schengen countries are already members of CEFTA, not enough border control which may hurt the market and help the black-market flourish, it may hurt local small businesses as everything will be cheaper because of the non customs policy.

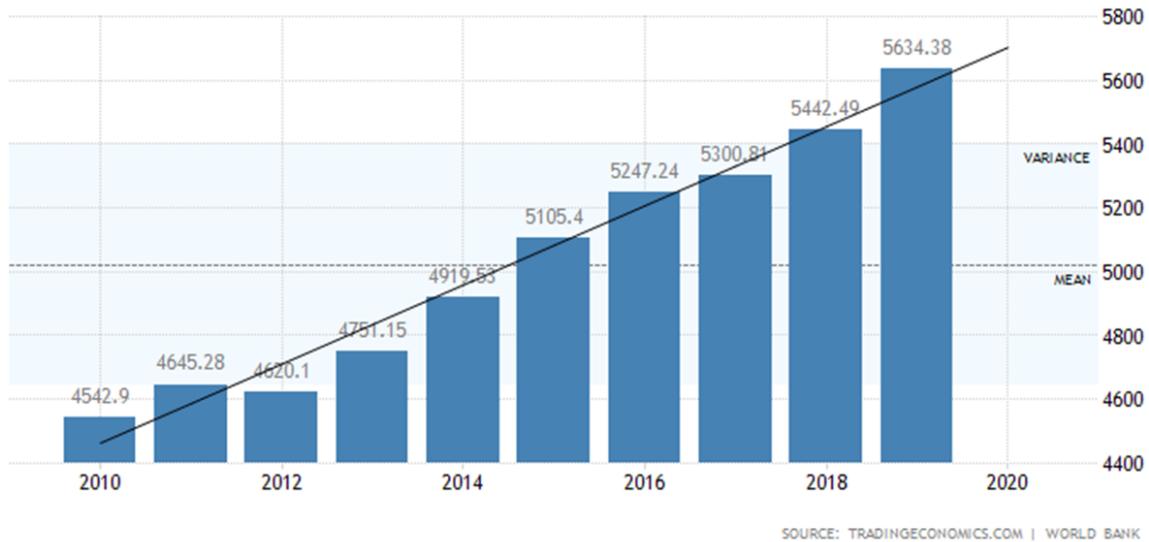


Figure 1. GDP per capita in N. Macedonia

GDP per capita in N. Macedonia varies throughout the years, now averaging at 4032.19 USD, reaching an all time high of 5634.38 USD in 2019 and a record low of 3056.99 USD in 1995.

1



Figure 2. GDP per capita in Serbia

GDP per capita in Serbia averaged 5064.01 USD, reaching an all time high of 7213.18 USD in 2019 and a record low of 3064.03 USD in 1995.

¹ Author's calculations according to data set from: <https://tradingeconomics.com/macedonia/gdp-per-capita>

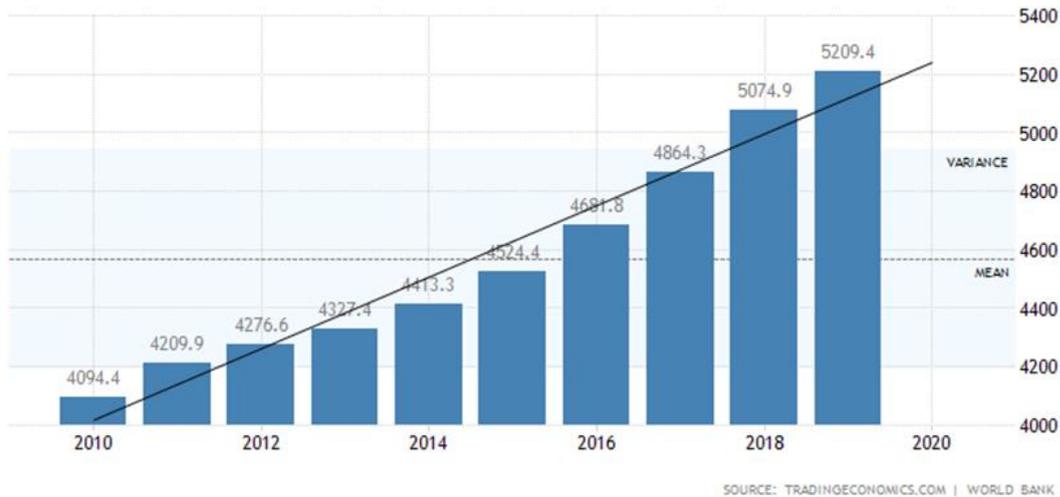


Figure 3. GDP per capita in Albania

GDP per capita in Albania averages 2819.21 USD, reaching an all time high of 5209.40 USD in 2019 and a record low of 1243.60 USD in 1992.²

Macedonian exports to Serbia

Table 1. Macedonian exports to Serbia in 2019

Macedonia exports to Serbia	Value	Year
Mineral fuels, oils, distillation products	\$103.96M	2019
Iron and steel	\$84.29M	2019
Plastics	\$47.98M	2019
Articles of iron or steel	\$40.91M	2019
Beverages, spirits and vinegar	\$32.87M	2019
Pharmaceutical products	\$32.85M	2019
Salt, sulphur, earth, stone, plaster, lime and cement	\$24.88M	2019
Cereal, flour, starch, milk preparations and products	\$24.03M	2019
Electrical, electronic equipment	\$16.19M	2019
Dairy products, eggs, honey, edible products	\$15.33M	2019

² Author.s calculations according to data set from : <https://tradingeconomics.com/country-list/gdp-per-capita?continent=europe>

Macedonian exports to Albania

Table 2. Macedonian exports to Albania in 2019

Macedonia exports to Albania	Value	Year
Iron and steel	\$21.48M	2019
Plastics	\$7.27M	2019
Stone, plaster, cement, asbestos, mica or similar materials	\$5.41M	2019
Beverages, spirits and vinegar	\$4.76M	2019
Animal, vegetable fats and oils, cleavage products	\$4.65M	2019
Pharmaceutical products	\$4.24M	2019
Paper and paperboard, articles of pulp, paper and board	\$3.52M	2019
Articles of iron or steel	\$3.09M	2019
Miscellaneous edible preparations	\$2.44M	2019
Cereal, flour, starch, milk preparations and products	\$2.12M	2019

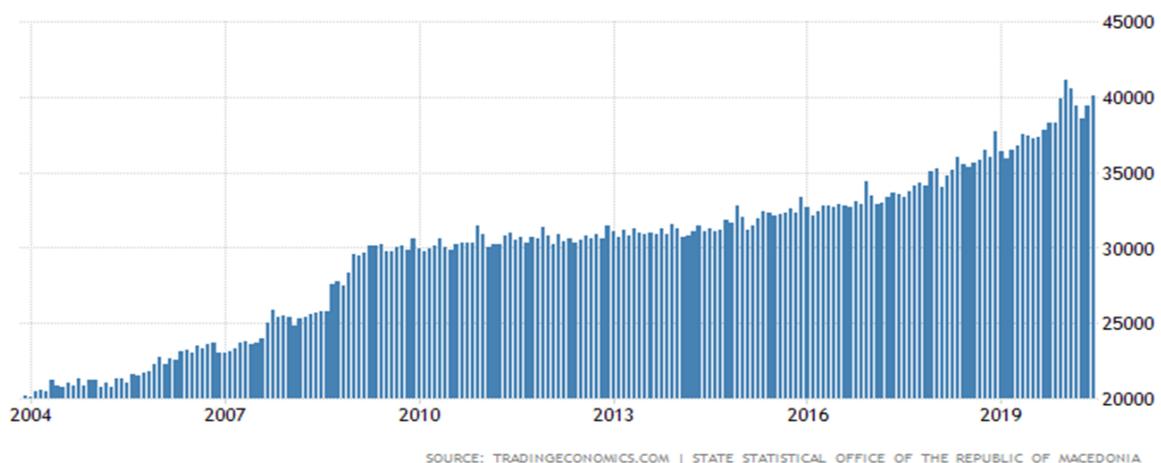


Figure 4. Average Wages in North Macedonia

Wages in N. Macedonia averaged 29708.02 MKD (572.02 USD)/Month from 2003 until 2020, reaching an all time high of 41087 MKD (791.12 USD)/Month in January of 2020 and a record low of 20029 MKD (385.65 USD)/Month in January of 2004.³

Wages in N. Macedonia increased to 40107 MKD/Month in June from 39398 MKD (758.60

³ Author's calculations according to data set from <https://tradingeconomics.com/macedonia/wages>

USD)/Month in May of 2020.⁴

Average Wages in Serbia and Albania



Figure 5. Average Wages in Serbia

The average salary in Belgrade, Serbia is of around 53.000 Serbian Dinars, or slightly less than 500 dollars.

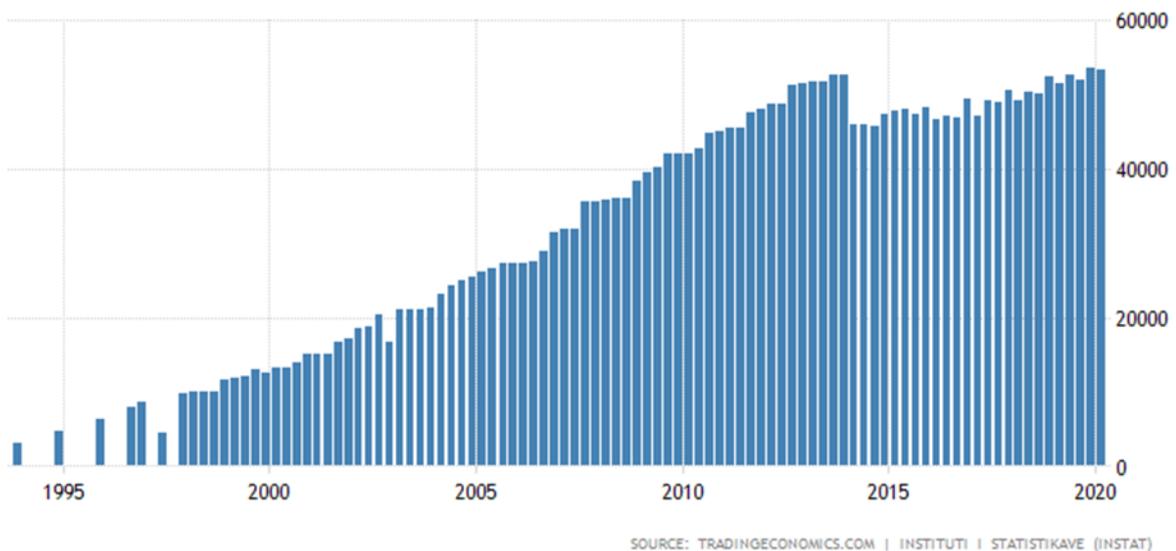


Figure 6. Average Wages in Albania

The average salary of a person employed in Albania is 390.61 USD a month, the minimum salary is 189.39 USD.⁵

⁴ In N. Macedonia, wages are calculated using average gross salaries.

⁵ Author's calculations according to data set <https://tradingeconomics.com/country-list/wages>

Purchasing power in N. Macedonia, Serbia and Albania

Table 3. Purchasing power in N. Macedonia, Serbia and Albania

North Macedonia	Serbia	Albania
In 2018, purchasing power parity for N. Macedonia was 19.1 LCU per international dollars. Though N. Macedonia purchasing power parity fluctuated substantially in recent years, it tended to decrease through 1999 - 2018 period ending at 19.1 LCU per international dollars in 2018.	In 2018, purchasing power parity for Serbia was 41.3 LCU per international dollars. Purchasing power parity of Serbia increased from 5.4 LCU per international dollars in 1999 to 41.3 LCU per international dollars in 2018 growing at an average annual rate of 13.17%.	In 2018, purchasing power parity for Albania was 41.3 LCU per international dollars. Purchasing power parity of Albania fell gradually from 41.1 LCU per international dollars in 1999 to 41.3 LCU per international dollars in 2018.

CONCLUSION

In addition to the analysis, statistics and statements that were explained previously, the conclusions rise up to:

1. According to purchasing power, Macedonian companies should be export-oriented in the Mini Schengen countries. Those companies that are not dependent on imports have a better perspective and will be able to create a certain competitive advantage based on value that should use the purchasing power in those countries. If they are dependent on imports, it would be good to import at lower costs within the zone.
2. Due to the relatively low-cost labor, the member states are in competitive parity, this is not an advantage, but neither is a weakness and membership in the zone does not have a significant impact.
3. No significant capital movement is expected between member states, isolated cases are possible in certain service-based industries, less so in the manufacturing sector.
4. In this regard, no transfer of know-how is expected, unless new FDIs appear.
5. Due to the intensive cooperation with the EU and CEFTA, large companies, regardless of the country of origin, do not have barriers to entry in any individual country of Mini Schengen, and a certain advantage may be the completion of the region as a single market.
6. For now, the initiative is more political, with hidden economic potential.

7. The current situation with the pandemic, especially the political situation in the Balkans, as well as the socio-demographic factors put the importance of the zone in the background, but the initiatives for cooperation are always welcomed.
8. The global tendencies for forming strategic partnerships, as well as the more intense competition in any field, around the world without borders, will direct the companies from this region to the necessary cooperation, so in that case the advantages of this idea can be more pronounced.
9. Ultimately, the true understanding and action, of the stakeholders involved should overcome skeptical thinking about the idea and turn it into action rather than rhetoric.

REFERENCES

- Melitz, M., Obstfeld, M., & Krugman, P. (1998). *International Trade: Theory and Policy*.
- Cvetanoski, I. (2019, December 12). *North Macedonia in the "mini Schengen" looking glass*. Retrieved from: <https://www.balcanicaucaso.org/eng/Areas/North-Macedonia/North-Macedonia-in-the-mini-Schengen-looking-glass-198450>
- Aliu, G. (2020, February 26). *The "mini-Schengen" in the Balkans: Albania, North Macedonia and Serbia*. Retrieved from: <https://www.eu-logos.org/2020/02/26/the-mini-schengen-in-the-balkans-albania-north-macedonia-and-serbia/>



Financial Education, a Challenge for the South and Eastern European Countries - Case Study: Romania

Răzvan-Ionuț Drugă

Alexandru Ioan Cuza University of Iasi,
Doctoral School of Economics and Business Administration
Iasi, Romania
drugarazvanionut@gmail.com

ABSTRACT: *A variable, that can significantly influence the economic level of a state, is the financial education. Through the financial education, the consumers can use financial-banking services more efficiently. The level of financial literacy, the attention paid to a contract or the attention paid to the management of additional income are just a few factors that can influence the level of financial education in a state. One of the countries that have registered, over time, a low level of this type of education among its citizens, is Romania, one of the most important countries from the Black Sea area. This paper aims to verify the mentioned statement. The method used is the survey, the questionnaire being the research tool. The marketing research was conducted among the Romanian citizens. The most representative aspects of the research are presented in the section of conclusions. This presents the overall picture of the country analysed regarding the financial education.*

Keywords: *Black Sea area, financial education, financial literacy, marketing research, Romania.*

INTRODUCTION

Education, regardless of the field where it is applied, has the role of presenting the way how individuals must behave. From one sector to another, this notion has become more or less significant. For example, one area where this concept is constantly expanding is the financial-banking field. This can be attributed to the dynamism and heterogeneity of this sector in countries worldwide.

The role of financial education is to present how the financial-banking products and services work and how they should be used by the consumers. A lack of education in this regard can lead to an unstable economic situation for the country where they live.

One area that may be of particular interest to economists, in the analysis of financial education, is represented by the countries from Southeast Europe. The Organization for Economic Co-operation and Development (OECD) published in 2020 a study in this regard, which included seven states: Bulgaria, Croatia, Georgia, North Macedonia, Moldova, Montenegro and Romania. Unlike the European Union (E.U.) average (about 64%) and OECD countries (about 65%), the level of financial literacy among the citizens from Southeast Europe was about 57% (OECD, 2020a).

Of all the states listed above, Romania was the lowest rated, registering a percentage of 53%. The remaining percentages were found in: Moldova (60%), Croatia (59%), Bulgaria (58%), Georgia (57%), North Macedonia (56%), Montenegro (55%) (OECD, 2020a). It should be noted that data for which the study was conducted was collected in 2019.

There is a progress made by Romania in terms of financial education. In a report drafted by KPMG, published in 2018, the value of the coefficient indicating the level of financial education was only 21% (KPMG, 2018).

One reason why Romania, one of the states in the Black Sea area, a member of the E.U., has a low percentage of the level of financial education, may be represented by the results recorded in the PISA tests. PISA is “the OECD’s Programme for International Student Assessment” and “measures 15-year-olds’ ability to use their reading, mathematics and science knowledge and skills to meet real-life challenges” (OECD, 2020b).

The following table shows the results of these tests, registered by Romania in 2018:

Table 1. Results of PISA tests registered by Romania in 2018, compared to the average of OECD countries

Student performance category	Mean score	
	Romania	OECD average
<i>Reading literacy</i>	428 points	487 points
<i>Mathematics</i>	430 points	489 points
<i>Performance in science</i>	426 points	489 points

Source: OECD, 2020c.

Analysing the results presented in Table no. 1, it can be said that the beginning of any education takes place at an early age. When poor results are achieved, action must be taken. The results recorded by Romania, compared to the average of OECD countries, are worrying. If they are not improved, the level of financial literacy may remain low.

All the figures mentioned above can also be attributed to the fact that “the Romanian economic environment has been characterized by a rocky evolution” during the last two or three decades, defined by: “major political, legislative and structural changes, the need to learn the market economy principles, several financial, and economic crises, the accession to the European Union in 2007, and the increased competition due to the accession in the common European market” (Moraru & Duhnea, 2014, p. 698).

Further, the paper will be structured in two main parts. One of them will present the significant aspects of the specialized literature, in close connection with the topic approached. The second

part of the paper will contain the presentation of the results of a quantitative research, conducted among Romanian citizens. The purpose of the research is to present a clearer picture of the level of financial education in this country. The paper will end with the most significant conclusions.

THE SIGNIFICANCE OF FINANCIAL EDUCATION

Financial education

According to OECD (2005), financial education is defined as being “the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions in order to improve their financial well-being” (OECD, 2005, p. 26).

The mentioned definition is a complex one, which describes in detail each step of this process. In the end, consumers or investors, as the case may be, will be much more responsible, and future decisions will be able to produce beneficial and lasting effects.

Until now, the concept of *financial education* has had several meanings: “knowledge of financial products (e.g., the difference between a fixed and an adjustable rate mortgage)”; “knowledge of financial concepts (e.g., inflation, credit scores)”; “mathematical skills or numeracy necessary for effective financial decisions making”; “engagement in certain activities such as financial planning” (Hastings et al., 2013, p. 349). This evolution is due to the progress of economic sciences. The emergence of new instruments and new financial mechanisms has led to a broadening of the significance of this concept.

The faster the financial education programs are applied among the population, the easier it will be to feel the effects of future phenomena. According to OECD (2005, pp. 28-35), the following factors increase the significance of this type of education: “the complexity of financial products”, “increase in the number of financial products”, “the baby boom and increases in life expectancy”, “changes in pension arrangements”, “changes in income”, “changes in capital markets”.

Although the purpose of a financial education program is to improve a particular situation, the literature presents some arguments against its implementation, such as: “limited empirical support proving the benefits of financial literacy education; consumer confidence; general illiteracy and an overwhelming amount of information; biases in financial decision making; and lastly, personal and emotional triggers” (Alsemgeest, 2015, p. 158).

Taking into account the information presented, each country must develop its own financial education strategies and programs, by analyzing both the opportunities and threats that may support or hinder their successful implementation.

Financial literacy

One variable that would have a major impact on the level of financial education in a country is the level of financial literacy. Financial literacy represents “the ability to understand financial terms and concepts, and to translate the knowledge skilfully into behaviour” (Engelbrecht, L.K., 2008, p. 254). By acquiring these capabilities, consumers can understand more easily the principles of how the economy works. The activities they carry out will thus be profitable, and the issues of economic nature may be minor.

It is a very complex concept, because “incorporates knowledge, education, ability, competence and responsibility at the same time” (Zait & Berteau, 2014, p. 38). Precisely, due to this reason, the implementation of a financial literacy program can lead to the emergence of certain categories of people vulnerable to this practice, such as young people.

Decision-makers in each country should take steps to implement financial education programs. In this way, young consumers will not be exposed to a risk posed by the lack of understanding the financial concepts (Lusardi et al., 2010).

Having successfully implemented a learning model for the financial literacy, the consumers “can be taught to make welfare-enhancing choices in the insurance, credit, and investment marketplace” (Willis, 2008, p. 56).

Financial literacy is a topic of interest for the states of the European Union and implicitly for Romania as well. The reasons for this statement are (EPALE, 2019):

- a) The pension system may be jeopardized due to the rapid ageing of the population. Reducing the impact of this action can be done by focusing on the professional and personal insurance systems.
- b) The largest share of the total debt of households in the eurozone is represented by the mortgage debt.
- c) The main inclusive elements in the European Union are poverty, inequality, social exclusion and social immobility. Financial literacy is negatively associated with these variables.

However, the literature presents two categories of factors that lead to an exaggeration of the meaning of financial literacy: “complexity of the needs of individuals” and “complexity of financial products” (Starček and Trunk, 2013, p. 1447).

In the first category are included: “more and more instability in the working life of individuals”, “lowering the social protection”, “increasing personal responsibility”, “increasing the living standard”, “increasing debts”, “longer life expectancy”, “more self-employments” (Starček and Trunk, 2013, p. 1447).

The second category includes: “deregulation of financial markets”, “a wider range of financial services and a stronger dynamic of development for new services”, “new distributional channels”, “a growing number of information available” (Starček and Trunk, 2013, p. 1447).

This so-called exaggeration may come given the context where the attention of decision-making bodies is directed only to the potential effects caused by the lack of financial literacy among citizens. In this regard, the factors that have caused these effects, even if they may be much more significant than those listed above, are ignored.

MARKETING RESEARCH

Following the statistical data presented, that places Romania at the bottom of the ranking when it comes to financial education, a marketing research was conducted. Its role is to better understand the weaknesses that Romanian citizens have on this topic.

The question from which the whole approach started is the following: “Which are the dimensions of financial education that prevent Romania from being ranked on a better position in the specialized rankings?”.

The main objectives of the present research are:

O₁: identifying the level of openness of citizens regarding the participation in financial education programs;

O₂: identifying the opinion of the citizens regarding the implementation, within the educational institutions, of some financial education programs.

The research tool consisted into a questionnaire, built on a five-dimensional scale, following the model proposed by Zait and Berteau (2014): “financial knowledge”, “financial communication ability”, “ability to use financial knowledge for decision taking”, “real use of financial instruments (financial behaviour)”, “financial confidence” (Zait and Berteau, 2014, p. 40).

Each of the dimensions listed above had four fields: “personal budgeting”, “savings”, “credits”, “investments” (Zait and Berteau, 2014, p. 40). In order to measure them, a 7-point Likert scale was used, with ranges from 1 (Strongly Disagree) to 7 (Strongly Agree). The items of the questionnaire were completed by questions regarding the profile of the respondent and general questions, regarding the financial education among the Romanian citizens.

The period when the questionnaires were distributed was August 5 - 19, 2020. The distribution was made online. A total of 427 questionnaires were collected. The provisions of the GDPR were observed, the respondents being informed on the purpose of the research and ensured by the confidentiality of their personal data.

The software used for data processing was SPSS Statistics.

In Table no. 2 the structure of the sample can be observed, depending on several criteria:

Table 2. The structure of the sample

Variable	Groups	Frequency (%)	Variable	Groups	Frequency (%)
Gender	<i>male</i>	47.5	Average monthly income (LEI)	<i>0-2.230</i>	23.0
	<i>female</i>	52.5		<i>2.231-3.000</i>	12.9
Age (years)	<i>18-24</i>	25.8		<i>3.001-4.000</i>	12.9
	<i>25-34</i>	32.8		<i>4.001-5.000</i>	10.5
	<i>35-44</i>	26.5		<i>over 5.000</i>	40.7
	<i>45-54</i>	12.4	Education level	<i>illiterate</i>	1.0
	<i>55-64</i>	2.0		<i>secondary education</i>	14.8
	<i>>=65</i>	0.5		<i>post-secondary</i>	4.4
Residence	<i>urban</i>	80.3		<i>university graduates</i>	49.6
	<i>rural</i>	19.7		<i>post-university graduates</i>	30.2

Source: author's processing.

Of the total respondents, only 52% participated, by the time the questionnaire was completed, to a financial education program.

Only a 7 point Likert scale, which was mentioned earlier, was used for the following questions. With an average score of 5.74, the respondents accept the idea that participating in a financial education program could lessen the negative economic effects of the COVID-19 pandemic.

Even if so far, the participation among the respondents to a financial education program has not been very satisfactory, their intention for the near future is noticeable. With an average score of 5.75, they aim to participate in such a program in the future.

As the data presented above signal the need to introduce financial education courses in educational institutions, the respondents have the same opinion. With an average score of 6.80, it can be stated that the citizens of Romania fully agree with the addition of such courses in the school's curricula.

Farther, are described the citizens' assessments of the five dimensions of financial education.

Table 3. Descriptive Statistics - *Financial Knowledge* dimension

<i>Statistics/ Fields</i>	Min.	Max.	Mean	Std. Dev.	Skewness	Std. Error of Skewness	Kurtosis	Std. Error of Kurtosis
<i>personal budgeting</i>	1	7	4.68	1.910	-.101	.118	-1.371	.236
<i>savings</i>	1	7	4.41	1.968	.026	.118	-1.329	.236
<i>credits</i>	1	7	4.78	1.905	-.109	.118	-1.453	.236
<i>investments</i>	1	7	3.79	2.118	.253	.118	-1.270	.236

Source: author's processing; software-generated data.

Analyzing the results from Table no. 3, it is observed that the respondents do not have a highly developed baggage of knowledge regarding the financial education. The weakest point, regarding the dimension of Financial Knowledge, is represented by investments. Citizens should know more about the benefits of the tools they can use to invest different amounts of money.

Table 4. Descriptive Statistics - *Financial Communication Ability* dimension

<i>Statistics/ Fields</i>	Min.	Max.	Mean	Std. Dev.	Skewness	Std. Error of Skewness	Kurtosis	Std. Error of Kurtosis
<i>personal budgeting</i>	1	7	3.00	2.127	.794	.118	-.738	.236
<i>savings</i>	1	7	3.66	2.089	.353	.118	-1.181	.236
<i>credits</i>	1	7	3.96	2.090	.203	.118	-1.321	.236
<i>investments</i>	1	7	4.10	2.071	.059	.118	-1.312	.236

Source: author's processing; software-generated data.

If reference is made to the Financial Communication Ability dimension, according to the results presented in Table no. 4, the respondents are not open to communicating with their family members or with the representatives of the financial-banking units, when they are going to take an important decision regarding the financial part. This can lead to the misuse of various financial-banking instruments.

Table 5. Descriptive Statistics - *Ability to Use Financial Knowledge for Decision Taking* dimension

<i>Statistics/ Fields</i>	Min.	Max.	Mean	Std. Dev.	Skewness	Std. Error of Skewness	Kurtosis	Std. Error of Kurtosis
<i>personal budgeting</i>	1	7	3.55	2.209	.347	.118	-1.262	.236
<i>savings</i>	1	7	3.08	2.231	.698	.118	-.990	.236
<i>credits</i>	1	7	4.43	2.026	.022	.118	-1.383	.236
<i>investments</i>	1	7	4.39	2.044	.019	.118	-1.401	.236

Source: author's processing; software-generated data.

According to the results presented in Table no. 5, that describes the respondents' ability to use financial knowledge to take decisions, there are certain limitations when it comes to personal budgeting or savings, compared to the other two areas.

Table 6. Descriptive Statistics - *Real Use of Financial Instruments (Financial Behaviour)* dimension

<i>Statistics/ Fields</i>	Min.	Max.	Mean	Std. Dev.	Skewness	Std. Error of Skewness	Kurtosis	Std. Error of Kurtosis
<i>personal budgeting</i>	1	7	3.62	2.276	.324	.118	-1.364	.236
<i>Savings</i>	1	7	3.43	2.478	.441	.118	-1.455	.236
<i>Credits</i>	1	7	3.88	2.213	.193	.118	-1.384	.236
<i>investments</i>	1	7	3.71	2.182	.303	.118	-1.291	.236

Source: author's processing; software-generated data.

According to the results presented in Table no. 6, when it comes to the Financial Behaviour dimension, there is a restraint of the respondents. This can also be attributed to the lack of in-depth knowledge in the fields aforementioned.

Table 7. Descriptive Statistics - *Financial Confidence* dimension

<i>Statistics/ Fields</i>	Min.	Max.	Mean	Std. Dev.	Skewness	Std. Error of Skewness	Kurtosis	Std. Error of Kurtosis
<i>personal budgeting</i>	1	7	3.46	2.007	.413	.118	-1.098	.236
<i>savings</i>	1	7	3.39	1.910	.446	.118	-.926	.236
<i>credits</i>	1	7	4.67	1.904	-.117	.118	-1.340	.236
<i>investments</i>	1	7	3.74	2.019	.308	.118	-1.207	.236

Source: author's processing; software-generated data.

Regarding the last dimension of the scale used in the research questionnaire, the results presented in Table no. 7 are not significantly different from those presented above. The high score achieved by the credits field is noticeable. It highlights, among other things, a certain confidence of respondents in financial-banking institutions, when they intend to contract a loan, for example.

CONCLUSIONS

The data presented above signal the need to introduce financial education courses in Romanian educational institutions. Thus, understanding some concepts in the financial-banking sector will be much easier among young people, especially. The opinion of the citizens, in this regard, which the authorities could take into account, is also very important. Although only 52% of them have so far taken part to a financial education program, they fully agree with their

implementation in schools. At the same time, the respondents are somewhat willing to participate in such programs, which could enrich their knowledge in the financial-banking field.

If an average of each dimension is made, in total, the highest score was achieved by the Financial Knowledge dimension (4.42). The other dimensions obtained, in total, the following average scores: 3.86 - Ability to Use Financial Knowledge for Decision Taking; 3.82 - Financial Confidence; 3.68 - Financial Communication Ability; 3.66 - Financial Behaviour. It can be said that the rest of the dimensions are directly influenced by the Financial Knowledge dimension, as they have achieved lower results, on the one hand, and on the other hand, the financial knowledge can be considered the basis of this field.

In conclusion, during the next period, countries worldwide will have to adapt their financial education strategies. The new strategies will have to intertwine the notion of financial literacy with the notion of digital literacy. In addition to the effects already known, they may have consequences for reducing the negative impact caused by the COVID-19 pandemic.

REFERENCES

- Alsemgeest, L., (2015). Arguments for and against financial literacy education: where to go from here? *International Journal of Consumer Studies*, 39(2), 155-161.
- Electronic Platform for Adult Learning in Europe (EPALE) (2019). *Financial Education in the EU: the SUCCEED Experience*. Retrieved from <https://epale.ec.europa.eu/en/blog/financial-education-eu-succeed-experience> [Accessed 29.07.2020].
- Engelbrecht, L.K., (2008). The scope of financial literacy education: A poverty alleviation tool in social work? *Social Work/Maatskaplike Werk*, 44(3), 252-262.
- Hastings, J.S., Madrian, B.C. and Skimmyhorn, W.L., (2013). Financial Literacy, Financial Education, and Economic Outcomes. *Annual Review of Economics*, 5(1), 347-373.
- KPMG (2018), *Importanța și principalele beneficii ale asigurărilor de viață și pensiilor private*. Retrieved from <http://appa-asigurari.ro/studiuKPMG.pdf> [Accessed 28.08.2020].
- Lusardi, A., Mitchell, O.S. and Curto, V., (2010). Financial Literacy among the Young. *Journal of Consumer Affairs*, 44(2), 358-380.
- Moraru, A.-D. and Duhnea, C., (2014). Customer Orientation in the Marketing Activity of Romanian Companies. *Management Strategies Journal*, 26(4), 698-703.
- OECD (2020a). *Financial Literacy of Adults in South East Europe*. Retrieved from <https://www.oecd.org/financial/education/Financial-Literacy-of-Adults-in-South-East-Europe.pdf> [Accessed 27.07.2020].
- OECD (2020b). *Programme for International Student Assessment*. Retrieved from <https://www.oecd.org/pisa/> [Accessed 27.07.2020].
- OECD (2020c). *Programme for international student assessment (PISA). Results from PISA 2018: Country note (Romania)*. Retrieved from https://www.oecd.org/pisa/publications/PISA2018_CN_ROU.pdf [Accessed 27.07.2020].
- OECD (2005). *Improving Financial Literacy: Analysis of Issues and Policies*. Paris: OECD

Publishing.

- Starček, S. and Trunk, A., (2013). The meaning and concept of financial education in the society of economic changes. *Active Citizenship by Knowledge Management & Innovation: Proceedings of the Management, Knowledge and Learning International Conference 2013*, Bangkok, Celje, Lublin: ToKnowPress, p. 1443-1452.
- Willis, L.E., (2008). Against Financial Literacy Education. *Faculty Scholarship at Penn Law*. 199. Retrieved from https://scholarship.law.upenn.edu/faculty_scholarship/199 [Accessed 31.07.2020].
- Zait, A. and Berteau, P.E., (2014). Financial Literacy - Conceptual Definition and Proposed Approach for a Measurement Instrument. *Journal of Accounting and Management*, 4(3), 37-42.

Impact of Outsourcing Sector on Business Environment and Competitiveness in Eastern Europe

Tsvetina Karaboycheva

University of National and World Economy
Sofia, Bulgaria
tsvetina.karaboycheva@gmail.com

Dessislava Miteva

University of National and World Economy
Sofia, Bulgaria
dessislavaim@gmail.com

Yordan Mihaylov

University of National and World Economy
Sofia, Bulgaria
ymihaylov97@abv.bg

Georgi Milenov

University of National and World Economy
Sofia, Bulgaria
georgimilenov.gm@gmail.com

ABSTRACT: *Eastern Europe - a region that quickly became the outsourcing powerhouse preferred by the companies that are looking not only for a low cost of the labor but also for proximity and expertise. The collaborative technologies have turned countries such as Bulgaria, Romania, and Poland into a progressive generator of experienced professionals that are changing the image of the region.*

In the past few years, cost-effectiveness has proved to be the more reasonable solution over the low-cost services. Today, Eastern Europe is replacing India and China in the outsourcing industry as what we are witnessing is not only a change in the perspective of companies looking for outsourcing opportunities but also a change in the business environment and competitiveness in the countries.

The main purpose of this paper is to give a comprehensive overview of the Eastern European outsourcing industry as one of the most productive sectors of the region's economy, to separate its negative from positive influence and the way it collaborates with most of the countries in order to outline the development of their economic and social environment.

Gathered information and findings are presented using qualitative and quantitative research methods. They prove the challenges of the outsourcing sector in regards of the labor market and its continuous growth in the region.

Keywords: *outsourcing industry, continuous growth, Eastern Europe, business environment, competitiveness*

OUTSOURCING

A contact between two companies to provide services which might otherwise be performed by in-house employees is the definition given to “outsourcing”. Starting being a trend more and more companies in today’s world are willing to outsource a part of their business. Many multinational companies are now outsourced various level of jobs, as example such as call

center services, payroll management-mail service assistance. These outsourced jobs are handled by companies who have skillful labor who specialize to provide in services which are located outside the home country.

Allowing companies to access highly skilled talents at a much cheaper price is a great advantage Eastern Europe offers during the last years. Producing some of the top tech minds in the world, this region guarantees a far superior service to what companies would expect elsewhere.

Offshore outsourcing is often perceived as being centered in Asia. However, Eastern Europe is fast becoming one of the most popular outsourcing destinations — and for good reason. Making an overview of the region, we would outline the perks of working with an Eastern European outsourcing vendor and explore what makes it unique in a crowded marketplace.

Being known a house of over 1,3M developers Eastern Europe is a rapidly growing software outsourcing destination. High skilled talent availability and good price to quality ratio are two of the main reasons making more than 75% of German and about 67% Dutch companies to prefer Eastern Europe as an IT outsourcing destination. However, reasonable rates aren't the only benefit that attracts business owners to hire developers in Ukraine, Belarus, Poland, and other Eastern European locations.

The same region is a well-known among Western European and American software businesses also. Eastern European countries have well-developed IT industries and have a lot in common even in cultural aspect as most of them used to be part of the USSR and share vestiges of that period. However, the strongest connection between these countries is their invincible desire to reach improvement.

While Eastern European IT developers are achieving great results and are now renowned around the world for their high-quality work, the economies of their countries still lag behind. These countries are known for their high corruption levels and low budget cost transparency.

FIVE REASONS TO OUTSOURCE IN EASTERN EUROPE

Massive Talent Pool

According to the State of European Tech annual report, there are about 6.1M professional software developers in Europe. While Western Europe However has been suffering from a tech talent shortage for quite a few years now, Eastern Europe is now facing the opposite tendency — the number of talented minds has been constantly growing. Western business owners can

benefit from these tendencies — choose skilled software developers from the vast tech talent pool in Eastern Europe and cooperate with them through the extended team model.

High-Quality Technical Education

As being part of USSR, the technical education quality is known to be on a very high level. According to the QS World University Rankings, 30 universities out of the 369 top educational institutions in Europe are in Eastern Europe, assuming this is one of the main reasons Eastern European tech workers being ranked among the best software developers in the world.

Convenient Geographical Location and Time Zones

Traveling within Europe is very convenient, as you can reach most Eastern European tech hubs within a couple of hours from any part of Western Europe. The time difference between Eastern and Western Europe is one or two hours on average, which is practically negligible for leading efficient daily communication between the Western European customers and their Eastern European service vendors.

Although travel time obviously takes longer, there are also direct connections with major US cities, where the maximum time difference of ten hours still makes it possible to set up efficient cooperation with the help of daily sync-ups and flexible working hours.

Similar Cultures

Because of the convenient geographical location Eastern and Western Europe have multiple cultural and economic similarities and only a few serious differences. Moreover, Eastern European providers usually follow international business codes of conduct, which makes it easier to set up transparent and efficient cooperation.

English Proficiency

Following the English Proficiency Index, most countries in this region have moderate to high English proficiency levels. Furthermore, English skills among IT professionals are typically higher than the countries' average.

Giving an example with Ukraine where 81% of IT developers have intermediate or higher levels of English proficiency. Only 16% of tech professionals have pre-intermediate English level, while the remaining few are currently at an elementary level. In addition to that Eastern Europe is also known of its talents' other foreign language proficiency such as German, French, Italian and Spanish.

COUNTRIES REPRESENTING EASTERN EUROPE

Poland

Starting with the country known for its diverse nature Poland has also one of the fastest growing economies, which makes it an attractive IT development destination for outsourcing. Comprised mostly of people under 34 years old, the country has the largest working population in Central Europe. More than 500 companies represent the IT sector of Poland. Over 279,800 Polish developers are involved into it and offer their software outsourcing services. Additionally, around fifteen thousand IT graduates enter the Polish software development market every year.

The country's IT services market reached \$4,62B in 2018 with a growth rate of 5.9% CAGR. Moreover, Poland was ranked 9th in Tholons Top 100 Outsourcing Destinations 2016 with Krakow and Warsaw as the major centers of the country's IT development.

In addition, Polish R&D activities are becoming increasingly financed by the private sector thus fostering interest among global market players with companies such as Google, Siemens, Motorola, Intel, and McKinsey opened their Research and Development in Poland.

Most of the tech sector income in Poland comes from computer equipment sales, IT services, and software distribution. It's expected that the revenue from the industry will reach \$13 billion by the end of 2022.

Czech Republic

The Czech Republic is among the top 20 countries that strongly invest in the development of the tech sector. And is another top location for outsourcing to Eastern European region. IT services industry is thriving with around 95,300 professionals employed in information and communication sector. Around 4,000 ICT graduates enter the market from Czech universities annually, bringing new expertise in-house.

The country is experiencing a 10% increase in IT outsourcing year over year. Czech IT industry growth is fueled by the strong inflow of high-value-added projects outsourced by IT companies in Europe, the US, and UK. Total funds make 2% of the country's GDP, surpassing such tech giants as Canada and the UK.

Such world-leading companies like Google, Microsoft, Oracle, IBM, CA, RedHat, Microsoft, Skype, NetSuite, Tieto, and IBM chose the country for both direct investment and outsourcing.

Moreover, internationally recognized IT brands like Avast, AVG and Socialbakers have their roots in the Czech Republic.

Should not be wondering why Czech Republic is 27th out of 82 countries by the overall tech capacity. Its IT sector exports have reached \$1.78 billion.

Romania

Besides, the tech talent pool is constantly growing — there are around 7,000 tech graduates entering the Romanian IT market every year. The software industry in Romania employs over 116,100 IT professionals and boasts 15% annual growth rate.

In the statistics for 2018 Romania has shown a market growth reaching \$4.5B, with 13.4% CAGR of this industry. Also, export of software and IT services constitutes 1.9% of Romanian GDP.

After Romania joined the EU in 2007, its IT business has prospered and attracted global companies like Hewlett-Packard, Huawei, Ericsson, and Gameloft. Moreover, regional department of Microsoft in Romania runs two global business support centers in Bucharest and Timișoara and makes a significant contribution to the development of the country's tech industry. Additionally, Oracle employs more than 3,000 Romanian specialists.

Romanian government actively supports IT industry development by exempting software developers from the 16% income tax and introducing a number of incentives for local IT companies.

The average year-on-year growth of the Romanian IT sector has been 15% since 2000. This means that the tech industry is becoming the core contributor to the country's GDP.

The Romanian government fosters the development of the IT infrastructure. So far, 70% of the market is under the control of foreign investors, allowing local companies to earn €50 million annually.

Hungary

The great potential of the Hungarian software development market is further intensified by governmental support — lower employment taxes, new strategic partnership opportunities, improvement of a dual education system, etc. This country's software development industry is one of the most dynamic sectors, representing about 6% of the country's economy. The country has a large share of outsourcing within the IT market in Eastern Europe with around 80,100

specialists employed in the IT sector and they keep growing with around 20K tech students graduating from colleges and universities annually.

According to Hungary Information Technology Report, IT services sales was expected to grow from \$760M (in 2016) to \$993 M in 2020. The capital Budapest remains the driving force behind the country's development and is ranked 22nd in Tholons Services Globalization City Index in 2019.

A number of multinational companies were attracted by Hungary - Siemens, Microsoft, Deloitte, Ericsson, Nokia, TATA, etc. to establish their R&D centers. The value of ICT grows continuously, adding between 6–8% annually. The revenue of the Hungarian tech market is expected to reach \$2.8 billion in 2021.

Bulgaria

In 2015, the country was named “Offshoring Destination of The Year” by the UK’s National Outsourcing Association (NOA). Bulgarian has been ranked as the best outsourcing destination of Eastern Europe for 2015. IT market capacity comprises almost 500 companies employing around 70,000 of specialists. The country also benefits from the presence of the global IT giant – Hewlett-Packard, which employs more than 6,000 IT specialists.

The IT outsourcing sector hit 4.8% of the Bulgarian GDP back in 2017, however, this number is predicted to double by 2021, reaching 7.9% of the country's GDP.

Bulgaria has a rather high number of R&D offices of multinational IT corporations such as HP, SAP, Johnson Controls, Oracle, VMware, CISCO, ProSyst, and Atos.

The tech market in Bulgaria is also a leading taxpayer — 1.3% of all funds in the economy come from the IT sector. Bulgarian IT companies spend on average 0.7% of their revenue on taxes.

CONCLUSION

Eastern Europe has proven itself as a perfect outsourcing destination for Western European and also American leading companies. The region has found the perfect balance between cost and effectiveness. Providing high quality services in the software development industry is bringing a large variety of advantages for Eastern European countries' economics. Such as reducing the unemployment rate and opening new employment opportunities, rapid expansion of the services sector and the most important brings a motivation for self-improvement among the

young people, living in that region. Developing these countries' economics will prove the willingness of the new generation for always setting and achieving their dreams.

REFERENCES

- Kubilius, K., (2020). *Maps of Eastern European Countries*. Retrieved from: <https://www.tripsavvy.com/maps-of-eastern-europe-4123431>
- Andras, S., (2018). *Outsourcing in Romania: A Complete Guide*. Retrieved from: <https://www.sourceseek.com/outsourcing-in-romania-a-complete-guide/>
- Daxx.com, (2020). *Why Outsource Software Development to Eastern Europe in 2020?* Retrieved from: <https://www.daxx.com/blog/development-trends/software-development-outsourcing-in-eastern-europe#Benefits%20of%20Outsourcing%20to%20Eastern%20Europe>
- N-ix.com, (2020). *Top IT outsourcing destinations of Eastern Europe: Market report*. Retrieved from: <https://www.n-ix.com/it-outsourcing-destinations-eastern-europe-market-report/#Overview%20of%20the%20Eastern%20European%20IT%20industry>
- Medium.com (2020). *7 Benefits to Outsourcing in Eastern Europe*. Retrieved from: https://medium.com/@the_manifest/7-benefits-to-outsourcing-in-eastern-europe-4ae998f407f8
- Skvoznikova, I. (2019). *Pros and Cons of Outsourcing to Eastern Europe* <https://diceus.com/pros-and-cons-of-outsourcing-to-eastern-europe/>
- Hyseni, F., (2016). *How can outsourcing drive economic growth*. Retrieved from: <http://www.outsourcingportal.eu/en/how-can-outsourcing-drive-economic-growth>

Kurt Lewin's Change Management Model Implemented in Textile Industry in North Macedonia

Ivana Kaftandzieva

University of Ss. Cyril and Methodius, Faculty of Economy – Skopje
Skopje, Republic of North Macedonia
ivanakaftandzieva@yahoo.com

ABSTRACT: *Change is crucial for organizations in the fast-growing, highly competitive business environment. Theories of change describe the effectiveness which organizations are able to modify their strategies, processes, and structures with. The concept of "change management" is a familiar one in most businesses today. But how businesses manage change and how successful they are at it varies enormously depending on the nature of the business, the change and how well the people involved understand the change process. The aim of this paper is to examine the three stages of Lewin's model: unfreezing, movement, and refreezing and to detect the possibilities for its implementation in textile industry in North Macedonia. The textile industry is one of the most important industries in North Macedonia in building of the GDP, by the number of companies and people employed. With a long, rich tradition in clothing and textiles, this sector is one of the largest industries in Macedonia and it constitutes approximately one fifth of the total Macedonian annual export. Because of the great importance for the overall economic performance and external position of the country, this industry is particularly interesting to explore and research. Lewin's model of change could be applied in order to overcome the detected weaknesses of this industry: availability of the labor force and the poor working conditions. Lewin's change theory represents a very simple and practical model for understanding the change process. For Lewin, the process of change entails creating the perception that a change is needed, then moving toward the new, desired level of behavior and finally, solidifying that new behavior as the norm. The model is still widely used within different types of organizations and industries and serves as the basis for many modern change models.*

Keywords: *Change Management, Employee involvement, Lewin's change theory, Textile industry*

INTRODUCTION

Change is crucial for organizations in growing, highly competitive business environments. Theories of change describe the effectiveness with which organizations are able to modify their strategies, processes, and structures. It can be argued that the successful management of change is crucial to any organization in order to survive and succeed in the present highly competitive and continuously evolving business environment. "However, theories and approaches to change management currently available to academics and practitioners are often contradictory, mostly lacking empirical evidence and supported by unchallenged hypotheses concerning the nature of contemporary organizational change management" (Todnem, 2005). "Successful change implementation combines decisions that are centered on what are often called "hard" and "soft" areas. The so-called hard areas include project planning, implementing software, and installing new computer networks. The soft side– the people side - involves the decisions

and actions designed to help employees embrace new methodology, technology and ways of working. The effects of hard-side decisions are easily observed, measured and adjusted. Because it is calmer to measure and assess the hard side, it is common for it to get more attention. Soft-side effects tend to be subtler and harder to observe – making them more difficult to measure and evaluate. Change is a critical aspect of every business” (Barakat, Khudair, & Sarayreh, 2013).

Kurt Lewin – career and work

To begin any successful change process, one must first start by understanding why the change must take place. As Lewin put it, “Motivation for change must be generated before change can occur. One must be helped to re-examine many cherished assumptions about oneself and one's relations to others. This is the unfreezing stage from which change begins” (Hartley, Maccoby, & Newcomb, 1958). “In today's turbulent and changing world, one might expect Lewin's pioneering work on change to be seized upon with gratitude, especially given the high failure rate of many change programs” (Lewin, 1947).

“Kurt Lewin was an altruistic who believed that only by resolving social conflict, whether it is religious, racial, marital or industrial, could the human condition be improved. Lewin believed that the key to resolving social conflict was to facilitate planned change through learning, and so enable individuals to understand and restructure their perceptions of the world around them. This is often cited as Lewin's key contribution to organizational change. However, it needs to be recognized that when he developed his 3-Step model, Lewin was not thinking only of organizational issues. Rather Lewin saw the four concepts as forming an integrated approach to analyzing, understanding and bringing about change at the group, organizational and societal levels” (Burnes, 2004). “Kurt Lewin's ‘changing as three steps’ (unfreezing \diamond changing \diamond refreezing) is regarded by many as the classic or fundamental approach to managing change. Lewin has been criticized by scholars for over-simplifying the change process and has been defended by others against such charges” (Bridgman, Brown, & Cummings, 2016).

3 step model

The action research model, the positive model, and Lewin's change model indicate the stages of organizational change. “Although this model establishes general steps, additional information must be considered to adapt these steps to specific situations” (Barakat, Khudair, & Sarayreh, 2013):

Unfreeze

This first stage of change involves preparing the organization to accept that change is necessary, which involves breaking down the existing status quo before one can build up a new way of operating. Lewin believed that the stability of human behavior was based on a quasi-stationary equilibrium supported by a complex field of driving and restraining forces. He argued that the equilibrium needs to be destabilized (unfrozen) before old behavior can be discarded (unlearned) and new behavior successfully adopted. To prepare the organization successfully, you need to start at its core – you need to challenge the beliefs, values, attitudes, and behaviors that currently define it. This first part of the change process is usually the most difficult and stressful. When the status quo of working is changed, everyone and everything is put off balance. Without the motivation to overcome change, the necessary participation to effect any meaningful change, won't be obtained.

Change

After the uncertainty created in the unfreeze stage, the change stage is where people begin to resolve their uncertainty and look for new ways to do things. People start to believe and act in ways that support the new direction. The transition from unfreeze to change does not happen overnight: people take time to embrace the new direction and participate proactively in the change. Not everyone will fall in line just because the change is necessary and will benefit the company. Time and communication are the two keys to the changes occurring successfully. People need time to understand the changes, and they also need to feel highly connected to the organization throughout the transition period.

Refreeze

This is the final step in the 3-Step model when the changes are taking shape and people have embraced the new ways of working, the organization is ready to refreeze. Refreezing seeks to stabilize the group at a new quasi-stationary equilibrium in order to ensure that the new behaviors' are relatively safe from regression. This means making sure that the changes are used all the time, and that they are incorporated into everyday business. With a new sense of stability, employees feel confident and comfortable with the new ways of working.

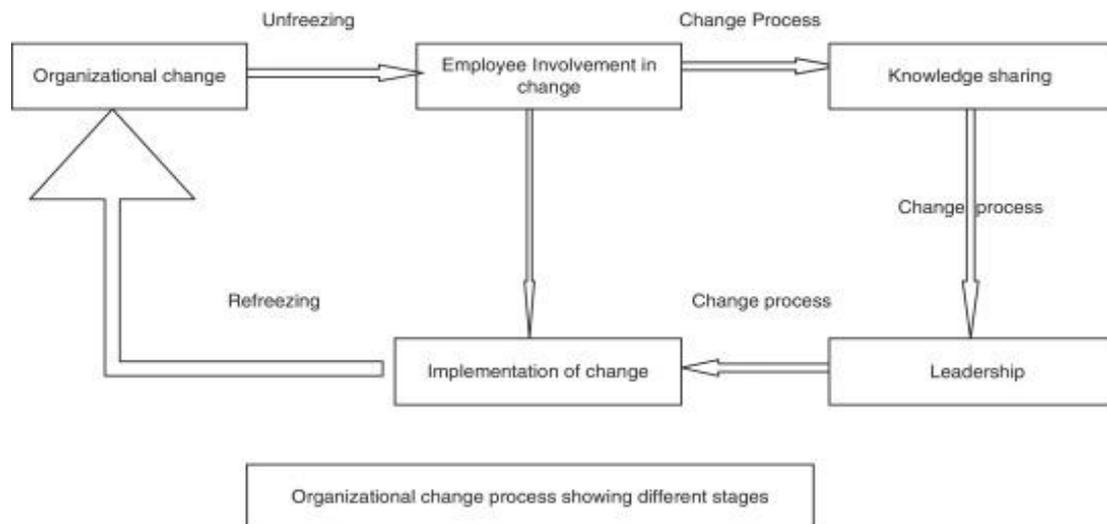


Figure 1. Model of organizational change shows the Kurt Lewin's three steps model (Source: Ali Et. al., 2018)

The Lewin's model was used from an ethnographic study assumed for the investigation of the Lewin's model for change development, mediates implementation and leadership initiatives for change in complex organizations. The focus of this research on (i) how Lewin's change model granulates change, (ii) how knowledge sharing affects the change implementation process, (iii) how employees involve in change and willingness to change, and (iv) how leadership style affects the organizational change process in organization.

Employee involvement in change and Lewin's model "change process"

Employee involvement (EI) has been defined as "Employee involvement seeks to increase members' input into decisions that affect organization performance and employee well-being" (Ali, et al., 2018). For overcoming the resistance in organizational change, the employee involvement is the oldest and effective strategy in formulating the planning and implementing change. By doing this a variety of information and ideas may be generated, which may contribute the innovations effective and suitable in the situation, raise likelihood, create member commitment in implementing change, and employee motivating and leading change effort in work. After getting out of the status quo, the leaders are required to support employee's involvement for accelerating the change in organization. The leaders should educate, communicate, involve and provide emotional support for the employees in order to make their participation in the change process easier.

Textile industry in North Macedonia

The textile industry is one of the most important industries in N. Macedonia in the building of GDP. The textile export is approximately one fifth of the total Macedonian annual export. Because of the great importance for the overall economic performance and external position of the country, this industry is particularly interesting to explore and research. The textile industry plays a very big part in the Macedonian economy regarding export. It is one of the most important industry sectors by the number of the companies and people employed in this sector. “It represents 18% of the total exports. Today, foreign companies produce clothes or intermediary textile goods in N. Macedonia, primarily due to the low labor costs (as textile manufacturing is a labor-intensive industry). They not only use the existing capacities; sometimes they open new capacities and create new jobs. The textile industry employs a significant amount of workers, and in particular female workers; however these workers face unfavorable working conditions and low wages, while textile manufacturing offers limited opportunities for upgrading and moving up the value chain” (Sgt Group, 2017).



Figure 2. Concentration of companies in the Macedonian Textile and Garment Industry (% of total companies) (Source: www.sgtgroup.net)

“Regarding the wage, the textile industry along with the shoe industry in N. Macedonia is at the lowest level. The average wage in North Macedonia is considered to be somewhere around 350 EUR according to the National Bank of Macedonia, which puts the textile industry way below that level. From 2013 there has been a law for a minimum wage in Macedonia but for the textile industry it was set to around 149 EUR with an agreement to increase steadily in the next years. Nevertheless, the textile industry is still among the least paid industries in the country. Salaries range for person working in Macedonia in Textile, Leather, Apparel

Industry is typically from 14,864 MKD (minimum salary) to 21,883 MKD (highest average, actual maximum salary is higher)” (www.mojaplata.mk)

Table 1. Net monthly salary in category Textile, Leather, Apparel Industry

Monthly salary	
Cobbler	14,500 - 19,701 MKD
Fashion Designer, Pattern Cutter	15,169 - 24,291 MKD
Machine Operator	15,693 - 21,555 MKD
Seamstress	14,500 - 20,329 MKD
Tailor	15,393 - 19,531 MKD

Source: www.mojaplata.mk

The textile industry as a labor-intensive industry employs a lot of workers. At the end of February 2020, in the sector of textile manufacturing nearly 6,000 workers are employed, whereas the entire textile industry had 30,942 workers.

The quality of human resources is one of the important preconditions for the development of the textile industry. The efforts for gradual transition from loan to full production package could be realized only through narrow specialization, quality production and fast delivery. And that can only be achieved with well-educated, trained and motivated workers. The current situation regarding the quality of the labor force in the textile sector is a result of the education system and the gained working experience. The reforms in the textile schools in the Republic of North Macedonia started in 2000 with the change of the curricula, improvement of the equipment and training of the teachers.

Weaknesses of this industry

There are a few weaknesses about this industry for which we hope there will be solutions in the near future, because this industry plays a very big part in the growth of the GDP and for the entire economy of our country. One of the biggest weaknesses of the textile industry in N. Macedonia is certainly the availability of the labor force. This can be easily noticed in the eastern part of the country, where most of the educated young people are fleeing to the capital city or out of the country in search for better paid jobs. The lack of trained textile workers and the low interest in retraining can be identified as one of the more serious problems in terms of human resources. The very low interest in working in the textile industry in conditions of huge unemployment in the country, among other things, is conditioned by the relatively poor position of textile workers, low wages and unfavorable working conditions in factories. This,

as well as the initial disregard for workers' rights, implies a serious use of the attractiveness of these jobs and the interest of young people in this profession. “But maybe the biggest weakness of the textile industry is poor working conditions and the exploitation of the workers. The 180,000 women employed in this industry work for 12 to 14 hours per day for a 'guaranteed' minimum wage of barely 200 euros per month. In theory, that is, where in reality, many of them are forced to return 50 euros to their bosses immediately after receiving their salaries. As such, the company is in compliance with the law, but in an underhanded way they steal from their employees and treat them as slaves” (Retail Detail, 2019).

An example

Teteks AD Tetovo is a company which operates in the textile industry. This factory produces men's and women's clothing products from different types of fabrics. Teteks AD Tetovo is an export-oriented company and main export markets in Europe (Germany, Italy, Great Britain, France, Denmark, Greece, Austria, Slovenia, Croatia, Bulgaria) and America. In the beginning of this year, the wool factory AD "Teteks", ceased to operate after almost 69 years and more than 150 textile workers were left on the streets. Teteks informs that the reasons for closing the factory are the low prices imposed by foreign companies for which they have worked for the past 3-4 years (www.antropol.mk).

Some of the problems this company faced which were a big factor that lead to closing down the factory:

Poor working conditions. About 150 workers worked in a hall where they once sewed almost ten times more, so only for its heating and maintenance the costs were greater than the profit. They could not find new employees and rejuvenate the staff, because the young people are not interested in this job, so there came a moment when the number of workers dropped, and the managers remained the same.

The technological process itself was very expensive. On the other hand, it was revealed that for the last two or three years, the salary has been divided from the dividend that the factory received as a shareholder in other companies.

If change management and the 3-step model had been implemented to solve these problems one at a time, maybe it would have prevented the closing of this factory. A few solutions to explain the way this model works:

Organized and paid training for young people, paid internships in the company which leads to a guaranteed job in order to motivate them into pursuing a career in this field.

Restructuring of a few sectors to divide the work so instead of working 10-14 hours straight, they would work in shifts which would lead to improving the working conditions.

Investing in technology and changing the whole process and policies of the company so that it could keep up with the newest trends and decrease the operation cost because modern technology replaces many workers.

CONCLUSION

As Lewin put it, "Motivation for change must be generated before change can occur." This points out to the active role of employees in organizational change which helps them to develop positive feelings towards it and which will enhance their acceptance of the whole change process. The employee's involvement will be more effective if employees are empowered in authority and responsibility. With the implementation of the 3-step model we expect to bring changes in the structure, beliefs and the whole culture of the companies in this industry.

The government should take into consideration the fact that this industry is hugely valuable they should appreciate its importance to the entire economy of our country. They should invest in modern technology making the processes in this industry easier and keeping up with the newest trends in order to compete with other companies in this field. Each company should devote time and money to organize trainings for young people so that they have enough motivation and are interested to pursue a career in this industry, as they are the future of our nation. Furthermore, they should introduce measures for improving the working conditions in these factories which would lead to improving the motivation and performance of the employees.

There is a citizens' association which stands for the citizens workers in the textile industry with high awareness, educated, informed enjoy their rights. It is called **Loud textile workers** and it strives to be a leading organization for the realization of the rights of workers in the textile, leather and shoe industries (www.glasentekstilec.wordpress.com). By supporting, communicating and working with them, the companies would keep in mind the needs, desires and complaints of the workers, which would contribute to a better working environment.

REFERENCES

- Ali, M., Akram, T., Haider, M. J., Hussain, S. T., Hussain, S. H., & Shen, L. (2018, September–December). Kurt Lewin's change model: A critical review of the role of leadership and employee involvement in organizational change. *Journal of Innovation & Knowledge, Volume 3*(Issue 3), 123-127.
- Антропол (Antropol)*. (2020, Februari 11). Уште една некогашна државна фабрика оди под стечај – Тетекс се затвора, 150 работници остануваат на улица, retrieved from: <https://antropol.mk/2020/02/11/uste-edna-nekogasna-drzavna-fabrika-odi-pod-stecaj-tetekse-se-zatvora-150-rabotnici-ostanuvaat-na-ulica/>.
- Barakat, E. a., Khudair, H., & Sarayreh, B. H. (2013, July). Comparative Study: The Kurt Lewin of Change Management. *International Journal of Computer and Information Technology, Volume 02*(Issue 04).
- Bridgman, T., Brown, K. G., & Cummings, S. (2016). Unfreezing change as three steps: Rethinking Kurt Lewin's legacy for change management. *Vol. 69*(1), 33–60.
- Burnes, B. ((2004a)). 'Kurt Lewin and the planned approach to change: a re-appraisal' . *Journal of Management Studies, Vol. 41*(No. 6), 972- 1002.
- Гласен текстилец (Loud textile worker)*. (2020, May 17). Retrieved from <https://glasentekstilec.wordpress.com/about/>.
- Hartley, L. E., Maccoby, E. E., & Newcomb, T. M. (1958). Lewin's organizational change model. Adapted from " Group Decision and Social Change, " by K. Lewin, 1958. In *Readings in Social Psychology eds.* (pp. 197–211.). New York: Holt, Rinehart and Winston.
- Lewin, K. (1947a). 'Frontiers in Group Dynamics: Concept, Method and Reality in Social Science; Social Equilibria and Social Change'. *Human Relations*(1), 5-41.
- Moja Plata*. (n.d.). Retrieved from Salaries in the category: Textile, Leather, Apparel industry: <https://www.mojaplata.mk/en/salaryinfo/textile-leather-apparel-industry>
- Retail Detail*. (2019, March 07). Retrieved from Exploitation of textile workers in Macedonia: <https://www.retaildetail.eu/en/news/fashion/exploitation-textile-workers-macedonia>
- Sgt Group*. (2017, August 24). Retrieved from Why more brands are investing in the Macedonian textile industry: <https://www.sgtgroup.net/textile-quality-management-blog/why-more-brands-are-investing-in-the-macedonian-textile-industry>
- Todnem, R. B. (2005). Organisational change management: A critical review. '*Journal of Change Management: 10 Years On*', *Volume 5, 2005*(Issue 4).

Why is it Important for Companies to Adapt to Change?

Tea Saveska

Bachelor student

Ss. Cyril and Methodius University in Skopje, Faculty of Economics
Skopje, Republic of North Macedonia

E-mail: teasaveska1@gmail.com

ABSTRACT: *We are constantly surrounded by changes that affect the economy but also changes by the economy that affect us. Good management of change means adapting to it. Changes are everywhere, that is, we are constantly facing them. When we adapt to the changes arising from the economy and the business environment, we will gain an advantage.*

The advantage allows us to be better than others, that is, better than our competitors. But that is where the real challenge begins because the competition won't stop there.

The aim of this paper is to emphasize the importance of adaptability. Proficient managers are likely to overcome those challenges that the environment consists of by learning to adapt and accept the changes that they have no impact on.

Keywords: *changes, competitive advantage, challenges*

INTRODUCTION

The purpose of any analysis in the business environment is to enable the manager to correctly identify the company's strengths, which are likely to be the competitor's weaknesses and the opportunities, which are seen as their threats. Knowing where the competition stands will enable the manager to develop high impact strategies that will facilitate the decision-making process.

To be seen as a threat means offering the quality as good as others. Businesses frequently face challenges encompassing other players. There is no industry without, at least, few players with similar goals, targeting the same customers, even offering products or services with little differences. The competitive environment as an external system, where businesses compete with other businesses sharing similar or even equally valued products and services, is dynamic. How we separate from others is what builds our brand, our revenue and what gives us advantage.

The business, of course, depends on the owner, on what kind of business he or she already has. But usually, whatever the business, if it's working well, we want to take it to another level. Expanding to bigger markets, international, for example, lowering the costs, offering more products and/or services, etc. are some of the goals we are encouraged to think of, as a way of growth or creating value for the business, that can only be reached with good management.

Good management means providing the necessary resources to accomplish the goals. Behind every good management there is a good manager who is leading, organizing and motivating his employees to finish their tasks while guiding them through the process.

But, being a manager, in the dynamic environment, is a challenge. The rise of the Internet has led employees and companies have access to a lot of information, which offers an easier way of getting things done. But, also, new challenges for the managers. Employers are being informed of different conditions, salaries, rights etc. in other firms, companies, even countries. That, of course, is a challenge.

To begin with, the challenges can be either internal or external, or, to be more specific, related to the employees/team or the competition, that, never stops. Managers will have problems containing employees with limited offers. So, they need to find a way or methods to deal with them. Otherwise, they will be replaced with someone who can maintain the business. The main issues related to the employees/team are the internal challenges. It implies challenges like lack of motivation, keeping and finding the best talents, feedback and conflicts within teams.

To solve these problems, the manager needs to find answers for these questions: „*How can I keep my employees satisfied?*“ ; „*What are the best methods to keep my employees and where can I search for the best talents?*“ ; „*How can I get feedback from my employees?*“ ; „*How can I resolve the conflict within my team?*“.

Just as everything around is constantly changing, managers need to keep an eye on the strategies and strategic management because they are changing as well. Strategies keep changing due to the environmental changes. Managers who set effective strategies are most likely to stay in the market and those who don't are the ones who will leave or be replaced.

The challenges related to the competition are the external ones that provide potential opportunities and threats in any given environment. Here, the manager is faced with globalization and the macro-environmental factors summarized in the acronym PESTEL that stands for political, economic, social, technological, environmental and legal forces.

Almost all businesses face the challenge of competition, therefore it is unavoidable. Managers need to ask themselves the important question that is: „*Should we focus on globalization or regionalism?*“. That means should they expand their activities in the global market or should they manage within each region with less regard for the overall organization.

Politics play a role in business. The political factors affecting business revolve around taxes, import and export tariffs, environmental and labor laws and the stability of a given operational region. Managers need to consider a number of opportunities and threats when expanding into new regions.

Economic factors incorporate exchange rates, gross domestic products (GDP), consumer purchasing indices, interest rates, inflation, and a number of other indicators of economic health or direction.

An example of social factors is income, education, employment etc. or they can be defined as demographic analysis where a specific group of people is analyzed to acknowledge their preferences.

Technology plays a big role in the business environment as new innovations occur. The powerful asset in management is recognizing the potential technologies available to optimize internal efficiency.

The environment can be a source of benefit to a company. Businesses can impact the environment but also the environment can affect the business, which is the reason why managers need to constantly observe it.

The last factor of the PESTEL acronym are the legal issues. Managers need to act responsible to avoid legal pitfalls. Examples of legal issues are affirmative action, patent infringements, antitrust laws etc. (Current Challenges in Management | Boundless Management, courses.lumenlearning.com)

It is very important for managers to conduct a PESTEL assessment before any serious decisions are made. Understanding each of these factors is the key to addressing them properly. Also, managers need to be aware of the global economy and understanding the challenge of globalization can minimize the risk. Changes in the PESTEL can affect a company's external environment. When these factors change, many opportunities arise for the company to achieve superiority over its rivals, but also many threats if the company fails to adapt.

One of the biggest challenges that can affect, not only a business, but the whole economy is change. Advantage can be gained with the company's ability to respond fast to changes or simply, adapt.

ABILITY TO ADAPT TO CHANGE

Change is a continuous process that businesses and managers are constantly faced with. Adaptability is a skill that every manager must have.

The business environment is constantly evolving. To help their business stay competitive, managers need to formulate a good strategy and be ready to constantly update it or even change it completely due to the changing environment because if they obtain the same strategy, and the market changes, they are most likely to fail. Companies don't fail because of changes in

the environment, they fail because the managers are incapable of dealing with those changes and fail to adapt.

So, what exactly does 'adapt to change' mean?

To adapt to a new situation, we first need to understand it. That means that we need to start changing our ideas, behavior and even mindset, depending on the situation that we are in. For example, if we are in the technology industry, we need to constantly design new products that would be faster and better than our last and of course, better than our competitors. That is important because the consumer's preferences are constantly changing as well and they always want to buy a product that is better than what they previously owned.

In order to adapt, a company needs to monitor the external environment, catch the signals or the new trends, decode them, and then include them in their business model and, if necessary, change it completely because failure to adapt or respond as fast as possible to changes can cause an organization to lose its competitiveness.

In other words, adaptability is the new competitive advantage.

The strategic adaptability should be one of the top priorities for managers if they want to maintain a competitive advantage in today's evolving environment.

Strategic adaptability is defined as a planned ability to react effectively when business and environmental factors change unexpectedly, which they do almost all of the time. That's important because if we want to survive it means that we always need to be ready to adapt.

COMPETITIVE ADVANTAGE

Business competitiveness is the ability of an organization to produce goods and services while achieving customer preference over others. For a business to be competitive it needs to be just as good as the others, but for a business to gain advantage, it needs to be better.

Adapting to the changes that the economy brings is one way of gaining competitive advantage. Competitive advantage refers to the factors that allow a company to produce goods and services better than its rivals. Every company should have at least one advantage to successfully compete in the market.

The six factors of competitive advantage are price, location, quality, selection, speed, turnaround and service.

In business, competitive advantage means that your business has something valuable that is hard for the competitors to replace. But that doesn't stop them from trying, even, sometimes succeeding. Ergo, whatever the business, there will always be competition. That is something no business can escape.

Examples of competitive advantage are technology, innovation, customization, human resource (and by that I mean its employees because that is one of the most important advantages that a company can have), customer service, customer satisfaction, reputation, geographic location, differentiation, brand history, brand recognition, local partners etc. However, although these are important factors for gaining competitive advantage, the most valued competitive advantage are the customers.

Creating value, by whatever the specific, can make you generate more profit which gives you the greatest competitive advantage.

One of the most common mistakes managers make is thinking that once they have gained competitive advantage they should stop trying. On the contrary, that is when the manager should stay focused because that is where the biggest challenge begins. The competition won't stop and competitors will keep making effective strategies and changing their business models until they get back on track.

Good managers understand the power of change and they will know that once they have stopped thinking about their next step, the competition will pass them, and they won't let that happen. They should always be a few steps ahead and ask themselves the question: *What is my competition up to?*

MICHAEL PORTER'S DIAMOND OF COMPETITIVE ADVANTAGE

Michael Porter's Diamond Model, also referred to as the Theory of National Competitive Advantage of Industries, is a framework that focuses on explaining why certain industries within a particular nation are competitive internationally, whereas others aren't. Simplified, it explains why some industries in some countries are more competitive compared to industries elsewhere.

Porter's diamond shaped framework is based on these components: chance; firm strategy, structure and rivalry; factor conditions; demand conditions; related and supporting industries and government.

The Diamond Model could therefore be used when analyzing foreign markets for potential entry or when making Foreign Direct Investment decisions. It is advised to also conduct a macro-environment analysis and an industry analysis by using PESTEL Analysis and Porter's Five Forces respectively (Business-To-You, 2018).

OVERCOMING COMPETITORS

Throughout this paper, it is mentioned many times how important it is to gain competitive advantage and why it determines where one company currently is. So, because of the attention on it, this particular topic cannot be left unexplained on how to gain it.

It all begins with a strategy. A business simply cannot function without proper planning and analyzing all possible aspects and scenarios on what might happen. We also cannot let our minds guess, because that is not how we establish good management. Management isn't about guessing. The data we collect, the people involved, and the wise management thinkers we connect with are simply not based on guessing. They are all based on exclusively possible situations encompassing everything we are working with.

To overcome competitors, first, every manager needs to know the competition, what they are offering, and what their strengths and weaknesses are. This will give the manager an idea on how to differentiate from them. Developing a Unique Selling Point (USP) helps the manager know what makes his product or service better than competitors.

Next, it's important, not only to know the competition, but to know the customers as well. Customers preferences can change. The manager needs to always know what his customers value. Also, the focus should not be only on the existing customers but on targeting new ones as well. The manager can find new customers by expanding on new markets.

Creativity is related to the discovery of new ideas, concepts and to be able to set aside from others in the market. It also helps to create something that cannot be easily copied from the competitors. That's why it's important for managers to be creative.

The competition will not sit still. They will try to develop better strategies, tactics, plans and offers to position better. They will try to attack as part of their strategy. The manager should be prepared to use the similar defense mechanism to defend his position in the market.

Making change an opportunity, not a threat, is what will help us overcome our competitors.

CONCLUSION

The importance of change has been noticeable in the business world. External changes are more recognizable but internal changes have big impact on the business too. Managers should not only understand the power of change but they must acknowledge that change can create new opportunities for the business as well.

If managers are not willing to learn from their mistakes or adapt and change, how long will they remain relevant? How long will they maintain the business?

Nothing in the world ever stays steady. We are always surrounded by things that change, people that change and everything else. When we accept that, it is easier to adapt. Understanding the power of change is the main key advantage. Businesses can survive longer in the environment when they constantly update their strategy with the changes that happen inside of an organization or outside with the external factors.

For businesses, it is the strategic adaptability helping the managers predict the unexpected. In fact, strategic adaptability needs to be one of our top priorities if we want to maintain competitive advantage in today's evolving environment.

„ When we are no longer able to change a situation, we are challenged to change ourselves“.
- Victor Frankl

REFERENCES

- Cain, K. (2017). *Strategic Adaptability: The Key to Developing a Competitive Advantage*. Retrieved from <https://gocatalant.com/blog/strategic-adaptability-the-key-to-developing-a-competitive-advantage/>
- Change: The power of change and leadership*. Retrieved from <https://riseperformancergroup.com/the-power-of-change/>
- Current Challenges in Management*. Retrieved from <https://courses.lumenlearning.com/boundless-management/chapter/current-challenges-in-management/>
- Porter's Diamond Model: Why Some Nations Are Competitive And Others Are Not*
Retrieved from <https://www.business-to-you.com/porter-diamond-model/>
- Tanuja, A. *10 Main Challenges Faced by Managers | Organisation*. Retrieved from <https://www.businessmanagementideas.com/notes/management-notes/organisational-change/10-main-challenges-faced-by-managers-organisation/5301>
- Ten ways to keep ahead of the competition*. Retrieved from <https://www.marketingdonut.co.uk/marketing-strategy/ten-ways-to-keep-ahead-of-the-competition>
- Why Adaptability is Important in Helping You Manage Change*. Retrieved from <https://www2.erm-academy.org/publication/risk-management-article/why-adaptability-important-important-helping-you-manage-change/>
- 13 steps to Beat Your Competition*. Retrieved from <https://www.entrepreneurshipinbox.com/1336/13-steps-beat-competition/>



Challenges Business Owners Face Expanding to International Markets, Overcoming Competition and the Importance of Having a Strategy

Dea Saveska

Bachelor Student

Ss. Cyril and Methodius University in Skopje, Faculty of Economics
Skopje, Republic of North Macedonia

E-mail: deasaveska@gmail.com

ABSTRACT: *The economic environment plays a determining role in the success of a business. It includes all external economic factors encompassing competition, social, legal and technological changes which all have the key impact that influences a business and its expansion to other international markets.*

The internal factors are essential as well but the main focus is understanding something managers have little impact on.

The competitive environment which can influence the strategic goals and management of a corporation's investments value in the future have always been the center of attention in every manager's mind. The challenges they face trying to bypass and overcome them as they must understand the changing environment and constantly adapt to it and/or try to maintain the present position as a business. A good business management is a complex concept that contains numerous elements needed to maintain its health and give direction and offer opportunities to have a clear picture of the future of the business and achieve the goals.

The main purpose of this paper is to help develop unconventional ideas by introducing an impressive approach of the Blue Ocean strategy along with the focus to understand the creative market in which we act upon.

Keywords: *expansion, market, strategy, goals*

INTRODUCTION

In the business world, identifying the main research trends and relevant changes, positively reflect on the environmental sustainability. They have always been key challenges for every manager, entrepreneur, even practitioners and stakeholders.

Changes in the environment, of course, have implications on the way we do business. And for the business competitiveness? It is crucial to always keep an “eye out” for other players in the field that can affect our performance, strategy and, as always, the main intention – profit.

For every persistent business, in spite of difficulty or opposition, it is necessary to recognize the different challenges that they frequently face, because of the changing environment. These challenges include environmental external and internal factors and are of

great importance. They impact how a business creates, delivers, and captures value, in economic, social, technological or other contexts. Additionally, the constantly changing environment means that we will never fully understand how a business works. Our business might have survived yesterday, but what today brings is unknown. And we can never be completely sure how those changes can affect us.

There is a simplified way of understanding this. We can think of it in this way: Our business is a car, and the changing environment is the traffic. Now, our car doesn't have to be the fastest car, it can be just a car. And, as drivers, what we want is to avoid traffic and get where we planned of going in the fastest way possible, right? That's what having a strategy means. But the traffic is different every time we get in the vehicle. And let's not forget that there are other cars in the traffic too.

With that being said, this comparison perfectly resembles the business environment. We are in an industry with other players, competitors, which, you guessed it, also have a strategy. And the environment is changing for them as well.

What is defending this is Darwin's "On The Origin of Species" (Darwin, 1859), in which he writes his theories of evolution by natural selection where only the survivors of the competition for resources will reproduce. In other words, it is always those who can adapt to the constantly changing environment and accordingly over time.

"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change." Charles Darwin (1859)

Whatever the specifics, what we need is to ensure that we are really adapting to fit to the new environment. And that's how the business remains relevant. It's about consistency, strategy, and adjustment.

Now, don't get me wrong, change isn't always bad. Sometimes, we can benefit from the changing environment more than we have before and not change a thing about how we do business. It can happen. But, usually, we need to accept the change to maintain the present position. We need to adapt to the changing environment in order to succeed in it.

Of course, there is no ideal perception. There never is. That's why we need to evaluate our thoughts and include the positives and the negatives. We need balanced thinking in the terms of: having our eyes on the price, but our mind in the present situation. We cannot let ourselves forget the present because it can easily affect the future structure of our business. We also cannot move forward, as a business, without knowing where we want to go. That is why having a business strategy is a necessity.

Being an entrepreneur or a small business owner means wearing a lot of hats. Having persistence, dedication, commitment, and a vision are all important, especially in the early years of building the business and getting it „off the ground” (Clegg, 2014).

Later on, as we keep understanding the industry we are in, we want more. We are encouraged by how things are playing out right now, how our business is working, and we want to expand. It does seem that the odds are in our favor, so we act fast and start thinking big. It is in the human nature to be eager for new things. And, in this case, exploit the business to new international markets. It really is the smart thing to do. The business reaches the point for expansion and seeks additional options to generate more profit. And that’s when the real challenge begins. Otherwise, we are letting other competitors push us off the market. So, first, we have to identify the international market, depending on the industry, and conduct market research to compare whether our way of doing business is compatible with the terms of the overall market. We then analyze the effects of changes and how it may impact our business strategy.

Or, we can use a different approach. And here, I would gladly introduce something that caught my eye while I was doing this research about strategy which is, obviously, the center of attention in this paper. That is the *Blue Ocean strategy* delivered by the famously and distinctively representative management thinkers of this type, Kim and Mauborgne (W. Chan Kim and Renée Mauborgne, 2005).

Recognized as one of the most effective strategy books ever written, Kim and Mauborgne introduced a way to beat competition by creating a new, *uncontested market space*.

CONCEPT: WHAT IS THE BLUE OCEAN STRATEGY?

The Blue Ocean strategy presents a systematic approach to making the competition irrelevant and outlines principles and tools any organization can use to create and capture their own blue oceans (Blue Ocean strategy website).

In the beginning of their book, the authors are using *Cirque du Soleil* as an example and describing it as „one of Canada’s largest cultural exports”. Kim and Mauborgne explain how *Cirque du Soleil* managed to, and I quote – „achieve a level of revenue that took Ringling Bros. and Barnum & Bailey—the global champion of the circus industry—more than one hundred years to attain” (W. Chan Kim & R. Mauborgne, 2005, p. 20).

Chan Kim and Mauborgne (2005) are talking about a market universe divided in two sorts of oceans: red oceans and blue oceans.

Red oceans represent all the industries in existence today. This is the known market space. Blue oceans denote all the industries not in existence today. This is the unknown market space.

In the red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known. Here, companies try to outperform their rivals to grab a greater share of existing demand. As the market space gets crowded, prospects for profits and growth are reduced (W. Chan Kim & R. Mauborgne, 2005, p.21).

Blue oceans, in contrast, are defined by untapped market space, demand creation, and the opportunity for highly profitable growth. Although some blue oceans are created well beyond existing industry boundaries, most are created from within red oceans by expanding existing industry boundaries, as Cirque du Soleil did. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set (W. Chan Kim and R. Mauborgne, 2005, p.22).

Absolutely brilliant! With this strategic approach, businesses aren't just surviving, but thriving. They are creating opportunities for growth that can benefit the business in both ways, profitably and rapidly, as mentioned above.

Of course, this can always be simplified so it can be better understood. That's why, I present a picture of the main differences between red and blue oceans. And then, reasons why it is better to create a *uncontested market space*, or, in other words, a blue ocean.

Table 1. Red ocean and Blue ocean strategy

RED OCEAN STRATEGY	BLUE OCEAN STRATEGY
all of the industries in existence today	industries not in existence today
exploit existing demand	create new demand
beat competition	make competition irrelevant
competing in <i>red oceans</i> is a zero-sum game ⁶	creating <i>blue oceans</i> is non-zero-sum

Source: insights from <https://www.blueoceanstrategy.com/what-are-red-blue-oceans/> ;

Accessed August 11, 2020

Why is it better to create a *blue ocean*?

⁶Zero-sum: a mathematical representation of a situation in which whatever is gained by one side is lost by the other

For starters, the Blue Ocean strategy is the simultaneous pursuit of differentiation and low cost to open up a new market space and create new demand. It is based on the view that market boundaries and industry structure are not given and can be reconstructed by the actions and beliefs of industry players (Blue Ocean strategy website). Blue ocean strategists see opportunities where others don't.

When it comes to the red ocean, which is a never-ending battle between businesses, the main goal is to beat the competition. It has companies compete fiercely for a greater share of limited demand (Blue Ocean strategy website). In Blue oceans, on the other hand, companies develop uncontested market space rather than fight over a shrinking profit pool (Blue Ocean strategy website).

Being a single player in a new market provides more advantages than a never-ending circle of competition ever will.

But, always have in mind that: When you create a new market, and you are being successful in it, competition surely appears. But, there is, evidently, a way of overcoming that, which I am going to discuss later in this paper.

TOOLS OF BLUE OCEAN STRATEGY

While analyzing a market, or, to be more specific, a new market, there are few steps that help you evaluate the attractiveness of the new market. It is also important to use the right tools and use the tools right.

In the business world, there are several tools like strategic planning, Customer Relationship Management (CRM), benchmarking, balanced scorecard etc. that are used to improve the managers' work and effectiveness.

The impressive Blue Ocean strategy offers different examples of effective tools and frameworks businesses can consider to be more successful or even become leaders in the market. Obviously, only reading about them won't do the work. Applying ideas in practice, implementing and taking action is what will get you far.

The analytical tools and frameworks included in the Blue Ocean strategy book are quite difficult to sum up into few words because of their expert description, proficiency and effect. However, I will introduce *The Strategy Canvas* which is, I quote: „*both a diagnostic and an action framework for building a compelling blue ocean strategy.*” (W. Chan Kim and R. Mauborgne, 2005, p.42).

On a graph, the horizontal axis depicts a range of factors that a company competes on while the vertical axis shows the offering level received by the buyers. This tool basically serves two

purposes. First, it captures the current state of play in the known market space, which allows users to clearly see the factors that an industry competes on and invests in, what buyers receive, and what the strategic profiles of the major players are (Blue Ocean strategy website). And second, it propels users to action by reorienting their focus from competitors to alternatives and from customers to non-customers of the industry and allows you to visualize how a blue ocean strategic move breaks away from the existing red ocean reality (Blue Ocean strategy website).

In order to add new values to the strategic canvas value curve, it is important to acknowledge the four actions framework which is used to... I quote W. Chan Kim and Renée Mauborgne: „*reconstruct buyer value elements*” (Blue Ocean strategy website).

The four actions framework consists of: create, reduce, eliminate and raise. „*To break the trade-off between differentiation and low cost in creating a new value curve, the framework poses four key questions to challenge an industry’s strategic logic*” (Blue Ocean strategy website).

Additionally, I explain each of the four actions framework including their questions for better understanding (Belyh, 2018).

Create: Which factors should be created that the industry has never offered?

The idea here is to create new industry factors that can generate value and anew market. To create factors that were not offered before.

Reduce: Which factors should be reduced *well below* the industry’s standard?

Here the basic idea is to reduce any of those factors which were nothing more than a consequence of the competition between industry players to differentiate themselves.

Eliminate: Which factors that the industry has long competed on should be eliminated?

In this step, the idea is to identify those factors which have been the basis of industry competition for a long time.

Raise: Which factors should be raised *well above* the industry’s standard?

Finally, the idea here is to identify those factors that need to be raised above where they are in the industry at present.

WHAT WORKED FOR OTHERS MIGHT NOT WORK FOR YOU?

It is important to mention that the book doesn’t navigate businesses on how to create value or how to implement tools. No one can possibly know what works best for the business except the managers involved. It especially doesn’t give you the answer on how to create a new market. The theory and its tools and frameworks provide value input to the strategic process, but there are some risks associated with taking the strategy too far (Belyh, 2018). Also, the

examples given show how those strategies worked for the companies that got creative and worked really hard. It does not promise you the same effect.

To follow up, when it comes to value creation, it depends on the industry, the strategy, the products or service, their pricing, what the customers value etc. so, I quote W. Chan Kim and R. Mauborgne (2005) on this sensitive part:

Value creation as a concept of strategy is too broad, because no boundary condition specifies how value should be created. A company could create value, for example, simply by lowering costs by 2 percent. Although this is indeed value creation, it is hardly the value innovation that is needed to open new market space. Although you can create value by simply doing similar things in an improved way, you cannot create value innovation without stopping old things, doing new things, or doing similar things in a fundamentally new way. Our research shows that given the strategic objective of value creation, companies tend to focus on making incremental improvements at the margin. Although value creation on an incremental scale does create some value, it is not sufficient to make a company stand out in the crowd and achieve high performance (W. Chan Kim and R. Mauborgne, 2005, p.235).

So, take a careful considered approach to new ideas, implement those that fit your business and discard those that don't (TradeGecko, 2017). Make sure you recognize and understand what works best for you. That is how you help your business expansion plans run smoothly. That is how you gain competitive advantage. The absolute worst thing you can do is rush into international expansion without proper planning (TradeGecko, 2017).

Blue Ocean strategy is not about risk taking. If nothing, it offers risk minimizing, if understood right, and encourages getting creative. The *blue ocean* is taken as a metaphor to represent these industries that may offer greater opportunities or higher profit potentials. It encourages businesses to search for and gain an uncontested market space instead of engaging in traditional competition (Belyh, 2018).

Creating blue oceans is not a static achievement but a dynamic process. Once a company creates a blue ocean and its powerful performance consequences are known, sooner or later imitators appear on the horizon (W. Chan Kim and R. Mauborgne, 2005, p.202).

Simplified, effective strategies, like any blue ocean, cannot be created just so businesses can “run away” from other players in one industry. When there is success, I assure you, competition always appears. They appear in every market, and will in the one you have created. Your blue ocean will turn red again. But with the knowledge and expertise you've gained from the previous experience of creating a market, you will know how and when it is time to create

a newer one, a newer blue ocean. It won't be your first time creating one, creating a new *uncontested market space*. You've already done it before.

CONCLUSION

At the beginning of this paper, I mentioned that there will always be challenges occurring every step of the way. They are inevitable. That is why we have to make sure we understand what is happening around us. We need to listen to our customers, follow the trends, be cautious, and very aware of what our competitors are doing in order to avoid mistakes and unexpected surprises.

During this research I've learned that the Blue Ocean strategy offers a creative way of thinking about the market. It makes you explore beyond limitations and gives you an opportunity to do something different. Businesses are able to set their own pace to create, sell and profit in their own, unique ways.

As explained, the environment is constantly resulting in changes, so what remains steadfast is the commitment to the unmet needs that are waiting to be created. And the Blue Ocean strategy provides an effective way of handling those exact challenges comprising the economic and competitive environment.

REFERENCES

- Belyh, A. (2018). *Strategic Framework: Understanding Blue Ocean Strategy*. Retrieved from <https://www.cleverism.com/understanding-blue-ocean-strategy-strategic-framework/>
- Clegg, J. (2014). *Convert With Content, The Most Important Part Of Your Business Is You*. Retrieved from: <https://convertwithcontent.com/important-part-business/#:~:text=2%20comments-,The%20Most%20Important%20Part%20Of%20Your%20Business%20Is%20You,wearing%20a%20lot%20of%20hats.>
- Darwin, C. (1859). *On the origin of species by means of natural selection or the preservation of favored races in the struggle for life (accessed on 15th September)*
- Kim W. C., & Mauborgne, R. (2005). *Blue Ocean Strategy official web site*. Retrieved from <https://www.blueoceanstrategy.com/what-is-blue-ocean-strategy/>
- Kim W. C., & Mauborgne, R. (2005). *Blue Ocean Strategy official web site*. Retrieved from <https://www.blueoceanstrategy.com/what-are-red-blue-oceans/>
- Kim, W. C., & Mauborgne R. (2005). *Blue Ocean Strategy official web site*. Retrieved from <https://www.blueoceanstrategy.com/tools/four-actions-framework/>
- Kim, W. C., & Mauborgne, R. (2005). *Blue Ocean Strategy – How to Create Uncontested Market Space and Make the Competition Irrelevant (accessed on 15th September)*

Kim, W.C., & Mauborgne, R. (2005). *Blue Ocean Strategy official web site*. Retrieved from <https://www.blueoceanstrategy.com/tools/strategy-canvas/#:~:text=The%20strategy%20canvas%20serves%20two%20purposes%3A&text=It%20propels%20users%20to%20action,the%20existing%20red%20ocean%20reality.>

TradeGecko, (2017). *Overcoming 5 top challenges of international expansion*. Retrieved from <https://www.tradegecko.com/blog/small-business-growth/overcoming-5-top-challenges-of-international-expansion>

Improving the Business Environment in the Countries of Eastern Europe and the Black Sea Region Through Interventions to Increase Financial Literacy

Rumyana Vitnyova
Svishtov, Bulgaria
rumy_vit@abv.bg

ABSTRACT: *Financial literacy is defined as a key life competence in the modern world, because it largely determines the quality and satisfaction of life of each individual. The topic of financial literacy is especially relevant today, when new skills are needed to manage money in conditions of higher unpredictability, increased personal responsibility for their own well-being and in a more complex unstable financial environment, increasing pressure for consumption and increasing in complexity and diversity financial products. Therefore, appropriate interventions to increase people's financial competence are urgently needed.*

The countries of Southeast Europe are now fully connected to the global financial system. Their citizens can benefit from huge savings / investment opportunities and huge borrowing opportunities, but they also face the associated risks and take on greater individual financial responsibility. Given the growing financial risks in the current volatile economic environment and global crisis, appropriate financial knowledge, skills and attitudes are crucial for the financial users of South East Europe for their sustainability and prosperity.

The main highlights of the OECD survey among citizens in South East Europe reflect the significant variations in these competencies in different countries and between groups in each country. They illustrate the overall low levels of financial literacy of the population across the region, especially compared to the EU and OECD economies. The results suggest the need to strengthen financial education policies and develop tools, including digital technologies or behavioral platforms, for example, that could be further added to improve financial knowledge and behavior conducive to improving individual financial sustainability.

The results also suggest that there should be financial education used as a supportive policy for economic and financial reforms, for example aimed at improving the stability of financial systems and consumer confidence.

Keywords: *financial literacy, international policies, OECD*

INTRODUCTION

Financial literacy is defined as a key life competence in the modern world, because it largely determines the quality and satisfaction of life of each individual. The topic of financial literacy is especially relevant today, when new skills for money management are needed in conditions of higher unpredictability, increased personal responsibility for one's own well-being and in a more complex unstable financial environment, increasing pressure for consumption and increasing in complexity and diversity financial products. Therefore, appropriate interventions to increase people's financial competence are urgently needed.

From this point of view, financial literacy initiatives are seen as an investment in human

capital formation. (Zahariev, 2012)

That is why the purpose of this study is to examine interventions to improve the level of financial literacy of consumers of financial services in Eastern Europe and the Black Sea region as an integral part of large-scale financial reforms at the global level. The study examines measures taken both at EU level and within international organizations such as the Organization for Economic Co-operation and Development (OECD) and the World Bank, and in international fora such as the Group of Twenty (G20).

This report presents the seven countries participating in the OECD / INFE Financial Assistance Project for Financial Education in the Dutch Ministry of Finance's Constituency Program with the opportunity to compare their levels of financial literacy with other countries in the project. These countries are Bulgaria, Croatia, Georgia, Northern Macedonia, Moldova, Montenegro and Romania. Data from the seven countries were collected by ACT Global between July 2019 and October 2019 and analyzed by the OECD, using the standard methodology of the OECD as the aim is to provide specially adapted research and political support to the region.

1. ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

The comparative analysis of the best international and European practices in the field of financial literacy brings out a leading role of the Organization for Economic Cooperation and Development. (*Table 1*)

There are two main ways to ensure the security of consumers of financial services on a global scale: regulation and financial training. According to the policies studied, the OECD relies mainly on measures towards financial education and financial education.

For the first time, OECD member governments have formally recognized the importance of financial literacy on a global scale with the launch in 2002 of a comprehensive project. Comparing the measures of the other two surveyed organizations, this is in fact the first global initiative in the field of financial literacy. In 2008, this project was further developed through the establishment of the OECD International Network on Financial Education (INFE). Its purpose is to collect data on financial literacy, to prepare analytical and comparative reports, research and policy instruments.

Over the years, an International Financial Education Portal, High-Level Principles on National Financial Education Strategies, and periodic reports on all OECD initiatives and

projects have been established.

With a focus on financial education, the OECD and INFE support policy makers and public authorities to develop and implement national financial education strategies and individual financial education programs, while offering innovative methods to increase financial literacy among the population of partner countries. (International Portal for Financial Education, 2020)

The analysis of the OECD measures shows that it not only offers but also finds precise ways to evaluate the relevant developed programs.

In order to implement the most cost-effective and cost-effective programs, the organization has prepared a number of documents, as well as a "Detailed Guide to the OECD and INFE Evaluation". The assessment of financial literacy itself becomes a key component in the development of a national strategy. This is the approach of the project for technical assistance to the countries of Southeast Europe, whose data from the seven countries included were collected by ACT Global between July and October 2019 and analyzed by the OECD in 2020.

The analysis highlighted the importance of financial education in schools in OECD policy, in contrast to other organizations surveyed. As early as 2005, in the Recommendation on Principles and Good Practices for Financial Education, the OECD proposed that financial education be started as early as possible and included in the curriculum.

And in 2012 and 2014, the OECD and INFE provided practical guidance and case studies to support policy makers related to the introduction of financial education in schools, as well as a comparative analysis of existing educational frameworks through the publication of "Guidelines for Financial Education in schools" and "Youth financial education - the role of schools". The OECD and INFE are working to develop reference frameworks for basic knowledge in financial literacy for young people and adults.

2. THE WORLD BANK

The analysis of the measures of the World Bank in response to the problems that accompany the users of financial services shows mainly a policy for regulation, rather than financial training, although there are occasional measures in this direction. In 2010, the World Bank launched the Global Consumer Protection and Financial Literacy Program.

In systematizing the activities of the World Bank in the field of consumer protection and financial literacy, the following stand out:

- Diagnostic examinations. The World Bank performs a systematic analysis of the legal, regulatory and institutional frameworks for the protection of consumers of financial services and financial literacy programs in a particular country. Unlike the OECD, the evaluation is based on international experience gathered in a set of Good Practices for Consumer Protection and Financial Literacy.
- Household surveys (surveys). They are held at the national level. The number of participating households varies from country to country, but is always a representative sample of the population.
- Action Plan. The Action Plan introduces recommendations for strengthening consumer protection and increasing financial literacy in the priority areas identified after the Diagnostic Reviews.
- Implementation of the action plan

Table 1. Comparative analysis between the policies of international organizations

Comparative characteristics	OECD	The World Bank	European Union
Main accents in politics	Financial training	Regulation	Complements the activities of the Member States
Ways of implementation / Practical initiatives	International network for fin. Education International portal for fin. Education, Principles on national strategies Detailed OECD and INFE evaluation guide	Global Consumer Protection and Financial Literacy Program	Independent acts 8 basic principles to support stakeholders
Starting	2002	2010	2006
Attitude to national strategies	They also support public authorities in implementing national strategies They offer innovative methods to increase financial literacy International Student Assessment Program (PISA)	Diagnostic examinations Household surveys (surveys) Action Plan	Financial Education Expert Group European Financial Education Database Providing free financial advice from consumer organizations.
Recommendations for financial literacy training in schools	As early as possible To be included in the curriculum Practical guidelines and cases Reference frameworks for basic knowledge in the field of financial literacy	Strengthening the rights of consumers of financial services Financial training for every consumer	Development of online tools for teachers Educational platform Consumer Classroom.

3. EUROPEAN UNION FISCAL LITERACY POLICY

Based on a review of the EU's financial literacy programs, it is clear that the European Commission is not developing a coherent strategy, but is mainly developing initiatives to support and complement Member States' activities in this area.

In fact, within the EU, the importance of the issue of financial education was already noted in the conclusions of the EU Economic and Financial Affairs Council in 2006. The European Commission recognizes the importance of financial education at global and EU level in the White Paper on Financial Services (2005 - 2010) and in the Green Paper on Retail Financial Services in the Single Market of May 2007 (Vartonik, Hristov, & Panayotova, 2016)

Unlike the OECD and the World Bank, the EU's policy in the field of financial education is initially developed through independent acts - recommendations, communiqués, decisions, which outline the direction of development in this area. But in the European Commission's report on the Single Market for 21st Century Europe, financial education has been identified as an essential element with direct benefits for Member States. However, financial education is the responsibility of each EU Member State and therefore the EC has not developed a harmonized strategy or definition of financial education.

4. NEED TO INCREASE FINANCIAL LITERACY IN SOUTHEAST EUROPE

According to the above methodology, the OECD conducts a study of financial literacy levels in the South East Europe region, namely in Bulgaria, Croatia, Georgia, Northern Macedonia, Moldova, Montenegro and Romania. The OECD / INFE Global Handbook was used to collect primary data.

This study is part of the OECD / INFE technical assistance project for financial education in the Dutch Ministry of Finance's Constituency Program, which aims to provide tailor-made research and political support to the region.

The study was conducted on a statistically representative sample of over seven thousand people in the age range 18-79. It seeks to gather information on each of the elements of financial literacy as defined by the OECD: knowledge, behavior and attitudes. This information allows the calculation of the globally comparable financial literacy score of the OECD. The study also includes elements of financial well-being, financial sustainability, a major part of sound financial behavior and attitudes, taking into account the attitude towards active saving and behavior, which aim to avoid indebtedness and focus on long-term planning.

The overall possible outcome, according to the OECD methodology, is in line with the core competences for financial literacy. The average result of the study in Southeast Europe is about 57% of the maximum possible. This is lower than comparable results obtained by the same methodology from surveys of the EU and OECD economies (around 64% and 65% respectively). (Figure 1)

However, the average level does not reveal significant heterogeneity between and within countries. People in Georgia and Croatia are relatively strong in terms of financial knowledge, and compared to people in other countries, and compared to levels of consumer behavior and attitudes internally. In Moldova, the assessments of behavior and attitudes are significantly higher than the assessment of knowledge, and also the highest in the region. Moldova's financial literacy score is the highest in the region as a whole. Financial knowledge in Romania is low compared to the other countries in the sample, while people in Bulgaria and Northern Macedonia show almost the same strengths in all three components of financial literacy. The assessment of the financial knowledge of the elderly in Montenegro is relatively higher than the assessment of their consumer behavior and the assessment of the attitude.

Other elements of the survey results provide additional information:

- Financial sustainability is stimulated by good budgeting and short-term planning skills, but this is undermined by a lack of confidence in pension plans and high informality: over 60% of adults in the 7 countries surveyed have financial control in the household and regularly make a budget. On the other hand, confidence in pension plans is low. On average, only 25% of adults in the region are confident in their retirement plans. While most seem to rely on state pension schemes - 75% of respondents in Southeast Europe - an important proportion, about 30%, report reliance on family and children.
- In terms of financial inclusion, awareness of financial products is high, but utilization is average. On average, over 80% of adults in the region are aware of five financial products - payment, investment, savings, insurance or credit products. Between 30% and 40% report that they use official accounts with the financial institution for their savings needs.
- Financial well-being is undermined by high levels of financial stress: Financial anxiety is evident among adults in the region when discussing their relevance, financial situation and ability to bear the cost of living. About 41% of adults say they are dissatisfied with their current financial situation and only a third are satisfied. This does not appear to be caused by excessive debt (64% reject this claim), but more likely by low income relative to the cost of living. Just under 60% said they were worried about meeting their running costs and agreed that money tended to control their lives.

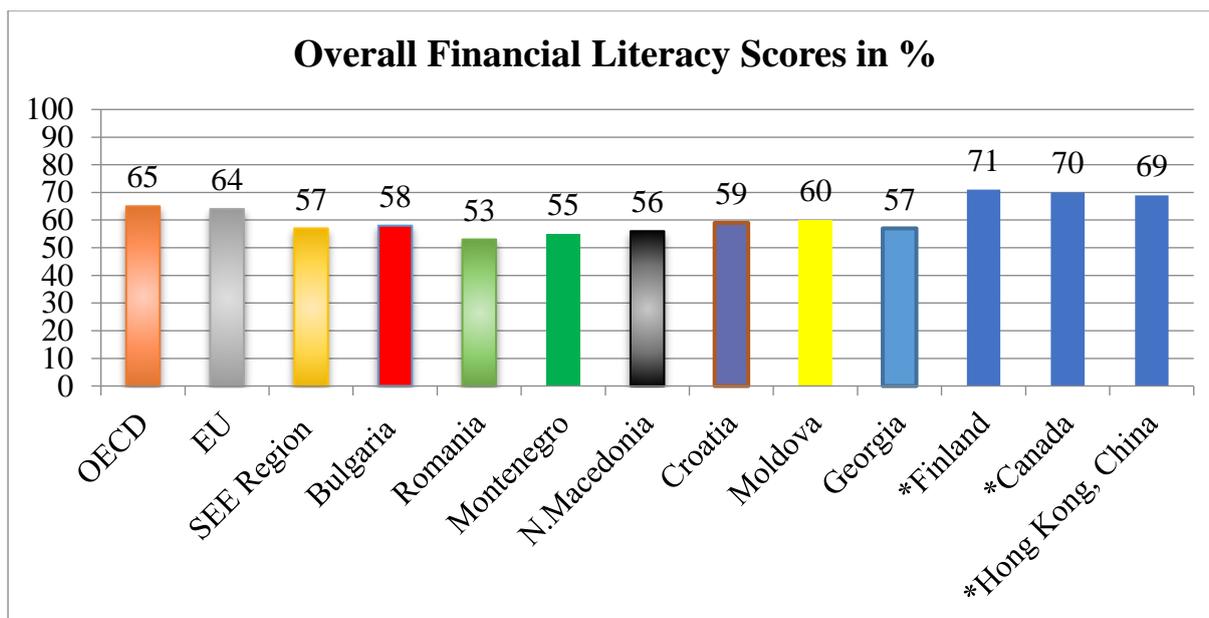


Figure 1. Financial literacy of adults in South East Europe, OECD 2020

5. RECCOMENDATIONS FOR FINANCIAL LITERACY POLICY IN SOUTHEAST EUROPE

The OECD and its INFE have identified the following recommendations to support financial knowledge, which allow individuals in the countries of South East Europe to navigate the existing complexity of financial products and understand the effects of financial phenomena:

- Strengthening financial knowledge as a key, albeit insufficient, component of financial literacy. They allow people to know how external factors can affect their financial situation or how changes in the financial products they own will affect them. A comprehensive approach to financial education is needed. Countries that have adopted comprehensive financial education programs (through existing national strategies), such as Croatia and Georgia, show the highest results in financial knowledge. Others, however, lag far behind.
- Ensuring comprehensive provision of financial education to promote the possession of basic financial skills, such as a budgetary understanding of interest rates and the effects of inflation, recognizing the benefits of constant savings, but also the ability to understand risk. Encourage the use of budgeting tools to focus on digital through free distribution on multiple platforms.
- Starting financial education early and ideally in school, given the lower financial knowledge of young people, in order to implement the knowledge of basic financial concepts as a whole among the population. For adults, financial education, for example in the workplace, can offer coverage of basic concepts and provide information on tools that can help use these skills.

- Target socio-economic groups to provide support or implement different and deeper approaches compared to the provision of financial education. For example: women, older participants, older people living in rural areas.
- Striving to improve financial behavior and increase the number of active savers. In the countries of Southeast Europe, about 67% are identified as active savers, while 40% reported striving to achieve long-term goals. However, a quarter (24.3%) of adult respondents are not active savers and have not set long-term goals.
- Using initially simple tools with proven effectiveness to encourage consumers to behave in financially sound ways, while in the long run to work towards creating a culture of financial prudence, planning and striving to achieve long-term financial goals. For example: Digital tools: online calculators, simulators, reminders and engagement devices can help people focus on their long-term priorities and support them in planning ahead, including product comparison tools and the availability of unbiased advice can help users make smarter choice of financial products.
- Encouraging even small but consistent contributions to emergency savings, which could have a major impact in mitigating the negative effects of unforeseen costs. This would support a shift from a risky to a sustainable approach to financial education and increase the ability of financial users to anticipate and recover from, as well as adapt to, different types of financial difficulties.
- Linking financial education programs to people's real problems:
 - o Financial anxiety is important among adults in the region when discussing their current financial situation and their ability to bear the cost of living. About 41% of adults are dissatisfied with their current financial situation, more likely with their relatively low income and cost of living.
 - o Just under 60% are anxious to meet their current expenses and agree that money tends to control their lives. Retirement plans are also a concern - between a quarter and a third of adults will rely on family or personal savings for their retirement needs.
- Based on financial regulations and consumer protection frameworks for additional assistance, make people more resilient, for example by helping them to decide carefully whether and when to use debt products and by reducing the likelihood that they will choose inappropriate financial products that further weaken their financial condition.
- Encourage greater support from regulated, independent advisory services, which are also essential to direct people to the fast-growing financial market and help achieve their long-term goals.

- Measuring financial literacy - although it can be difficult to change your knowledge, behavior and attitudes in the short term, it is good to know what they are so that they can be taken into account when developing initiatives.
- Repeating the measurement at regular intervals (perhaps 4 or 5 years) and in a comparative way (eg using the same set of tools, such as the internationally verified OECD / INFE tools). This may allow progress or redirection policies to be monitored
- Sharing policy outcomes to help promote transparency and inspire confidence in policy activities. Importantly, financial literacy measurements can be published along with other important financial and economic news.

CONCLUSION

The countries of Southeast Europe are now fully connected to the global financial system. Their citizens can benefit from huge savings / investment opportunities and huge borrowing opportunities, but they also face the associated risks and take on greater individual financial responsibility. Given the growing financial risks in the current volatile economic environment and global crisis, appropriate financial knowledge, skills and attitudes are crucial for the financial users of South East Europe for their sustainability and prosperity.

The attributes of financial literacy explored and discussed in this report have been identified by the OECD and its INFE to support financial knowledge, which allow individuals to navigate the existing complexity of financial products and understand the effects of financial phenomena such as inflation and instruments. of policy as interest rates on income and savings. These qualities, in addition to helping people develop certain attitudes toward money and behaviors that allow them to control their finances, pursue long-term financial goals through active saving and investment, to avoid delayed payments and debt and making a number of financial decisions that will lead to a higher level of financial well-being.

Such qualities are the basis of financially resilient consumers, but they are also the basis of the stability of the financial and banking system. The 2020 crisis of the negative economic shock pandemic underscores the value of individual resilience increased by the availability of buffer savings, while the 2008 crisis illustrates the need to manage debt at both individual and institutional levels.

The main highlights of the OECD survey among citizens in South East Europe reflect the significant variations in these competencies in different countries and between groups in each country. They illustrate the overall low levels of financial literacy of the population across the region, especially compared to the EU and OECD economies. The results suggest the need to strengthen financial education policies and develop tools, including digital technologies or behavioral platforms, for example, that could be further added to improve financial knowledge and behavior conducive to improving individual financial sustainability.

The results also suggest that there should be financial education used as a supportive policy for economic and financial reforms, for example aimed at improving the stability of financial systems and consumer confidence.

REFERENCES

- Vartonik, R., Hristov, L., & Panayotova, T. (2016). White Paper on Financial Literacy in Bulgaria. Sofia.
- Zahariev, A. (2012). Financial management of human resources. Svishtov: Tsenov Academic Publishing House.
- Petrova, S. (2020). Can Bulgarian ninth graders manage their money? Sofia: Institute for the Study of Education.
- International portal for financial education. (2020).
<http://www.financial-education.org/home.html>.
- Report on the progress of major economies around the world in the implementation of national strategies for improving financial education. (2013).
<http://www.oecd.org/finance/financial-education/advancingnational>
- OECD (2020), *Financial Literacy of Adults in South East Europe*
www.oecd.org/finance/education/Financial-Literacy-of-Adults-in-South-East-Europe.pdf

Customs Measures Ensuring National Security and Supporting Russian Economy During the World Pandemic

Alena Zharova

Russian customs academy
Lubertsy, Russian Federation
a.zharova@customs-academy.ru

Maria Bastrakova

Russian customs academy
Lubertsy, Russian Federation
m.a.bastrakova@mail.ru

ABSTRACT: *Under the current circumstances of the world pandemic the matters of Customs regulations of foreign trade become one of the determinants as it comes to the competitiveness of national economies and national security. This paper observes tariff and non-tariff measures, recommended by the World Customs Organization and applied in Russian Federation during the pandemic while estimating means of automated customs clearance system - submission of advance information, automated declaration processing and clearance, using the Risk management system. All of these measures are now being used for enhancing and managing international trade during the Covid-19 pandemic.*

Keywords: *Customs regulation, international trade, the Covid-19 pandemic, customs payments, risk management system.*

INTRODUCTION

National customs administrations play one of key roles in national security, by not only being the last barrier for the individuals crossing its international borders, but also by establishing tariff and non-tariff regulations to maintain competitiveness of domestic producers and protect their citizens` health and wealth. Nowadays customs services use modern technologies, such as automatic registration of the goods declaration, automatic release of goods and a risk management system for prompt document processing and speeding up customs clearance. This function directly facilitates foreign trade reducing costs and expenses for business: every minute has a cost.

All these functions work well for the times of stability, when the nearest future is not obviously endangered. However, sooner or later every country in the world faces certain challenges and emergencies: sometimes they are local and sometimes they can concern the bigger part of the

humanity. This paper`s main goal is to overview the Russia`s experience in facing the Covid-19 pandemic and the measures taken by customs to ensure its national security.

March 11th2020 World Health Organization declared Covid-19 outbreak a pandemic. A pandemic is defined as “an epidemic occurring worldwide, or over a very wide area, crossing international boundaries and usually affecting a large number of people”. On March 17th2020 the WCO Secretary General wrote to the Directors General of the WCO Member Customs administrations inviting them, to share their respective administration`s best practices to prevent and/or fight the spread of the disease. Their objective was to highlight certain measures that WCO Members can implement, to facilitate the cross-border movement of relief and essential supplies, to support the economy and sustain supply chain continuity, to protect the Customs administration`s staff, as well as to protect the society. As the result, WCO Secretariat issued a note called ‘What customs can do to mitigate the effects of the Covid-19 pandemic’. According to WCO national customs administrations are to take immediate actions aimed to facilitate the Cross-border Movement of Relief and Essential Supplies, to support the Economy and Sustaining Supply Chain Continuity, to protect their staff and, of course, the society. Russian Federal Customs Service has taken measures on each direction given above, and assessment of these measures` effectiveness will be the subject of the further the research.

PERFORMANCE EVALUATION OF MESAURES TAKEN BY CUSTOMS IN RUSSIAN FEDERATON DURING THE COVID-19 PANDEMIC

Eurasian Economic Commission and Russian government export bans

Council of the EEC established an export ban related to certain categories of goods. EEC is a part of the customs union called Eurasian Economic Union. Its members are Russia, Belarus, Kazakhstan, Armenia and Uzbekistan. The purpose of the ban was to prevent the lack of food supplies as well as medical goods and individual protection means during the aggravation of the sanitary and epidemiological situation. This ban worked for such industrial and non-food products as (iso)propyl alcohol, cotton wool and bandages, respirators, protection googles etc(EEC Decision No. 41, 2020). As for foodstuffs, such products as onions and garlic, turnips, buckwheat, rye and millet as well as some types of flour were also banned from export (EEC Decision No. 41, 2020).

As for foodstuffs, it is fair to say that the export ban was later than it could be: according to the data (Figure 1), provided by Russian Customs office of Statistics, the amount of buckwheat exported in March 2020 was 46.75% higher than in March 2019. Such a high demand was more likely to be caused by panic, and by the time this panic came to Russia, the prices began

to rise. Different buckwheat suppliers estimated the rise of the average wholesale price in February and March 2020 at 25-30% compared to December and January of the same year.

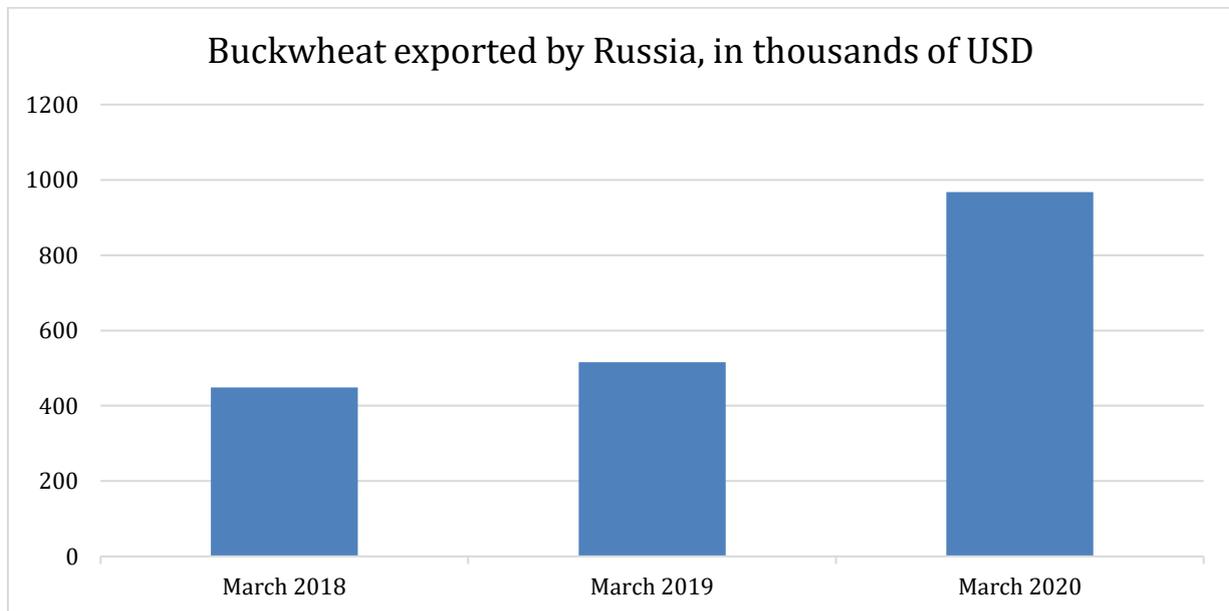


Figure 1. Buckwheat exported by Russia, in thousands of USD

Russian government also took part in reducing the amount of exported goods by banning medical goods from export, even to Eurasian Economic Union members, who Russia has a single customs territory with. These temporary restrictions concern medical goods except the ones that are being transported for international humanitarian aid or by individuals for personal use or as supplies such as medical gloves, masks, Covid-19 tests etc. (Russian Federation Government Decision No. 223, 2020). To estimate the effectiveness of the measures taken it is needed to note these restrictions` date of entry into force. The validity of the mentioned document starts from March 2nd2020. According to the official data Covid-19 pandemic started actively spreading at the end of December 2020 in China. By January it came to European region although no one expected it to happen. The exporting ban was a measure taken later than it was needed because in January – February 2020 Europe was actively fighting with the virus, while Russia exported considerable amounts of medical goods abroad. Couple months later the demand for these goods in Russian Federation itself will become incredibly high with offer constantly shrinking and prices rising.

At one of the popular Russian online shopping platforms the sales of medical masks at the last week of January 2020 have grown 5 times compared to the last week of December 2019. Masks became a scarce commodity and, therefore, the average price stated to grow: according to the

analytical portal 'PharmaData' the average price of medical mask have grown from 35 to 98 rubles (from 0,5 to 1,36 USA dollars) in the January 1st – March 8th period.

In order to estimate the timing of the measures taken it is necessary to refer to the statistics. Figure 2 shows Russia's export dynamics of the essential medical goods, in the month of January 2017-2020. Medical goods on this figure were identified according to the Eurasian Economic Union's Unified Commodity Nomenclature of International Trade. The clear rise can be seen in each category of export provided in January 2020.

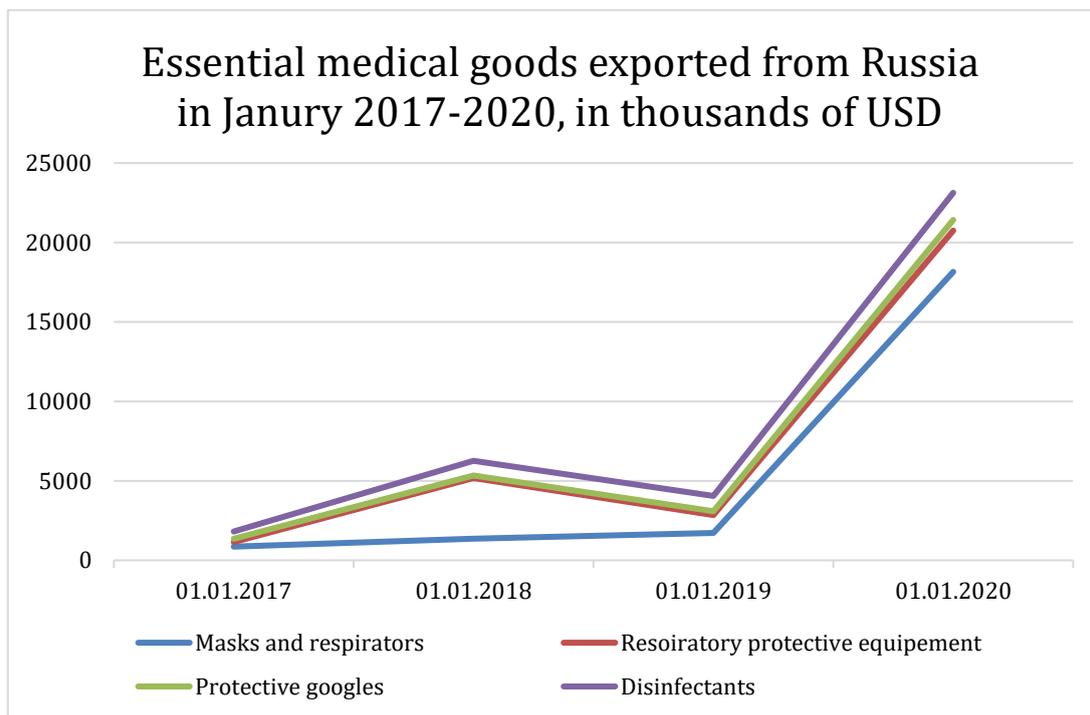


Figure 2. Essential medical goods exported from Russia in January 2017-2020, in thousands of USD

Thus, the data in Figure 2 reflect the lateness of measures to regulate the export of medical products: a ban on the export of goods was introduced in March 2020, when exporters took out a large number of medical products in January 2020 and led to an acute shortage of medical products in the territory of the Russian Federation, their rise in price. This can be regarded as a threat to national security.

Import duties and tax benefits

There were not enough of such strategically important goods as Covid-19 tests, medical masks, gloves and lung ventilation systems to provide at dawn of the pandemic in Russia. Therefore,

customs regulations were to become more attractive for the importers, as the demand for these goods started to grow. Customs duty and VAT can significantly increase the price of the item, which means that it is important for both importers and buyers. For instance, for protective medical suits the customs duty is 15% and VAT is 20% of the customs value. Due to this, essential benefits in customs duty payments were given to the importers who put the goods under the release for free circulation procedure and who confirm the purpose of these goods.

The confirmation procedure takes around 6 days: the importing organization should provide to the Moscow Healthcare Department the Confirmation statement of the intended purpose of the importing goods as well as the following supporting documents: the copies of the contract and the documents, confirming the purpose of the goods (passport of the goods, technical descriptions and characteristics, a confirmation letter from the medical organization dealing with Covid-19 cases confirming the fact that it is actually the final recipient of the goods). All these documents are to be immediately directed to the Medical organizations managing compartment. The Compartment performs documents registration and check within 2 days. Afterwards, within 3 days it should choose one of the following: in case of non-compliance with the stated requirements the Compartment sends a refusal notice to the applicant or creates a project of the letter to the Department confirming the purpose of the goods in case of compliance. After the deputy head of the department signs the document, it should be sent to both the applicant and Federal Customs Service (Moscow Health care Department, Order No. 434, 2020).

Duty benefits could be applied only to the certain categories of goods, basically the same ones as the previous measures were applied to: some types of medical products and foodstuffs recognized as critical COVID-19 response goods (potato, onion, rye, medicines containing penicillin, endoscopes etc.) are under customs duty remission from April 18th2020 to June 6th2020. (EEC Decision No. 33, 2020).

VAT remission, however, is more continuous (April 4th – September 30th2020), than import duty benefits it is applied for lab goods such as reagents, syringes, needles, catheters, containers for medical waste collection etc. (EEC Decision No. 21, 2020). The condition of getting this benefit is the same as for duty remission: purpose confirmation of these goods. It is important to note that exemption from VAT was only possible if the goods were transferred to a medical or other non-profit organization.

The reason for a significant drawback was the fact that the procedure for obtaining documents confirming the intended purpose was not established, in different constituent entities of the Russian Federation the procedure was different.

The effectiveness of the VAT and duty benefit measures can be assessed by comparing the statistical data on the value of imports in March 2020, before the introduction of the measures, and in May 2020, after the introduction of the measures. There are essential goods with different categories of benefits than can be found in Figure 3: blood collection and blood transfusion systems as well as blood substitutes and infusion solutions were exempted from customs duties, lung ventilation systems – from VAT, medical masks and shoe covers – from both customs duties and VAT.

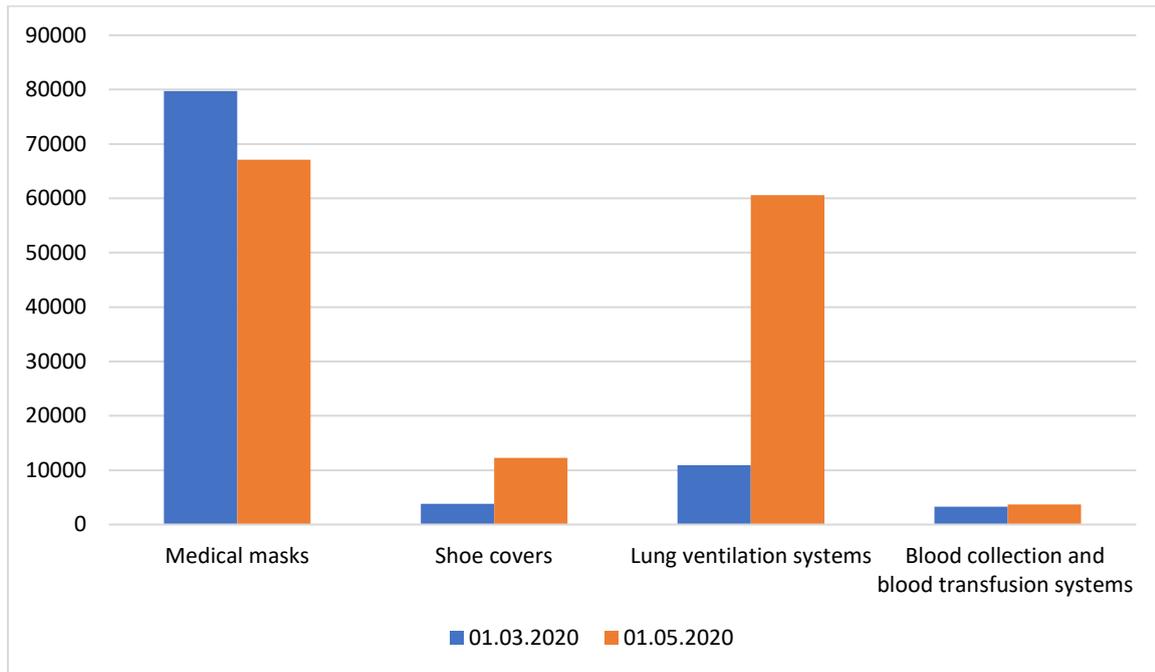


Figure 3. Russia essential goods' import values in March and May 2020

Figure 3 shows that the introduction of VAT benefits increased the lung ventilation systems' import almost 6 times, which indicates the effectiveness of this measure. However, the import value of medical shoe covers and blood collection and blood transfusion systems had an insignificant growth. As for medical masks, their imports have even decreased due to the domestic production of masks in Russia.

Goods' origin proof simplification

According to the new rules of the origin determination, taken during the pandemic, it has been allowed to submit the copy of the origin certificate electronically or in paper form. The original document must be provided within 6 months since the submission of the declaration. These rules are valid from April 18th to September 30th2020 (EEC Decision No. 36, 2020), helping to

save importer`s time for the proof and, therefore, to have the goods exactly at the time of the high demand.

Simplified state registration of medical goods

36 types of classified as low risk medical goods, such as medical outfits, gloves, gowns and shoe covers, became a subject to the simplified registration. Before, the state registration certificate was made within 3-5 months, during the pandemic the Russian Surveillance Healthcare Service made decisions about the registration of these goods within 3-5 days after submitting the primary package of documents.

It is necessary to submit the full package within 150 days. The full list of these goods can be found in Russian Federation Government Decree of March 18, 2020 №299. This Decree was important for the purveyance of the country`s dwellers with personal protection means and medical services of the proper quality. It also gave foreign traders an opportunity to sell these goods on local markets without any delay and extra paperwork.

To summarize, the measure of Simplification of state registration of medical goods helped to reduce the registration time of medical goods by 30 times and, therefore, became a significant measure taken by customs during the pandemic.

Customs technologies for trade facilitation

Russian Customs Service has been implementing such technologies as an automated registration of the goods declaration (since 2014), automated customs clearance system (2017) and using the advance information about the goods as well as the risk management system (2002) for a while before the pandemic started. That`s why it is fair to say that RMS was facilitating trade by speeding up customs clearance even before the pandemic. However, there still were perspectives for the improvement: during the pandemic the automated registration of transit declarations became faster and the contacts with customs officers were reduced to a minimum. In May 2019 in Smolensk customs 21% of transit declarations were registered without any contact with an inspector, in June 2020 this figure was 82,4%. It takes less than a minute to register the declaration automatically, while customs officer can process it up to 1 hour.

Reduced amount of customs inspections

In March 23, 2020 as one of the anti-epidemiological measures the Russian government introduced a moratorium for the scheduled and unscheduled inspections as well as the field

customs inspections. Unscheduled inspections are allowed in case of emergency, natural or man-made and in case someone`s health is endangered. This regulatory ease was planned to stay in force until year 2021, however in June 13th Russian Ministry of finance suggested to cancel it from August 1st2020.

The abolition of on-site customs inspections meant to decrease the administrative burden on the participants in foreign economic activity associated with the control measures when the customs authorities perform the field inspections. This measure during the pandemic made it possible to minimize contacts between foreign economic activity participants and customs authorities, which was necessary to save life. During this period, the activities of the customs authorities on conducting inspections were not stopped, desk inspections continued, which are possible in the course of information remote interaction between foreign economic activity participants and customs authorities. Customs should continue to monitor smuggling and fraud on a daily basis and take immediate action on serious cases; despite the limitations, it is important to allocate resources for this activity. In times of crisis, customs risks associated with fraud are high; these include smuggling and organized income fraud, and trade in illegal goods.

DIRECTIONS FOR IMPROVING CUSTOMS MEASURES DURING THE PANDEMIC IN RUSSIAN FEDERATION

The main disadvantage of the measures taken by the EEU and the Russian Federation in order to minimize the negative economic consequences from the pandemic is the delay in their application. WHO announced the start of a pandemic on March 11, 2020, and exemptions for customs duties on strategically important goods were introduced later in the second half of March and April. By the time the EEC introduced an export ban, a large amount of them had already been exported that caused a shortage of the essential Covid-19 response goods.

It is to note that practical application of the WCO recommendations may vary. While in Russia only medical goods were recognized as essential goods, China in order to restore the economy in a pandemic opened "green corridors" not only for anti-epidemic and medical goods, but and for raw materials and spare parts that are needed to restore production and the economy. This practice can be used by the Russian Federation during the future pandemics and other emergencies in order to resume the work of enterprises and normalize foreign trade.

Moreover, during emergencies customs services need to receive timely communications from traders quickly in order to learn about problems arising in the course of foreign trade. For this reason, it would be reasonable to create a helpdesk to resolve issues faced by

importers/exporters, it will provide end-to-end supply chain continuity, including the smooth and unhampered movement of goods inland.

Modernization of the current instruments and institutions of the foreign trade is an essential goal as well. For instance, it could be greater facilities for the ATA carnet holders when the temporarily imported goods cannot be re-exported due to a state of emergency and to allow for flexibility in extending AEO certifications during the pandemic, while maintaining an appropriate monitoring mechanism.

CONCLUSION

Taking everything given above, it is essential that customs are proactive and assist in the fight against the pandemic. The effectiveness of epidemiological, social, economic and budgetary responses to a pandemic depends not only on the specific measures implemented by governments, but also on their timeliness. Customs Service is an important body that helps to save lives by ensuring the reliability of the international supply chains, especially with regard to the import of essential goods.

Despite the miscalculations given above the effectiveness of the customs measures should be noted: the timely began simplified state registration of the medical goods, certificate of origin provision simplifications and customs field checks cancellation allowed to reduce the administrative burden on traders during a pandemic, save their time and money, stimulate business activity.

With regard to the temporary exemptions from customs duties and their suspension, as well as the other special customs clearance procedures related to the COVID-19 crisis, customs still monitor transactions and informs traders about the benefit verification obtained after the crisis. It is essential to make sure of the intended purpose of the goods to provide customs duties and VAT benefits in order to ensure economic security.

Moreover, in accordance with WCO recommendations Russian Federal Customs Service coordinated and cooperated with other government agencies in order to speed up the clearance of relief goods, prioritize the clearance of relief consignments on the basis of a list of essential items. It was possible to achieve with a simplified Goods declaration, provisional or incomplete Goods declaration provided for pre-arrival processing. Release of the goods upon arrival, risk management and inspections on relief goods only if deemed high risk, all these measures contributed to the ensuring business support and national security.

REFERENCES

- Postanovlenie Pravitelstva RF № 223 (2020). *O vremennom zaprete na vivoz otdelnih vidov produkcii iz Rossiyskoy Federatsii*. Moskva: Pravitelstvo RF. [Russian Federation Government Decree №223 (2020). *On the introduction of a temporary ban on the export of certain types of products from the Russian Federation*. Moscow: Russian Parliament.]
- Reshenie Kollegii EEC №41 (2020). Poradok registratsii, priostanovleniya, vozobnovleniya i prekrasheniya deystviya deklaratsiy o sootvatstvii produkcii trebovaniyam tehreglamentov EAES. Moskva: EAES. [Decision of Council of the EEC №41 (2020). *On the Procedure for registration, suspension, renewal and termination of declarations of product compliance with the requirements of the technical regulations of the Eurasian Economic Union*. Moscow: Eurasian Economic Commission.]
- Reshenie Kollegii EEC №43 (2020). *Izmeneniya v Perechen tovarov, v otnoshenii kotorih ustanovlen zapret vvoza na tamozhennuyu territoriyu EAES i (ili) vivoza s tamozhennoy territorii EAES*. Moskva: EAES. [Decision of Council of the EEC №43 (2020). *Changes to the list of goods that are prohibited from being imported into the customs territory of the EAEU and (or) exported from the customs territory of the EAEU*. Moscow: Eurasian Economic Commission.]
- WCO Secretariat note (2020). *What customs can do to mitigate the effects of the Covid-19 pandemic*. Brussels: World Customs Organization.



9th ASEC Youth International Conference and Summer School &
10th Jubilee Summer School of the Faculty of Economics - Skopje



Section 3: Competitive Economics in South – East Europe and Black Sea Region

State Regulation of Platform Companies in China and Russia

Milena Balanova

Rostov State University of Economics

Rostov-on-Don, Russia

milena_27@list.ru

ABSTRACT: *This article makes a brief overview of the current situation of digital economy and platform market in two developing countries with high engagement of the government in large business – China and Russia. The paper provides a comparative analysis of platform companies’ activities regulated by the state in China and Russia. It contains a qualitative research applying methods of synthesis, a case study, a qualitative comparison and statistical data analysis. The work ends with main benefits of the policy each country follows, which may serve as best practices used by other developing countries in the future in the context of digital economy.*

Keywords: *platform companies, regulatory policy, taxation, digital economy, China, Russia.*

INTRODUCTION

State regulation is one of crucial elements of the ecosystem functioning for platform companies. Digitalization of already existing sectors of economy, the creation of new digitally- and ICT-based niches on the market and the risk of foreign platform companies’ oligopoly or even monopoly raises a significant interest of the national government caring for regulation of ‘newcomers’, ‘early-movers’ on the national market, adjusting rules of the game to protect rights and benefits of the state and citizens and setting tools of assistance for all players of the platform.

The main task of this paper is to confirm or refute the correlation between the state regulation of digital MNEs, especially platform companies and the level of economy digitalization in the country by example of China and Russia. Another task is to track the tendency if platform companies have more favorable conditions for their functioning in countries with the high level of state regulation of large business including digital MNEs and platform companies.

MATERIALS AND METHODS

Since the subject of the study is the China’s and Russia’s policy regarding platform companies, the material is scientific articles and reports on the features of doing business and the role of the state in the Chinese and Russian economy, economic and business articles from business blogs and domestic and foreign magazines. The analytical part of the paper is based on annual reports of a number of rankings in indices (Global Innovation Index (GII), IMD World Digital Competitiveness Ranking as well as Global Entrepreneurship Index, ICT Development Index (IDI), International Digital Economy and Society Index (I-DESI), and Telefonica Index on Digital

Life). This work is a qualitative study using a synthesis method, a case study (economics and politics of China and Russia), a qualitative comparison and statistical data analysis as a supplementary method.

COMPARATIVE ANALYSIS OF STATE REGULATION OF PLATFORM COMPANIES IN CHINA AND RUSSIA

Hypothesis

Countries where the government is deeply engaged in economy implement more regulatory measures leading to monopolization and protectionism of digital sectors of economy. State regulation of digital economy makes significant impact on the development of digital economy and platform companies.

Government policy in China

The Chinese market is unique since only 15 % of its largest MNEs represented in the Global Fortune 500 are private-owned enterprises (POEs) (Guluzade, 2019). The remaining companies are state-owned enterprises (SOEs), which makes it possible to conclude that the government of the republic controls the activities of Chinese MNEs. This is the first feature of China's internal business environment as a whole. This is a pragmatic approach developed by the Chinese government and personally by Xi Jinping to govern the country under the conditions of socialism with Chinese characteristics aimed at gaining and maintaining competitive positions in the global economy and reinforced by national projects, strategies and amendments to laws introduced by the State Council of the PRC. Chinese SOEs well-being and internationalization results from meeting its government's national interests, including an interest in definite sectors development, which generates "government-created advantages" for the internationalization (Wu & Gereffi, 2018).

It should be noted that before Xi Jinping came to power in China, mechanisms were already in place to establish state control over firms. For example, in 2003, the **State-owned Assets Supervision and Administration Commission of the State Council (SASAC)** was created. Almost all SOEs in China came under the control of the committee. An equally important role is played by the **National Development and Reform Commission of the People's Republic of China (NDRC)**, which controls the development of the domestic infrastructure of the republic and has the authority to approve outgoing investments.

At the same time, despite the significant and often decisive role of the state apparatus in shaping the economic system of China, it is China's flexible private sector that is generating progress that is really felt far beyond the country's borders. This is the second feature of China's domestic business

environment. Based on the state policy expressed in the draft “**Internet Plus**” initiative, the strategic plan “**Made in China 2025**” of 2015 and the “**National Informatization Development Strategy**”, China’s technology sector is using the country’s fast-growing markets to build market power and global innovation. Since 2015, the reform of the Chinese Internet economy has created the most dynamic startup environment in the world, created through private venture capital investments, a powerful system of financial assistance from the state and the spread of incubators supported by the Chinese government. At the same time, private giants of online commerce, in particular Alibaba, Tencent, as well as the largest search engine Baidu, also inject huge sums of capital or privatize new startups in the Chinese market, even in a larger volume than the leaders of the American online business buying up startups Silicon Valley (Lee, 2017). Danilin (2019) claims that it was the formation of the famous trio called “BAT” (Baidu, Alibaba, Tencent) that triggered a review of state policy and its control over the digital economy, while the role of the state in the early stages of the development of ICT companies was much more modest (Danilin, 2019). What is of note, these are Chinese PEOs that make up the vast majority of digital economy firms in the country, disadvantaged from administrative privilege and financial support (Wu & Gereffi, 2018).

The third feature is the fact of close cooperation of SOEs belonging to the group of strategic assets of the Chinese state with the largest private digital companies, including platform companies. For example, Alibaba cooperates with Sinopec and China Mobile to develop cloud computing and big data analytics services, and also with defense giant Norinco to commercialize Beidou’s Chinese satellite navigation system (through the US-controlled GPS). However, the more significant result of the symbiosis of state-owned and private technologically advanced companies is the successful systematic construction of a “digital state of universal control” under the country’s leadership. Leading technology firms currently use huge amounts of user data for trial credit rating systems, which, if successfully integrated by the Chinese state, will provide it with unprecedented opportunities for individual monitoring and, therefore, social control (Lee, 2017). This feature is a striking example of combining the interests of two groups of business entities (the state and a number of private tech companies) based on two-way communication and compliance with the principles of mutual economic benefits (Israilova, 2013).

The last and the most crucial peculiarity of the Chinese market is both provincial and national platform regulation. China is the largest and thus most attractive Asian market for most businesses including the foreign ones. Nevertheless, the state represented by President, the State Council of the PRC together with local governments having the power to introduce separate regulations defends local and national entrepreneurs, employees and producers and has an obvious strategy to raise large competitive players for international markets. For example, the growth of Alibaba was partially conditioned by governmental restrictions on foreign investment in e-commerce that were abolished

recently (Eferin, Hohlov, & Rossotto, 2019). There are other vivid examples described below in the paragraph “Foreign platform companies regulation in China”.

The solution to explore the regulation of platform companies in China was to find the latest news on how many taxes and what taxes the most influential domestic and foreign digital companies, platform companies in particular, pay.

Platform companies regulation: Chinese case

The standard corporate income tax rate in China is 25%. It is 20% for small, unprofitable enterprises and 15 % for enterprises of new and high technologies, advanced technical services (IT outsourcing, business process outsourcing, knowledge management outsourcing) (SBF Group, 2019).

Chinese platform companies regulation in China

Chinese e-commerce giant Alibaba Group and its unit Ant Financial contributed a total of 51.6 billion yuan (US\$7.7 billion) in tax last year, making it the top taxpayer among the nation’s internet companies. That number is equivalent to about 140 million yuan every day and represents an over 40% year-on-year increase, according to data released by the company (Asia Times, 2019).

Foreign platform companies regulation in China

In terms of operations, safety and credit are the first major problems that must be solved by foreign companies in China. Outside of China, Airbnb account holders enjoy the benefits of a comprehensive personal credit system once they have verified their names. In China, where there is no personal credit system, overcoming the challenges of safety and credit will require a more innovative approach (Yimin, 2019). Besides, China is among countries (like all the EU countries, Iceland, South Africa, Albania, Norway, Switzerland, and Japan) where AirBnb receives service charge together with VAT (Yüksel, 2019). Whereas Airbnb’s Chinese imitators, namely Xiaozhu.com and Tujia, have worked hard in recent years to develop a part of the market, and they have succeeded in getting some people to accept the concept of accommodation-sharing. They have obviously got a first-mover advantage.

Another high-profile case in the history of platform companies’ failures is the case of Uber in China. Uber China had to leave the Chinese market although it tried to cope with many challenges. It found a solution in adding the option of payment through Alipay as the most common payment system, replacing poor coverage Google Maps by Baidu as the main strategic partner. Meanwhile, there were challenges hard to cope with, like granting the legal status to ride-hailing services depriving the chance of ‘driving’ in a grey zone of Chinese markets and inducing Uber to submit collected data to

the purview of the government. Besides, there were local regulations, like implementing local government-guided pricing and issuing ride-hailing service driver's licenses (Kirby, 2016).

Government policy in Russia

The Russian market is favourable for platform companies, because it is ahead of other developing countries in the level of access and the number of Internet users and the immense growth of non-cash economy along with electronic payments. The review of the platform companies in Russia allows concluding that most of them focus on marketing of goods and services. Platform business in architecture and agriculture is still undeveloped (Eferin et al, 2019). The partial penetration of platform business model in sectors of Russian economy means that the Russian government has not implemented the concept "Government as a Platform" (GaaP) yet, but there is a working group from the Center for Strategic Research that elaborated a report "Government as a Platform 2017-2035". Besides, the Russian market attracts platform companies since state regulation is not too protectionist, one of reasons being the aim to generate competition and let domestic ICT SMEs generate successful national imitators.

Another feature of the Russian platform economy is that national platforms effectively compete with its foreign competitors keeping their significant part on the corresponding market. However, few Russian platform companies internationalize and seize the international market. According to Eferin, Hohlov, and Rossotto (2019), one of such companies is Ewid.com, a global digital platform and supplier of services in the sphere of e-commerce functioning in 170 countries (Eferin et al, 2019).

One more characteristic of the Russian platform environment is that foreign platform companies (AliExpress, Google, Instagram, YouTube, etc.) enter Russia easier than China and get what they strive for, namely customers' trust and huge sales. They co-exist with national imitators and do not feel a burden of governmental regulation and control. There are major initiatives and regulatory measures taken by the Russian government.

The primary state program aimed at ensuring the competitiveness of Russia, the development of the economic, socio-political, cultural and spiritual spheres of society, improving the public administration system through the use of information and telecommunication technologies is the **state program of the Russian Federation "Information Society (2011-2020)"** approved by the Order of the Government of the Russian Federation of October 20, 2010 No. 1815-p.

In the framework of the implementation of the Decree of the President of the Russian Federation of May 7, 2018 No. 204 "**On national goals and strategic objectives of the development of the Russian Federation for the period up to 2024**", including the aim of solving the problem of ensuring the accelerated implementation of digital technologies in the economy and social sphere, the RF Government formed the national program "**Digital Economy of the Russian Federation**"

approved by the minutes of the meeting of the Presidium of the Presidential Council on Strategic Development and National Projects dated June 4, 2019 No. 7. The program should be implemented from 2018 to 2024. According to the passport of the national program “Digital Economy of the RF”, Federal project “Digital technologies”, one of six main project of the program, has one of two main tasks:

Creation of an integrated system of financing projects for the development and (or) implementation of digital technologies and platform decisions, including venture financing and other development institutions. Transformation of priority sectors of the economy and social sphere, including healthcare, education, industry, agriculture, construction, urban economy, transport and energy infrastructure, financial services, through the introduction of digital technologies and platform solutions (Ministry of Digital Development, Communications and Mass Media of the Russian Federation, 2019, p. 60).

In the latest period, Russia has implemented federal laws regulating the internet area that on the one hand limit the internet flow and on the other hand ensure Russian security and defend its internet providers from attacks, website owners and platform companies’ owners from losing money in case Russia becomes isolated from the world web net.

On November 1, 2019, **Russia’s Sovereign Internet Law** approved by the Federation Council and signed by President Vladimir Putin came into force. According to the official version, the federal law envisages the creation of an independent infrastructure for the smooth functioning of the Internet in Russia. It will ensure the availability of websites in case Russian telecom operators are disconnected from foreign Internet root servers. Telecom operators that have installed “technical means of countering threats” in their network are exempted from the obligation to restrict access to websites with prohibited information. Earlier filtering was carried out by the providers themselves according to the blocking lists compiled by the Federal Service for Supervision of Communications, Information Technology and Mass Media (Soldatov, 2019). Then, with the implementation of the law it will be provided by the equipment installed by the state. Within the framework of the “Digital Economy of the RF” of the Russian Federation (more than 20 billion rubles) and the “Information Society” (1.842 billion) programs, 30.8 billion rubles have already been allocated for the implementation of the federal law in the state budget for 2019–2021, including 20.8 billion for “procurement” IT systems (Wikipedia, 2019).

Besides, on January 1, 2021, the **law on pre-installation of Russian software on smartphones, computers and televisions with a Smart-TV** function as part of the Federal Law "On Introducing Amendments into Article 4 of the Law on Protection of Consumer Rights" №425-FZ dated 2 December 2019 will come into force (Znak, 2020). The final list of applications has not been published yet. The law facilitates the growth of consumers using Russian software products, what strengthens positions of Russian developers like Kaspersky Lab, MTS, Mail.ru Group, Megafon. The latest measure taken in 2020 is a proposal of the Russian government to establish an **operator of cross-border e-commerce for the Eurasian Economic Union (EAEU)** which would control

the compliance of foreign goods with technical regulations as well as build customs warehouses on the territory of the EAEU to implement a model B2B2C (Eurasian Economic Commission, 2020).

The above two laws and a proposal confer a right to assume that the RF Government has taken a similar route in the regulation of platformization of business and digitalization of economy as China.

Platform companies regulation: Russian case

There are several tax treatments for e-commerce including platform companies in Russia.

1. Simplified taxation system (has two options: 6% of income and 15% of the difference “income minus expenses”). Most SMEs providing online services and goods online follow simplified taxation system.
2. A single tax on imputed income (the tax base is the area of the premises, a tax being 15 %) suitable for online stores with sales areas.
3. General tax system (includes a value-added tax (VAT) of 20 %, personal income tax (PIT) of 13 %, property tax of 2.2 % and an income tax of 20%). It is paid by large e-commerce stores that have more than 100 employees and revenue of 150 million a year or more (InSales, 2019).

The main dilemma of platform companies regulation in Russia is that all platforms being aggregators conclude their agreement with partners in such a way that no claims can be made to the aggregators themselves, because the aggregator, according to the agreement, is just an agent who is responsible for nothing, neither for transportation, nor for the license or consumers. He only transfers information about the order and receives money. But the partner who provides services under the agreement should be responsible for everything. While the partner is also not responsible for anything, because the contract with the provider of services states that s-/he is also only an agent and transfers information from the aggregator to the provider of services. Thus, it turns out that one contract contradicts another, and during a tax audit the inspector may have a number of questions about this.

Russian platform companies regulation in Russia

Regarding the taxation procedure, no one pays an income tax a provider of services gets from income. For example, Yandex.Taxi pays taxes from its commission, partners pay taxes from their commission, drivers receive money from partners and do not pay tax. It turns out that the drivers themselves work outside the legal framework, and partners facilitate illegal business activities (Kontakt, 2019).

There are positive prospects in this regard. For example, on June 24, 2020, President Vladimir Putin proposed tax reduction for IT companies on insurance contributions up to 7.6% and an income tax up to 3%. Currently, it is unclear how to get into the category of IT companies and how this type of enterprise will be regulated (CoNews, 2019). But it is unclear now if Russian IT companies will have any preferences over their foreign competitors.

2. Foreign platform companies regulation in Russia

There are measures being taken by the Russian Government to limit monopoly of foreign e-commerce and platform companies. For example, from January 1, expensive purchases in foreign online stores, including AliExpress, have become less profitable for Russians. According to the new rules of the EAEU, the threshold of duty-free import was halved – from € 1000 to € 500. Since January 1, 2020, the duty-free threshold for foreign online purchases in Russia has dropped to € 200 per month (Fontanka.ru, 2019).

At the same time, some companies are tricky and avoid regulation by the Federal Tax Service of Russia. Airbnb, an international reservation service, liquidated its subsidiary, Airbnb Russia LLC in 2017, simplifying its operating structure and moving all operations to Berlin, Dublin and London. According to experts, the abolishment of a legal entity can be explained, by tightening legislation. Thus, it will be more difficult for the authorities to request information from the company about users who do not pay taxes for the rental of housing (Roem.ru, 2017).

CORRELATION BETWEEN THE LEVEL OF DIGITALIZATION OF ECONOMIES AND PLATFORM COMPANIES STATE REGULATION

To trace the correlation between the level of digitalization of China and Russia and the policies and regulatory measures taken in relation to digital MNEs, platform companies in particular, it was decided to define a number of state policy initiatives and regulatory measures the Chinese and Russian government implemented and analyze if there is an improvement of the countries' positions in rankings related to digitalization. Some policies and measures are mentioned and described above. A number of indices and rankings were considered for analysis, namely Global Entrepreneurship Index, Global Innovation Index (GII), ICT Development Index (IDI), IMD World Digital Competitiveness Ranking, International Digital Economy and Society Index (I-DESI), and Telefonica Index on Digital Life.

According to the fullness of data exposure and the relevance of metrics forming indices, two rankings were selected for analysis, namely the Global Innovation Index (GII) (Cornell University, INSEAD, & WIPO, 2016, 2017, 2018, 2019) and the IMD World Digital Competitiveness (WDC) Ranking (IMD, 2017, 2019). The GII elaborated by Cornell University, INSEAD, and WIPO

exposes information on how much countries focus on technological progress. The GII provided 80 detailed metrics for 129 economies in 2019, metrics divided in 7 main groups: institutions human capital and research, infrastructure, market sophistication, business sophistication, knowledge and technology outputs, and creative outputs. The WDCR analyzes and ranks the extent to which countries adopt and explore digital technologies leading to transformation in government practices, business models and society in general. The methodology of the WDC ranking defines digital competitiveness into three main factors: knowledge, technology, future readiness. Altogether, the WDC comprises 51 criteria.

Table 1 shows that China is gaining the consecutive growth in both rankings during the analyzed period. According to the economy profile (Cornell University et al, 2019), China forms top-5 economies by a group of metrics “Knowledge and technology outputs”. In 2019, China had knowledge as the strongest factor (ranked 18) and business agility (ranked 1) and scientific concentration (ranked 9) as strongest subfactors in the IMD WDCR. The overall competitiveness of China is showing a growing trend rising from the 35th to the 14th rank from 2016 to 2019 (IMD, 2019). Overall, the case of China confirms the correlation between digital economy development and state regulation. It is conditioned by China’s digital entrepreneurship advancement (it is top-1 country in the world by patents by origin/bn PPP\$ GDP and high-tech net exports, % total trade (Cornell University et al, 2019)), high internationalization of national platform businesses tied with the government’s approach to defend the domestic market and use national potential and infrastructure and its openness to foreign investment.

Table 1. Correlation of China’s and Russia’s state policy initiatives and regulatory measures and their position in rankings

Year	Position in rankings				State policy initiatives and regulatory measures	
	China		Russia		China	Russia
	GII	IMD WDCR	GII	IMD WDCR		
2015	29 of 141	22 of 61	48 of 141	45 of 61	“Internet Plus” initiative, the strategic plan “Made in China 2025”, “National Informatization Development Strategy”.	⁷
2016	25 of 128	35 of 61	43 of 128	40 of 61	Decision at the national meeting of the Communist Party of China (CPC) that cleared the way for a more expansive role for the party in enterprise including MNEs.	

⁷ In 2015 and 2016, there were no new initiatives related to digital economy and platform companies regulation. A number of initiatives were implemented before (2008 – Strategy for Information Society Development; 2010 – state program of the Russian Federation “Information Society (2011-2020)”; 2014 – a reform by the Ministry of Telecom and Mass Communications on providing around 14 000 population centres with populations ranging from 250 to 500 people with broadband Internet access by 2019, at speeds of at least 10 Mbit/s.

2017	22 of 127	31 of 63	45 of 127	42 of 63	Decision of the SASAC to write the party into their articles of association by big state companies, Decision (October 2017; 19 th Congress of the Communist Party of China) on securing the authority of the party committee in the Party Charter to play a leading role in decision-making at state enterprises.	Strategy for Information Society Development until 2030 approved by the Executive Order of President Vladimir Putin № 203 dated 9 May 2017, Autonomous non-commercial organization “Digital Economy” (established in September 2017), with 9 areas of expertise, one of them being the working group “Normative regulation” together with the Competence Centre for Normative Regulation.
2018	17 of 126	30 of 63	46 of 126	40 of 63	A new corporate governance code issued by the securities regulator requiring listed firms, at home and abroad, to include in their internal guidelines an expansive role for the party.	National program “Digital Economy of the Russian Federation”.
2019	14 of 129	22 of 63	46 of 129	38 of 63	Platform Economy Development Guide (adopted in March 2019). Decision - 1) The plan by 2020 is to increase sales in the commodity markets up to 100 billion yuan (about 14.5 billion US dollars). 2) Reduction of bureaucracy in the registration of platform companies, improving conditions for access to the market and reduction of costs to ensure the standards applicable to platform companies.	Russia’s Sovereign Internet Law approved by the Federation Council and signed by President Vladimir Putin, Federal project “Normative regulation of the digital environment” under the National Program “Digital Economy of the Russian Federation” approved on 28 May 2019, Federal Law No. 259-FZ (dated August 2, 2019) ‘On the attraction of investments with the use of the investment platforms...’, Law on pre-installation of Russian software on smartphones, computers and televisions with a Smart-TV function.

Russia exhibits positional disadvantage in the GII Rankings. According to the economy profile (Cornell University et al, 2019), the strongest group of metrics Russia performs is “Human capital and research”. It is showing slight improvement of its position in the IMD WDCR. The strongest factor of Russia in the IMD WDCR is knowledge as well (ranked 22), the strongest subfactors being training and education (ranked 9) and scientific concentration (ranked 18) (IMD, 2019). It can be concluded that Russia is stepping behind China in implementing real effect national programs and does not show an economic growth. The vivid example is adjusting the main national program in the field of digitalization “Digital economy of the RF” in 2019 initially approved on 28 July 2017. Even now, it undergoes amendments and enlargement of its indicators, goals and objectives expected to be approved in September 2020, along with development and implementation of domestic software and hardware-software tools to accelerate the digital transformation of industries in the real economy that could be planned far earlier. Factually, the program has not proved success, what is mainly resulted from complicated Russian legislation and the lack of regulation, especially in the use of “big data” (Tadviser, 2019). Russia’s burden is lack

of strategic foresight thinking and flexibility in legislation. Besides, Russia's main challenge is its lack of informal venture capital and low level of positive entrepreneurial attitude among its 18 to 34 years old citizens. Its economy is over-dependent on oil and it is in urgent need of diversification (ITU, 2016).

Thus, it should be concluded that the hypothesis can be approved, because a national government introducing regulatory tools towards platform companies gives a chance to local, domestic firms to benefit from becoming first-movers (pioneers) on the market and adapt quickly to new rules and regulations. However, it is crucial for the government to understand the strategic orientation of its national platform companies: dominating on the domestic market or seizure of competitive positions on the international market.

CONCLUSION

China is building its own strategy and regulatory policy for new business entities of ICT firms, including platform companies. It is forced to develop new tools for the regulation of this sphere along with national Internet, since traditional cannot be effectively applied to new business entities in the digital economy due to the special nature of the relations between them and the subject of their transactions. The Chinese model of regulating ICT firms' and platform companies' activities relies on the creation of tight framework conditions and direct participation of the state in business processes, which sets a new vector in the development of regulatory policy standards in this area. Russia in its turn can be also characterized by platform companies' growth, but is distinct from China in the national orientation of platforms and their too weak positions on the world platform markets. Russian government tries to trace new business models and introduce regulatory measures to the entities, but as all over the world platform company owners find way-outs to avoid and minimize taxation. Regarding the national program on economy digitalization, it exhibits poor results and low effectiveness, but the state has already noticed the problem and is trying to take measures to meet expectations of public institutions, businesses and citizens until its accomplishment. Overall, the state regulation of PCs is becoming increasingly global and being implemented in the US, Southeast Asian region, the EU and India.

The above mentioned allows stating that the more the national government both stimulates the growth of domestic platform companies and regulates their functioning, the more 'healthy' and balanced the domestic market will be.

REFERENCES

- Asia Times. (2019, April 02). *Alibaba paid 51.6 billion yuan in tax last year*. Retrieved from <https://asiatimes.com/2019/04/alibaba-paid-51-6-billion-yuan-in-tax-last-year/>
- CoNews. (2020, June 25). *Minkomsvyazi khochet podnyat' NDS na PO, chtoby "obnulit'" "samye nizkie nalogi v mire" dlya IT-kompanij [Minkomsvyaz wants to raise the VAT to "reset" "the lowest taxes in the world" for IT companies]*. Retrieved from https://www.cnews.ru/news/top/2020-06-25_minkomsvyazi_nashlo_sposob
- Cornell University, INSEAD, & WIPO. (2016). *The Global Innovation Index 2016: Winning with global innovation*. Ithaca, Fontainebleau, and Geneva.
- Cornell University, INSEAD, & WIPO. (2017). *The Global Innovation Index 2017: Innovation Feeding the World*. Ithaca, Fontainebleau, and Geneva.
- Cornell University, INSEAD, & WIPO. (2018). *The Global Innovation Index 2018: Energizing the World with Innovation*. Ithaca, Fontainebleau, and Geneva.
- Cornell University, INSEAD, & WIPO. (2019). *The Global Innovation Index 2019: Creating Healthy Lives – The Future of Medical Innovation*, Ithaca, Fontainebleau, and Geneva.
- Danilin, I.V. (2019). Development of the Digital Economy in the USA and China: Factors and Trends. *Outlines of Global Transformations*, 12, 6, 246-267.
- Eferin, Y., Hohlov, Y., & Rossotto, C. (2019). Tsyfrovye platformy v Rossii: konkurentsyya mezhdru natsyonal'nymi i zarubezhnymi mnogostoronnimi platformami stimuliruet ekonomicheskii rost i innovatsii. [Digital platforms in Russia: competition between national and foreign multi-sided platforms stimulates growth and innovation]. *Digital Society*, 1-2, 16-34.
- Eurasian Economic Commission. (2020, July 16). EAES obsuzhdaet sozhdanie institute operatora trnsgranichnoj internet-torgovli. [EAEU discussing creation of the Institute of cross-border e-commerce operator]. Retrieved from <http://www.eurasiancommission.org/ru/nae/news/Pages/2020-07-16-2.aspx>
- Fontanka.ru. (2019, January 09). *"Nalog na Alibaba" soberut onlajn. Kak platit' poshliny na zarubezhnyj internet-shopping [“Tax on Alibaba” will be taken online. How to pay duties for foreign internet shopping]*. Retrieved from <https://m.fontanka.ru/2019/01/09/099/>
- Guluzade, A. (2019, May 07). *The role of China's state-owned companies explained*. Retrieved from <https://clck.ru/Qx5p4>
- IMD. (2017). *The IMD World Digital Competitiveness Ranking 2017*. 180 p.
- IMD. (2019). *The IMD World Digital Competitiveness Ranking 2019*. 178 p.
- ITU. (2016). *Telefónica Index on Digital Life Report 2016*. Geneva. 63 p.
- InSales. (2019, November 27). *Rezhym nalogooblozheniya dlya internet-magazina: podrobnaya instruktsyya i rekomendatsyy predprinimatelyam [Taxation treatment for e-commerce stores: a detailed instruction and recommendations to entrepreneurs]*. Retrieved from <https://www.insales.ru/blogs/university/rezhim-nalogooblozheniya-dlya-internet-magazina>
- Israilova, E. A. (2013). Peculiarities of the system of economic interests of market economy's entities. *Vestnik of Rostov State University of Economics (RINH)*, 3 (43), 138–144.
- Kirby, W.C. (2016, August 02). *The Real Reason Uber is Giving Up in China*. Retrieved from <https://clck.ru/Qx4zF>
- Kontakt. (2019, January 25). *Kak platit' nalogi partneru Yandex.Taksi [How should a Yandex.Taxi partner pay taxes]*. Retrieved from <https://kontakt72.com/stati/kak-platit-nalogi-partneru-yandeks-taksi/>

- Lee, J. (2017, May 04). *The rise of China's tech sector: The making of an internet empire*. Retrieved from <https://www.lowyinstitute.org/the-interpretor/rise-china-s-tech-sector-making-internet-empire>
- Ministry of Digital Development, Communications and Mass Media of the Russian Federation. (2019). *Passport natsyonal'nogo proekta natsyonal'naya programma "Tsyfrovaya ekonomika Rossijskoj Federatsii" [Passport of the national project national program "Digital Economy of the RF"]*. Retrieved from <https://clck.ru/Qx5RX>
- Roem.ru. (2017, April 11). *Airbnb evakuirotsya iz Rossii, chtoby ukryt' arendodatelej ot mechnykh nalogov [Airbnb evacuates from Russia to keep its lessors from local taxes]*. Retrieved from <https://roem.ru/11-04-2017/247363/airbnb-likvidiroval-dochku/>
- SBF Group. (2019). *Nalogooblozhenie v Kitae [Taxation in China]*. Retrieved from http://sbf-group.com/articles/china/taxation_in_china/
- Soldatov, A. (2019, April 14). *Po stopam kitajskih tovarishchej [Following Chinese comrades]*. Retrieved from <https://newtimes.ru/articles/detail/179590>
- Tadvider. (2020, May 26). *Natsyonal'naya programma Tsyfrovaya ekonomika Rossijskoj Federatsyi [National program Digital economy of the Russian Federation]*. Retrieved from <https://clck.ru/Pdh5F>
- Yimin, H. (2015, August 29). *Three challenges facing Airbnb in China*. Retrieved from <https://www.businessinsider.com/three-challenges-facing-airbnb-in-china-2015-8>
- Yüksel, M. (2019, September 11). *Airbnb Tax Regulations: Airbnb Turkey's Tax Legislation*. Retrieved from <https://www.missafir.com/en/airbnb-tax-legislations-turkey-missafir/>
- Wikipedia. (2020). *Zakon o "suverennom" internete [Law on "sovereign" Internet]*. Retrieved from <https://clck.ru/PPwMZ>
- Wu, X., & Gereffi, G. (2018). Amazon and Alibaba: Internet Governance, Business Models, and Internationalization Strategies. *International Business in the Information and Digital Age* (Progress in International Business Research, Vol. 13). Emerald Publishing Limited, 327-356.
- Znak. (2020, March 31). *V Rossii otlozhyli vstuplenie v silu zakona o predustanovke otechestvennogo softa na gadzhety [Coming into force of the law on the pre-installation of domestic software on gadgets was postponed in Russia]*. Retrieved from <https://clck.ru/Qx52Y>

The Effects of Blockchain Technology in the New Digital Era with a Special Focus on Accounting

Marta Hadzievska

Faculty of Economics, Ss. Cyril and Methodius University
Skopje, North Macedonia
marta.hadzievska@gmail.com

ABSTRACT: *The only constant in the business world is change and only the fastest and most adaptable have a guaranteed place in it. Therefore, the companies that will embrace the new technological environment where artificial intelligence is becoming dominant will be the ones that will sustain and outperform the competition. This paper focuses on blockchain research and its impact on accounting, as the most thriving technology of the new digital age. First and foremost, the way this technology works together with its main features is presented. Furthermore, an overview of the most well-known companies that have already accepted and developed blockchain as proof of the wide range of its possible use is attached. The next section focuses on how blockchain would affect accounting, and presents the concept of triple accounting as a modern solution to the problems accountants as well as users of accountant information face nowadays. The effect that triple or blockchain accounting could have on businesses and major stakeholders can be seen in the further case study of the blockchain solution offered by Request Network. On the other hand, the evaluation of customer satisfaction with the use of such platforms is presented in a study by the Philippine University of Technology. Finally, a review is given of where such technology could be implemented in the Republic of North Macedonia and what would be its effects based on the findings obtained in this paper.*

Keywords: *Blockchain, Decentralization, Ledger, Digitalization, Smart Contracts*

INTRODUCTION

Over the centuries of development, the activities of enterprises have become increasingly complex as a result of the highly dynamic environment. Information processing solutions brought by the modern era and the development of IT have made information processing and storage cheaper, faster and more secure. Most of the data in each company is generated by accounting, and the accounting information system is part of the overall business information system. The security of information in accounting information systems is of great importance because with the development of more modern forms of technology, more and more innovative forms of fraud and theft are being developed. However, with each new problem, IT experts design and create new solutions. One such solution is blockchain (Iansiti & Lakhani, 2017).

The emergence of blockchain as a new technology on the market is a response to the security requirements of existing technology. Blockchain is a decentralized ledger system that first appeared in 2008. It was developed by one or a group of computer developers under the pseudonym Satoshi Nakamoto to facilitate Bitcoin trading. This innovation aimed to solve the problem of cryptocurrency embezzlement, to enable unmediated exchanges, to create a stable distributed record of transactions and to provide an audit trail that will not be prone to change. It

is also suggested that Nakamoto proposed the blockchain in response to the global financial crisis in 2008, when banks, through their role as intermediaries, threatened the viability of the global financial system (Applebaum & Smith, 2018).

This technology got its name thanks to its structure – blocks that are connected in a one-way chain, so each new connection or block depends on the previous one in the array. Individual records and transactions are grouped into blocks. Each block contains an encrypted name or hash that is unique to that block and binds to the previous block in the array. This connection, thanks to the hash "ID" and time stamp of each block, acts as a "virtual glue" that connects the blocks and forms a blockchain. Any change to the Ledger or individual blocks will make the code inoperable allowing instant detection of changes. Up to this date, no blockchain has been hacked, making it ideal for applications that require a high level of data security (Applebaum & Smith, 2018).

HOW DOES BLOCKCHAIN TECHNOLOGY WORK?

The process of recording data within a blockchain can be described in the following few steps which define the basic concepts relevant to the use of this technology:

Transaction - a message composed of the recipient's public address, a cryptographic digital signature proving the authenticity of the transaction and the value of the transaction. In order to prevent falsification and misuse of information in the executed transactions, all data within the transaction are related to the use of the hash function (Hash funkcija, 2017).

Transaction authenticity - After entering the new transaction, other network participants receive a notification and, using the sender's public key, decrypt the digital signature in order to subsequently verify the transaction. After verification, transactions are collected in an updated version of a database or ledger, called a block (Arunović, 2018).

Block check - Certain participants within the system created to validate transactions take over a block and start a mining process (Arunović, 2018). Mining is a process in which the "miner" selects a certain number of transactions from the network using an algorithm, encrypts them using a hash algorithm and thus calculates their value (Arunović, 2018).

Creating new blocks - When a transaction is confirmed, a new block of data is created in the blockchain network.

Blockchain provides an alternative solution to classical technology because it is based on information systems and thus eliminates the existence of intermediaries. Instead of the principle of trust on which the intermediation is based (e.g. banks), a principle of confirmation of the transaction is established by the participants in the network. Blockchain users rely on miners to maintain the system and store transactions, while miners rely on users to make money from verifying their transactions (Arunović, 2018).

THE ROLE OF BLOCKCHAIN IN ACCOUNTING

Although this technology has attracted the attention of many companies, examples of implementation in the field of accounting are still in the experimental phase. Compared to other industries, where the digitalization process has brought about significant change and innovation, the digitalization of accounting has not yet reached its culmination. One of the main reasons for the slowdown is the large number of regulatory standards. In order to prevent errors and fraud within the accounting information systems, a number of verification and control mechanisms have been created, which affect the daily work of accountants. Blockchain is an easily accessible, decentralized database with negligible operating costs. Some authors, however, see blockchain implementation as a threat to accountants' jobs (Andersen, 2016).

If the accounting processes are automated, then the fundamental role of the accountant becomes unnecessary. This means that the value of the accountant will be reflected in his knowledge, which is crucial for the development of information systems. Accountants have knowledge of accounting that needs to be embedded in accounting information systems to function logically. Furthermore, they know all the regulatory frameworks that have a direct impact on their operations and accounting activities. Therefore, it can be concluded that they will play a very important role in terms of research and development of new types of accounting information systems.

CASE STUDY – REQUEST NETWORK (Hambiralovic & Karlsson, 2018)

The purpose of this study is to answer two questions previously posed by Kokina, Mancha & Pachamanova (2017) and Dai & Vasarhelyi (2017):

- In which areas can a blockchain be most effective and can it provide fraud protection?
- What effects would this innovation have on companies and key stakeholders?

To answer these questions, Hambiralovic and Karlsson (2018) analysed the Request Network platform that will provide reliable predictions for future outcomes as leaders in the development of blockchain accounting.

Request Network managed to collect 100,000 units of the cryptocurrency Ether (ETH) through ICO (Initial Coin Offering) in October 2017. In addition to gaining significant financial resources, the company has also established a partnership with PwC France and their blockchain division, proving their position as a leader in blockchain accounting.

Request Network offers a decentralized general ledger that any network participant can update. The blockchain network of this platform is built of three tiers: core, extension and application tier.

Implementation and Areas of Application

Payments

When making payments on this platform, money can be transferred without the involvement of intermediaries and without sharing sensitive information.

The effects are the elimination of significant security risks and additional commissions on different types of payments. The risks of multiple refunds due to human error or fraud are eliminated, as payments are immediately integrated into the blockchain system.

Business-to-business (B2B) transactions

Today, many invoices are still sent in hard copy or by e-mail to companies, and as a result, manual records are often required. This contributes to an increased risk of human error, especially when invoices are complex and there are special payment terms (discounts, etc.). The whole process is labour intensive, time consuming, involves double work and there is an additional risk of fraud due to the possibility of forged invoices.

With the help of Request Network blockchain accounting, companies can request collection of receivables from the Ledger of this network. The accounting system is directly linked to the transaction by enabling overview of deferred payments. There is also a system for assessing the reputation of the participants which acts as a security network against fraud and outdated and illiquid debtors. The system works so that the rating of all participants will depend on the percentage of liabilities paid, measuring the risk factors for non-collection. This can be compared to an existing credit rating.

Accounting and Audit

The Ledger in the blockchain system has the function of an independent medium that stores all transactions that are digitally signed by the participants. This will allow the accounting process to be digitized and operate autonomously and in real time, which will allow greater accuracy.

Because the General Ledger instantly creates a digital trace for each transaction, their automatic analysis and sorting is enabled. Furthermore, this automation can generate reports and even make decisions based on predetermined rules.

Audit and taxation will no longer depend on each other, but can be simultaneously decentralized and integrated into blockchain system transactions. Auditors would be directly linked to suppliers and buyers during each confirmation. This means that all transactions can be tracked in the database using the decentralized blockchain network, which increases their confidentiality and authenticity.

The biggest benefits come from automation and security, although the exact effects of blockchain accounting are not yet known. Companies could take advantage of the enormous potential offered by automation to save on administrative costs and eliminate certain accounting functions. Conditional payments could easily be presented as digital invoices that can be executed automatically based on Smart Contract technology.

Effects on stakeholders

Auditors

Blockchain accounting gives auditors instant access to the full transaction population. This leads to the transformation of the auditing profession, moving from examining samples to comprehensive testing algorithms.

Systems development and IT consulting services may be the new path that the auditing profession will take in order to ensure its existence. As accounting and auditing move further toward automation, and people are replaced by smart contracts, it is crucial that these systems are stable and well-defined. One mistake in configuring Smart Contracts can lead to a chain of errors. The literature suggests that the implementation of Smart Controls should not only prevent such errors, but also be developed to detect any fraud. In this way the audit profession moves from reactive to proactive.

As this move requires extensive knowledge of blockchain systems, cybersecurity and IT, one may ask what the implications of blockchain accounting will be for small and medium-sized auditing companies that have little or no knowledge in these areas. This can lead to small and medium-sized audit firms being overshadowed by audit giants.

Banks

The emergence of the concept of cryptocurrencies is a threat to the existence of banks because it eliminates their need as intermediaries in transactions and deprives almost all the monetary power of central banks. It is obvious that blockchain bypasses the current financial system when making payments.

By switching to complex lending services, banks could help businesses by creating interesting smart finance solutions that would integrate directly into the blockchain payment channel. This can bring banks closer to the role of financial consulting and divert them from providing simple services such as money transfers. However, this can have serious implications for individuals working in the banking sector such as customer service agents and other routine job positions.

Tax Authorities

Through automation of taxation and up-to-date transaction records, taxes can be collected at the time of payment. This not only reduces the administrative problems associated with reporting, but also reduces the risk of missed tax payments and unpaid taxes resulting in tax evasion. It can be concluded that it will be easier to eliminate corrupt entities in a short period of time. As a result of easier money-flow monitoring, money laundering and financing of criminal activities will be easier to discover which will be of great help to the tax authorities and governments in eliminating criminal activities.

Tax authorities will need significant knowledge of blockchain, IT and cybersecurity to enforce smart taxes and develop fraud detection controls. However, knowledge of the legislation will be crucial for the development of controls of the respective blockchain system and the implementation of the Tax Law in it.

APPLICATION OF BLOCKCHAIN IN THE BUSINESS ENTITIES OF R.N. MACEDONIA

In addition, the possibilities of applying blockchain in the accounting information systems in the enterprises on the territory of the Republic of North Macedonia are analysed. From the theoretical and practical research of this paper so far, it has been concluded that such technology would have the greatest contribution in the areas of fiscalisation and auditing, as one of the most essential processes that depend on accurate and automated accounting records. For that purpose, a distinction was first made between the companies according to their size as a main factor in the implementation of the blockchain.

According to the attached data (Table 1), it can be noticed that small enterprises have a dominant share in the business world of our country. These companies are drivers of economic growth and the creation of productive and sustainable jobs. Compared to previous years, this structure has hardly changed. (Annual report on the situation of small and medium enterprises in 2017, 2018)

Table 1. Enterprise structure in the Republic of North Macedonia

Type of enterprise by size	Number of enterprises	%
Micro and small	70120	98,18%
Medium	776	1,09%
Large	523	0,73%
Total	71419	100,00%

Following, there is an analysis of the impact of the use of blockchain technology from the aspect of the fiscal system in small and medium enterprises as a percentage of the most represented taxpayers who are not legally subject to audit. On the other hand, the impact of the application of blockchain technology in the accounting information systems of large business entities as a tool for more efficient and reliable auditing has been examined.

Application of Blockchain in Fiscalisation

The obligation to introduce and use a fiscal system was introduced on May 4, 2001 in order to reduce tax evasion and to enable a more realistic presentation of the result of VAT payers. To achieve this, an obligation to issue fiscal invoices was introduced using a fiscal system of equipment consisting of fiscal apparatus and an integrated automated management system. The integrated automated management system enables constant electronic communication of the trade facility with the Tax Authority of North Macedonia for daily automatic data transfer in the form of a daily financial report. The system works as follows: each invoice is sent to the Tax Authority before being issued with a voucher and a control trace that are identical and are recorded at the same time. The control trace is recorded not only on paper media but also electronically and should guarantee the indelibility of the data after filling the capacity. It can be noticed that there is a similarity with the use of blockchain: it is not possible to print an account before it is approved by the Tax Authority, just as it is not possible to conduct a blockchain transaction before it is approved from network participants.

Failure to issue fiscal bills in R. of North Macedonia is one of the most common offenses of small and medium enterprises. As a result, the tax regulatory bodies in the country allocate a large amount of funds for conducting occasional inspections.

The benefits of applying a blockchain-based fiscal system are as follows:

Inability to make payment for the sold product / service without approval from all sides of the network, including the tax authorities. Accordingly, the possibility of tax evasion when collecting a sold product / service will be drastically reduced.

Reducing the costs for conducting controls for issuing fiscal invoices by reducing the need for direct physical supervision for issuing fiscal invoices

At any time, all interested parties would have an insight into the real business situation of the taxpayer

On the other hand, a shortcoming and obstacle in the implementation of blockchain technology would be the resistance to change and digital transformation of micro and small businesses that are dominant in RNM. This resilience would be reduced with greater education about the

importance of implementing the digital transformation process. As further incentives to overcome this barrier are state incentives and subsidies to support companies that will accept such technology.

Application of Blockchain in Audit

The audit in Macedonia is regulated by the Law on Trade Companies which entered into force on 08.05.2004 and by the Law on Audit which entered into force on 18.12.2010.

The audit process is extremely complex and requires considerable time and resources. In the data collection process, access to the complete documentation by the client should be enabled. In case the client does not provide access to certain documentation that would be of great importance in the audit process, there is an impact on the objectivity of the audit opinion.

The application of blockchain technology to the accounting information systems of the audited entities will significantly facilitate the testing of the accuracy of the information presented in the financial statements because it is a database available to all stakeholders. As already explained in the previous sections of this paper, when conducting transactions between two parties, confirmation from the network participants is required, and modification or deletion after entering the information is almost impossible. Therefore, the reliability of the data is significantly increased as soon as it is entered into the system, which increases the relevance of the audit evidence. Automation of the data collection process on the other hand will enable more efficient audits as well as lower audit costs.

CONCLUSION

The phrase "the sky is the limit" may be cliché, but it is appropriate when discussing the future of blockchain. Since the safe transfer of cryptocurrencies, this technology has found its way into almost every business, including accounting. The concluding observations made in this paper focus on the effect that blockchain has on it.

The expert study of the software solution of Request Network has determined that thanks to the features of this technology, especially in the field of security and automation, the evolution of the existing accounting system into a system with triple records is enabled, breaking the centuries-old stagnation of the concept of double accounting.

These segments of this paper helped in the analysis and formation of an opinion on where such technology could most prosper in the Republic of Northern Macedonia. Although such digitization is not expected in the near future, according to this research, the initial implementation of blockchain in accounting information systems is expected to have the greatest implications in the

fiscal system of small and medium enterprises as well as the audit of large enterprises that are legally audited.

Finally, as any other new technology, blockchain accounting has its limitations. Cyber security, lack of legal regulation and resistance to employee change are just some of the barriers that need to be overcome for it to reach its potential. However, theoretical and practical advances to date, including this paper, provide encouraging insights into solving these problems and the belief that while it may seem far away, full global digitalization thanks to modern technology such as blockchain is guaranteed.

REFERENCES

- Andersen, N. (2016). *Blockchain Technology - A game-changer in accounting?* Retrieved from Deloitte:https://www2.deloitte.com/content/dam/Deloitte/de/Documents/Innovation/Blockchain_A%20game-changer%20in%20accounting.pdf
- Annual report on the situation of small and medium enterprises in 2017*. Entrepreneurship Support Agency of the Republic of North Macedonia, 2018
- Applebaum, D., & Smith, S. S. (2018). Blockchain Basics and Hands-on Guidance. *The CPA Journal*.
- Arunović, D. (2018, February). *Što je u stvari blockchain i kako radi?* Retrieved from Bug.hr: <https://www.bug.hr/tehnologije/sto-je-u-stvari-blockchain-i-kako-radi-3011>
- Fiscalization and registration of cash payments*. Skopje: Public Revenue Office, 2018
- Dai, J., & Vasarhelyi, M.A. (2017). Toward Blockchain-Based Accounting and Assurance, *Journal of Information Systems*, 31(3), 5-21.
- Hambiralovic, M., & Karlsson, R. (2018). *Blockchain Accounting in a Triple-Entry System*. Retrieved from: <http://lup.lub.lu.se/luur/download?func=downloadFile&recordOId=8953732&fileOId=8953736>
- Hash funkcija*. (2017). Retrieved from Škola koda: <https://skolakoda.org/hash-funkcija>
- Iansiti, M., & Lakhani, K. R. (2017). *The Truth About Blockchain*. Retrieved from Harvard Business Review: <https://hbr.org/2017/01/the-truth-about-blockchain>
- Kokina, J., Mancha, R., & Pachamanovala, D. (2017). Blockchain: Emergent Industry Adoption and Implications for Accounting. *Journal of Emerging Technologies in Accounting*, 14(2), 91-100.

Diversity, Equity and Inclusion – Contemporary Aspects of Strategic Leadership

Marija Ivanova

Student, University Goce Delchev, Faculty of Economics

Shtip, North Macedonia

marija.m.ivanova@gmail.com

ABSTRACT: *This paper processes the key tools for a successful environment in a workplace and those are inclusion, diversity, and equity. Starting with the interpretation of what leadership and its evolution inclusive leadership comes in the focus. Inclusive leadership is creating an environment where everyone can be their own- self and where everyone can feel that they can contribute with their views and where they will be valued. An integral approach is found through a better understanding of inclusion with parallel consideration of diversity and equality. Furthermore, these tools and their crucial role are seen through the prism of the situation we live in today, which is the global pandemic, supported by statistics from the past few months. Additionally, two case studies are being developed, following the companies Dell and Henkel, which better explain these terms in practice and captures their significance.*

Keywords: *Dell, Diversity, Equality, Henkel, Inclusive leadership*

INTRODUCTION

To be successful in the business world is much more than making high profits and climbing the list of the best companies. Success is related to both customer satisfaction and employee satisfaction because a company does not exist if there are no employees, the people behind the whole picture doing the work that needs to be done to achieve the goal and success. In order to achieve such satisfaction, the leaders have a key role, they are the ones who need to unite all these individuals together in a harmonious team and find a way for them to function most efficiently. Inclusive leadership is the way companies move into the future. Inequalities, discrimination, and non-acceptance date back to the past and were far more pronounced than now, so the question arises, Has not the world yet learned to break away from those constraints of society as a whole and move forward towards accepting the person with all his uniqueness, as well as supporting that everyone is different in its own way and that is what makes everyone special?

The present struggles with these topics, although perhaps not as pronounced as before, but still present enough in people's lives, whether it will be in the workplace, in everyday life, or even in the educational process of children. Unfortunately, the problems of diversity, equality, and inclusion are not completely overcome around the world, although they are key components for successful functioning not only for companies but for a country in general. Many companies around the world undertake different activities for diversity and inclusion every year, having

special departments that prepare annual plans on what exactly will be done for their improvement. According to statistics, 67% of the population around the world when hiring first sees the factor of diversity in the workforce in that place, while more than 50% see if a particular company is striving to take action to increase diversity (Porterfield, 2019). All this points to the need to adapt societies and companies to these tools as soon as possible to create a better economy, society, workforce, education, and in essence a better future.

LEADERSHIP

What exactly is leadership? What is a leader? Numerous studies have been done on these issues, numerous theses and books have been written, and many views and opinions have been interpreted. This term has been found in dictionaries a long time ago, i.e. more precisely from the 14th century.

In the research by Hunt and Fedynich (2019, p.23) they found that leadership appears somewhere in the late 18th century, where the main focus was on leadership as a set of actions by the leader rather than through the study of leadership as behavior.

The evolution of leadership is long and had been changing throughout the years, creating various leadership styles and classifications, to finally come to inclusive leadership, which adds an extra dimension to all of these concepts, continuing the trajectory of contemporary trends in leadership development.

DEI-DIVERSITY, EQUITY, INCLUSION

Inclusion-Inclusive leadership

According to Hollander (2009, p.3), inclusive leadership is about relationships that can accomplish things that are mutually beneficial. Inclusive leadership respects competition and cooperation as part of the participatory process.

He values the leader as much as he values the followers because they are the key to the success of an organization.

An integral approach is found through a better understanding of inclusion with parallel consideration of both diversity and equality. Sweeney and Bothwick have studied this (2016, p.15), if diversity applies to each individual (their different perceptions, cultures, lifestyles, and uniqueness), and equality refers to equal opportunities (equal rights without discrimination, or a state of equality in rights, status, and opportunities), then a real challenge is to make that whole mix work, and that is where inclusion comes in.

Inclusion is actually creating an environment where everyone can be their own and where everyone can feel that they can contribute their views and where they will be valued. Also, to

emphasize the difference, in order for all these terms to be better understood, the following example is given - equality is being called into the room. Diversity is to get a place at the table. Inclusion is sharing your own views and being heard. An inclusive leader allows all this to happen.

Diversity and Equality

The world today is a world of globalization, where all people differ in age, race, gender, and class. In an era of globalization, it is inevitable to understand and embrace the multicultural world, both in the workplace and in the marketplace.

Diversity is about creating an atmosphere where everyone feels accepted, where employees are educated to support, accept, and respect different racial, cultural, social, economic, and political affiliations. But in addition to diversity, equality goes hand in hand here, i.e. creating policies for equal employment opportunities in an organization, self- awareness of discrimination, and a willingness to change institutional barriers by making one job equal for all types of workers.

Many questions have been asked how can one predict whether a company is ready to apply these tools. So, the answer would always be dependent on the leadership style in the company, which is the only way how it can be anticipated whether diversity and equality will be accepted. Even though over the years there have been many adoptions of laws on equal employment opportunities, pay equality, and affirmative action to remove barriers to employment, there are still gaps that are easy to spot.

Problems arising out of these topics, which have not been completely solved, contributed to the formation of many different movements which were made through the last few years for raising awareness among the authorities and society such as Me Too, Time's Up, Black Lives Matter, and many others.

The connection of these tools with the current situation (Covid-19)

With the following global pandemic, the statistics which were improving throughout the years, now face the challenge that the consequences following this situation we live in, will make a disproportional impact and such called *on-hold* of these key tools in the workplace around the world.

These numbers, statistics show how much these activities are left at great risk, and at the same time the picture is obvious that this situation in which we live mostly affects women as well as minorities through the process of unemployment in the past and the following months. That is why now more than ever the awareness of these tools must be increased.

Table 1. Statistics 2020 in EU about the unemployment rate for the past following months starting the Pandemic

	Jul-19	Apr-20	May-20	Jun-20	Jul-20	Jul-19	Apr-20	May-20	Jun-20	Jul-20
EA	7.2	7.2	7.3	7.5	7.6	7.9	7.6	7.8	8	8.3
EU	6.4	6.5	6.6	6.6	7	7	6.9	7.1	7.3	7.5
Belgium	5.5	5.4	5.6	5.9	5.9	5.1	5.2	5.2	5.1	5.1
Bulgaria	4.2	5	4.9	4.6	4.6	3.7	4.6	4.4	4.1	4.1
Czechia	1.8	2	2.1	2.5	2.3	2.3	2.5	2.8	2.9	3.1
Denmark	4.4	4.5	4.9	5.7	5.8	4.9	5.3	5.1	5.4	6.1
Germany	3.4	4.1	4.2	4.3	4.3	2.6	3.9	4.1	4.3	4.4
Estonia	3.6	6	6.6	8.7	:	4.9	6.1	7.5	7.2	:
Ireland	5.4	5	5	4.7	5.2	4.8	5.1	5.1	4.6	4.7
Greece	13.7	13.1	13.3	:	:	21.3	18.9	21.9	:	:
Spain	12.6	14	14.2	14.6	14.8	16.2	16.8	16.9	17.1	16.9
France	8.6	8.1	7.3	6.9	7.1	8.4	7.6	6.6	6.2	6.8
Croatia	6	7.7	8.4	8.3	8.1	7.2	8.7	9.6	9.4	9.3
Italy	8.8	7	7.9	8.5	8.9	10.8	7.9	9.6	10.3	10.8
Cyprus	6.1	7.4	7.9	7.6	7.4	7.9	8.1	8.4	7.2	6.3
Latvia	7.3	8.3	10	10.4	10.5	5.5	7.1	7.4	7.5	7.5
Lithuania	7.2	8.8	9.6	9.9	10.3	5.5	6.8	7.4	7.7	7.7
Luxembourg	5.7	7.7	7.9	7.9	7.4	5.7	7.2	7.5	7.5	7.2
Hungary	3.3	4	4.4	4.7	:	3.5	4.3	5.3	5.3	:
Malta	3.3	4.3	4.2	3.9	3.8	4	4.8	4.8	4.8	4.6
Netherlands	3.4	3.6	3.6	4.2	4.2	3.4	3.3	3.6	4.5	4.8
Austria	4.5	4.7	6.1	6	5.8	4.4	4.7	4.9	4.7	4.5
Poland	3	3.1	3.2	3.2	3.1	3.5	3.2	3.4	3.5	3.5
Portugal	5.7	5.2	5.7	7.1	7.9	7.2	7.4	6	7.6	8.2
Romania	4.4	5.4	5.6	5.6	6.1	3.5	4.6	4.5	5	4.5
Slovenia	4.7	4.2	4.1	4.2	4.2	4.9	5.4	5.5	5.5	5.4
Slovakia	5.6	6	6.3	6.5	6.7	6	6.9	8.8	6.7	6.9
Finland	7.4	7.5	7.8	8	8.2	6.4	6.9	7.1	7.2	7.3
Sweden	6.7	8.1	8.1	9.4	9.4	6.9	7.8	7.9	9.2	9.3
United Kingdom	4	4	4	:	:	3.6	3.7	3.6	:	:
Iceland	3.6	3.8	4.4	4.6	5.4	3.1	4	4.6	4.4	4.4
Norway	4.1	4.2	4.8	5.6	:	3.5	4	4.5	4.8	:
Switzerland	4.2	4.6	4.9	5	:	4.6	4.5	4.5	4.6	:

Source: Eurostat (2020)

Table 2. Statistics 2020 in US about the unemployment rate for the past following months starting the Pandemic

Employment status, race, sex, and age	Not seasonally adjusted ¹				Seasonally adjusted ²				
	Aug 2019	July 2020	Aug 2020	Aug 2019	Apr 2020	May 2020	June 2020	July 2020	Aug 2020
WHITE									
Civilian noninstitutional population	200,953	201,319	201,417	200,953	201,062	201,154	201,253	201,319	201,417
Civilian labor force	125,920	124,064	124,491	125,853	121,242	122,561	124,069	123,618	124,471
Participation rate	63.2	61.9	61.8	63.1	60.3	61.0	61.0	61.4	61.8
Employed	122,438	112,913	115,205	122,000	104,005	107,489	111,638	112,220	115,354
Employment-population ratio	60.9	56.1	57.2	61.0	51.8	53.4	55.4	55.7	57.3
Unemployed	4,481	11,752	9,286	4,280	17,170	15,102	12,470	11,392	9,118
Unemployment rate	3.5	9.4	7.5	3.4	14.2	12.4	10.1	9.2	7.3
Not in labor force	74,033	76,000	76,927	74,100	79,840	78,493	77,224	77,701	76,946
Men, 20 years and over									
Civilian labor force	60,119	64,072	64,909	60,004	63,045	64,125	64,088	64,420	64,911
Participation rate	71.8	70.1	70.3	71.8	69.1	69.5	70.1	69.8	70.3
Employed	64,252	59,432	60,577	64,099	55,770	57,203	58,998	59,054	60,425
Employment-population ratio	69.8	64.4	65.8	69.8	60.5	62.1	63.8	64.0	65.4
Unemployed	1,867	5,240	4,331	1,965	7,275	6,922	5,790	5,367	4,486
Unemployment rate	2.8	8.1	6.7	3.0	12.4	10.7	9.0	8.3	6.9
Women, 20 years and over									
Civilian labor force	55,839	54,843	54,837	55,152	53,634	54,294	55,147	55,124	55,124
Participation rate	57.8	56.5	56.0	58.1	55.4	56.1	56.9	56.9	56.9
Employed	53,738	49,214	50,557	54,373	48,593	47,198	49,022	49,022	51,124
Employment-population ratio	55.7	50.8	52.2	58.3	47.1	48.8	51.1	51.4	52.7
Unemployed	2,042	5,559	4,279	1,779	5,041	7,096	6,125	6,102	4,000
Unemployment rate	3.7	10.3	7.8	3.2	18.0	13.1	10.9	9.8	7.3
Both sexes, 16 to 19 years									
Civilian labor force	4,952	5,100	4,740	4,930	3,903	4,242	4,174	4,074	4,437
Participation rate	40.5	42.4	39.1	37.9	32.0	34.9	34.4	33.0	30.0
Employed	4,363	4,268	4,070	4,088	2,727	3,041	3,201	3,350	3,805
Employment-population ratio	35.9	35.1	33.5	33.4	22.4	26.0	27.6	27.6	31.4
Unemployed	573	884	670	848	1,236	1,201	973	724	632
Unemployment rate	11.5	17.2	14.2	16.8	31.2	28.3	23.3	17.8	14.2
BLACK OR AFRICAN AMERICAN									
Civilian noninstitutional population	33,081	33,353	33,389	33,081	33,267	33,294	33,323	33,353	33,389
Civilian labor force	20,645	20,321	20,199	20,404	19,407	19,898	20,010	20,094	20,190
Participation rate	62.4	60.8	60.5	62.3	58.5	59.8	60.0	60.2	60.4
Employed	19,003	17,283	17,551	19,485	16,240	16,523	16,827	17,161	17,528
Employment-population ratio	57.0	51.8	52.6	58.9	48.8	49.6	50.8	51.5	52.5
Unemployed	1,142	3,038	2,648	1,119	3,247	3,374	3,083	2,933	2,662
Unemployment rate	5.5	15.0	13.1	5.5	16.7	16.8	15.4	14.8	13.0
Not in labor force	12,436	13,032	13,190	12,677	13,860	13,496	13,313	13,259	13,199
ASIAN									
Civilian noninstitutional population	10,433	10,420	10,597	10,433	10,303	10,385	10,471	10,420	10,597
Civilian labor force	10,554	10,481	10,527	10,527	9,938	9,968	10,108	10,408	10,695
Participation rate	101.2	100.5	100.0	101.1	96.4	96.6	97.1	100.0	101.1
Employed	10,248	9,207	9,491	10,227	9,499	9,475	9,717	9,103	9,402
Employment-population ratio	98.2	88.4	89.6	98.1	91.1	91.5	92.8	87.4	89.0
Unemployed	306	1,274	1,036	299	1,439	1,493	1,391	1,305	1,293
Unemployment rate	2.9	12.2	9.8	2.8	14.5	15.0	13.8	12.0	11.7
Not in labor force	6,879	6,939	6,900	6,906	6,365	6,417	6,363	6,012	6,002

Source: Bureau Of Labor Statistics U.S. Department Of Labor (2020).

As case studies in this paper are taken the most successful companies in implementing these tools, Dell and Henkel. These companies each year are inventing and increasing the activities related to diversity, equity, and inclusion. For example, Dell each year has a Diversity and Inclusion Report in which all the activities that are made and will be made implementing these tools are elaborated, and Action Plan until 2030 that follows the idea of increasing the gender equality to 50-50.

And for Henkel, there are the Diversity Charters and many other undertaken activities which made them No.1 Diversity Leaders in Germany in 2019 by Financial Times (*Henkel, 2020*). Thereby these companies are taking delight in the benefits that come with these tools such as profit increase, which can be seen in the last published Annual Reports for these companies and also in many other aspects that contribute to greater success.

CONCLUSION

This paper covers the topic of leadership while embracing inclusion, diversity, and equality as components that altogether contribute to the overall picture of what a work environment should look like today and the world we live in. After researching the individual importance of each of these tools, as well as the importance of all of them together, the need for their implementation in each domain of society is perceived.

The statistics and also the case studies, which are covered in this paper contribute to a better understanding of how inclusion, diversity, and equality work. The case studies of Dell and Henkel

clearly show the different benefits of implementing inclusion and diversity in the workplace and how much success is associated with them.

Inclusion, diversity, and equality are essential for progress, starting from everyday life, workplace, and continuing in different spheres of life. Only by raising awareness of their importance and supporting their implementation the world can become a better place to live and work and thrive.

REFERENCES

- Bureau Of Labor Statistics U.S. Department Of Labor (2020). The Employment Situation- August 2020. Retrieved on September 10th 2020. <https://www.bls.gov>
- Euro indicators Eurostat (2020). Euro area Unemployment rate. Retrieved on September 10th 2020. <https://ec.europa.eu>.
- Henkel (2020). Diversity & Inclusion. Retrieved on September 10th 2020. <https://www.henkel.com>
- Hollander, E. P. (2009). Inclusive leadership: The essential leader-follower relationship. Routledge
- Hunt, T., & Fedynich, L. (2019). Leadership: Past, present, and future: An evolution of an idea. *Journal of Arts & Humanities*, 08(02)
- Makowska, M., & Kraack, M. (2016). Inclusive leadership - the new attitude towards the reinforcement and the development of the members of disadvantaged groups. *Inclusive Leadership*
- Niroula, A. (2017). Managing diversity and equality in the workplace. Asian Institute of Technology
- Roundtree, L. (2011). Age: A 21st century diversity imperative. Boston College The Sloan Center on Aging & Work
- Sweeney, C., & Bothwick F. (2016). Inclusive leadership: The definitive guide to developing and executing an impactful diversity and inclusion strategy. Pearson
- Wuffli, P. A. (2016). Inclusive leadership: A framework for the global era. Springer



Modeling an Industrial Policy for Bulgaria

Vasil Karasanov

University of National and World Economy

Sofia, Bulgaria

karasanovv@gmail.com

ABSTRACT: Throughout the past few centuries, some countries have experienced dramatic economic and social progress with the help of their strong industries, while others have wandered chaotically and are now at a point where the gap between them and the developed economies seems impossible to shrink. Although disputable, probably the main factor behind the economic rise of the emerged markets is the industrial policy, which they have followed. Bulgaria, as an example for a strong deindustrialization, followed no specific industrial policy after the fall of the socialist bloc, and is now at the bottom of the GDP per capita list of the European Union. This paper is going to illustrate a model, comparing Bulgaria to a number of countries not too distant in their economic development and with similar background and try to provide some guidance in respect to a possible industrial policy for the long- run development of the country.

Keywords: *Economic development, Industrial Policy, Comparative advantages*

INTRODUCTION

Industrial policy has been around for quite some time. Industrial policy, as defined by Pack and Saggi (2006) is “any type of selective intervention or government policy that attempts to alter the sectoral structure of production toward sectors that are expected to offer better prospects for economic growth than would occur in the absence of such intervention”. Some other researchers have stated that this type of policy is simply one of “picking winners”, which sometimes even resulted in “picking losers”. Because the latter prevailed in the past century, critics have opposed the concept of government intervention by stating that the country officials don’t have the ability to discover potential industries and locate the resources more efficiently than the market would by its own mechanisms. But still the properly implemented industrial policies have yielded spectacular results, many times leading to overall productivity growth of the economy. Lin and Monga (2010) argue, that “productivity growth is associated with technological change and structural change, that is to reduce the costs of producing the same outputs with better knowledge and to relocate resources from lower value-added industries to higher value-added industries”. So based on this logic, the whole process of introducing an industrial policy can lead to a self-reinforcing cycle of economic growth and prosperity for a certain country, but only if it is suitable for the country in question.

Probably the suitability of an industrial policy for a country is one of the major problems which have to be addressed before taking decisions, or in other words how to identify the best opportunity for government intervention in the industrial structure of an economy. There is one

precondition which is dramatically important when designing an industrial policy- the consistency of industrial development strategies with the country's comparative advantages (Lin & Monga, 2013, p.19). If we trace back the successful and not so successful policies, we can observe what they have in common and what are the differences that led to the failure of the industrialization in some countries. Many researchers have done this job, so there is no need to repeat the same work, which is of great facilitation to modern policy makers. The outcomes of most of these studies are quite simple: follow a strategy that is consistent with the country's comparative advantages and factor endowments. These propositions seem very straightforward, but the real challenge comes when the government actually has to identify the subjects of interest. A great mistake is trying to introduce an industry, which is far ahead of the country's technological development. Targeting mature industries in countries with an endowment structure similar to theirs and with a level of development not much more advanced than theirs (Lin and Monga, 2010) is the framework that will be carried out in the modeling of an industrial policy for Bulgaria in this report.

The exact idea of this study is to follow the guidelines of Justin Lin and Célestin Monga laid down in their paper "Growth Identification and Facilitation, The Role of the State in the Dynamics of Structural Change". In their report, the authors have proposed a six-step manual to introducing an industrial policy, which is based on the idea of a country matching its factor endowment structure to that of a more economically-developed one, which if executed correctly could yield economic welfare and contribute to the competitiveness of the country on the global market.

Coming up with target countries for Bulgaria to build on its industrial policy logically leads to the idea of a European state with similar background, i.e. socialist rule until the fall of the Berlin Wall. After shortlisting by the above-mentioned criterion, the next factor under consideration is the economic development of the country measured by the gross domestic product per capita- it has to be superior to that of Bulgaria, but at the same time not too far ahead, since it could be a too ambitious goal. These conditions are fulfilled to a great extent by the Czech Republic and Slovenia.

In the first part of this report are presented some of the basic economic and social indicators of Bulgaria, complimented by an analysis of the factor endowment structure of the country. The second part will describe the contents and the outcomes of the model, followed by a prescription in the conclusion.

ECONOMIC INDICATORS AND FACTOR ENDOWMENTS OF BULGARIA

After the fall of the Berlin Wall and the following collapse of the communist bloc, Bulgaria started the process of transition from planned to market economy, through the so-called privatization. In the 1990s, the country faced great economic difficulties, which led to the hyperinflation of over 1000% in 1997. After the intervention of the International Monetary Fund, Bulgaria's economy started to stabilize and by 2005 the GDP reached the previous highs from the 1980s. Bulgaria joined NATO in 2004 and the European Union in 2007, which had a great reflection on the economy. As Table 1 illustrates, in the whole period of 2005- 2008, the real GDP growth rate was always greater than 6%, mainly due to the accession of the country in the EU, which was seen as a good economic prospect to foreign investors. Right after this historic moment for Bulgaria, the global financial crisis struck the world and had its impact on the economy, although a bit lagging, resulting in a 3.42% decline in GDP in 2009. The 2012-2013 banking crisis also had a slight influence on the country's development, but the following years yielded good results, constantly expanding the output of the economy at rates higher than 3%.

Table 1. Macroeconomic indicators of Bulgaria

Year	Real GDP Growth Rate	Inflation Rate	Current Account Balance (% of GDP)
2005	7.15	5.04	-11.21
2006	6.80	7.26	-17.05
2007	6.56	8.40	-25.76
2008	6.09	12.35	-21.81
2009	-3.42	2.75	-8.19
2010	0.57	2.44	-1.92
2011	2.35	4.22	0.48
2012	0.36	2.95	-0.98
2013	0.32	0.89	1.22
2014	1.89	-1.42	1.31
2015	3.99	-0.10	0.12
2016	3.81	-0.80	3.27
2017	3.51	2.06	3.60
2018	3.08	2.81	5.28

Source: The World Bank

Even though the picture looks pretty fine, there are some major challenges to the economic development of Bulgaria. Like many developing countries, Bulgaria is low- industrialized, one of the reasons being the poorly-managed privatization process- although the process gave the country the chance to be a part of the global market, it turned into de- industrialization, with

many factories closing down (by market or other forces). Data from the statistical branch of the United Nations Conference on Trade and Development states, that back in 1986, the manufacturing value added as percentage of GDP in Bulgaria reached 32% and just for a period of ten years it went crashing to as low as 9.7%. As Figure 1 indicates, the manufacturing value added in the last twenty years shows no signs of development, gravitating around the 15% threshold. More noticeable changes occur in the services value added, growing from 61% to 70%, taking advantage over the agriculture sector. As a consequence of the low industrialization of Bulgaria, the export structure of the country has not experienced upgrading, with raw materials and low value-added products representing the largest portions of the export profile.

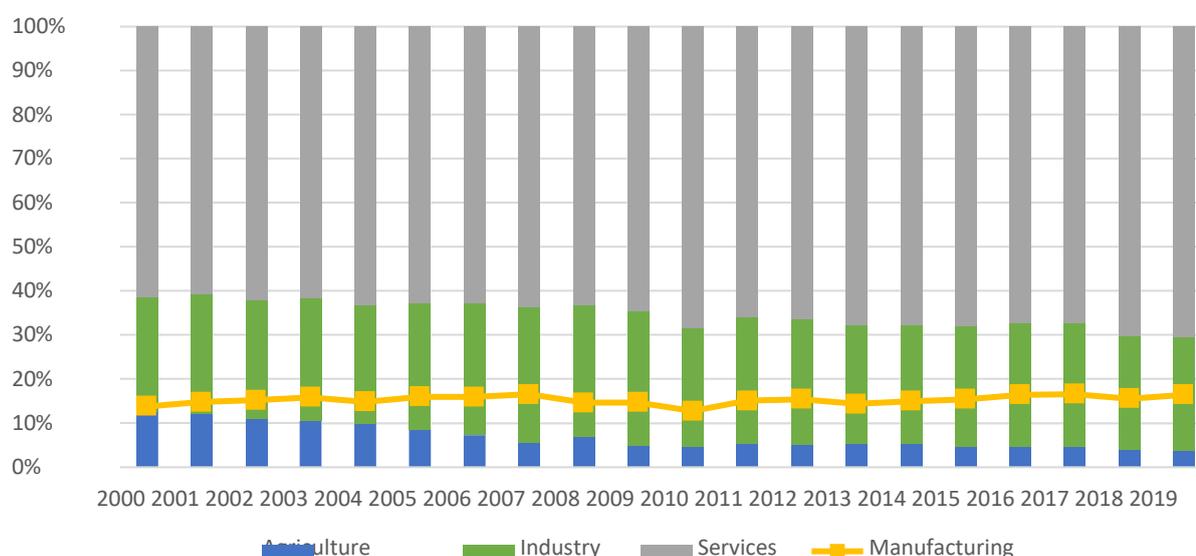


Figure 1. Value added by sector distribution (% GDP) (Source: Eurostat)

In Table 2 are presented the ten most exported and imported product groups in 2019 and their share in the foreign trade of Bulgaria- six of them are commodities (accounting for 20% of the total exports), while the other four are low value-added products. Even though petroleum oil is the number one export of Bulgaria, the country has negligible production and most of the export is rather re-exported.

Table 2. Export and Import Share of the Main Product Groups of Bulgaria’s Foreign Trade (HS4)

Exports	% of total	Imports	% of total
Petroleum oils (not crude)	7.40%	Petroleum oils, crude	8.35%
Commodities, not specified	3.45%	Commodities not specified	4.93%
Medicaments	3.06%	Medicaments	3.33%
Copper, refined	2.95%	Copper ores and concentrates	3.24%
Wheat	2.85%	Motor cars and other motor vehicles	2.92%
Copper, unrefined	2.34%	Petroleum gases	2.40%
Precious metal ores and concentrates	1.75%	Petroleum oils (not crude)	2.05%
Insulated wire	1.67%	Telephone sets	1.77%
Electrical apparatus	1.59%	Tractors	1.12%
Electrical energy	1.49%	Biodiesel	1.05%

Source: UN Comtrade Database

Studying the factor endowment structure of Bulgaria, the first factor to be emphasized is the human capital. Table 3 shows the population distribution by age and the groups proportion 4.5 million people. However, these statistics should not be taken for granted- a big part of the working age population is not actually working in the country, so emigration must be taken out of the table to really have a clear view of the situation with the human capital in Bulgaria. Although the statistics are varying, according to the Ministry of foreign affairs of Bulgaria², the approximate number of Bulgarians living abroad is around 2 million people. There is no data on the age distribution of the emigrants, so the focus will be only on the official data of the National statistical institute of Bulgaria.

Table 3. Population by age distribution

	2017	%	2018	%	2019	%
Total	7,050,034	100%	7,000,039	100%	6,951,482	100%
0 - 4	327,751	3.74%	325,725	3.77%	320,507	3.73%
5 - 9	349,423	4.96%	344,667	4.92%	339,533	4.88%
10 - 14	327,202	4.64%	334,453	4.78%	342,218	4.92%
15 - 19	313,032	4.44%	315,547	4.51%	312,977	4.50%
20 - 24	325,198	4.61%	307,744	4.40%	301,636	4.34%
25 - 29	445,237	6.32%	419,624	5.99%	390,614	5.62%
30 - 34	479,767	6.81%	479,506	6.85%	476,452	6.85%
35 - 39	499,654	7.09%	489,908	7.00%	479,936	6.90%
40 - 44	548,897	7.79%	544,398	7.78%	532,837	7.67%
45 - 49	518,543	7.36%	518,322	7.40%	522,513	7.52%
50 - 54	462,785	6.56%	469,131	6.70%	479,580	6.90%
55 - 59	483,089	6.85%	477,398	6.82%	473,775	6.82%
60 - 64	487,548	6.92%	480,497	6.86%	474,816	6.83%
65 - 69	479,638	6.80%	473,587	6.77%	463,819	6.67%
70 - 74	388,263	5.51%	401,524	5.74%	418,088	6.01%
75 - 79	275,717	3.91%	279,398	3.99%	283,876	4.08%
80+	338,290	2.87%	338,610	2.83%	192,555	2.77%

Source: National Statistical Institute of Bulgaria

Table 4 presents the population projections in the years 2025, 2030 and 2040. As the data shows, the population in Bulgaria is going to decline in the coming years and by 2040 it will be 12% less than it was in 2019.

² In 2019, Eurochicago.com, Bulgarian web media abroad, sent a number of questions to the Ministry of foreign affairs in compliance with the law on access to public information, asking about the number of Bulgarian emigrants and their territorial distribution; <https://www.eurochicago.com/2019/02/mvnr-otgovor/>

Table 4. Population projections

	2025	2030	2040
Total	6,735,715	6,527,464	6,135,500
0 - 14	954,695	893,615	811,294
15 - 34	1,342,060	1,312,225	1,329,016
35 - 49	1,464,990	1,308,098	980,589
50 - 64	1,422,283	1,448,076	1,370,042
65+	1,551,687	1,565,450	1,644,559

Source: National Statistical Institute of Bulgaria

As the data shows, the population in Bulgaria is going to decline in the coming years and by 2040 it will be 12% less than it was in 2019. Furthermore, the working age population is going to decline by 17%. This indicates the rising need for a well- designed demographic policy in Bulgaria. As for the population density, according to Eurostat, Bulgaria has relatively low population density compared to its neighbors- 64 persons per square kilometer. Taking a closer look at the distribution of the labor market by sectors, Table 5 shows that the sector with the highest number of employed is services, accounting to 30% of the working population. This comes to no surprise, since the sector accounts for 70% of the value added in the GDP of Bulgaria. One important outcome from this table is, that the manufacturing sector is the second biggest in the list, employing 22% of the Bulgarian workforce. This means that a big portion of the workers in the country is fit for working in manufacturing plants, having already acquired some skills and know-how from this sector. Moreover, the statistics on education show, that in the last twenty years the population of Bulgaria has made gradual progress in the levels of studying. Figure 2 presents the population’s level of education, using the International Standard Classification of Education. The graph shows that the population with Tertiary education has grown from 15% in 2000 to 25% in 2019, while the group with the lowest education levels (0-2) has shrug from 36% to 22%.

Table 5. Distribution of population by employment sector

Sector	% of employed
Agriculture, forestry and fishing	3%
Production	8%
Manufacturing	22%
Services	30%
Wholesale and retail trade; repair of motor vehicles and motorcycles	16%
Education	7%
Transport storage and communications	6%
Hotels and restaurants	5%
Others	2%

Source: Eurostat

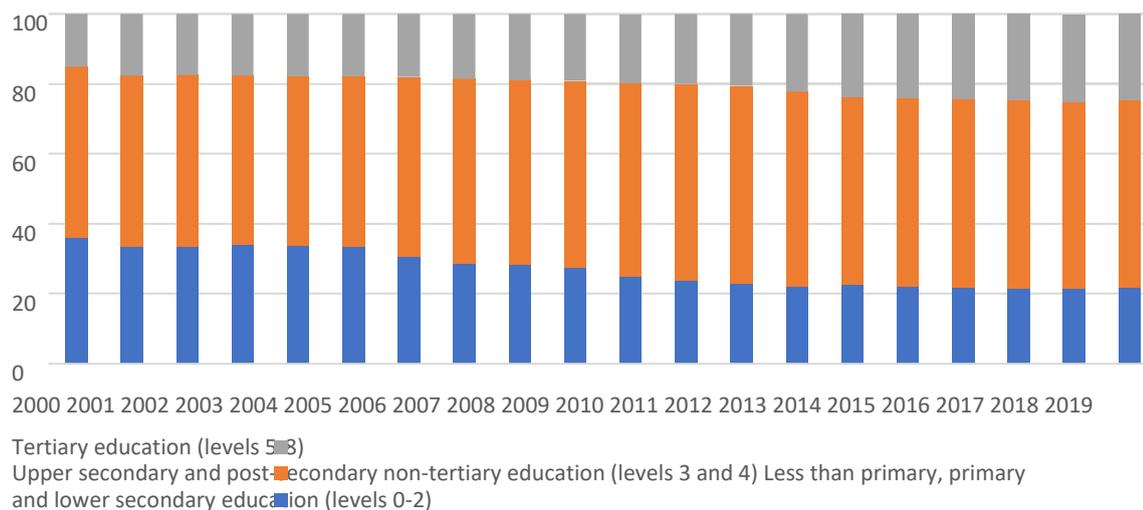


Figure 2. Population by educational attainment level (Source: Eurostat)

Another important factor for the human capital of Bulgaria to be considered is the wage level. Table 6 indicates, that in the period 2000- 2018, the level of the average wages in the country has increased both for men and for women, although the gender pay gap is still existing. Although there is improvement in this factor, Bulgaria is still at the bottom of the list for the average wages in the EU. Concluding the labor factor, Bulgaria is labor scarce, with qualified human capital and low wage level.

Table 6. Average monthly wage in EUR

	2000	2005	2010	2015	2018
Total	115	166	331	449	586
Male	131	182	367	502	650
Female	99	150	296	396	520

Source: National Statistical Institute of Bulgaria

The other factor to be discussed is the capital supply. As indicated by Figure 3, Bulgaria falls in the list of countries with low capital accumulation, having lower gross value added as percentage of GDP compared to the average of developing countries. At one point, when Bulgaria was accepted to join the EU, the indicator experienced substantial growth (2006-2009), but since entering the global financial crisis the country's capital formation has stayed at the levels of the beginning of the century. The decomposition of the indicator shows, that the largest component in the gross capital formation is construction. Nevertheless, both construction and machinery and equipment, taken as percentages of GDP, have made no considerable progress in the last 20 years.

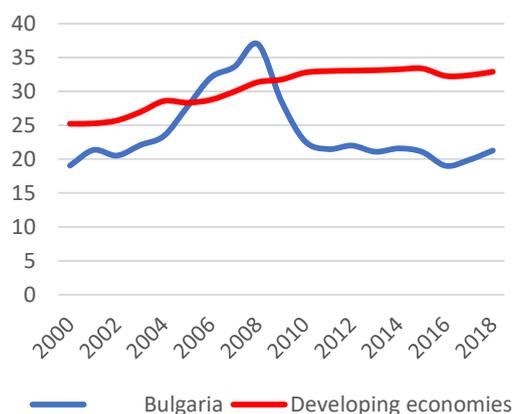


Figure 3. Gross capital formation (% of GDP)

Analyzing the third factor- natural resources, Bulgaria is a relatively resource-abundant country, compared to the other EU countries. The mining industry has a long history, with some of the factories dating back to the socialist period, and can be considered a mature one. According to Eurostat, the country ranks second in terms of extraction of metal ores and copper, seventh in lead and ninth in zinc from the EU countries. Furthermore, there are many factories in Bulgaria, exploiting gold, manganese and other deposits, including non-metal ones.

IDENTIFICATION OF POTENTIAL INDUSTRIES FOR BULGARIA TO DEVELOP

The first step of the model is to identify manufacturing goods that have been produced in growing economies with higher GDP per capita than that of Bulgaria (or one that 20 years ago was similar to that of Bulgaria in 2019) and with similar factor endowment structure. After screening out, the country’s most suitable for conducting the model are the Czech Republic and Slovenia. The next table summarizes some of the criteria used in the process.

Table 7. Criteria for target countries

Country	GDP per Capita, PPP Constant 2017 USD (2019)	GDP per Capita, PPP Constant 2017 USD (1999)	Manufacturing value added, % of GDP (2019)	Population Density, people per sq. km (2018)	Gross Capital Formation, % of GDP (2019)	Availability of domestic or imported resources
Bulgaria	23091.34	9680.92	16.43	65	19.49	✓
The Czech Republic	40314.23	23953.08	22.42	137	26.25	✓
Slovenia	38688.78	25534.02	20.22	103	20.73	✓

Source: World Bank, Availability of domestic or imported resources is from Eurostat

As shown in the table, the two countries almost perfectly fit the criteria to be targeted by Bulgaria, with the exception of the human capital, although the age structure as a proportion of the population in the three countries is quite similar. For this reason, the industries that are going to be proposed have to be with a low number of human capital required.

The next step in the model is to select the goods with potential comparative advantage for

Bulgaria to produce. Since the two target countries are growing economies and started out their economic development in the same way as Bulgaria did in the 1990s, the goods that are going to be chosen are from the list of the top ten exported products in the last twenty years. Furthermore, in order to screen out only the ones with increasing comparative advantage, the export volumes of the goods have to be growing in this period. Another important prerequisite for the success of the new industry is the domestic market demand- this criterion is fulfilled if the import volumes of the product are increasing in Bulgaria. Of course, the most important condition in this process is the factor endowment structure- do these industries have what they need in Bulgaria. The next table displays the goods, which have been the major drivers of the industrialization in the Czech Republic and Slovenia. The first three groups - telephone sets, computers & peripherals and cars are targeted from the Czech Republic

Table 8. Criteria for target goods

HS Code	Description	20y import growth	2019 import share	Domestic market demand	Firm Size, Low capital requirements	Labor skills, Raw materials
8517	Telephone sets	14.57%	1.77%	✓	✓	✓
8471	Computers & peripherals	6.33%	0.84%	✓	✓	✓
8703	Cars	6.87%	2.92%	✗	✗	✗
3004	Medicaments	13.60%	3.33%	✓	✓	✓
8708	Parts for cars	10.35%	0.70%	✓	✓	✓
8704	Vehicles for transport of goods	7.61%	0.64%	✗	✗	✗

Source: UN Comtrade Database, Ministry of economy of Bulgaria

Since car production facilities require high investments and the domestic market for new cars is relatively small, they are excluded from the list for potential development at this point of time. Furthermore, the telephone sets group show one flaw of the model- the framework suggests picking from the top ten exports, ignoring the possibility of re-export. A closer look at the imports of the Czech Republic indicates that the volume of the imports of telephone sets group is even larger than the exports. For that reason, telephone sets fall out of the model. Computers & peripherals, on the other hand, perfectly fit the model- the group has substantial growth in the last two centuries: computers and peripherals were on the 35th place with 0.53% export share in 1999, while in 2019 the group was the third most exported with 6.52% share (average annual growth of 25.29%). As the table indicates, the domestic market is also suitable for this industry. The 20-year average import growth for computers & peripherals is 6.33%. The industry fulfills the criteria for low firm size, low capital requirement and raw materials and is already present in Bulgaria, so there is already qualified labor force. Medicaments, parts for cars and vehicles for transport of goods are the targeted groups from Slovenia. The last group again isn't suitable for Bulgaria, since it requires high initial investment. Medicaments have performed well in Slovenia in the last 20 years- in 1999

they were on third place, while in 2019 they were the number one exported group in the country (average annual growth of 14.27%). Parts for cars also had a great performance: in 1999 the group was the fifth most exported and in 2019 it climbed to the fourth place (average annual growth of 9.18%). As shown in the table, the two groups also fulfill all the other requirements for the model. Another method for selecting potential industries that can be supported is by looking into some of the self-discoveries of Bulgarian enterprises. More precisely, goods which gained competitiveness in the last 20 years and are with the highest revealed comparative advantage³. The next table summarizes the findings.

To sum up, the groups with potential for Bulgaria to develop are:

Computers & peripherals (8471), Medicaments (3004), Parts for cars (8708), Plates, sheets and strip of copper (7409), Presses used in the manufacture of wine, cider, fruit juices (8435), Baths, shower-baths, sinks, washbasins (3922), Electrical resistors (8533) and Glassware (7013). From here on, the government's facilitating role is mainly restricted to provision of information, coordination of hard and soft infrastructure improvement, and compensation for externalities. Government facilitation through the above approach is likely to help developing countries tap into the potential of the advantage of backwardness and realize a dynamic and sustained growth (Lin & Monga, 2010, p.20)

Table 9. Bulgarian self-discoveries

HS Code	Description	RCA (1999)	RCA (2019)	% in World Export
7409	Plates, sheets and strip of copper	1.49	26.78	4.84%
8435	Presses used in the manufacture of wine, cider, fruit juices	2.15	24.98	4.51%
3922	Baths, shower-baths, sinks, washbasins	1.12	12.50	2.26%
8533	Electrical resistors	0.07	9.23	1.67%
7013	Glassware	0.90	9.45	1.71%

Source: Own calculations, based on UN Comtrade Database

KEY OBSTACLES TO OPERATING A BUSINESS IN BULGARIA

One way to identify the major problems of the business environment in Bulgaria is to look at the Doing Business report from the World Bank. The report studies the business regulations in 190 countries and ranks them, conducting the so-called "Ease of doing business" index, which was created on the basis of a report by Djankov, La Porta, Shleifer and Lopez de Silanes (2001).

³ Revealed comparative advantage in this report is calculated using the Balassa index:

" $RCA = (x_j / X) / (y_j / Y)$ ", where "x_j" is Bulgarian export of product j, "X" is the total Bulgarian export, "y_j" is the world export of product j and "Y" is the total world export.

In the case of Bulgaria, the biggest constrain to businesses is getting electricity, which is of main importance to every manufacturing plant. The process takes up to 262 days, compared to the 99.6 days on average in Europe and Central Asia and the cost for it amounts to 368.8% of the income per capita in the country, while in Europe and Central Asia its 271.9%. This procedure ranks Bulgaria on the 151st place in the list, right after Cambodia, Haiti, Myanmar, Maldives and Guinea. A solution to this problem is currently being carried out, and hopefully, the process of liberalization of the electricity market will boost the competitive position of the country in this field.

Another problem for the Bulgarian officials to work on is corruption. Data from the Corruption perceptions index, prepared by Transparency International, indicates that Bulgaria is in the bottom of the list of EU countries and has not made any progress in the last five years. It is a well-known fact, that in Bulgaria corruption occurs at every level of the public life. According to the World Bank Enterprise Surveys, 26.7% of the interviewed firms identify corruption as a major constrain and 10% of the study group expects at least one bribery payment request. One way for tackling with this problem is establishing an electronic government. The online use of public services by firms and citizens would not only facilitate the processes and increase the efficiency of the public institutions, but will also decrease the number of the direct contacts with the state administration, which in tern would minimize the likelihood of corruption practices.

CONCLUSION

The content of this report follows the Growth Identification and Facilitation Framework, which applied to Bulgaria indicates that the county is resource rich, but labor and capital scarce. The model outcome shows, that Bulgaria has good chances in developing the following sectors: computers& peripherals, medicaments, parts for cars, plates, sheets and strip of copper, presses used in the manufacture of wine, cider and fruit juices, baths and shower-baths, sinks, washbasins, electrical resistors and glassware. The results from this report aren't final and further analysis should be made in order to select only the industries with the highest chances of success.

REFERENCES

- Balassa, B. (1965). Trade Liberalization and Revealed Comparative Advantage. *The Manchester School of Economics and Social Studies*, 33, 99-123.
- Djankov S., La Porta R., Lopez-De-Silanes F., & Shleifer A. (2002). The Regulation of Entry. *The Quarterly Journal of Economics*, 117(1), 1–37
- Enterprise Surveys. www.enterprisesurveys.org, The World Bank.
- Lin, J., & Monga, C. (2010). *Growth Identification and Facilitation: The Role of the State in the Dynamics of Structural Change*. In Lin, J. (ed.) “New Structural Economics: A Framework for Rethinking Development and Policy”. The World Bank
- Lin, J.Y., & Monga, C. (2013). *Comparative Advantage: The Silver Bullet of Industrial Policy*. In: Stiglitz J.E., Lin J.Y. (eds) *The Industrial Policy Revolution I*. International Economic Association Series
- Ministry of the Economy of Bulgaria. (2016). Proizvodstvo na kompiutri, elektronni i optichni produkti. [Manufacturing of computers, electronics and optical products].
- Nikolova, D. (2019). Avtosekrotat – edna ot zvezdite na bulgarskata industrija poslednite godini. [The automotive sector – one of the stars in the Bulgarian industry in the recent years]. Institute for Market Economics
- Pack, H. & Saggi, K. (2006). *Is there a case for industrial policy? A critical survey*. The World Bank Research Observer 21
- Transparency International. (2019). Corruption Perceptions Index. Retrieved from: <https://www.transparency.org/en/cpi/2019/results/bgr>
- World Bank. (2020). Doing Business 2020

The Economics of New Enterprises, the Number of Businesses and Economic Growth Across the EU During 2008-2017

Konstantinos Bakri

Bachelor Student of Athens University of Economics and Business, majoring Accounting
Member of ASECU Youth Board; Athens, Greece

konbakri@outlook.com

ABSTRACT: *The paper looks into five measures of entrepreneurship – namely, the birth rate of enterprises, the death rate of enterprises, the number of 3-year-old enterprises, the employment share of five-year-old enterprises, the average size of five-year-old enterprises- across the European Union from 2008 to 2017. It also econometrically analyses the growth rates in the number of businesses and of the Gross Domestic Product in each EU member-state during 2008-2017 and compares their long-run trends. Noting a good number of similarities, it makes a number of potentially useful recommendations on the basis of the findings emanating from the birth and death rates of enterprises and the other statistics in order to enhance business participation (hence, competition) and economic performance across the EU and beyond.*

Keywords: *new enterprises, business population growth, GDP growth, European Union*

SECTION 1: INTRODUCTION

The paper looks into key-aspects of entrepreneurship in the secondary and tertiary sectors (excluding activities of holding companies) across the European Union (EU). Conceptually, entrepreneurship is the activity of successfully executing an idea, i.e., of developing, organizing, and running an enterprise—in the context of this paper: a business idea and business enterprise— by bringing together the necessary agents or factors, and surpassing uncertainties and difficulties. Entrepreneurship, along with the function and the economics of new enterprises (their theory, their measurement, their empirical analysis) constitute an important subject in international literature: a literature running from Schumpeter (1934) to Wong et al. (2005), Acs and Szerb (2007), Bosna et al. (2020), and others. Acknowledging the role of new businesses in (a) serving and promoting the interests of the individual entrepreneur, and (b) creating and adding value for the society, the author's intent is to supply some insights, and provide fellow students with useful information on the prospect of starting their own business.

Methodologically, the paper adopts a quantitative, empirical research, approach, and in the pages that follow: Section 2 studies via indices the evolution of business births, deaths, survival, size and employment in 27 of the 28 EU member-states during 2008-2017 (roughly from the time the international and economics crisis reached Europe to the time the Brexit negotiations commenced), based on annual figures provided by Eurostat

(ec.europa.eu/eurostat; there is no data on Greece). Section 3 econometrically analyzes the annual growth rates of the Gross Domestic Product (GDP) and of the number of enterprises (companies), based on annual figures provided by Eurostat for each and every member state. Section 4 provides the conclusions.

SECTION 2: BUSINESS BIRTHS, DEATHS, SURVIVALS, SIZES AND EMPLOYMENT

We commence by looking into the Birth and Death Rates of businesses. These are defined as follows:

$$\text{Birth Rate} = \frac{\text{number of enterprise births in the reference year (t)}}{\text{number of active enterprises in the reference year (t)'}}$$

$$\text{Death Rate} = \frac{\text{number of enterprise deaths in the reference year (t)}}{\text{number of active enterprises in the reference year (t)'}}$$

the are rendered comparable via a Min-Max normalization procedure on the zero-to-ten scale.

It goes as follows: Regions, i , with extreme values (outliers) below the 4th percentile and above the 96th percentile are assigned scores of zero and ten, respectively; and all other regions are assigned a score \hat{x}_i or \check{x}_i :

and to facilitate comparisons across space (states) and time these are normalized on the zero-to-ten scale via the Min-Max procedure proposed by OECD (2018). It goes as follows: Member states, i , with extreme values (outliers) below the 4th percentile and above the 96th percentile are assigned scores of zero and ten, respectively; and all other regions are assigned a score \hat{x}_i or \check{x}_i :

$$\hat{x}_i = \frac{x_i - \min(x)}{\max(x) - \min(x)} \times 10 \tag{1}$$

$$\check{x}_i = \frac{\max(x) - x_i}{\max(x) - \min(x)} \times 10 \tag{2}$$

when higher and lower values, respectively, relate the desired situation:

Table 1 supplies the Birth Rate Index (BRI) and the Death Rate Index (DRI) for the first and second half of the period in question. Their values suggest that over time three countries (namely, Cyprus, Hungary, Spain) improved their relative rankings in both measures (Cyprus, marginally in terms of the DRI), four countries (Lithuania, Malta, Portugal, the United Kingdom) improved their relative BRI rankings, thirteen countries (namely, Austria, Belgium, Croatia, Estonia, Finland, France, Germany, the Rep. of Ireland, Latvia, the Netherlands, Romania, Sweden and, marginally, Czechia) improved their relative DRI rankings, and the rest (Bulgaria, Denmark, Italy, Luxembourg, Poland, Slovakia, Slovenia) deteriorated in both.

Perhaps the practices and policies employed in the cases of improvement (type A countries) should be considered by the rest, and the practices and policies employed in the cases

of deterioration should be modified or abandoned.

Table 1. The average birth rate and death rate indices in the 27 EU member states, 2008-17

Countries	Average BRI (2008-2012)	Average DRI (2008-2012)	Average BRI (2013-2017)	Average DRI (2013-2017)
1 Austria	2.478	7.527	0.581	8.229
2 Belgium	1.339	9.978	0.009	9.996
3 Bulgaria	7.099	4.705	5.217	2.822
4 Croatia	2.690	3.694	2.239	5.535
5 Cyprus	0.136	7.457	1.615	7.459
6 Czechia	3.434	5.849	2.131	5.897
7 Denmark	4.673	4.011	4.276	3.576
8 Estonia	5.946	4.361	4.173	5.848
9 Finland	3.681	6.746	1.035	7.491
10 France	4.974	7.290	3.105	8.963
11 Germany	2.966	6.009	0.631	6.209
12 Hungary	3.700	4.041	4.116	4.509
13 Rep. of Ireland	1.316	5.231	1.055	8.121
14 Italy	1.750	7.428	0.864	6.706
15 Latvia	8.699	2.804	8.162	4.688
16 Lithuania	9.491	0.372	10.000	0.012
17 Luxembourg	3.703	6.824	2.868	6.440
18 Malta	1.004	7.238	3.857	6.351
19 Netherlands	5.012	6.489	3.164	7.556
20 Poland	6.020	4.582	5.474	3.745
21 Portugal	6.003	0.700	8.232	0.578
22 Romania	5.192	1.650	4.983	4.773
23 Slovakia	6.931	4.636	6.377	3.558
24 Slovenia	4.537	6.472	4.415	5.888
25 Spain	2.349	5.393	2.695	5.544
26 Sweden	2.067	7.824	0.612	8.047
27 United Kingdom	5.019	3.849	7.454	3.560
Average	4.156	5.302	3.679	5.633

Source: Eurostat, own calculations.

Next, we consider the Survival Rate of 3-year-old enterprises, which is defined as follows:

Survival Rate

$$= \frac{\text{number of enterprises in the reference period } (t) \text{ born in } t - 3 \text{ and surviving to } t}{\text{number of enterprise births in } t - 3}$$

Table 2 supplies the Survival Rates (SR) for the whole period, and the Survival Rate Index (SRI) for the first and second half of the period. The SR values reveal that in 26 of the 27 EU member-states more than half of new businesses survived three years later – quite an

encouraging statistic for those contemplating to engage in such activity, esp. in Malta, Belgium, Sweden and the Republic of Ireland, where more than 70% of new businesses survived. (Malta's statistics date to the second half of the periods under consideration.) At the same time, the SRI values calculated via expression (1), suggest that over time two countries (namely, the Rep. of Ireland and Slovakia) improved their relative rankings. So, perhaps the practices and policies employed in the Republic of Ireland, Belgium and Sweden in the first half of the period, and in Malta and Slovakia in the second half of the period, should be considered by the rest.

Table 2. The average survival rate and its index in the 27 EU member states, 2008-17

	Countries	Average SR (%)	Average SRI (2008-2012)	Average SRI (2013-2017)
1	Austria	68.23	8.567	5.192
2	Belgium	81.89	10.000	6.997
3	Bulgaria	57.60	4.822	3.765
4	Croatia	64.56	-	5.220
5	Cyprus	63.39	6.464	4.921
6	Czechia	57.67	4.829	3.788
7	Denmark	51.32	3.619	2.155
8	Estonia	58.75	5.020	4.088
9	Finland	58.67	6.075	2.945
10	France	61.57	6.585	3.997
11	Germany	51.47	3.348	2.377
12	Hungary	51.71	3.205	2.597
13	Rep. of Ireland	73.44	6.954	10.000
14	Italy	59.15	6.208	3.283
15	Latvia	54.75	3.646	3.523
16	Lithuania	35.74	0.351	0.112
17	Luxembourg	68.49	7.781	5.950
18	Malta	96.51	-	8.141
19	Netherlands	65.68	6.314	5.967
20	Poland	54.90	4.580	2.817
21	Portugal	40.50	0.653	0.424
22	Romania	65.58	7.362	4.913
23	Slovakia	54.36	3.205	3.721
24	Slovenia	66.29	7.889	4.928
25	Spain	54.60	4.413	2.829
26	Sweden	76.06	9.781	7.516
27	United Kingdom	58.51	4.869	4.110

Source: See Table 1

We also turn to the Employment Share (ES) and the mean Size in terms of Employees (SE) of five-year-old enterprises, which are defined, respectively, as follows:

$$\text{Employment Share of 5 – year – old enterprises} = \frac{\text{number of persons employed in enterprises born in year } t - 5 \text{ and surviving to } t}{\text{number of persons employed in enterprises which are active in } t}$$

$$\text{mean Size of five – year – old Enterprises} = \frac{\text{number of persons employed in year } t \text{ among enterprises born 5 years earlier}}{\text{number of enterprises in } t \text{ born 5 years earlier(i. e., in year } t - 5) \text{ that survived to } t}$$

Table 3 supplies the average SR and SE values for the whole period. The values of the former reveal that in 19 of the 27 EU member-states more that 2% of the people employed in the private sector were employed in enterprises that had commenced operation only five years earlier. (In Bulgaria, the figure was over 5% and in six other eastern EU member-states, namely, Croatia, Latvia, Lithuania, Poland, Romania, Slovakia, the figure was between 3 and 4%.) And the average SE values reveal that in 12 out of 27 EU member-states, on average, five-year-old enterprises were staffed by about 3-6 people. This suggest that, by and large, they were very small-sized (micro) businesses in terms of EU-28 standards (see Table 4).

Table 3. The employment share and size in terms of persons employed of five-year-old enterprises in the 27 EU member states, 2008-17

	Countries	Average ES (%)	Average SE (people)		Countries	Average ES (%)	Average SE (people)
1	Austria	1.82	3.20	15	Latvia	3.07	4.80
2	Belgium	2.17	2.51	16	Lithuania	3.22	5.39
3	Bulgaria	5.07	5.14	17	Luxembourg	1.89	4.35
4	Croatia	3.18	5.58	18	Malta	2.86	2.91
5	Cyprus	1.62	4.01	19	Netherlands	2.35	2.56
6	Czechia	2.43	2.67	20	Poland	3.19	3.21
7	Denmark	1.66	2.52	21	Portugal	2.62	2.58
8	Estonia	2.42	2.96	22	Romania	3.85	5.12
9	Finland	1.36	1.90	23	Slovakia	3.49	3.02
10	France	2.26	2.81	24	Slovenia	2.16	2.33
11	Germany	1.20	3.00	25	Spain	2.32	2.45
12	Hungary	2.65	3.38	26	Sweden	1.70	1.88
13	Rep. of Ireland	1.74	2.74	27	United Kingdom	2.32	4.52
14	Italy	2.20	2.53				

Source: See Table 1.

Table 4. Classification of businesses, EE-28

	Staff headcount and	(a) Turnover or	(b) Balance sheet total
	(in million euro)		
Micro	< 10	≤ 2	≤ 2
Small	< 50	≤ 10	≤ 10
Medium-sized	< 250	≤ 50	≤ 43
Large	≥ 250	> 50	> 43

Source: EU recommendation 2003/361(2003).

SECTION 3: GROWTH IN THE NUMBER OF BUSINESS AND GDP

We shift our attention to the study of the growth patterns of business numbers and GDP across the EU member-states as reported by Eurostat, by econometrically isolating the autonomous (initial) components, the time trends and the notable medium-term (biennial or longer) fluctuations from the trends. To that end we employ a close variant of the well-established functional form described by Smith and Duncan (1944), Fox (1968), Franzini and Harvey (1983), Black (1992), Cameron (2005), Lee et al. (2019) and others:

$$y_{tc} = \beta_{0c} + \beta_{1c} t_i + \beta_{2c} t_i^2 + \sum \beta_{3ic} m_{itc}, \quad (3)$$

where ‘y’ stands for the regressand. Each equation is regressed via STATA 2013 separately, i.e., not as a system, and each regression involves annual data from all 28 EU member-states. ‘t’ stands for time ($t=1, \dots, 10$) and enters the expression both as an index and as the long-run trend variable in each member-state. The trend may be linear; however, the inclusion of its square allows for the consideration of non-linear features (including a peak or a trough). ‘c’ stands for the number of member-states. ‘m’ is in binary form and stands for an exceptionally high medium-term deviation or fluctuation from the trend observed in a member-state. The ‘i’s denote the number of these medium-term deviations in a member-state ($i \in [0,2]$ in the sense that in the end, the maximum number of such fluctuations in any one state is two; however, in most states it is equal to 0). The ‘β’s stand for the regressors’ coefficients. Germany is set as reference, and in order to deal with heteroscedastic residuals both regressions are conducted with robust standard errors. The results are provided in Tables 5 and 6.

The former suggest that at the outset Lithuania (line 2), Estonia, Cyprus, Malta, the United Kingdom (line 3) featured the highest negative rates of change in the number of enterprises, while Greece (line 6) featured the highest positive rate. Subsequently (over time), the rates:

- grew negative in Austria, the Netherlands, Poland (line 9), Bulgaria, Czechia, Romania, Slovenia, Sweden (line 10) and, probably, in Finland, France, Germany, Italy, Luxembourg, Slovakia (line 11; the p-values are quite modest);
- grew positive in Cyprus, Malta (line 13), Croatia, Denmark, Hungary and Spain (line 12);
- first decreased and then increased in Greece (lines 7 and 20, featuring a minimum in the 8-9 year), Belgium (lines 8 and 19, min 6-7 year), Portugal and the Republic of Ireland (lines 9 and 19, min 3-4 year), as per the twice differentiable function with respect to time (the estimated minima are provided in Table 7, column (2));
- first increased then decreased in Lithuania (lines 15-16, max 7-9 year), Latvia (lines 14 and 17, max 5-6 year), Estonia and the United Kingdom (lines 14 and 18, max 8-9 year).

In addition they featured large positive fluctuations from the trend in Lithuania during 2011-12 (line 23) and the Netherlands during 2015-16 (line 26), and large negative fluctuations from the trend in Romania during 2009-10 (line 21), Portugal during 2009-13 (line 22), Czechia and Slovakia during 2012-13 (lines 24-25).

The findings of Table 6 suggest that at the outset Croatia, Estonia, Finland, Hungary, Italy, Latvia, Luxembourg, the Republic of Ireland, Slovenia (line 2) featured the highest negative GDP rates while Cyprus and Poland (line 6) featured the highest positive rates. Subsequently, the rates:

- grew positive in Luxembourg, Malta, the Republic of Ireland (line 12), Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Romania, Slovenia, the United Kingdom (line 11), Bulgaria, Denmark, Finland, Italy, Sweden (line 10), Austria, Belgium, France, Netherlands (line 9), and, possibly, in Germany and Slovakia (line 8); probably grew negative in Spain (line 7);
- probably grew negative in Spain (line 7);
- first decreased and then increased in Cyprus, Greece (lines 5 and 14, min 4-5 year), Poland and Portugal (lines 6 and 13, min 4-5 year).

In addition, they featured large positive fluctuations from the trend in France, Finland and Sweden during 2010-11 (lines 18-19), Estonia during 2010-13 (line 20), Latvia during 2011-12 (line 21), and Greece during 2013-15 (line 25), and large negative fluctuations from the trend in the Republic of Ireland during 2008-09 and 2012-13 (lines 15 and 22), Latvia and Romania during 2009-10 (lines 16-17), Czechia during 2012-13 (line 23), Cyprus during 2012-14 (line 24), Luxemburg, Malta and the United Kingdom during 2016-17 (lines 26-28).

Table 5. The growth of the (net) number of businesses in the 28 EU member states, 2008-17

Independent variables	coefficients	p-values
Autonomous components		
1 Constant (Finland, Germany, Italy, Portugal, Rep. of Ireland serve as reference)	1.3102	0.1300
2 Lithuania	-30.7751	0.0000
3 Cyprus, Estonia, Malta, United Kingdom	-11.2811	0.0000
4 Croatia, Denmark, Hungary, Latvia, Spain	-4.8308	0.0000
5 Austria, Belgium, Bulgaria, Czechia, France, Luxembourg, Netherlands, Poland, Romania, Slovakia, Slovenia, Sweden	4.5468	0.0000
6 Greece	53.6699	0.0000
Time trend		
7 Greece	-13.6950	0.0000
8 Belgium	-1.3596	0.0000
9 Austria, Netherlands, Poland, Portugal, Rep. of Ireland	-0.7330	0.0000
10 Bulgaria, Czechia, Romania, Slovenia, Sweden	-0.4423	0.0000
11 Finland, France, Germany, Italy, Luxembourg, Slovakia	-0.1800	0.1920
12 Croatia, Denmark, Hungary, Spain	0.5317	0.0000
13 Cyprus, Malta	1.6619	0.0000
14 Estonia, Latvia, United Kingdom	3.5265	0.0000
15 Lithuania	10.6204	0.0000
Time trend squared (to capture the rate of change)		
16 Lithuania	-0.7410	0.0000
17 Latvia	-0.3104	0.0000
18 Estonia, United Kingdom	-0.2151	0.0000
19 Belgium, Portugal, Rep. of Ireland	0.1070	0.0000
20 Greece	0.8250	0.0000
Notable biennial or longer fluctuations		
21 Romania 2009-10	-10.9913	0.0000
22 Portugal 2009-13	-4.0952	0.0000
23 Lithuania 2011-12	8.6281	0.0000
24 Czechia 2012-13	-4.5045	0.0000
25 Slovakia 2012-13	-7.6221	0.0000
26 Netherlands 2015-16	4.1212	0.0000
Observations	241	
Model fitness (R ²)	46.45%	

Source: See Table 1. Note: Regressions are estimated with robust standard errors so as to address issues of heterogeneity and lack of normality.

Table 6. The growth of real GDP in the 28 EU member states, 2008-17

Independent variables	coefficients	p-values
Autonomous effects		
1 Constant (Austria, Belgium, Bulgaria, Czechia, Denmark, France, Germany, Greece, Lithuania, Malta, Netherlands, Romania, Spain, Sweden, United Kingdom serve as reference)	-1.3285	0.0340
2 Croatia, Estonia, Finland, Hungary, Italy, Latvia, Luxembourg, Rep. of Ireland, Slovenia	-1.9125	0.0000
3 Portugal, Slovakia	2.9315	0.0030
4 Cyprus, Poland	6.0809	0.0000
Time trend		
5 Cyprus, Greece	-2.2613	0.0000
6 Poland, Portugal	-1.0312	0.0060
7 Spain	-0.5172	0.1100
8 Germany, Slovakia	0.1133	0.3110
9 Austria, Belgium, France, Netherlands	0.3668	0.0000
10 Bulgaria, Denmark, Finland, Italy, Sweden	0.4719	0.0000
11 Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Romania, Slovenia, United Kingdom	0.6674	0.0000
12 Luxembourg, Malta, Rep. of Ireland	1.3507	0.0000
Time trend squared (to capture the rate of change)		
13 Poland, Portugal, Spain	0.1110	0.0010
14 Cyprus, Greece	0.2512	0.0000
Notable biennial or longer fluctuations		
15 Rep. of Ireland 2008-09	-3.5849	0.0000
16 Latvia 2009-10	-7.7775	0.0230
17 Romania 2009-10	-5.0400	0.0000
18 France 2010-11	2.0949	0.0000
19 Finland, Sweden 2010-11	4.3832	0.0000
20 Estonia 2010-13	4.9714	0.0000
21 Latvia 2011-12	5.4377	0.0000
22 Rep. of Ireland 2012-13	-3.3876	0.0100
23 Czechia 2012-13	-2.9923	0.0000
24 Cyprus 2012-14	-4.3606	0.0010
25 Greece 2013-15	3.7165	0.0010
26 Luxembourg 2016-17	-6.3903	0.0200
27 Malta 2016-17	-5.3528	0.0150
28 United Kingdom 2016-17	-3.1119	0.0000
Observations	279	
Model fitness (R^2)	52.59%	

Source and Note: See Table 5.

CONCLUSION

It turns out that during 2008-17, in 17 of the 28 EU states (Bulgaria, Croatia, Czechia, Denmark, Hungary, Lithuania, Malta, Romania, Sweden, Slovenia, Finland, France, Germany, Italy, Luxembourg, Slovakia, Portugal) the long-term trends of the two measures were similar. Understandably, the GDP is also affected by other factors (esp. in the other member-states). In two of the 17 states and in two of the other states more than 70% of new businesses survived three years later, and in four of the former and three of the latter, businesses born five years earlier employed more than 3% of all employed in the private sector. In all states, by and large, new companies were and remained small staffwise. If the practices and policies employed in type A countries, esp. the Rep. of Ireland, and Belgium-Sweden in the first half of the period, and Malta-Slovakia in the second half of the period, were employed by the rest, perhaps even more businesses might survive.

REFERENCES

- Acs, Z. J., Szerb, L. (2007). "Entrepreneurship, economic growth and public policy." *Small Business Economics*, 28(2-3), 109-122.
- Black K. 1992. *Business Statistics*. St. Paul MI: West Publishing.
- Bosma N., Hill S., Ionescu-Somers A., Kelley D., Levie J., Tarnawa A., Global Entrepreneurship Research Association (GERA). 2020. *Global Entrepreneurship Monitor – 2019.2020 Global Report*. London: GERA, London Business School.
- Cameron S. 2005. *Econometrics*. Maidenhead UK: McGraw Hill.
- Fox K.A. 1968. *Intermediate Economic Statistics*. New York: Wiley.
- Franzini L., Harvey A.C. 1983. "Testing for deterministic trend and seasonal components in time series models." *Biometrika*, 70.3: 673-682.
- Lee C.F., Chen H.Y., Lee J. 2019. *Financial Econometrics, Mathematics and Statistics: Theory, Method and Statistics*. New York: Springer.
- OECD. 2018. *OECD Regional Well-Being: A user's guide*. Paris: Organization for Economic Cooperation and Development.
- Schumpeter, J.A. (1934). *The Theory of Economic Development*. Cambridge, MA: Harvard University Press.
- Smith J. D., Duncan A. J. (1944). *Fundamentals of the Theory of Statistics*. New York: McGraw-Hill.
- Wennekers, S., Van Stel, A., Carree, M., Thurik, R. (2010). "The relationship between entrepreneurship and economic development: Is it U-shaped?" *Foundations and Trends in Entrepreneurship*, 6(3), 167-237.
- Wong, P. K., Ho, Y. P., Autio, E. (2005). "Entrepreneurship, innovation and economic growth: Evidence from GEM data." *Small Business Economics*, 24(3), 335-350.



Infrastructure of the Modern Market Economy

Zalina Murtazalieva

Rostov State University of Economics
Rostov-on-don, Russia
zalli.murtazalieva@mail.ru

Sofia Pogorelova

Rostov State University of Economics
Rostov-on-don, Russia
sofia.pogorelova2001@mail.ru

ABSTRACT: *This article discloses accurately and briefly the issue of the formation and development of the infrastructure of the modern market economy, highlights its main elements and characterizes the classifications of market infrastructures. The paper also analyzes the problematic aspects of infrastructure in Russia, its features and stages of development in the country. The work ends with the generalization of facts confirming the importance of improving the market infrastructure and the conditions necessary to increase the efficiency of its development.*

Keywords: *market infrastructure, government regulation, infrastructure elements, economic policy, strategy, sustainable development.*

INTRODUCTION

The formation of market relations is a long historical process, which originates in the period of decomposition of the primitive communal system. However, commodity-money relations reach their heyday only in the 16th-17th centuries. The formation of the market is based on the development of the social division of labor. The concept of a “market” in a broad sense is a set of trade processes, acts of purchase and sale, regardless of their place of origin.

RESULTS

Definition, Functions and Actors of the Market Infrastructure

The market economy presupposes the high level of market development and is characterized by such basic features as freedom of entrepreneurship, free pricing (government intervention in the process of setting prices for many types of goods is excluded, prices provide extensive operational information about the supply and demand of goods, about production costs, about the situation in the markets of certain regions, countries and the world community); competition (regulates prices and quantities of goods produced). Ultimately, any subject, pursuing its own interests, more effectively serves the interests of society (Small Business Resource Center, 2012).

The emergence of the market led to the emergence of new organizations, institutions that ensure its functioning. The market forms its infrastructure. Narrow and wide interpretation of the “market infrastructure” concept should be distinguished. In the first case, the market infrastructure is interpreted as a system of organizations, institutions and services serving the functioning of the structural units of the market. In the broad sense, the market infrastructure is considered as a set of material, technical and organizational and economic conditions that ensure the normal functioning of the sphere of commodity circulation and acts of sale and purchase.

Market infrastructure is a collection of institutions, government and commercial firms and organizations that ensure the successful functioning of all types of markets. The market forms its infrastructure (Tyutyukina, 2014).

Market infrastructure functions are:

- making it easier for participants in market relations to realize their interests;
- increasing the efficiency and effectiveness of market entities based on specialization;
- organizational registration of market relations;
- facilitating the forms of legal and economic control, state and public regulation of business practice (Tormysheva, 2012).

Thus, the market infrastructure is a set of market institutions that serve and ensure the movement of goods and services, capital and labor. It includes:

- commodity and stock exchanges;
- trading houses;
- labor exchanges;
- information and commercial centers;
- wholesale and intermediary firms;
- supply and sales organizations;
- insurance companies;
- auctions, fairs;
- centers of marketing, training of managers, brokers, dealers and other services (Kozlov, 2013).

Market Infrastructure Activities, Elements and Characteristics

Market infrastructure institutions are understood as a set of enterprises that ensure the functioning of market relations, the successful operation of all types of markets. At the same time, infrastructure activities include:

- activities for the collection, generalization and dissemination of economic information;
- activities for special market research in order to increase sales;
- activities for the public presentation of information about economic entities, goods and services;
- activities to assess individual economic entities and tools for their activities.

The main elements of the infrastructure of the modern market are:

- 1) exchanges (commodity, raw materials, stock, currency), their organizationally formalized intermediation;
- 2) auctions, fairs and other forms of organizational non-exchange intermediation;
- 3) credit system and commercial banks;
- 4) emission system and emission banks;
- 5) the system of regulation of employment of the population and the center of state and non-state employment assistance (labor exchange);
- 6) information technology and means of business communication;
- 7) tax system and tax inspection;
- 8) the commercial economic risk insurance system and insurance companies;
- 9) special advertising agencies, information centers and media agencies;
- 10) chambers of commerce, other public, voluntary and state associations (associations) of business circles;
- 11) customs system;
- 12) trade unions of employees;
- 13) commercial and exhibition complexes;
- 14) the system of higher and secondary economic education;
- 15) audit companies;
- 16) consulting (consulting) companies;
- 17) public and state funds intended to stimulate business activity;
- 18) special zones of free enterprise.

The market infrastructure is one of the subsystems of the regional economy, which is designed to provide the necessary conditions for the formation of developed market relations (Novikova, Gorskaya, 2015).

The market infrastructure of the region can be classified according to a number of characteristics:

1. Functional characteristics:
 - trade and intermediary infrastructure;

- financial and credit infrastructure;
 - economic information infrastructure;
 - economic and legal infrastructure;
 - foreign economic infrastructure.
2. On the basis of servicing the markets:
- general market, universal;
 - serving several different markets;
 - serving selected markets.
3. Spatially:
- international;
 - national;
 - interregional;
 - regional;
 - city and district.
4. By forms of ownership:
- private, cooperative, state forms of ownership;
 - owned by public organizations;
 - owned by foreign owners;
 - mixed ownership.
5. By organizational and legal forms:
- business partnerships and companies;
 - associations of persons (general partnership, limited partnership (limited partnership), limited liability company; joint stock company, production cooperatives (artels), unitary enterprise).
6. By ownership of capital:
- national;
 - foreign;
 - mixed;
 - joint (Gerasimov & Grigoryan, 2014).

Market Infrastructure Formation Stages

At the turn of the 1980s-1990s in Russia (RSFSR), an active transition from an administrative-planned economic system to a market economy began. At that time, economic discussions

under the influence of the neoclassical paradigm dominated by the point of view that its completion is identical to solving the problems of macroeconomic stabilization, liberalization and privatization (“SLP”).

However, by the mid-1990s, it became obvious that the solution of these problems unambiguously testifies only to the elimination of the previous economic mechanism - the administrative-planned economic system. Of course, the complex of measures "SLP" is a necessary condition for the formation of a market economy, but not sufficient. To formulate a complete set of conditions for this transition, it is necessary to determine the qualitative characteristics of both the market mechanism (the goals of reforms) and the administrative-planning system (the initial point of transit) (Dumnaya & Nikolaeva, 2012).

The formation of the market infrastructure, which began simultaneously with the ongoing market transformations of the economy, is a rather lengthy process, consisting of several stages. Taking into account the state of the infrastructure elements and the degree of their maturity, as well as the level of development of market relations in the economy, the process of development of the market infrastructure of Russia can be divided into three main stages:

Stage 1: 1985-1992 - connected, first of all, with the beginning of the development of elements of market relations in the Russian economy. It can be called the stage of the emergence of market infrastructure, since it was during this period of time that the prerequisites for the creation of infrastructure as a subsystem of the market economy were being formed. The emergence of a stable demand for the services of certain institutions of the market infrastructure caused a surge in their creation. Banking structures, insurance companies, commodity and currency exchanges, and investment institutions begin to develop at an especially significant pace during this period.

Stage 2: 1992-1998 - characterized by the continuation of the formation of the most important elements of the market infrastructure in the Russian economy and the establishment of stable, necessary connections between them. At the same time, the infrastructure at this stage is uneven. Financial institutions have reached a relatively high level in their development, as well as institutions that provide intermediary services in the process of circulation of final consumption goods.

Stage 3: from 1999 to the present - characterized by the functioning of the market infrastructure with its simultaneous qualitative improvement. The main feature of the current stage of formation of the market infrastructure is the tendency towards the consolidation of its similar institutions. Consolidation processes are typical for the financial, insurance and commodity markets.

The processes of consolidation and corporatization in the commodity market developed in 200-2004. The consolidation of trade enterprises is taking place through the creation of trade networks throughout Russia. Network trade is actively developing not only at the all-Russian level, but also at the municipal and regional levels. A new and promising direction for the development of the commodity market is the creation of network trade alliances or associations. Such associations (alliances) are created between retail chains operating on different product markets, and they can also include manufacturers. This allows you to concentrate resources, multiply the effect of the scale of activities due to the diversity of participants (Ponomaryov, 2012).

Market Infrastructure in Russia

The simultaneous formation of the market infrastructure and the environment for its functioning, as well as the chosen methods and pace of transformations predetermined the distinctive features of the process of establishing market infrastructure in the Russian Federation:

- 1) The creation of market infrastructure institutions took place anew, in other words, “from scratch”.
- 2) The dynamism of the formation of market infrastructure institutions, the lack of coordination and regulation on the part of the state at the first stages of its formation led to the spontaneity, undulating and spontaneous nature of this process.
- 3) The market infrastructure of Russia is notable for its uneven development. Financial institutions and institutions that provide intermediary services in the process of circulation of final consumption goods have reached a relatively high level in their development.
- 4) State protectionism in relation to Russian institutions of market infrastructure has led to the fact that they are less competitive in comparison with their foreign counterparts. High protectionist barriers to entry close the market infrastructure and impede the development of large-scale competition.
- 5) There are regional imbalances in the distribution of the institutions of the market infrastructure of Russia (Tyutyukina, 2014).

CONCLUSION

Thus, the modern market economy is a management system, the functioning and effective development of which is ensured by the state of its infrastructure, the maturity of the existing market institutions. Currently, there is an expansion and complication of the functions performed by the infrastructure, its role in the process of organizing and functioning of various types of the

market is increasing. It is mainly the state of the infrastructure that ensures the effective reproduction of commodity relations, contributes to the stability and economy of the functioning of the existing markets. In this regard, the requirements for the market infrastructure, for its general configuration and individual elements are changing. The infrastructure corresponding to the new conditions creates conditions for the stable functioning of the economy and the realization of the potential inherent in market relations (Kozlov, 2013).

REFERENCES

- Dumnaya, N.N., Nikolaeva, I.P. (2012). *Sovremennaya ekonomicheskaya nauka [Modern economic science]*. Moscow: UNITI-DANA.
- Gerasimov V. M., & Grigoryan F. R. (2014). *Protivorechiya finansovogo vzaimodejstviya bankovskogo i real'nogo sektorov ekonomiki sovremennoj Rossii [Contradictions of financial interaction between the banking and real sectors of the economy of modern Russia]*. Moscow: Dashkov and K.
- Kozlov, I.A. (2013). *Ekonomicheskaya model' Rossii XXI veka. Issledovaniya po opredeleniyu parametrov sozdavaemoj ekonomicheskoy modeli Rossii XXI veka [The Russian economic model of the XXI century. Research to determine the parameters of the created economic model of Russia in the XXI century]*. Moscow: Creative Economy.
- Novikova, Ye, & Gorskaya, Yu.A. (2015). *Organizatsiya kommercheskoj deyatel'nosti v infrastrukture rynka: uchebnoe posobie dlya studentov obuchayushchikhsya po napravleniyu podgotovki 38.03.06 "Torgovoe delo" [Organization of commercial activity in the market infrastructure: manual for students of the area of studies 38.03.06 "Trade"]*. Saratov: Plekhanov Russian University.
- Ponomaryov, A.A. (2012). *Integratsiya proizvodstva kak faktor povysheniya konkurentosposobnosti ekonomiki Rossii v usloviyakh globalizatsii [Integration of production as a factor of increasing the competitiveness of the Russian economy in the context of globalization]*. Moscow: Dashkov and K.
- Small Business Resource Center. (2012). *Kontseptsiya razvitiya bizness-inkubatorov v Rossijskoj Federatsii [The concept of developing a network of business incubators in the Russian Federation]*. Retrieved from <https://www.rcsme.ru/>
- Tormysheva, T. A. (2012). Ways to activate innovative activity on the basis of business incubators and tech parks. *Innovation and Investment*, 2, 99-103.
- Tyutyukina, Ye. B. (2014). *Investitsii i innovatsii v real'nom sektore rossijskoj ekonomiki: sostoyanie i perspektivy [Investment and innovation in the real sector of the Russian economy: status and prospects]*. Moscow: Dashkov and K.



Patterns and Shifts in the Labor Market Equilibria in Manufacture in the EU and the Balkans During 2008-2017

Evangelia Papadopoulou

Athens University of Economics & Business
Athens, Greece

evangeliapap99@gmail.com

Panagiotis Pavlou

Athens University of Economics & Business,
Athens, Greece

takis300799@gmail.com

ABSTRACT: *The paper looks into the evolution of the labor market equilibria (price and quantity combinations) observed in each type of business (very small, small, small-to-medium, medium sized, large) and overall in manufacture, across EU member states and Bosnia & Herzegovina, from 2008 to 2017. The findings lead to a number of conclusions and may be useful for identifying desirable economic and social development models across Europe.*

Keywords: *Europe, manufacturing sector, labor market equilibria, patterns, size of business*

INTRODUCTION

The paper looks into the evolution of labor market equilibria (price and quantity combinations) observed in manufacture overall, as well as in small, medium-sized and large manufacturing businesses (see Table 1), across a good number of EU member-states and in Bosnia & Herzegovina from 2008 to 2017, on the basis of the annual structural business statistics supplied by Eurostat (<https://ec.europa.eu/eurostat/data/database>). (The Danish, French, Maltese, Slovenian and other Balkan data were either very incomplete or missing.) The purpose is to provide insights on how these labor markets responded, through shifts in their supply and demand schedules, to the international financial crisis of 2008 and the subsequent national, international, sectoral developments.

While the study of labor market equilibria, trends and issues, and of the small, medium-sized and large businesses is central to European integration (e.g., EU, 2018, and the sources cited therein), to the best of our knowledge no one has looked into the them in the manner attempted in hereinafter.

Table 1. Classification of businesses in the EU

	(in million euro)		
	Staff headcount and total	(a) Turnover	or (b) Balance sheet
Micro (very small)	< 10	≤ 2	≤ 2
Small	< 50	≤ 10	≤ 10
Medium-sized	< 250	≤ 50	≤ 43
Large	≥ 250	> 50	> 43

Source: EU recommendation 2003/361(2003).

THE THEORY BEHIND THE GRAPHS CONSIDERED IN THE ANALYSIS

Following the established way of presenting, discussing and analyzing labor markets (e.g., Greenlaw and Shapiro, 2019), Figure 1 supplies an example which features the quantity in terms of the total hours worked by the employees (L) on the horizontal axis, and the price in terms of the average hourly wage (W) on the vertical axis. The hourly wage is proxied via the division of the wage and salary sum by the total hours worked by employees. If the labor supply (LS) shrinks on account of, say, (a) a rise in job openings or wages offered in other sectors, (b) stricter immigration policies, (c) a population bust, (d) a change in work/leisure preferences or (e) other reasons, and the shift dominates the shift (if any) of the labor demand, then *ceteris paribus* the equilibrium (E) moves up and to the left (new equilibrium: E₁) (see Figure 2.a and the 2008-09 and 2013-14 movements in Figure 1). Conversely, if the LS expands then the equilibrium moves down and to the right (Figure 2.b). And if the labor demand (LD) expands on account of, say, (i) the prices of the goods produced in the sector going down, (ii) a lower demand for the sector's domestically produced goods, (iii) the minimum wage or worker benefits going up, (iv) changes in production affecting a need for more labor or (v) other reasons, then the equilibrium moves up and to the right (see Figure 2.c and the 2009-13 and 2014-17 movements in Figure 1). Conversely, if the LD shrinks then the equilibrium moves down and to the left (Figure 2.d).

MAPPING THE EQUILIBRIA PATTERNS & DEVELOPING A TYPOLOGY

The average hourly wages and the total hours worked combinations observed in manufacture suggest the presence of eight patterns:

- I. The *ideal* for employees: Over time by and large the average wage went up (W↑) and the hours worked went down (L↓) in Belgium, Italy, Spain and Sweden. See Figure 3.

- II. The *German*: Over time by and large both the average wage and the hours worked went up (W, L↓) in Germany and Bosnia & Herzegovina. See Figure 4.
 - III. The *ideal turning German*: It started with the average wage going up and the hours worked going down, but after a point in time by and large the average wage and the hours of work went up in Austria, Bulgaria, Poland, Portugal, Slovakia and the Republic of Ireland. In Luxembourg the pattern recurs. See Figure 5.
 - IV. The *ideal turning recessionary*: It started with the average wage going up (and the hours worked going down, but after a point in time by and large the average wage and the hours worked went down in Greece. See Figure 6.
 - V. The *recessionary turning German*: It started with the average wage and the hours worked going down, but after a point in time by and large the average wage and the hours of work went up in Czechia, Estonia, Hungary, Lithuania, Romania, and the United Kingdom. In Cyprus the two phases preceded by an *ideal* phase. See Figure 7.
 - VI. The *recessionary turning odd* (odd compared to the *ideal* pattern): It started with the average wage and the hours worked going down, but after a point in time by and large the average wage went down and the hours of work went up in Croatia. See Figure 8.
 - VII. The *ideal turning odd*: It started with the average wage going up and the hours worked going down, but after a point in time by and large the average wage went down and the hours of work went up in Finland. See Figure 9.
 - VIII. The *mixed*: with the average wage and the hours worked moving in several directions. In the case of the Netherlands ending with a lower average wage and more hours of work, and in the case of Latvia ending with a higher average wage and fewer hours of work. See Figure 10.
- Interestingly, at the disaggregated level both these and additional patterns emerge. For instance:
- a. The *recessionary*: Overtime by and large both the average wage and the hours worked went down. See Figure 11.
 - b. The *odd*: Over time by and large the average wage went down and the hours worked went up. See Figure 12.
 - c. The *mixed* (or *unclear*) turning *ideal*: It started with the average wage and the hours worked moving in several directions, but after a point in time by and large the average wage went up and the hours of work went down. See Figure 13.

Figure 1

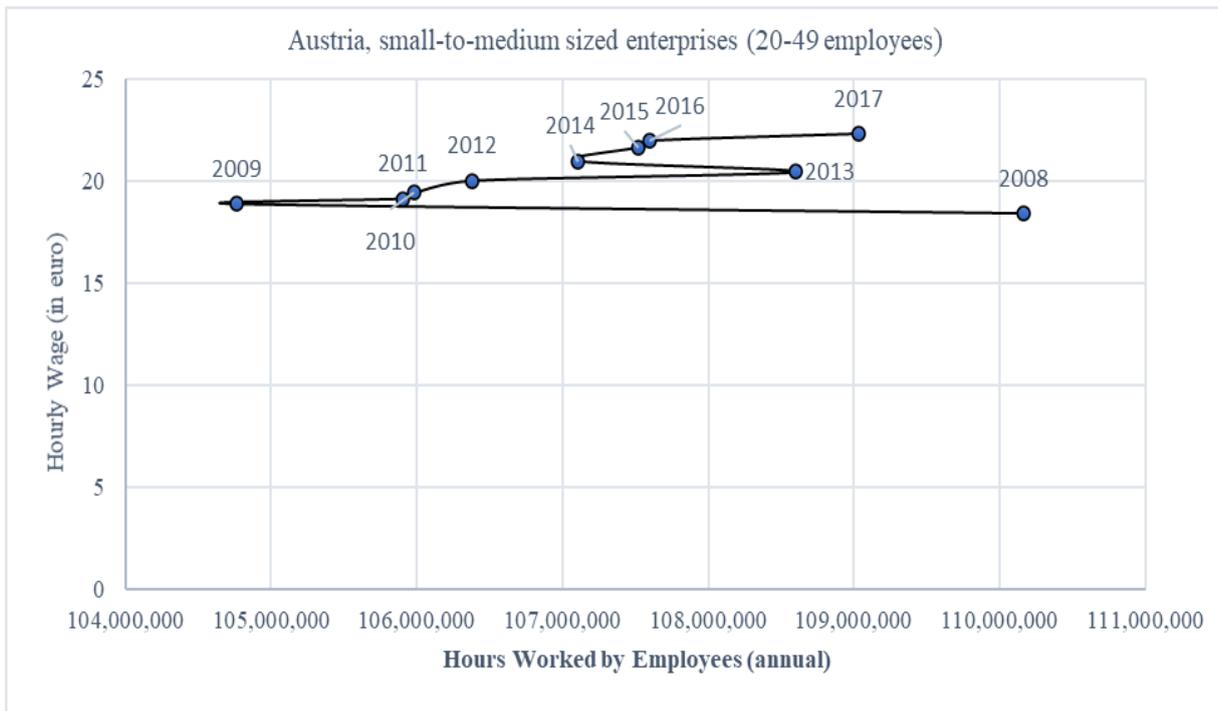


Figure 2

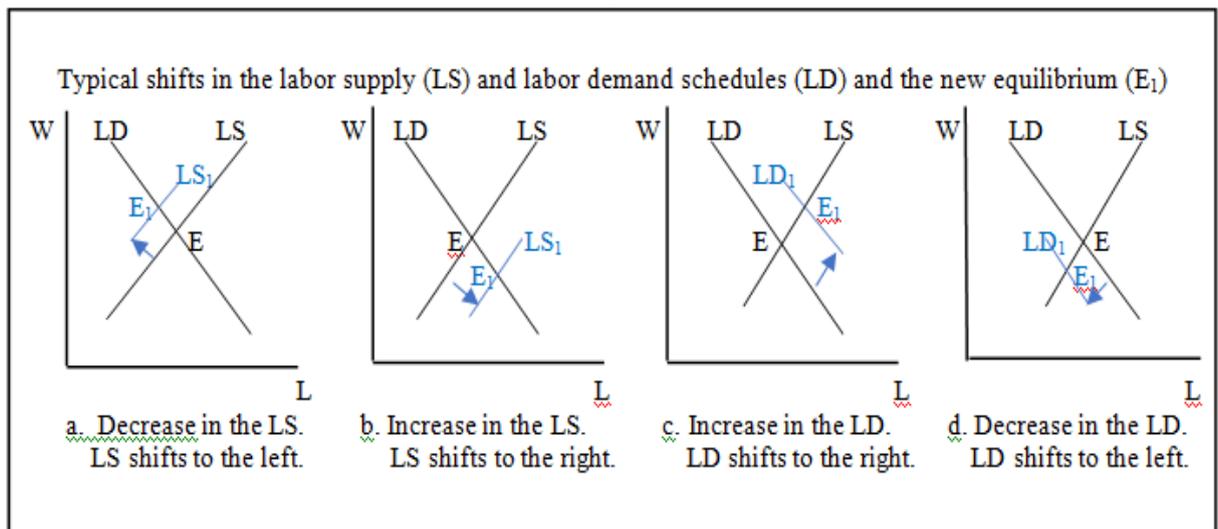


Figure 3
Patterns of generally increasing wages and decreasing hours of work

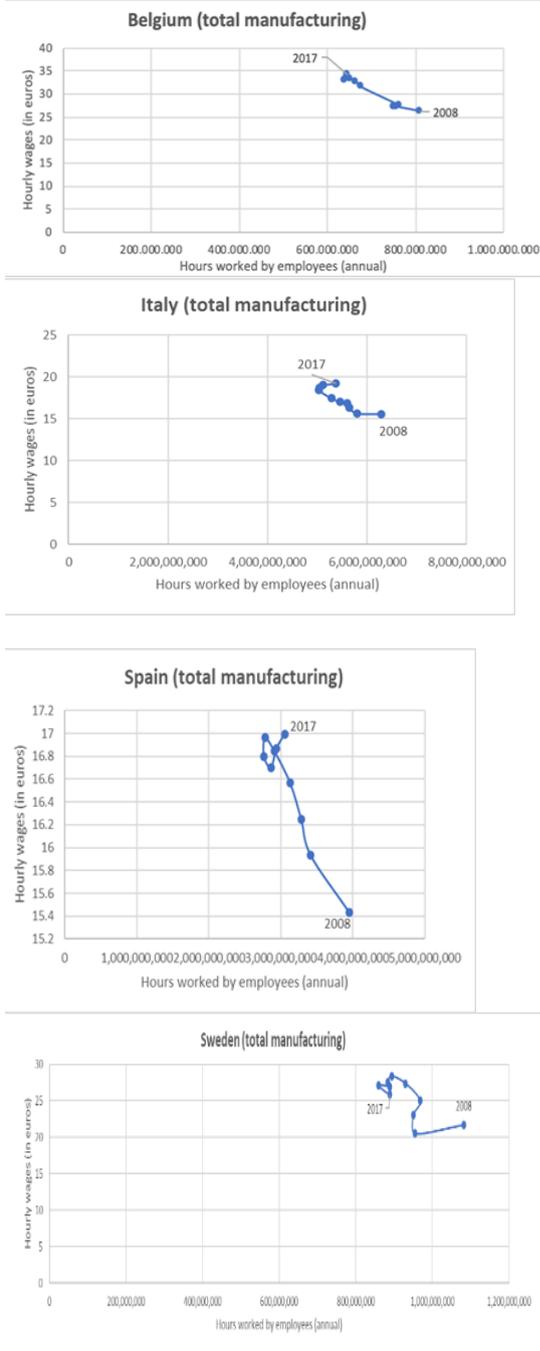


Figure 4
Patterns of generally increasing wages and hours of work

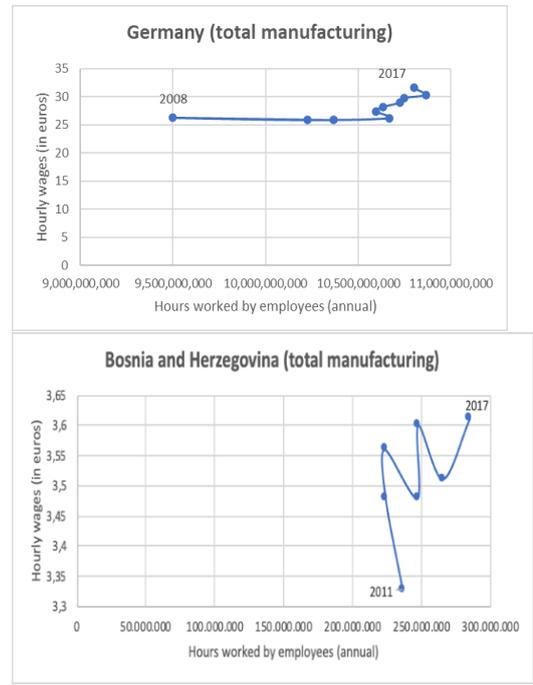


Figure 5
Patterns of generally increasing wages and decreasing hours of work followed by generally increasing wages and hours of work

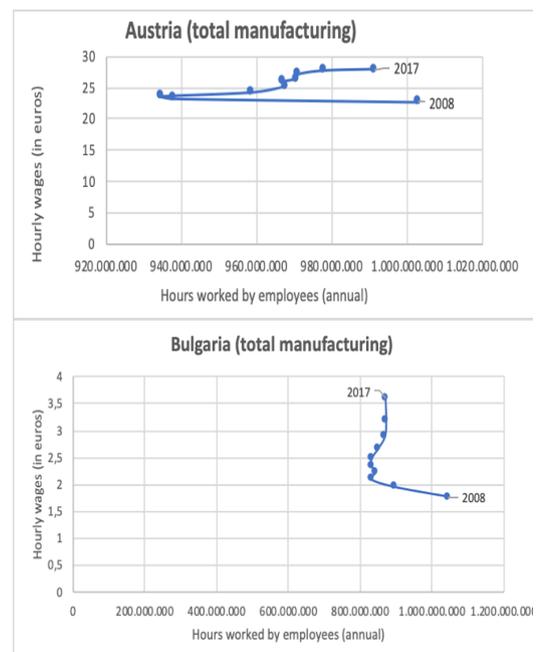


Figure 5 (continued)

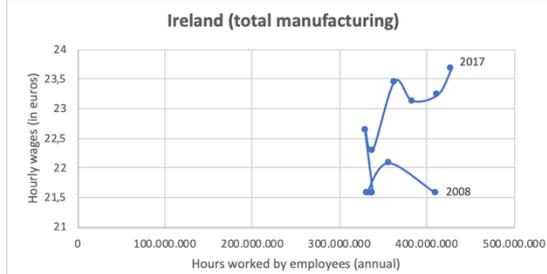
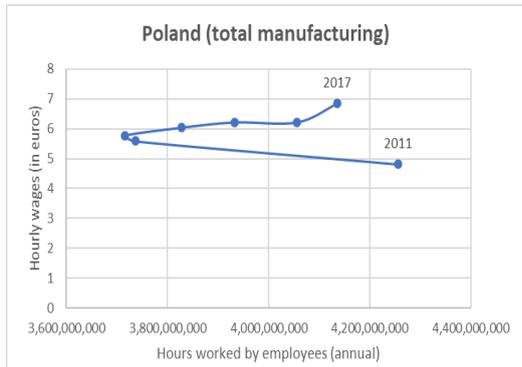


Figure 6

A pattern of generally increasing wages and decreasing hours of work followed by generally decreasing wages and hours of work



Figure 7

Patterns of generally decreasing wages and hours of work followed by generally increasing wages and hours of work

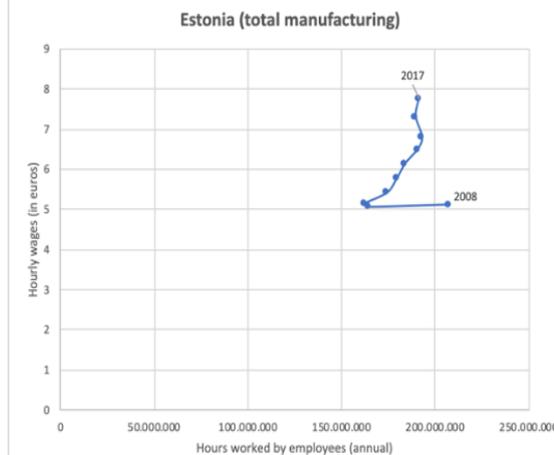
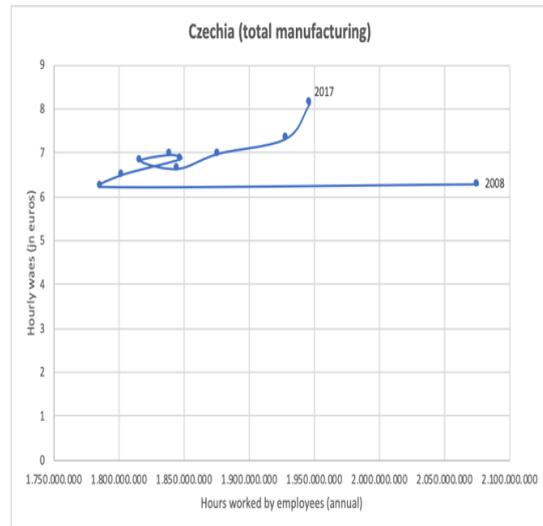


Figure 7
Patterns of generally decreasing wages and hours of work followed by generally increasing wages and hours of work

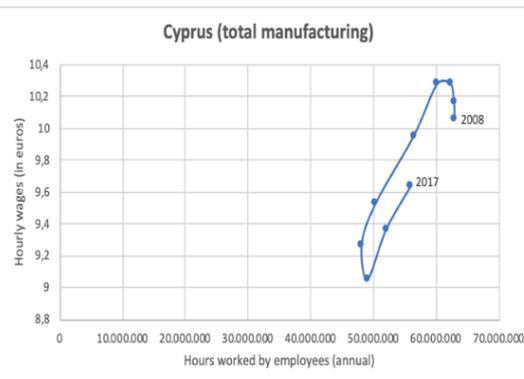
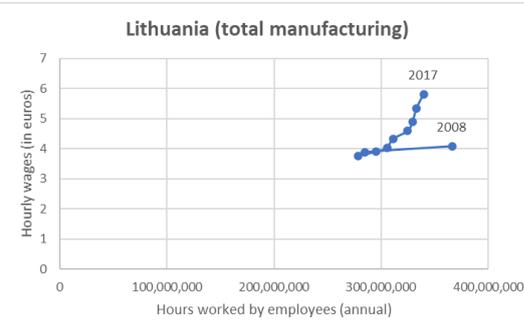
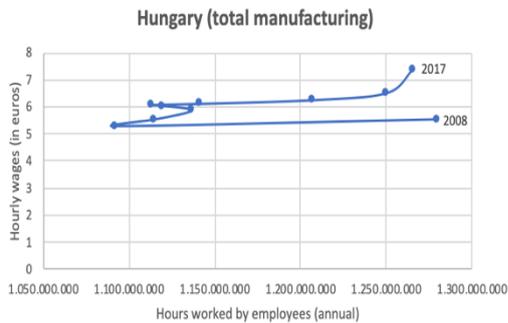


Figure 8
A pattern of generally decreasing wages and hours of work followed by generally decreasing wages and increasing hours of work

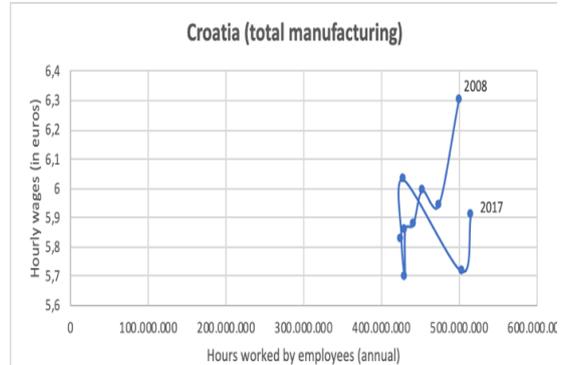


Figure 9
A pattern of generally increasing wages and decreasing hours of work followed by generally decreasing wages and increasing hours of work

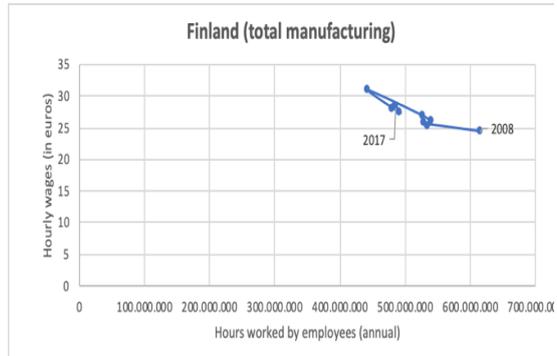


Figure 10
Wages and hours of work move in several directions

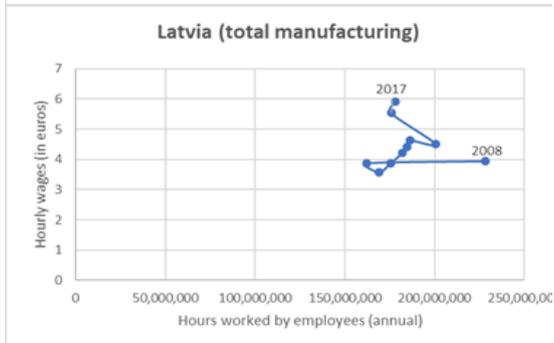
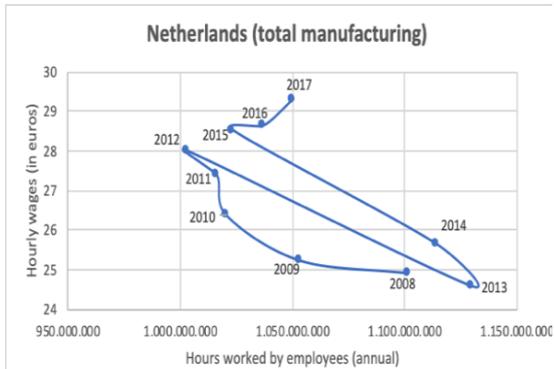


Figure 11
A pattern of generally decreasing wages and hours of work

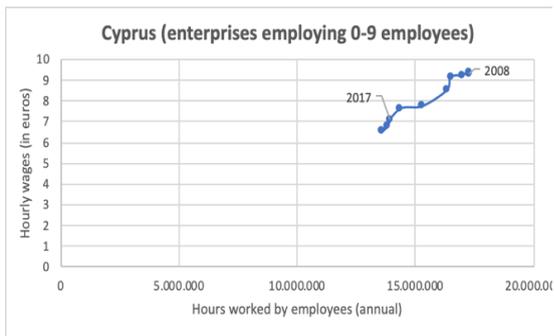


Figure 12
A pattern of generally decreasing wages and increasing hours of work

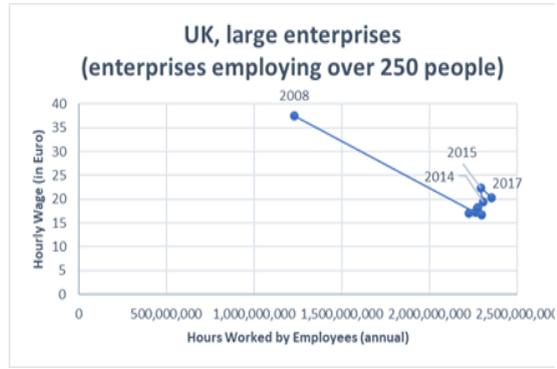
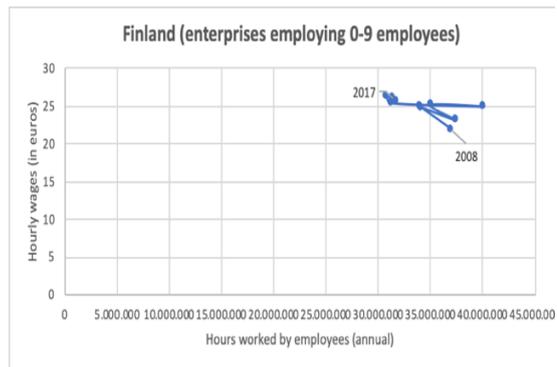


Figure 13
Wages and hours of work moved in several directions followed by generally increasing wages and decreasing hours of work



The information may be abridged as in Table 2.

Table 2
The patterns observed in manufacture overall and in the cases of businesses with staff 0-9, 10-19, 20-49, 50-249, and 250 people or more across the EU, 2008-2017

	Overall	Staff 0-9	Staff 10-19	Staff 20-49	Staff 50-249	Staff ≥ 250
1. Austria	III	I	I	III	III	III
2. Belgium	I	I	I	I	I	I
3. Bosnia & Herzegovina	II	VII	VIII	VIII	III	III
4. Bulgaria	III	I	I	I	I	II
5. Croatia	VI	VIII	VIII	VI	VII	VI
6. Cyprus	V	a	a	IV	V	VIII
7. Czechia	V	I	I	I	I	III
8. Estonia	V	c	III	V	III	III
9. Finland	VII	c	VII	VII	VII	I
10. Germany	II	VII	VII	oo of VII	oo of VII	V
11. Greece	IV	IV	VII	VII	VIII	VIII
12. Hungary	V	a+I	a+I	a+III	a+oo III	V
13. Italy	I	I	I	I	I	III
14. Latvia	VIII	VIII	c	c	VIII	VIII
15. Lithuania	V	V	III	c	V	V
16. Luxembourg	III	I	-	III	VIII	III
17. Netherlands	VIII	c	IV+I	IV+I	VIII	IV+I
18. Poland	III	III	I	I	III	III
19. Portugal	III	c	I	III	III	VIII
20. Rep. of Ireland	III	III	a+V	VIII+II	III	VIII
21. Romania	III	VIII	V	a+oo of III	III+I	V
22. Slovakia	III	VIII+II	VIII	oo of III	III	III
23. Spain	I	IV+I	I	I	I	VII
24. Sweden	I	I	I	V+I	c	c
25. United Kingdom	V	III	VIII	c	c	b

Key:
I: W↑, L↓. II: W, L↑. III: I→II. IV: I→a. V: a→II. VI: a→b. VII: I→b.
a: W,L↓. b: W↓, L↑. c: b→I. VIII: W and L move in several directions.
oo: Opposite order of.

CONCLUSIONS & SUGGESTIONS

Overall, there exists considerable pattern diversity and heterogeneity across the countries under examination. Despite (a) the free movement of workers within the EU, and (b) the manufacturing sector by and large operating in the same legal, funding, competition, export – and, in most cases, even the same monetary- framework, the national labor markets appear to respond differently to developments: Even in the cases of eurozone member-states, such Spain, Portugal, Greece, Cyprus and the Rep. of Ireland, which went into multi-year debt crises and adopted restrictive policies, the labor market equilibria diverged. Likewise, in the cases of

eastern member-states with overall patterns featuring considerable similarities, the labor supply situation and the labor demand shifts faced of the small or medium-sized or large businesses turn out to have varied considerably (e.g. by Estonia and Lithuania in Figure 7 and Table 2 (lines 8 and 15)). In addition, the overall patterns may or may not resemble the patterns observed in the small or in the medium-sized or in the large businesses. These are things that EU policy makers and national agents engaging in labor market or broader economic and social interventions may want to keep in mind.

In our view, perusing the findings may help analysts and policy makers identify cases (market features) that they find appealing, and, facilitate the consideration (and adoption) elsewhere in Europe of the elements or practices deemed desirable.

REFERENCES

- European Commission (2018). *Employment and Social Developments in Europe 2018*. Luxembourg: Publications Office of the European Union.
- Greenlaw S.A., & Shapiro D. (2019). *Principles of Economics, 2e*. Houston: Rice University.

From the Great Depression to the Great Recession: Applied Rethinking

Vladislav Peychev

Rostov State University of Economics
Rostov-on-Don, Russia
peychev.vladislav@yandex.ru

Karina Malsagova

Rostov State University of Economics
Rostov-on-Don, Russia
karina.malsagova@mail.ru

ABSTRACT: *This article describes the essence and types of global economical crises and their impact on various sectors of the economy. The article provides a detailed study of the causes and mechanisms of economic crises, as well as an approximate forecast for the next few years.*

Keywords: *an economic crisis, world economic crisis, the financial sector, the recession, the great Depression*

Modern society strives for continuous improvement of living standards and conditions that can only be achieved by sustained economic growth. However, observations show that long-term economic growth is not uniform, but is constantly interrupted by periods of economic instability and even crises.

An economic crisis is a significant imbalance in the economic system, often accompanied by losses and disruption of normal relations in production and market relations, which ultimately leads to an imbalance in the functioning of the economic system as a whole.

The object of our research is the crisis processes in the economy.

The goal was to study economic crises and analyze their impact on the economy.

The subject of the research is the essence of economic crises and their impact on the economy of different countries.

At the beginning of the 20th century, the redistribution of income from the poor to the rich in the American economy reached its maximum level. The role of the state was negligible, there were practically no programs to help the poor, and the income of the rich was very slightly limited. There was a reduction in demand, a decrease in motivation for labor activity among the majority of the population, and a crisis occurred. The decrease in motivation due to the large difference in income made even the policy of "cheap" money ineffective. There was also

no increase in demand from abroad, and the US at that time followed a policy of isolationism. The result was one of the largest crises in the history of the "great depression".

The great depression was a global economic crisis that began on October 23, 1929, with the wall street stock market crash in the United States and lasted until 1941 (most acutely from 1929 to 1933).

The great depression most affected the United States, Canada, the United Kingdom, Germany, and France, but was felt in other States as well. Industrial cities suffered the most, construction almost stopped in a number of countries, and prices for agricultural products fell by 40-60%.

From the point of view of J. M. Keynes, the cause of the crisis was the lack of money supply. At that time, money was tied to the gold reserve, which limited the money supply. At the same time, production grew, and at the turn of the century, new types of goods such as cars, planes, and radios appeared. The number of products, both gross and assortment, has increased many times. As a result of the limited money supply and the growth of the commodity mass, there was a strong deflation - a fall in prices, which caused financial instability, the bankruptcy of many enterprises, and non-repayment of loans. A powerful multiplier effect has hit even growing industries.

The great Depression had significant consequences, both for the US economy and for the global economy as a whole. In the United States, the following happened: a large number of banks closed, deflation appeared and real estate prices collapsed, industrial production decreased by 2 times, unemployment rose to 12 million people, many farmers went bankrupt, and the grain harvest fell by 2 times. The great depression, in contrast to the financial crisis, affected the real sector of the US economy.

For 1929-1932. US GDP fell by 30%

Unemployment rose from 3% to 25% (even in 1937, the unemployment rate was 14.3%)

Net investment in 1931-1935 was negative

Stock market activity from September 1929 to March 1933 fell by 80%

The consumer price index fell by 25 in the same period%

In great Britain, the Great Depression contributed to the recovery of the economy and the influx of investment in old industries, for France, the loss of positions in world markets, in Germany, as a result of the depression, the national socialists led by Hitler came to power, and in Italy, the beginning of the formation of fascism, other European countries also suffered significantly from this global crisis. As a result, we can say that the Great Depression that began in the United States led to World War II.

The first post-war crisis of 1957-1958 was a global economic crisis that began in the United States. The reason was the mass bankruptcy of railway companies and the collapse of the stock market. The collapse in the stock market triggered a crisis in the American banking system. The crisis was caused by overproduction, the collapse of the colonial system, and the rise in oil prices due to the joint aggression of Israel, Britain, and France against Egypt in the fall of 1956.

The center of the world economic crisis of 1957-1958 was located in the United States. The US weekly industrial production index fell 14 percent over the year. Its decline was particularly strong in the production of capital goods and durable goods. Metallurgical production decreased by 26 percent, and production of transport equipment — by 15.9 percent. Production of passenger cars decreased by 46.4 percent. Investment in manufacturing fell sharply by 29.8 percent, and in rail transport by 47.5 percent. The annual volume of exports fell by 16 percent. The average monthly number of unemployed in the United States in 1958 was 4.7 million, or 6.8 percent of the total number of employees. There was a significant decline in the standard of living of the working masses.

At the same time, there was a drop in production in Canada, England, Belgium, the Netherlands, Sweden, Norway and Finland. Production growth rates decreased in France and Germany. Production growth in Japan and India has stopped. Despite the high economic situation in a number of countries, industrial production in the capitalist world as a whole declined by 5 percent in the second quarter of 1958 compared to the second quarter of 1957. The fact that the crisis of 1957-1958 occurred simultaneously in all developed countries showed that the world economy remained cyclical. The number of unemployed reached almost 10 million people.

Giving a macroeconomic indicator of GDP, during the recession it was 3.3%, and the unemployment rate was 8.1%, which is the largest decline in GDP and the highest excess of unemployment between 1945 and 1970.

The 1973 oil crisis is the first oil crisis in history, which is also known as the “Oil embargo”. It is currently considered the largest energy crisis in history.

This crisis began on October 17, 1973, with the Declaration of all the Arab member countries of OAPEC, as well as Egypt and Syria, that they would not supply oil to countries that supported Israel during the Yom Kippur War (the conflict with Syria and Egypt). As a result, oil prices have increased. This was another reason for the crisis, as the US was heavily dependent on cheap energy. The price of oil jumped from \$ 2.7 per barrel to \$ 11 per barrel. The American economy was not ready for such expensive oil.

During the crisis, US residents were encouraged to save energy. They were offered less use of cars, the same applied to some European countries. In the US, airlines had to reduce the number of flights, restrictions on the use of polluting coal were temporarily lifted, limits on imports of oil and unprocessed oils were lifted, and oil companies significantly raised the prices of gasoline, diesel fuel and aviation kerosene. In France, many businesses were converted to coal. The governments of Germany and the Netherlands were forced to impose a ban on the use of motor vehicles on weekends. In France, the number of bankruptcies in 1974 was a third higher than last year. In the UK – half.

The consequences of the Oil embargo were manifold. The International Energy Agency was created to maintain a balance of supply and demand in the energy market. In the United States, the share prices of leading companies fell by 30%, energy consumption standards for citizens were introduced, industrial production decreased by 13%, and oil production from the continental shelf increased. Also in the United States and in many other countries, backup oil storage facilities were created. In Europe, there was a general reduction in the industry of the leading countries by 14%, as well as a collapse of the stock market. In France, a strict energy saving policy was adopted. For the USSR, the consequence of the crisis was a sharp increase in oil exports. The share of oil in Soviet exports increased from 17% to 31% in 2 years.

If we look at the real GDP indicator, we will see that in 1971 this indicator increased by 3.3% compared to 1970, in 1972 – by 5.3%, in 1973 – by 5.6%, and in 1974 and 1975 the GDP growth was -0.5% and -0.2%, respectively, and only by 1976 the GDP growth was again 5.3%. That is, from 1973 to 1976, we can observe a U-recession.

The 1997-1998 Asian financial crisis was an economic crisis in South — East Asia that broke out in July 1997 and caused a major shock to the world economy in the late 1990s.

In the middle of the last decade of the twentieth century, the countries of the region, including Thailand, the Philippines, Malaysia, Indonesia, and South Korea, experienced a period of rapid economic growth. This growth was largely financed by foreign loans, stimulated by the liberal monetary policy of the US Federal Reserve and favorable credit conditions in local currencies.

The crisis began in Thailand with the collapse of the Thai baht. These events were followed by a currency crisis in Asian economies. The baht depreciated by almost 50 percent, and at the height of the crisis almost completely. And the Indian rupee lost more than 200 percent. Japan managed to get out of this situation relatively successfully. The yen lost no more than a quarter of its value against the US dollar. The crisis has also started in the banking sector.

Large amounts of unreliable loans were affected, as well as a General decline in prices in major markets. Also, during the crisis, inflation increased and the volume of corporate debt increased.

As a result of the Asian crisis of 1997-1998, the exchange rates of national currencies and stock indexes fell significantly, capital markets closed for local companies, large corporations went bankrupt, and popular unrest contributed to the fall of governments. To a certain extent, the events of 1997 in Asia also affected other markets, including Russia, where the financial crisis also occurred a year later. The last echo of the crisis was the Argentine default of 2001.

Take, for example, the real GDP indicators of two countries: Indonesia and Thailand. We can see similar changes in this indicator in these countries from 1996 to 2000. The small difference is that Thailand has a slightly larger interval of reduced real GDP over these years. In Indonesia, we see a pronounced V-recession.

Consider the situation that is happening in the world now:

According to the ratings agency Fitch, world GDP to fall by 4.4% in 2020. This would still be more than twice as deep as the great recession in 2009 but it is less severe than the 4.6% decline we expected in June and represents the first upgrade to our 2020 global GDP forecast this year. We expect US GDP to contract by 4.6% in 2020, 1pp less than the 5.6% decline expected in the June GEO. The downturn in 2Q20 was slightly less severe than expected, recent consumption data have been particularly strong, and unemployment has fallen faster than anticipated. We have revised China's 2020 GDP growth forecast to 2.7% from 1.2% in June following the stronger-than-expected 2Q20 outturn and continuing recoveries in investment, housing and exports through July. By contrast, we now expect Euro zone GDP to fall by 9.0%.

Making a forecast for the near future, we can note that since the coronavirus is far from localized, social distancing and restrictions are likely to continue until 2021, and consumers are likely to remain cautious in light of the sharp increase in unemployment that has already occurred in the US and is expected in Europe later this year. It also looks like the business will reduce investment. We also believe that technology companies are gaining more and more popularity in the stock market, the dot-com business is booming, and there are a lot of opportunities for companies that want to benefit from it. The question is, will investors and entrepreneurs be smarter this time around to avoid creating a second dot-com bubble?

Considering the fact that we live in a capitalist society, which Karl Marks spoke of a crisis is an inevitable phenomenon and an integral part of society, which brings the

consequences, but at the same time is a stimulus for the development of the economy and innovative products.

REFERENCES

- Baldin K.V., Bystrov O.F, & Rukosuev A.V. (2012). *Anti-crisis management: macro and micro levels.* / K.V. Baldin, O.F.Bystrov, p. 200
- Bogdan, A.A. (2010). *Tectology: General organizational science.* Third editio: <https://gtmarket.ru/laborato/basis/5909>
- Komorowski, P. (2017). The life cycle of a crisis / P. Komorowski // *Studia Ekonomiczne. Zeszyty Naukowe Uniwersytetu Ekonomicznego w Katowicach*, 325



Enhancing and Managing Competitive Economics and a Sustainable Business Environment in Romania

Ioana-Claudia Stoian

Alexandru Ioan Cuza University, Faculty of Economics and Business Administration,
Iași, Romania

ioanaclaudiastoian@gmail.com

ABSTRACT: *In our days, being competitive is a real challenge both in enhancing and managing actions. For a business, maintaining its competitiveness may lead to unethical practices which are far from sustainable. The purpose of this paper is to analyze the issue of sustainable economic development in Romania, and the questions that come up here are: “How can businesses contribute to sustainable development?” Does competitiveness determine businesses to become sustainable and as a result, support sustainable economic growth? Eco-innovation is a significant factor in influencing sustainable development and is one of the areas of primary interest in European Union policies to ensure a sustainable future, as well as the approaching of effective programs covering three major high priority areas, such as labor and quality of life, productivity and capital. Their development could be made possible by focusing on education and health, targeting the agricultural sector, and stimulating foreign investment. European funds, exports, and infrastructure development for connecting developed regions, increasing export competitiveness, and contributing significantly to encouraging business environment are considered to be equally important. The methods used to achieve the aim of the paper are analyzing the relevant statistical data and case studies of some businesses present in Romania.*

This paper contributes to the field of study by emphasizing on improving competitive performance and sustainable growth through the concept of green economy and investigates if companies are willing to implement eco-based management.

Keywords: *business environment, competitiveness, sustainability, eco-innovation, green economy, sustainable development.*

INTRODUCTION

Romania is a country with a high potential for development, starting from the natural resources it has, the potential to become an industrial powerhouse, hi-tech industry and ending with the capacity to become well known in the agricultural export sector, especially since in the 1980s, it was one of the leading countries in terms of agriculture, being called the “granary of Europe”. Currently, Romania's economy seems to be trapped by middle-income countries, in those countries that have not largely exhausted the potential for extensive economic growth and haven't developed the ability to capitalize the potential for investment, innovation and competitive differentiation to reach among developed countries.

The starting point of this paper consists in the serious environmental challenges such as climate change, the depletion of natural resources and biodiversity loss (EEA, 11 May 2020). In this context, economic research, social models, and the innovation of technologies that create

environmental benefits are really needed. Europe needs to do more with less and maximise efficiency at all stages of production. Environmental innovation can help European businesses to approach sustainable solutions which lead to a better use of precious resources and reduce the negative effects of our economy on the environment. In this way, eco-innovation can also help Romania deliver greater resource efficiency and green economic growth. However, even if eco-innovations offer companies various opportunities, the biggest problem occurs at the level of implementing the management model, where they either encounter difficulties or stagnate. For Europe, it has become a priority to boost eco-innovation, which can increase economic competitiveness while trying to reduce the visible differences between Western and Eastern Europe. (European Commission, 2013).

The paper emphasis on the necessity of the business environment to become aware of the importance of sustainable organizations. In this paper, will be analyzed the statistical data that ranks Romania among the last places in the top of European countries and will be carried out a case study, in which are highlighted the beneficial practices and methods approached in the area of sustainability by a number of 5 businesses from Romania.

Literature review

Sustainable development can be defined as sustaining a good quality of life for the present generations, without compromising the possibilities of the next ones to meet their own needs (Brundland Commission, 1987). A good question when it comes about sustainability is: „Can we do this over and over again?”. When the business is not sustainable, the answer is no. Sustainable development is achieved at the intersection of three important aspects that need to be achieved: social progress, economic development and climate and environment (United Nations, 2015).

The smarter the natural resources are used and the better systems are created for a fair distribution, the more sustainable the actions of companies. Therefore, is introduced the term of **eco-innovation**, which refers to the creation of new products and services with competitive prices, using fewer resources and creating less waste and pollution (Publications Office of the EU, 2011). Eco-innovation also leads to procedures designed to satisfy human needs and provide a better quality of life. It is closely linked to the way we use our natural resources, to how we produce and consume, so *eco-innovation encourages a shift among manufacturing firms from „traditional economy” solutions, to „circular economy” approaches that minimize material and energy flows by changing products and production methods – also bringing a competitive advantage across many businesses and sectors. (Publications Office of the EU, 2011)*

The transition to a “circular” economy (based on a life cycle), where the reuse of resources is as high as possible and the residual waste to reach almost zero, is indispensable when the business wants to become as sustainable as possible. In order to achieve such a goal, it is necessary to finance eco-innovation.

Investing in sustainable development and sustainable economic growth should be one of the main goals not only of Romania, but of the whole world. The countries with strong and visibly developed economies have begun to pay more attention to the environment. Thus, in order for Romania to be competitive in the area of the business environment, it must align itself with European standards in terms of a sustainable development. A clean and healthy environment is a precondition for maintaining prosperity and a high quality of life in Europe (European Commission, 2012). Why should we be interested in eco-innovation and its measurement? The first answer is the expected environmental benefits, and the second one is faced with the rising costs for producing goods and managing waste products, thereby the competitiveness of firms, countries and even regions becomes increasingly linked to their ability to ‘eco-innovate’. Developing and promoting new solutions is fundamental to unleashing the potential for economic benefits through cost savings, innovation and international trade. (UNU, 2009)

According to the Department of Sustainable Development, only those countries that encourage innovation, in addition to a resilient infrastructure and a sustainable industry can be competitive today. These three aspects are, of course, interconnected. Modern infrastructure is vital for economic growth, meaning that a sustainable infrastructure is the basis of a sustainable industry. Moreover, innovation is essential for an efficient and sustainable industry, which means that it is indispensable from the perspective of competitiveness in the 21st century. (United Nations, 2016)

A quality, reliable, sustainable and strong infrastructure, including regional and cross-border infrastructure, supports economic development and well-being people, with an emphasis on wide and equitable access for all. It also offers the possibility to businesses or training institutions, such as schools, from the less developed regions of Romania to have access and connection to the developed regions, realizing an indispensable uniformity and consolidation of sustainable development.

The purpose of this paper is to analyze sustainable economic growth in Romania from the perspective of companies that respect this type of management model. This approach can encourage the conservation of the ecosystem which we live in through ecological, economic and social approaches and also the competitiveness of other enterprises, in order to align with

European and world standards and to make them willing to implement a sustainable management.

First of all, in order to achieve the ones mentioned above, it will be made a brief review of the French approach to sustainability which introduces the term of “social responsibility”, along with ,”sustainable development”. The approach says that company's social responsibility consists in its contribution to the efforts for sustainable development. With this ultimate goal, companies must consider the effects of their best practices on the environment and society, in order to contribute to the progress of society and the protection of the environment (Responsabilite societale des empresas, February 15, 2013).

Analyzing the relevant statistical data

A brief analysis of the statistical data taken from the Eurostat research will support the direction towards the purpose of the paper. It can be observed, in Figure 1, a low efficiency of the use of material resources by the economy, in order to produce wealth in Romania. According to the European Commission, in 2017, Romania's ”productivity rate” was among the lowest in the European Union, standing at 0.33EUR/kg, compared to the European Union average, which is 2.04EUR/kg.

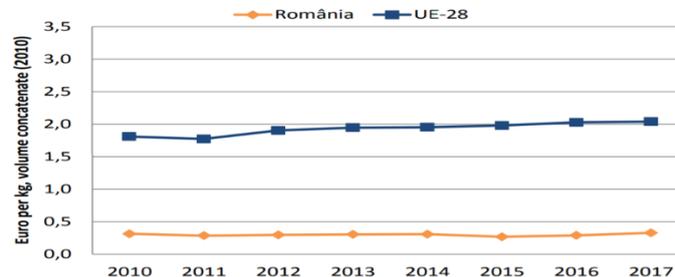


Figure 1. Comparison of the usage of material resources by the economy (Source: Eurostat, Resource productivity)

According to the “*Report on the evaluation of the implementation of EU environmental policies for 2019*”, in Romania, the number of employees in the environmental products and services sector increased from about 130,000 people in 2011 to about 155,000 people in 2015, but unfortunately, Romania still does not resort to many support measures for the efficient use of resources. The most developed measures are either implemented through third-party organizations or inspired by EU-funded projects, and focus on waste recovery and recycling. A mention, in this case, is that in terms of sustainability, most companies in Romania have a low level of awareness of environmental issues. There is a main motivation produced by the need to comply with regulations regarding the environmental practices and the choices are

generally influenced by financial considerations. On the other hand, even if not numerous, in Romania can also be find companies that are increasingly auditing their internal waste management practices, trying to find ways to improve it, which raises awareness of environmental issues.

It can be observed in Figure 2 that, in 2018, Romania ranked 24th in the dashboard on eco-innovation, with 66 points, well below the overall average score of the European Union. Romania ranks in the category of countries that "have to catch up" with the eco-innovation and with the proper management to achieve it.

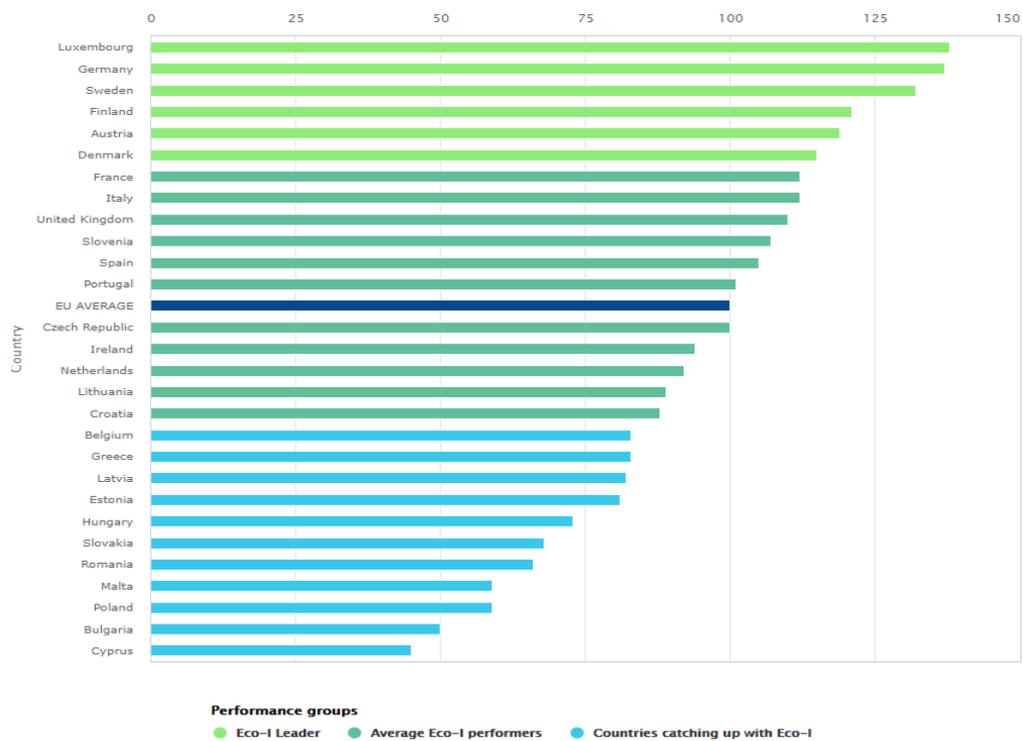


Figure 2. Eco-innovation index in 2018 (EU = 100) (Source: [The Eco-Innovation Scoreboard and the Eco-Innovation Index](#))

As shown in Figure 3, starting in 2010, Romania constantly records results below average in terms of eco-innovation.

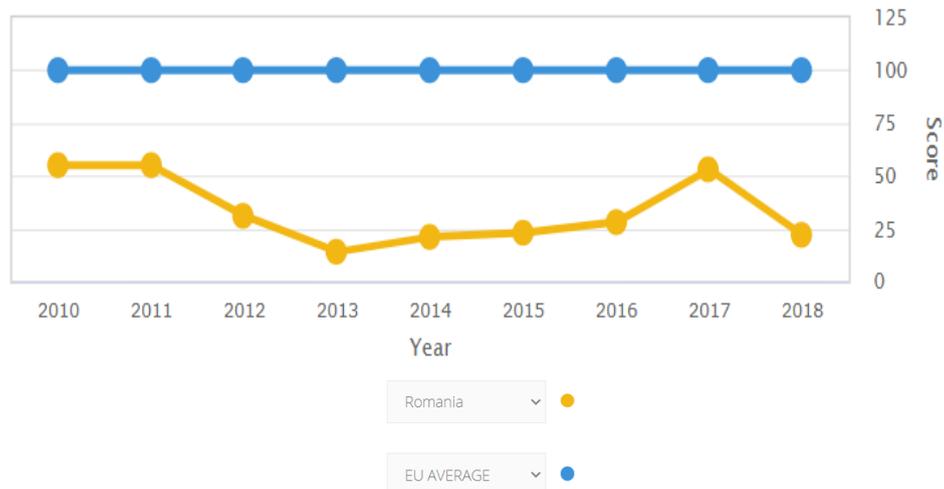


Figure 3. Romania's performance in the field of eco-innovation (EU = 100) (Source: [The Eco-Innovation Scoreboard and the Eco-Innovation Index](#))

Starting from this approach, the method and the criteria through which the companies will be analyzed from a sustainability perspective will be introduced.

Case studies on Romanian organizations

The major question that the paper intends to answer is: “How can businesses contribute to *sustainable development*?” In order to answer to this question, we have conducted five case studies on Romanian organizations. The basis of the analysis focused on the dimensions of sustainability (environmental, social and economic) to see if they apply the principle of a circular economy and on the practices that helped them maintain their sustainability. Companies have been chosen according to the “eco-friendly” image created among consumers. The information used has been influenced by access to the available data.

A description of the dimensions of sustainability is as follows: *Environmental sustainability* refers to the company's ability to use natural resources so that they last longer and control waste. Environmental sustainability also means the company's ability to reduce the negative impact of its actions on the environment. *Social sustainability* takes into account social interactions, relationships, behavioral patterns and the values of humanity, and *the economic sustainability* of the company means its ability to make a profit, in order to survive and benefit from local, national and global economic systems. (U.M., n.d.)

The goal of economic sustainability is to preserve the quality of life. Achieving such objectives necessitates a dramatic change in production methods and consumption patterns that are not yet sustainable (von Hauff, Kleine, 2009, p. 18).

The following is a brief description of the companies on which the analysis will be performed:

“CUIB” (Urban center of good initiatives) is social enterprise and is one of the most ,”green” locations in Romania. They offer to the local community sustainable consumption alternatives with a positive impact on both nature and the community.

“Dairy with caimac” is a small enterprise, specialized in milk processing and manufactory of organic dairy products. They own a modern factory in which they bottle a very good quality milk, providing 90% of animals feed through the cultivation of cereals or hay and having control over all the phases such as supply, taking over, processing and packaging in glass bottles.

“Rockha” is environmentally friendly enterprise, a manufacturer of sustainable notebooks made of eco-friendly stone paper and of other high quality and durable materials, which make them resistant to water or fire. Encouraging the planting of trees and using recycled waste to realize their products, Rockha is about nature and the respect they have for the community.

“Poloniq” is a small company that offers software services designed to bring long-term benefits to the restaurants. It aims at customer satisfaction by offering online booking and ordering services that minimize their travel or the waiting time. It replaces the traditional menu, by digitizing it, so it can be accessed by simply scanning a code. In this way, they support sustainable initiatives and pursues an eco-friendly behavior.

“Romradiatoare” is a company that designs and manufactures heat exchangers and cooling systems for vehicles and industrial applications, as well as various metal parts and welded structures. They aim to protect the environment, the management constantly ensuring that all production processes generate minimal waste and use all the possible recycling opportunities to meet both economic and environmental objectives. The company has many certificates, which attest a superior quality of the products offered.

The data were collected using the websites of the organizations involved or mass-media articles.

Table 1. Case study on Romanian organizations

Enterprise	Field activity of	Type of enterprise	Environmental sustainability	Social sustainability	Economic sustainability	Observations about the management model	Circular economy approach
CUIB	Restaurants and other food service activities	Social enterprise	-commitment to reducing consumption, reuse and recycling. -contribute to reducing meat consumption by producing ovo-lacto-vegetarian food (promoting	-they support the production of healthy food; -,the profit is a way to achieve social goals, not an end in itself.,; - encourage a healthy	-the use of local ingredients, generating a positive impact on the community by supporting the local economy; -support fair trade through certified	CUIB is the most sustainable bistro in Iasi (and most likely in Romania), with a holistic approach, their products meet criteria related to ethics, equity,	Yes

			<p>a better life for animals)</p> <ul style="list-style-type: none"> - the products they bring from social enterprises are eco friendly and unique. - encourage a less polluted environment, by offering discounts to those who come by bike to the bistro. - they offer “water without plastic” for a less polluted planet, also considering that water is a right, not a product. 	<p>lifestyle by offering discounts to those who come by bike to the bistro.</p> <p>-they supported numerous social and public information activities on the topic of sustainable environment.</p>	<p>products, thus guarantees respect and a decent income for producers and sustainable investigations in third world communities;</p> <p>-the first space in Romania that brings together hundreds of products of social enterprises.</p>	<p>ecology, utility and solidarity. By offering these sustainable consumption alternatives, they make it less difficult to approach the role of responsible consumer at the individual level. They have a positive impact on nature, the community and the employees. They achieved Slow Food, eco ingredients and Fair Trade certifications.</p> <p>Winners of National Competition for social enterprises offered by NESsT.</p> <ul style="list-style-type: none"> - the staff is aligned with the values of the place and supports a sustainable lifestyle. 	
Dairy with caimac	Milk processing and manufacturing of BIO dairy products	Small enterprise	<ul style="list-style-type: none"> -the factory is built right next to the farm, which reduces the emissions of transport cars; - providing 90% of animals feed through the cultivation of cereals or hay; -use of glass packaging and promotion of recycling. 	-food safety and organic products;	They own all the actions, which brings them financial benefits and contributes to a sustainable economy.	<p>„Dairy with caimac” is a fully integrated system which means that it deals with everything from the production of the raw material to the processing of the product. This system is one with many long-term benefits.</p> <ul style="list-style-type: none"> -Generates both input and output. -An easier way to control than to work with suppliers. 	Yes
Rochka	Manufacture of stationery	Small enterprise	-100% environmentally friendly paper, using 80% calcium carbonate extracted from rocks and 20% recycled PET,	-By using this type of paper, Rochka contributes to the development of a sustainable lifestyle (water resistant	They realize tree planting and informative projects in which the society is involved.	Rockha is an enterprise with education and awareness initiatives on how to live in harmony with the environment.	Yes

			100% without cut trees, 60% less emissions, 100% recyclable. -For each order placed, Rockha plants a tree, so they involve everyone in restoring Romania's fauna.	notebooks, with high durability and fire resistance).		They are followers of eco-management, practicing recycling, eco-innovation, and saving environmental resources.	
Poloniq	Software services	Small enterprise	It replaces the traditional menu, by digitizing it, so it can be accessed by scanning a code. In this way, they contribute to the protection of the environment by reducing the cutting of trees for paper production.	-It aims at customer satisfaction by offering online booking and ordering services that minimize their travel or waiting time. -Automating email communication with customers and automating the collection of feedback from them.	-In the context of increasing competitiveness, the digitization of a company's services brings a significant contribution and also long-term economic benefits. -The use of such an application can produce the generation of up to 50% of the profit of a business and a high degree of customer retention through the facilitated services and through the newsletter campaigns.	Poloniq supports sustainable initiatives and pursues eco-friendly behavior. They say that while such initiatives and transformations can be expensive in the beginning, the long-term benefits outweigh these costs. Their motto is that any small step towards a greener world is important, which is why they encourage digitized HoReCa initiatives.	Yes
5. ROMRADIATOARE	Designs and manufactures heat exchangers and cooling systems for vehicles and industrial applications, as well as various metal parts and welded structures.	Medium enterprise	-they have won a grant from Innovation Norway which was used to reduce energy and natural gas consumption, reduce material consumption, increase product quality, reduce noise and emissions, increase production capacity and capacity for more product ranges. -Romradiatoare aims to protect the environment, the management constantly ensuring that all production	-It focuses on those projects in which their skills and abilities can bring significant value to the client, so that long-term and mutually beneficial relationships can be developed. Romradiatoare implemented and maintains an occupational health and safety management system according to the conditions of the SR OHSAS	-focus on quality and performance, as the ultimate goal. -The commitment to quality includes every aspect of customer interaction, from design and production to after-sales services. -The quality management system is certified in accordance with ISO 9001: 2015 by DQS. ISO 9001 helps organizations show their customers that they can provide good quality	This company has certifications on each dimension of sustainability. It was named the third most environmentally responsible company in the 2017 Green Business Index, because it has demonstrated during the reporting year that by mobilization of its resources and through managing its business, they ensured a prosperous and long-term profitability, taking into	Yes

			<p>processes generate minimal waste and use all possible recycling opportunities to meet both economic and environmental objectives, in accordance with ISO 14001 certification: 2015.</p>	<p>18001: 2008 reference (OHSAS 18001: 2007).</p>	<p>products and services.</p>	<p>account environmental aspects in its current activities. It is a company with a management model that has demonstrated its viability and real development prospects for the future. The alignment of the company's production processes with the international trends of efficiency and environmental protection have thus ensured the increase of Romradiatoare competitiveness and attractiveness, both for customers and for employees, shareholders and the local community.</p>	
--	--	--	--	---	-------------------------------	---	--

CONCLUSION

Business sustainability is conditional on the sustainability of the social system and both depend on the sustainability of the natural system. After defining competitiveness and sustainability it can be easily stated that they are interconnected (Gligor and Juncuț, 2014). On one hand, competitiveness determines businesses to become sustainable and as a result, support sustainable economic growth. On the other hand, it turns out that consumers tend to spend more on goods and services that have a positive impact, which makes the sustainability to become an ally of competitiveness.

Both research and European institutions sustain that competitiveness is significantly increased in countries that encourage innovation, strong infrastructure, and a sustainable industry. Therefore, the three mentioned are the main pillars that must attract investment in each country. After analyzing some statistical data, we concluded that in general, Romania still has a long way to go before reaching EU requirements, and particularly according to the case studies analyzed, is oriented either towards the economic and environmental part, or economically and socially one.

Carrying out our qualitative research on Romania, the authors conclusion became that at the moment, in terms of sustainability, most companies in Romania have a low level of awareness of environmental issues. However, there are also signs that companies, such those approached in the study case, are increasingly auditing their internal waste management practices, trying to find ways to improve their waste management, and this raises awareness of environmental issues. Although the case studies were not conducted at the level of the whole country, we found that most companies that have started on the road to sustainability are small ones, somehow more agile and 'young' ones.

Following the research carried out in this paper, it was found that sustainable management can be implemented in absolutely any industry, starting from waste recycling, to digital solutions and environmentally friendly innovations. Future research could focus more challenges that business deal with if they intend to become sustainable and really be part of the circular economy and also on the support that public institutions can offer for creating a sustainable business environment.

REFERENCES

- Arundel, A.V. & Kemp, R. (January 1st, 2009). *Measuring eco-innovation*. Netherlands, Maastricht: Maastricht University.
- Brundland Commission. (1987). *Report of the World Commission on Environment and Development: Our Common Future*. page 16. Retrieved August 30, 2020 from: [://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf](https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf)
- Capron, M. & Petit, P. (July, 2009), *Responsabilité sociale des entreprises et diversité des capitalismes* [The novel in modern French literature]. Paris: Université de Paris.
- ETC/WMGE. European Environment Agency. (April 4, 2016). *More from less, material resource efficiency in Europe*. Retrieved August 2, 2020 from: <https://op.europa.eu/en/publication-detail/-/publication/52a69c48-383d-11e6-a825-01aa75ed71a1/language-en/format-PDF/source-166765048>
- European Commission. (2013). *Eco-innovation the key to Europe's future competitiveness*. Retrieved September 6, 2020 from: https://ec.europa.eu/environment/pubs/pdf/factsheets/eco_innovation.pdf
- European Commission. (2019). *Assessment of the implementation of EU environmental policies*. Retrieved September 2, 2020 from: https://ec.europa.eu/environment/eir/pdf/report_ro_en.pdf
- European Environment Agency. (April 25, 2019). *Knowledge for transition to a sustainable Europe*. Luxembourg. Retrieved October 4, 2020 from: <https://www.eea.europa.eu/publications/soer-2020>
- Gligor D. & Juncuț C.N. (November 6th-7th, 2014). About competitiveness in the context of sustainable development. *Proceedings of the 8th International Management Conference "Management Challenges for Sustainable Development"*. Bucharest, Romania.
- Hermosilla, J.C., & del González, P.R., & Könnölä, T. (2009). *Eco-Innovation: When Sustainability and Competitiveness Shake Hand*. UK: Palgrave Macmillan.
- The University of Maine. (n.d.) *What is Sustainability?* Retrieved from: <https://umaine.edu/sustainability/what-is-sustainability/>
- United Nations Summit. (September 25-27, 2015). *The 2030 Agenda for Sustainable Development*, New York. Retrieved August 25, 2020 from: <https://sustainabledevelopment.un.org/post2015/transformingourworld>
- Von Hauff, M. & Kleine, A. (October 9, 2009). *Sustainability-Driven Implementation of Corporate Social Responsibility: Application of the Integrative Sustainability Triangle*. Netherlands: Journal of Business Ethics 85.

**ENHANCING AND MANAGING COMPETITIVE ECONOMICS
AND BUSINESS ENVIRONMENT:
CHALLENGES FOR THE SOUTHEASTERN EUROPEAN
COUNTRIES AND THE BLACK SEA REGION**

PROCEEDINGS OF
9TH ASECU YOUTH INTERNATIONAL CONFERENCE AND SUMMER SCHOOL &
10TH JUBILEE SUMMER SCHOOL OF THE
FACULTY OF ECONOMICS - SKOPJE, UKIM

