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**SOUTHERN AND EASTERN EUROPE AT  
CROSSROADS OF SOCIO-ECONOMIC  
CHALLENGES**

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ASSOCIATION OF ECONOMIC UNIVERSITIES OF SOUTH  
AND EASTERN EUROPE AND THE BLACK SEA REGION  
(ASECU YOUTH)**

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**РОСТОВСКИЙ ГОСУДАРСТВЕННЫЙ  
ЭКОНОМИЧЕСКИЙ УНИВЕРСИТЕТ (РИНХ)**

**ЮЖНАЯ И ВОСТОЧНАЯ ЕВРОПА  
НА ПЕРЕКРЕСТКЕ  
СОЦИАЛЬНО – ЭКОНОМИЧЕСКИХ ПРОБЛЕМ**

**МАТЕРИАЛЫ  
6-й МЕЖДУНАРОДНОЙ НАУЧНОЙ КОНФЕРЕНЦИИ  
ДЛЯ СТУДЕНТОВ И АСПИРАНТОВ  
СТУДЕНЧЕСКОЙ АССОЦИАЦИИ ЭКОНОМИЧЕСКИХ  
УНИВЕРСИТЕТОВ ЮЖНОЙ И ВОСТОЧНОЙ ЕВРОПЫ  
И РЕГИОНА ЧЕРНОГО МОРЯ  
(ASECU YOUTH)**

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**Ю 17** Южная и Восточная Европа на распутье социально – экономических проблем: материалы 6-й Международной научной конференции для студентов и аспирантов Студенческой ассоциации экономических университетов Южной и Восточной Европы и региона Черного моря (ASECU Youth). Ростов-на-Дону, Россия, 12-17 сентября 2016 г. / Рост. гос. эконом. ун-т (РИНХ). – Ростов н/Д, 2017. – 340 с.  
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Сборник материалов конференции включает статьи, в которых были обобщены результаты научных исследований студентов и аспирантов вузов Юго-Восточной Европы по проблемам развития современной экономической науки, текущим вопросам развития мировой экономики в целом и экономик отдельных стран региона, в том числе в отраслевом разрезе. Особое внимание было уделено посткризисной динамике развития государств Юго-Восточной Европы.

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## **INFLUENCING FACTORS FOR E-COMMERCE ADOPTION BY SMALL AND MEDIUM SIZED ENTERPRISES IN THESSALONIKI**

After going through the extensive literature regarding the Use and Adoption of e-Commerce by Small and Medium Sized Enterprises, we have consolidated a sum of factors to be evaluated and grouped as either important or not, and as promoters or inhibitors, depending on whether they are perceived to be a motive or on the contrary a barrier for e-Commerce Adoption and Use by business owners in the city of Thessaloniki. The papers objective is to pinpoint the factors that business owners in Thessaloniki consider important and how. To do that we made a survey and analyzed the gathered data. We tried to show that factors are perceived in a different way by business owners that have adopted e-Commerce, those that have not and intend to do so, and finally those who are not willing to adopt at all. Responders to the survey were asked to evaluate each factor using key questions and the Likert scale (from -3 to +3). They were also required to answer questions that helped us categorize them as adopters or not, and if not, willing to adopt or otherwise.

**Keywords:** e-Commerce, barriers, incentives, small business, e-business, adoption

### **1. INTRODUCTION**

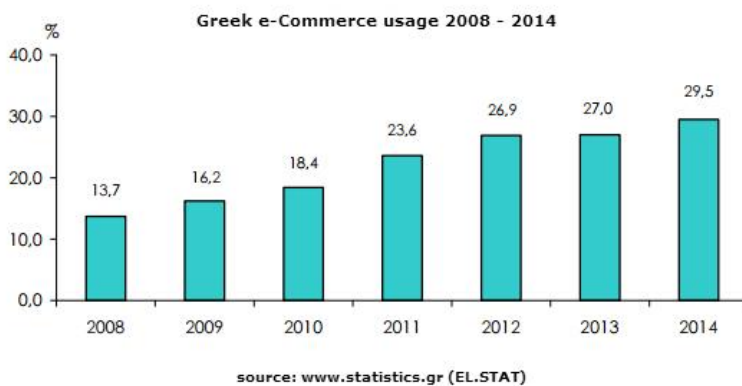
E-Commerce is an undoubtedly growing dimension of the global economy. In 2009 0.52% of the global GDP was accounted for e-Commerce sales while in 2013 B2C sales reached 0.92%. With e-Commerce being an important and developing part of the world's economy, someone would expect more insight in the influencing factors of its adoption. E-Commerce adoption is a part of several scientific fields like Management, Computer Science, Information

Systems, Marketing and more, so there is an abundance of theories trying to evaluate the influencing factors and categorize them as either promoters or inhibitors. Some of the most popular are:

- i. Theory of Planned Behavior (TPB) (Chau and Hu 2001; Harrison et al. 1997; Riemenschneider and McKinney 2001; Venkatesh and Braum 2001).
- ii. Theory of Reasoned Action (TRA) (Ajzen and Fishbein 1980).
- iii. Technology Acceptance Model (TAM) (McCoy 2001; Straub et al. 1995).
- iv. Adoption, Innovation and Diffusion Theory (Rogers 1995).
- v. Unified Theory of Acceptance and Use of Technology (UTAUT) (Anderson and Schwager 2003; Venkatesh et al. 2003).

Apart from a growing piece of the global economy however, e-Commerce is growing inside the Greek boundaries as well. Almost doubling in usage among internet users since 2008, as we can see in Figure 1, e-Commerce is considered by many Greek business owners as a way out of the current economic adversity.

Figure 1



The target of this paper is an effort to consolidate the contributing factors to e-Commerce adoption by Small and Medium Sized Businesses in Greece. We are going to summarize factors from the extensive literature and based on [1] Scott A. Wymer and Elizabeth A. Regan, do our own study, targeting business owners in the city of Thessaloniki. This paper is largely based on [1] Scott A. Wymer's and Elizabeth A. Regan's and is trying to localize its methodology and



findings so we can prove that statistically important factors differ depending on the location of the research. Apart from pinpointing the influencing factors we are going to categorize them as incentives or barriers for e-Commerce adoption. We avoided grouping factors together into larger categories because we didn't want to risk any kind of inconsistency, and deliberately maintained a rather long list of factors.

## **2. METHODOLOGY**

We began by going through the extensive literature in search of what are considered to be statistically important factors serving as either barriers or incentives for e-Commerce adoption. After consideration and being based on [1] Scott A. Wymer's and Elizabeth A. Regan's methodology we gathered a total of 25 variables to be examined as either barriers or incentives. We reorganized alphabetically and eliminated variables that were the same but were being referred to with different terms. We ended up with 25 variables after taking into consideration the most frequently cited in the literature. We used survey questions to study the impact each variable has on business owners and mapped the variables into four categories.

### **1. Environmental Factors**

They relate to markets, competitive pressure, government laws, suppliers/vendors, business partners and customers. Competitive markets and transactions were studied by Pflughoeft et al. (2003), competition and supplier/buyer pressure were examined by Al-Qirim (2004b) while government laws and their impact is discussed by Jensen (2003).

The variables categorized as environmental are:

1. **Competitive Pressure:** The pressure applied to the business owners by other businesses with Internet presence within the same business field.
2. **Government laws:** How government rules and regulations influence business owners and their decision to adopt e-Commerce.
3. **Viable market:** Whether the survey participant believes there is a viable market for e-Commerce and how this affects him.
4. **Partner Availability:** Whether the survey participant has suitable partners or vendors with which he can do business with.

5. Supplier readiness: Whether the business supplier is ready for e-Commerce and the needs that might appear.

## **2. Knowledge Factors**

Knowledge factors involve every aspect of the human capital like level of familiarity with technology and change, executive staff willingness to adopt new technology and any kind of experience employers or employees might have with e-Commerce. (Ref. [15], [16], [17], [18])

The variables categorized as Knowledge factors are:

1. Change Experience: Measures the level of experience the survey participants employees might have regarding changes like e-Commerce adoption.
2. Executive Experience: The level of experience the employers might possess regarding e-Commerce.
3. Innovativeness: Measures the willingness to adopt technology.
4. Successful Models: The existence of other successful e-Commerce models and how is that affecting the participants decision.
5. Perceived Need: The perceived need of e-Commerce implementations for the participants business.
6. Prior Experience: The companies experience in using new technology.
7. Trust: The level of trust the participant has in technology.
8. Understanding: The level of the participants understanding of the opportunities provided by e-Commerce.
9. Relevance: The perceived value or relevance to the business.

## **3. Organizational Factors**

Refer to the existence or not of the businesses resources required for e-Commerce implementation. (Ref. [3], [16], [19], [20])

The variables categorized as organizational factors are:

1. Technical Expertise: The availability of technical staff or web-skilled consultants.
2. Priority: The priority relative to other business projects that require resources.
3. Employee Reduction: Whether the reduction of employees because of e-Commerce implementations is considered a barrier or an incentive.
4. Profitability: The level of profitability expected from e-Commerce

implementations.

5. Capital: How the existence of initial capital influences the survey participant.

#### 4. Technological Factors

All the technology related factors that appear to affect e-Commerce adoption decisions.

The variables categorized as Technology Factors are: (Ref. [3], [16], [20])

1. Cost: The cost to setup and maintain an e-Commerce implementation.
2. EC Technology: The technology required to sell products or services online.
3. Infrastructure: Access to networks required for selling products or services online.
4. Reliability: The perceived level of reliability of internet technologies.
5. Security: How security issues affect the survey participant.
6. Technology Availability.

### 3. DATA COLLECTION

To collect our data we conducted a survey using [1] Scott A. Wymer's and Elizabeth A. Regan's question form. We have created a web version of the questionnaire which was filled out by 49 respondents. We have also approached business owners and handed in questionnaires for them to fill in. Out of the 200 questionnaires that were handed out, 147 were completed which makes up for a 73.5% response rate. In total we gathered 196 records from SMEs. The SME (small or medium sized enterprise) definition in European Union refers to all businesses that employ less or equal to 250 employees. Our sample is comprised solely of SMEs. The questionnaire uses a 7 point Likert Scale where -3 indicates a major barrier, 0 indicates no influence at all and +3 indicates a major incentive regarding the adoption of e-Commerce for the survey participants business. Apart from the 25 factor questions there are four additional questions regarding the respondent and his business.

After we gathered our data and studied the significant factors for *All Respondents*, we divided the sample into subgroups so we can study the significance of additional factors regarding e-Commerce

adoption by *Adopters* and *Non Adopters* respectively. Furthermore we divided the *Non Adopters* sub-group into 2 additional sub-groups. Those *Willing* to adopt and those *Not Willing*. Out of our 196 respondents, 73 were *Adopters* (37.24%), 123 were *Non Adopters* (62.75%). Of the 123 *Non Adopters*, 91 were *Willing* to use e-Commerce in the next 1-5 years (73.98%) and 32 were *Not Willing* or did not have plans (26.02%).

#### 4. ANALYSIS

As we can see on Table 1, there are 11 factors found significant for the group of *All Respondents*, while there were 3 more incentives found significant for the group of the *Adopters* and 2 more barriers for the group of *Non Adopters*. We came up with these results using t-Tests with the initial assumption that each factor is neutral. All the factors listed as significant have a minimum confidence level of 95%.

Table 1. Significant Factors for *All Respondents*, *Adopters* and *Non Adopters*

Incentives		
Factor	Mean Value	Group of Respondents
Innovativeness	0.330	All
Need	0.775	All
Value	0.554	All
Market	0.614	All
Understanding	0.667	All
Executive_experience	0.491	All
Infrastructure	1.000	All
Technology_availability	0.775	All
Prior_experience	1.450	Adopters
EC_technology	1.880	Adopters
Profitability	1.380	Adopters
Barriers		
Factor	Mean Value	Group of Respondents
Priority	-1.266	All
Capital	-0.296	All
Cost	-1.570	All
Partners/Vendors	-0.246	Non Adopters
Technical_expertise	-0.240	Non Adopters

The data are better presented in Figure 2, where all significant factors have been summarized in one graph. On the Y axis we indicate the Mean Value representing the perceived level of influence. The important thing to notice is the barriers and incentives that are

significant for the *Non Adopters* and *Adopters* respectively. We can see the level of difference in perception between the two groups.

Figure 2. Significant factors for Groups of Respondents

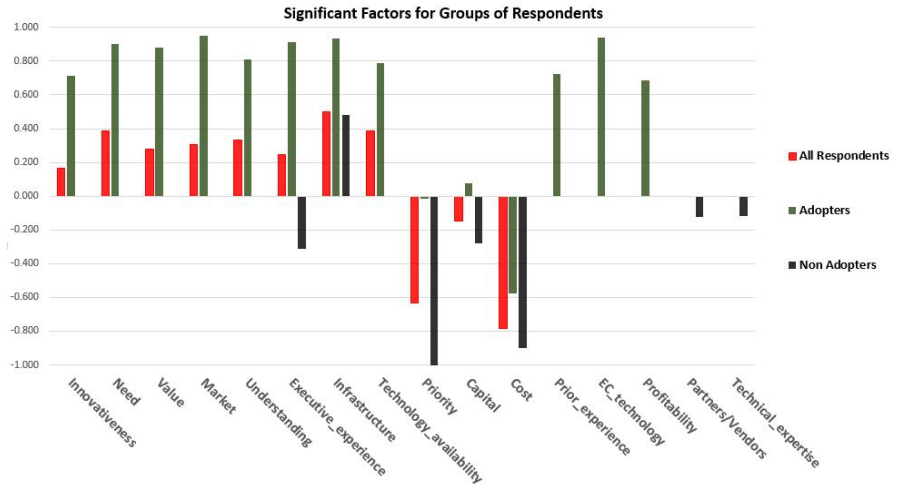
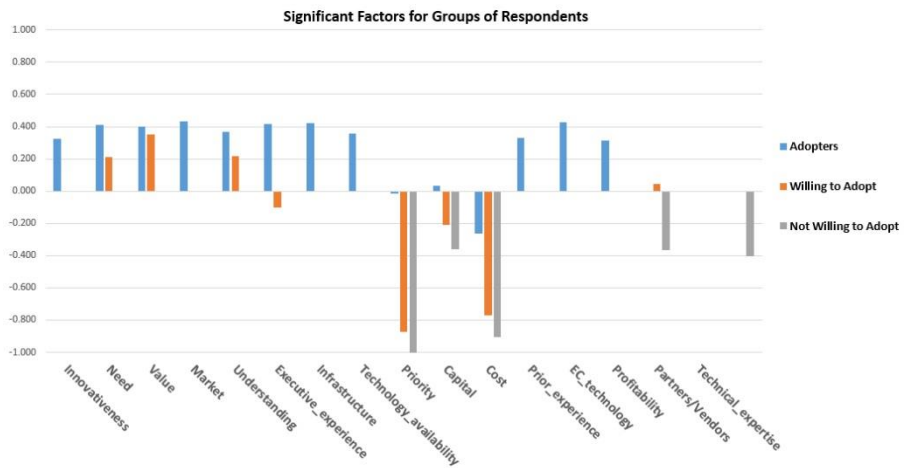


Figure 3. Significant Factors for Sub-Groups of Respondents



Further along, when we divided the *Non Adopters* group in two sub-groups, the *Willing to Adopt* and *Not Willing to Adopt*, we found that there are 2 more barriers (Partners/Vendors, Technical Expertise) for those who are *Not Willing to Adopt* and 1 incentive for those who are *Willing* (figure 3) (Partners/Vendors). Again, it is really interesting to notice differences in perception of those who are *Willing* and those who are *Not*. Although both categories are part of a greater super-

category, the Non Adopters, we can still notice different reasons for their decisions as well as an incline from those *Willing to Adopt* to perceive more incentives and those *Not Willing* to perceive more barriers.

Table 2. List of incentives sorted by descending mean values (relative rankings) of perceived importance for all sub-groups

Factors considered as incentives	Ranking based on mean value			
	All Respondents	Adopters	Intend to Adopt	Will Not Adopt
Infrastructure	1	3	-	-
Technology_availability	2	8	-	-
Need	2	5	3	-
Understanding	3	7	2	-
Market	4	1	-	-
Value	5	6	1	-
Executive_experience	6	4	-	-
Innovativeness	7	10	-	-
Capital	-	12	-	-
Prior_experience	-	9	-	-
EC_technology	-	2	-	-
Profitability	-	11	-	-
Partners/Vendors	-	-	4	-

Table 3. List of barriers sorted by descending mean values (relative rankings) of perceived importance for all sub-groups

Factors considered as barriers	Ranking based on mean value			
	All Respondents	Adopters	Intend to Adopt	Will Not Adopt
Cost	1	1	2	2
Priority	2	2	1	1
Capital	3	-	3	5
Technical Expertise	-	-	-	3
Executive_experience	-	-	4	-
Partners/Vendors	-	-	-	4

In an effort to make the comparison between all the sub-groups easier, we included the following tables (Table 2 and Table 3). In these tables we have listed the relative rankings of all incentives and barriers sorted by descending mean value of perceived importance for all sub-groups.

In these tables we compare the factors perceived as most significant by sorting them arithmetically. The most important factor is ranked with the number 1 per group, the second most important with number 2 and so on. The most important incentives are the ones with the highest positive absolute mean values while the most

important barriers are the ones with the highest negative absolute mean values. What is really interesting is the fact that both groups, *Intending to Adopt* and *Not*, both have Priority as their most important barrier and cost their second most important barrier. Which really makes sense if we examine Figure 2, where Priority and Cost are the two most important factors for *Non Adopters*. The next interesting fact is the appearance of the Partners/Vendors factor in the group of those who are *Not Willing to Adopt* in the third ranking. This is a clear indication that Partners/Vendors, a factor that has not been paid much attention by the literature so far, is indeed one important barrier for business owners that will not adopt e-Commerce..

Table 4. It represents the between groups (*Adopters* and *Non Adopters*) absolute difference in mean values. \* Indicates statistical significance of at least 5% for the each group

Factor	Between Groups Absolute Mean Difference	Adopters Absolute Means	Non Adopters Absolute Means
executive_experience	3.064	1.830 *	-1.234
market	2.072	1.910 *	-0.162
priority	1.976	-0.030 *	-2.006 *
value	1.944	1.770 *	-0.174
innovativeness	1.759	1.430 *	-0.329 *
need	1.654	1.810 *	0.156
prior_experience	1.570	1.450 *	-0.120

The factors that have been supported strongly by the literature as barriers are those of economic and resource availability nature. And yet we can see that business owners *Not Willing to Adopt* consider Capital to be the fifth most important barrier. This clearly contradicts the literature, at least partially (since Cost is the second most important factor among *Non-Adopters*), and brings new factors in our attention, factors that clearly need more research as to why are they considered so important and what can be done to eliminate them from the barrier list, at least from the most important ones.

In an effort to present the contradiction in the perceived importance of factors between *Adopters* and *Non Adopters*, we calculated the difference between the mean values for each factor and each group. We present the seven most important differences in Table 4. What is particularly interesting about our findings is that apart from

two factors, Priority and Need, all other factor pairs have positive mean values for the *Adopters* and negative mean values for the *Non Adopters*. Which in other words means that what *Adopters* perceive as an incentive, *Non Adopters* see it as a barrier. Priority is considered as a barrier for both groups, although the mean difference is quite noticeable. The most noticeable difference in perceptions however concerns the Executive Experience factor.

Table 5. It represents the between groups (*Willing to Adopt* and *Not Willing to Adopt*) absolute difference in mean values. \* Indicates statistical significance of at least 5% for the each group

Factor	Between Groups Absolute Mean Difference	Intend to Adopt Absolute Means		Don't Intend to Adopt Absolute Means
value	1.489	0.775	*	-0.714
market	1.320	0.483		-0.837
need	1.166	0.554	*	-0.612
innovativeness	0.624	0.441		-0.184
prior_experience	0.589	0.466		-0.122
technical_expertise	0.464	-0.025		-0.490
understanding	0.422	-0.068	*	-0.490

When we applied the same methodology in the sub-groups of those who are *Willing to Adopt* and those who are *Not*, we arrived at similar results. Same as before, every factor except for two (Technical Expertise, Understanding), perceived as an incentive by those who are *Willing to Adopt* is perceived as a barrier by those who are *Not*. The factor that presents the biggest difference in perception is the Value factor. What is rather noticeable is that five of the seven factors in the comparison between *Adopters* and *Non Adopters* that have significant mean differences remain the same but do not retain the same order of significance between the *Willing to Adopt* and *Not* comparison.

## 5. CONCLUSION

There is a very large number of factors examined by the literature as either barriers or incentives regarding Internet Technology adoption. Based on [1] Scott A. Wymer's and Elizabeth A. Regan's study on the subject we were able to summarize 25 factors for which we conducted a survey and drew conclusion about their perceived



significance on the matter of e-Commerce adoption by small and medium sized business owners in the city of Thessaloniki. The original hypothesis assumes neutrality for each factor. To pinpoint factors that bear some importance regarding the survey participants decision on whether to adopt e-Commerce or not, t-Tests were conducted within at least 95% confidence level. Those tests resulted in **11 statistically significant factors for the group of *All Adopters***. There was at least one important factor from every category mentioned earlier. Among them, Cost had the biggest negative mean value hence it was perceived as the most important barrier.

Among **all groups** of our sample, there were **3 common important factors**, Cost, Priority and Capital, all of which are barriers. Cost is perceived as the most important barrier among the groups *All Respondents* and *Adopters*, while for the groups of those who are *Willing to Adopt* and those *Who are Not Willing to Adopt*, it is perceived as the second most important with Priority being the first. That seems somehow reasonable if we consider that *Non Adopters* prioritize other resource demanding projects first, although that has somehow to do with the perceived high Cost as well. Thus far, the results go along with the findings in the literature since it is supported that the most important factors that inhibit the adoption of Internet Technologies are resource related.

The factor that stood out the most among *Adopters* was Market. It was also the factor with the second biggest mean value difference between *Adopters* and *Non Adopters*. On the same time it was also the factor with the second biggest mean value difference between those who are *Willing to Adopt* and those who are *Not*. This can be explained partially by the fact that e-Commerce is growing fast within Greece as mentioned earlier. Therefore the existence of a viable market for e-Commerce products and services is perceived as an important factor, at least among the *Adopters*.

Looking at the between groups mean value difference, we notice the differences in perception of *Adopters* and *Non Adopters*. All factors that differ significantly except for two, are perceived as incentives by *Adopters* and as barriers by *Non Adopters*. The same phenomenon occurs between those who are *Willing to Adopt* and those who are *Not*. The striking difference between both comparison groups is observed in the executive experience factor, which is the 4<sup>th</sup> most important barrier in terms of mean value for those who *Intend to*

*Adopt* and the 4<sup>th</sup> most important incentive for *Adopters*.

The sub-group that lies in the middle, those who are *Willing to Adopt/Intend to Adopt* shows a mix of perceived incentives and barriers, with 4 incentives (Need, Value, Understanding, Partners/Vendors) and 4 barriers (Executive Experience, Priority, Capital, Cost) perceived as significant. Two of the factors acting as barriers, Capital and Cost, are resource related with a third, Priority, being related to resource availability as well. That indicates that resource availability is the main reason why SMEs delay to adopt e-Commerce means in Thessaloniki. These factors are the main reason why SMEs are **not** willing to adopt as well.

## 6. IMPLICATIONS

The most important limitation of our study is the number of SMEs surveyed in our city of Thessaloniki. The respondents ratio was small (at least on the electronic questionnaire), a fact that can be explained by the length of our questionnaire. Another important barrier is the rather long list of variables to be examined as either incentives or barriers and their complexity, as they can take either positive or negative values depending on the perceived importance and role. The factors therefore must be handled carefully since their effect varies depending on which groups of respondents you study.

Out of the 25 factors examined, 11 were found statistically significant among *All Respondents* group. Some of those factors were not given much attention in the literature until now (Innovativeness). Therefore, they are subject to additional research so as to determine their exact role and effect on Internet Technology Adoption models. Of the factors acting as significant barriers, most of them are resource related, as suggested by the literature, meaning that measures taken by the government or local authorities regarding the financing of e-Commerce activities might have a positive effect on the adoption rate. One other factor that delays e-Commerce adoption is the lack of executive experience concerning e-Commerce applications, fact that can be targeted and dealt with the use of seminars for business owners concerning these topics.

This study will hopefully help other researchers that need data regarding our small city of Thessaloniki and e-Commerce adoption. It is hoped that researchers will be able to handle these factors better in the future and more studies will try to interpret their role in adoption

models.

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## **APPENDIX A**

The tables below include all the results from the data gathered for each group regarding statistically significant factors for all groups of respondents. You can see the results from tables A1 to A4.

<b>Factor</b>	<b>Mean Value</b>	<b>N</b>	<b>Level Of Significance</b>
1 Market	1.910	73	0.005
2 EC_technology	1.880	73	0.005
3 Infrastructure	1.870	73	0.005
4 Executive_experience	1.830	73	0.001
5 Need	1.810	73	0.001
6 Value	1.770	73	0.001
7 Understanding	1.620	73	0.001
8 Technology_availability	1.580	73	0.005
9 Prior_experience	1.450	73	0.005
10 Innovativeness	1.430	73	0.001
11 Profitability	1.380	73	0.005
12 Capital	0.150	73	0.001
13 Priority	-0.030	73	0.001
14 Cost	-1.160	73	0.001

Table A1. Significant factors for *Adopters*

<b>Factor</b>	<b>Mean Value</b>	<b>N</b>	<b>Level Of Significance</b>
1 Infrastructure	1.312	123	0.005
2 Technical_expertise	-0.240	123	0.001
3 Partners/Vendors	-0.246	123	0.005
4 Capital	-0.563	123	0.001
5 Executive_experience	-1.234	123	0.001
6 Cost	-1.808	123	0.001
7 Priority	-2.006	123	0.001

Table A2. Significant factors for *Non Adopters*

<b>Factor</b>	<b>Mean Value</b>	<b>N</b>	<b>Level Of Significance</b>
1 Value	0.775	91	0.001
2 Understanding	0.667	91	0.005
3 Need	0.554	91	0.001
4 Partners/Vendors	0.154	91	0.005
5 Executive_experience	-0.144	91	0.001
6 Capital	-0.296	91	0.001
7 Cost	-1.266	91	0.001
8 Priority	-1.570	91	0.001

Table A3. Significant factors for those who *Intend to Adopt*



Question 2 –

What is your level of responsibility for business decisions regarding computing and information technology resources within your company?

- |  |  |
|--|--|
| <input type="checkbox"/> Directly Responsible                  | <input type="checkbox"/> Some Responsibility |
| <input type="checkbox"/> Only Recommend or Influence Decisions | <input type="checkbox"/> No Responsibility   |

Questions 3 & 4 –

Does your business already have a website on the Internet?

- ☐ Yes      ☐ No

a. If yes, what is the Internet name or domain (e.g. yourname.com) of your website:

\_\_\_\_\_

b. If no, what is your timeline for setting up a website?

- ☐ Within 1 year    ☐ Within 2–5 years    ☐ No definite plans    ☐ Will not do it

Question 5 –

If you process Sales Transactions via your website, what percentage of total sales comes from your website?

- ☐ We don't process Sales Transactions via our website  
☐ Less than 10%  
☐ 10 to 30%  
☐ 30 to 50%  
☐ More than 50%

Questionnaire used for the survey of our sample

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**THE INFLUENCE OF AMERICAN MNCs ON ECONOMY OF  
THE SOUTHERN AND EASTERN EUROPE**

This article discusses the trend of expanding the influence of MNCs in the world. The author analyses the reasons for the dominance of American multinational corporations in the world and identifies the main positive and negative effects of the functioning of American MNCs on the economy of the countries of South-Eastern Europe.

**Keywords:** Multinational corporation, host country, home country, the USA, South-Eastern Europe

In the 20th century, multinational corporations have grown and developed in a large scale that now they are part of our daily lives. From the mobile phones to the daily cosmetic products we use, from the cars we drive to the fuel that keeps it running, from the personal computers to the softwares on their hard disc and even from the coffee we drink to the fast food we eat, most of the products we use are supplied by multinational corporations and particularly by the American MNCs.

Their presence and significance in our lives are undeniable facts but they also have other influences on more important actors, in macro level. Today multinational corporations are not only production centers that supply crucial and commercial goods to us. They have grown to such an extend that they start to act as an influential economic and political actor. Today many multinationals are extremely powerful institutions and possess much more resources than some countries in the world. These corporations are continuing to grow in importance. They have integrated the world economy more extensively than ever in the past. Their economic power and size of their commercial activities have acquired such a scale that can provide not only an economic but also a political impact on states, international organizations and relations between them. [1]

The trend of increasing the influence of MNCs on the world is confirmed by statistical data. Thus, multinational corporations control about 2/3 of world trade, they accounted for about 50% of world industrial production, more than 60% of foreign trade, they have about 80% of the worldwide patents and licenses for new equipment, advanced technology and know-how. Furthermore, almost all trade in raw materials on world markets is under the control of multinational corporations, including 90 % of global trade in wheat, coffee, corn, timber, tobacco, iron ore, 85% - copper and bauxite, 80% - tin, tea, 75% - natural rubber, crude oil.[2]

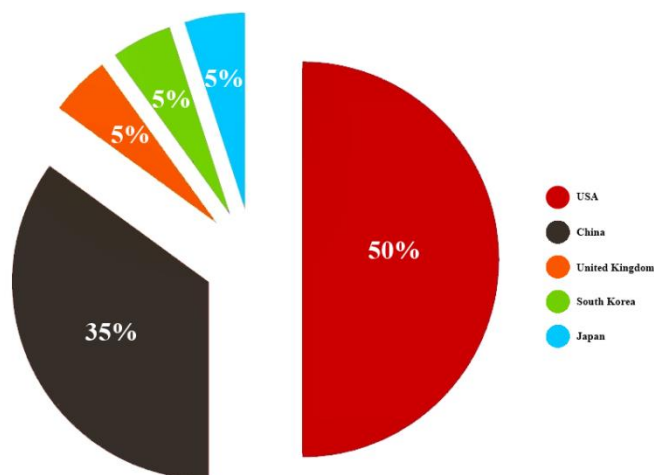
If you compare the sales volume of MNCs with GDP of entire countries (according to European studies, it's advisable to relate the country's GDP with an annual gross revenue of the multinational companies in the proportion of one to four) in 2010-2011, you can see that "economic strength" of the company Wal-Mart Stores was comparable to the GDP of Vietnam, Royal Dutch Shell exceeded the GDP of Morocco and ExxonMobil is almost identical to the GDP of Slovakia.[3]



Volume of Russian MNC "Gazprom" added value exceeded the GDP of Costa Rica as well as about 100 countries with available GDP statistics.

In 1970 there were only 7 000 MNCs, by the end of 90s their number reached 60 000. And now there are more than 82 000 multinational corporations with about 810 000 affiliates in various countries on all continents. However, there are only about 2-3 thousand first-class corporations among them which really play a leading role in the global economy and the globalization process, especially about 500 MNCs of the top echelon and 100-150 leaders among transnational banks (TNB) and other financial corporations. On the top 500 MNCs in the world account for over 1/3 of exports of the manufacturing industry, 3/4 of the world's commodity trade, 4/5 trade of new technologies. In total 500 MNCs control 70 % of world trade and more than half of all foreign direct investment. [2]

Figure 1. Analysis of the first 20 places of the Forbes Global 2000 [4]

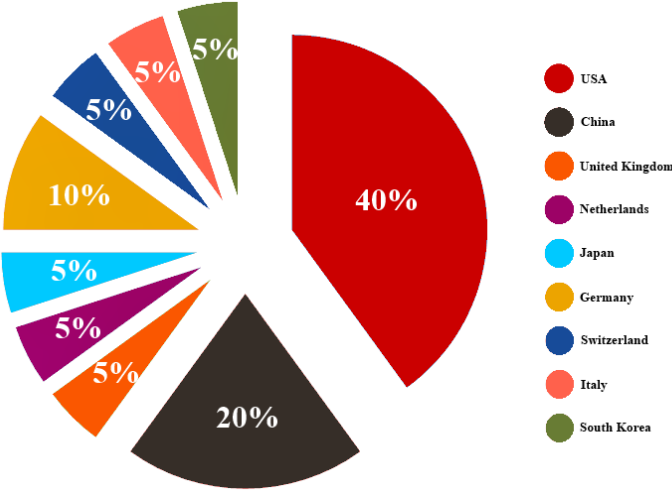


At the same time, a leading place among multinational corporations of the world belongs to American multinationals. Their network of foreign affiliates even called the US second economy because of its power and influence. Half of American export is carried out by MNCs. Most of the payments related to the transfer of new technologies is carried out within multinational corporations. In the

US their share in technology transfers is 80%.

If we analyze the annual ranking of the world’s largest companies according to Forbes magazine and Fortune, we can see that US companies have 10 of the 20 first places in the ranking of Forbes Global 2000 (see Figure 1) and 8 of the first 20 places in the ranking of Fortune Global 500 of the results of this year (see Figure 2).

Figure 2. Analysis of the first 20 places of the Fortune Global 500 [5]



By analyzing the full list of Forbes Global 2000 2016 it can be seen how big the difference between the number of American corporations and corporations of countries of South-Eastern Europe, none of which can not even compete with the US in the number of large corporations (see Table 1).

But why American multinational corporations have reached this leading position and power while we have a large number of countries that have great potential and could even compete with US corporations? It seems to me, the answer lies first and foremost in government policy towards MNCs. The interests of American multinational corporations and US foreign policy is largely the same. This convergence of interests leads to a more common policy between them.

Table 1. The number of American corporations and

corporations of countries of South-Eastern Europe in the Forbes Global 2000 [4]

Country	The number of companies included in Forbes Global 2000
United States	593
Italy	27
Spain	26
Russia	25
Greece	6
Poland	5
Romania	1
Czech Republic	1
Malta	1

Leaders of American corporations and state leaders in general believe that foreign expansion of American MNCs is the most important interest of the country's foreign policy. And the US national interests are realized through the expansion of corporations in the production of goods and services. As a result the US policy in this regard is aimed at creating the most favorable conditions for the operation of multinational corporations and their protection.

Foreign direct investments are considered as the main instrument by which the United States can maintain its position on foreign markets. And foreign expansion of MNCs is a means of maintaining America's dominant position in the global economy. And that expansion is considered to be even more effective and priority than the expansion of US exports.

The production of goods in developing countries, particularly the production of which requires high labor costs, allows American corporations to compete successfully even in the production of goods with low cost and thereby to neutralize the competitive advantage of corporations of China, India and other countries with cheap labor. And despite the fact that American corporations export capital and technology, their real strength - finance, research and management control remains in the United States. In the same time corporations against nationalization or specific limitation of its activity in foreign countries and they need strong support and protection of the US government.

Furthermore, it should be noted that in the US, as well as in other countries, MNCs are able to exert more and more influence on the government. The main form of communication of MNC with the public authorities is the system of lobbying, which is aimed at defending the interests of MNCs. Modern lobby MNC network includes the entire departments of corporations and their associations, various informal contact organizations, funds, etc. Their goal is to influence legislation, the activities of political parties, election results and decisions of the judiciary. In its activities, the lobbyists use a variety of methods: organization of campaigns to mobilize voters; establishing contacts with politicians and officials of the state apparatus in order to influence their decisions in the future; the financing of political campaigns, political parties and others. Also MNCs can mobilize its employees and employees of its subcontractors to support specific political campaigns. Furthermore, in recent decades, MNCs are not limited only to the financing of some political figures. The owners of the largest MNCs themselves are part of the governments and are running for the presidency. For example, every fourth member was a multimillionaire in the government of Ronald Reagan. Moreover, many of them have been appointed to public office in the sectors in which they had significant financial interests before the appointment. [6]

MNCs are also assessed as agents of global economic development and dissemination mechanism of American free enterprise system. Starting with the Marshall Plan, MNC had the role of strengthening foreign economies and the confrontation of communism and socialist models of economic development.

It should be noted that it's rather ambiguous the influence of American multinational corporations (as well as other corporations from developed countries) on the economies of developing countries, in particular the economy of Southeast Europe. There are many positive effects of MNC activities such as:

- diffusion of scientific and technological revolution;
- provision of money and production facilities for upgrading of local industries;
- providing local employment, higher wages and better social services, as well as the improvement of employees knowledge;
- retraction of local producers in the process of the international

division of labor;

- improving the quality of products and services of local producers by promoting competition;
- receiving tax from the activities of MNCs;
- acceleration of economic growth and development, and others.

But there is also a considerable number of negative effects of the operation of MNCs, including:

- displacement from the market of local producers who cannot compete with MNCs;
- the establishment of monopolistic prices;
- violation of state laws, for example, concealment of income from taxation by transferring them from one country to another;
- environmental pollution for its production;
- the destabilization of the situation on the labor market by the fact that the wages of employees of MNCs is higher than the wages of employees of local firms and others.

Furthermore, as already mentioned, MNCs have huge opportunities for participation in the political process not only in their home countries but also in the host countries. The United States government often uses this feature trying to control or manipulate the activities of MNCs to exert pressure on other governments in the case of latent or direct conflict. For example, in cases where a state takes an anti-American stance, the US government takes restrictive measures on the export of certain goods into that country. MNC cease to supply them with the necessary equipment and technology, despite the fact that often it's not economically profitable for them.

It should be noted that the threat of non-delivery of equipment and technology is often used by the US government. And considering that the developing countries have a strong technological dependence on the United States, because of the activities of MNCs. Restriction of export and import put them under strong control and create great difficulties for their economies.

In conclusion, I would like to mention that the influence of American multinational corporations on the economy of the countries of South-Eastern Europe can be assessed in different ways. Indeed, as already mentioned, there are many positive factors of their activity, but at the same time there are quite a large number of negative factors.

However, there is a rather complicated question. Are these

negative factors are the result of the activities of MNCs or it is the result of incompetent policies of the host countries?

Returning to the main reason of such a successful development of American multinational corporations, namely competent actions of the government towards MNCs and realization of opportunities offered by MNCs for both the home country and the host country (since the US is also the largest recipient of FDI).

It should be noted that the main reason why the countries of South-Eastern Europe have failed to develop its own network of MNCs, as well as the existence of a large number of negative effects from the operation of American multinational corporations in their territory, it is the lack of effective rational public policy towards multinationals and the fact that the government has ceased to act as the main controller because of the pursuit of foreign investment.

I would like to emphasize that it is potentially possible that the countries of South-Eastern Europe will develop in this area, they will get the maximum benefit from the deployment of foreign corporate affiliates on their territory as well as they will can create their own MNC network which will be able to take its rightful place in the world and even compete with US multinationals. But to make it a reality, first and foremost, it is necessary to reconsider public policies which, I believe, plays a crucial role.

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## **EFFECTS OF THE RUSSIAN EMBARGO ON BULGARIAN EXPORTS**

The aim of this paper is to access the economic impact of the Russian embargo from 7 August 2014 on certain agricultural food products from Bulgaria. The effects of this economic sanction are analyzed in the framework of empirical and theoretical analysis.

### **1. INTRODUCTION**

Russia is the European Union's third-biggest trading partner. Trade between them is governed by *Partnership and Cooperation Agreement*, which came into force on 1 December 1997 and is renewed annually since 2007. Russia ranks as the EU's third trading partner (representing 8.40% of the total trade) and the EU is Russia's biggest trading partner (with as much as 48% of total Russian foreign trade) and its most important foreign investor (up to 75% of foreign direct investment comes from the EU). The main EU exports to Russia are machinery, transport equipment (cars), chemicals, medicines, electrical and electronic goods and agricultural products. Russian exports to the EU are dominated by mineral fuels. Trade in services represents about 12% of total EU-Russia trade. Trade between the two economies grew steadily until mid-2008 when the trend was reversed, mainly due to the economic crisis, which had a negative impact on the trade volumes. Growth returned in 2010, reaching record levels in 2012.

The Russian military intervention in Ukraine, which began in late February 2014, prompted a number of governments to apply sanctions against individuals, businesses and officials from Russia and

Ukraine. Sanctions were approved by United States, the European Union (EU) and other countries and International organizations. Russia has responded with sanctions against a number of countries, including a total ban on food imports from the EU, United States, Norway, Canada and Australia. The sanctions have contributed to the collapse of the Russian ruble and the 2014-15 Russian financial crises. They have also caused economic damage to a number EU countries, including Bulgaria, with the total losses estimated 100 billion EUR.

Three days after the first sanctions against Russia, on 20 March 2014, the Russian Foreign Ministry published a list of reciprocal against certain American citizens. The ministry said in the statement, "Treating our country in such way, as Washington could have already ascertained is inappropriate and counterproductive", and reiterated the sanctions against Russia would have a boomerang effect. On 6 August 2014, Vladimir Putin signed a decree "On the use of specific economic measures", which mandated an effective embargo for one-year period on imports of most of the agricultural products whose country of origin had either "adopted the decision on introduction of economic sanctions in respect of Russian legal and (or) physical entities, or joined same".

The next day, the Russian government ordinance was adopted and published with immediate effect, which specified the banned items as well as the countries of provenance: the United States, the European Union, Norway, Canada and Australia, including a ban on fruit, vegetables, meat, fish, milk and dairy imports. Prior to the embargo, food exports from the EU to Russia were worth around 11.8 billion EUR, or 10% of the total EU exports to Russia. Food exports from the United States to Russia were worth around 972 million EUR and food exports from Canada were worth around 385 million EUR.

## **2. ECONOMIC IMPACT ON THE BULGARIA OF THE RUSSIAN IMPORTANT BAN: ANALYSIS**

Although Russia is not Bulgaria's biggest export trade partner, it occupies a central role in the Bulgaria's exporting strategy. Russia is the second export destination of Bulgaria, after China, from the countries outside of the EU.

Table 1 clearly shows the decline in the Bulgarian exports to Russia, for the period 2013-2014, which amounts to a decrease in the Bulgarian total export value of approximately 56 million EUR.



Russian ban on the import of food products had two effects on the Bulgaria economy: on the one side it led to loss of 166 million EUR (within only half a year) and on the other, it cause an increase in the import of banned products to Bulgaria, as the Bulgarian market was chosen as alternative by some countries affected by the Russian ban.

Table 1: Import/Export to/from Bulgaria during the period 2013-2014  
in million EUR

COUNTRY	EXPORT - FOB		IMPORT-CIF	
	2013	2014	2013	2014
TOTAL	22271	22105	25828	26126
EU	13350	13765	15423	16112
CIS	1218,7	962,1	5512,3	4625,7
RUSSIA	582,87	526,84	4782,1	3963,1

(NSI – Bulgaria)

Table 2: Exported products from Bulgaria to Russia during 2013-2015

PRODUCT	VALUE IN 2013	VALUE IN 2014	VALUE IN 2015
Vegetable, fruit, nut	7384	12973	5615
Meat, fish and seafood food preparations nes	114	1930	204
Edible fruit, nuts, peel of citrus fruit, melons	6062	4574	8
Dairy products	970	234	76
Fish, crustaceans, molluscs	2146	38	0
Edible vegetables and certain roots and tubers	352	116	4

(International Trade Center)

Table 2 validates the above mentioned, specifically addressing the banned product groups. It is obvious that the decline in trade between Bulgaria and Russia in 2013 continued in 2015 even to a higher degree and the fluctuations in value is now turning to a trend. As it appears, the most affected groups are vegetable, fruit, nut, food preparations, and edible fruit, nuts, peel of citrus fruit, melons. Table 3 illustrates a product categorization in order to make it easier to identify the most affected products, and disadvantaged producers by the Russian Embargo.

Table 3: Export of „Vegetable, fruit, nut, etc food preparations” and  
“Edible fruit, nuts, peel of citrus fruit, melons” from Bulgaria to  
Russia during the period 2013-2015

Product	Edible fruit, nuts, peel of citrus	Bulgaria's exports to Russian
---------	------------------------------------	-------------------------------

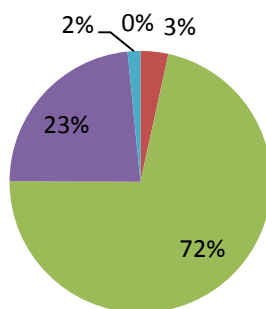
code	fruit, melons	Federation		
		Value in 2013	Value in 2014	Value in 2015
'0801	Brazil nuts, cashew nuts & coconuts	2	1	3
'0804	Dates, figs, pineapples, mangoes, avocados, guavas	0	2	3
'0810	Fruits nes, fresh	1438	2079	2
'0803	Bananas and plantains, fresh or dried	0	0	1
'0811	Frozen fruits & nuts	10	24	0
'0813	Dried fruit	33	56	0
'0814	Citrus fruit and melon peel	0	0	0
'0808	Apples, pears and quinces, fresh	128	152	0
'0807	Melons (including watermelons) & papayas, fresh	0	0	0
'0805	Citrus fruit, fresh or dried	352	32	0
'0809	Apricots, cherries, peaches, nectarines, plums & sloes, fresh	4055	2174	0
'0812	Provisionally preserved fruits & nuts (unfit for immediate consumption)	0	1	0
'0802	Nuts nes	8	0	0
'0806	Grapes, fresh or dried	36	54	0
	<b>Vegetable, fruit, nut, etc food preparations</b>			
'2008	Preserved fruits nes	4136	4210	3295
'2001	Cucumbers, gherkins and onions preserved by vinegar	792	623	538
'2005	Prepared or preserved vegetables nes (excl. frozen)	2063	1732	536
'2007	Jams, fruit jellies & marmalades	194	220	294
'2002	Tomatoes prepared or preserved	160	223	112
'2009	Fruit & vegetable juices, unfermented	37	31	2
'2003	Mushrooms & truffles, prepared or preserved	0	0	1
'2006	Sugar preserved fruits and nuts	2	3	1
'2004	Prepared or preserved vegetables nes (incl. frozen)	0	0	0

*(International Trade Center)*

Figure 1 presents a share in exports in 2013 of each of the products from the groups of Apricots, cherries, peaches, nectarines, plums and sloes (fresh), as well as Preserved Fruits.

2013

- Sour cherries (*Prunus cerasus*)      ■ Plums and sloes, fresh
- Fresh cherries (excl. sour cherries)   ■ Peaches, including nectarines, fresh
- Apricots, fresh



(*International Trade Center*)

It is obvious that the most disadvantaged products are *Apricots, cherries, peaches, nectarines, plums and sloes (fresh)*, as well as Preserved Fruits, which constitute a major part of the export of the respective product groups. Based on the image, it could be concluded that the most affected are the producers of cherries and peaches, which suffer the biggest losses and defeats, firstly due to the elimination of one of their main trading partners in the face of Russia and the other-the inability to sell their produce immediately after the adaption of the ban.

### 3. PRICES OF AGRICULTURAL PRODUCTS

Table 4 shows the prices of agricultural products for the period 2013-2015. There has been a decline in producer's prices for some products (fruits and vegetables), which is due to the affected volumes and quantities of perishable products which were harvest prior to the ban. Also, there is an oversupply from the EU internal market, since finding alternative markets outside the EU would take additional time (in 2013 exports to Russia from EU represented approximately about 30% of the total export).

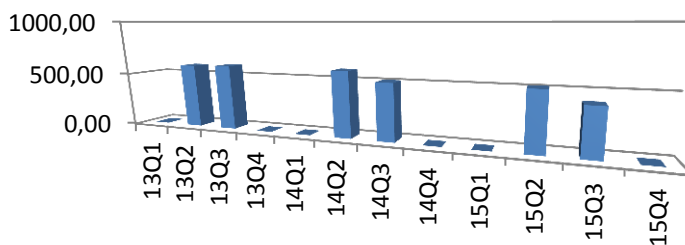
Table 4: Prices of agricultural products for the period 2013-2015 in €

VEGETABLES	VALUE	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4
Tomatoes	EURO/TONE	851,75	620,76	274,48	316,18	540,55	655,02	324,31	483,17	736,26	732,77	273,12	294,36
Cabbage	EURO/TONE	195,23	307,20	168,12	135,09	124,64	183,21	169,75	186,05	282,06	289,90	179,60	195,23
Cucumbers	EURO/TONE	1176,27	512,93	335,94	375,54	928,53	490,05	298,91	625,75	1083,43	470,22	370,15	564,34
Carrots	EURO/TONE			241,53	237,92			222,89	185,48		307,24	212,25	200,51
Onion	EURO/TONE	257,86	266,49	243,75	244,69	249,78	288,95	206,63	189,71	191,23	251,95	227,39	226,57
Beans	EURO/TONE			344,65	290,49			249,68	240,14		230,08	271,85	210,91
Peas	EURO/TONE		284,73	268,43	255,65		543,53	274,82			247,98	228,55	
Garlic	EURO/TONE			809,54	1119,73		1065,43	1198,98	1333,62		1278,23	1278,23	1942,91
Shallots	EURO/TONE	1278,23			774,61	852,32				547,08	383,47	383,47	
Onion (fresh)	EURO/PIECE	0,16	0,14	0,12	0,13	0,15	0,12	0,17	0,15	0,14	0,15	0,12	
Peper	EURO/TONE		1012,36	331,93	336,45		706,60	371,02	282,44		357,90	328,71	297,31
Watermelon	EURO/TONE		255,65	111,59	127,82			148,22				135,04	102,26
Eggplant	EURO/TONE		658,86	178,99	231,94		820,81	236,64	167,63			222,28	117,42
Zucchini	EURO/TONE		271,66	188,56	394,21		197,11	144,35	138,05		219,66	167,45	336,69
Lettuce	EURO/PIECE	0,21	0,19	0,17	0,22	0,18	0,14	0,19	0,25	0,31	0,21	0,17	0,19
<b>FRUITS</b>													
Apples	EURO/TONE	273,51	520,75	283,48	223,44	224,90	191,78	222,98	266,53	239,36	225,34	257,76	234,50
Pears	EURO/TONE		664,68	471,08	376,31			526,68	439,33			416,38	361,22
Peach	EURO/TONE		386,70	328,90	232,64		321,99	291,71			280,15	277,08	265,87
Cherries	EURO/TONE		586,92	593,72			590,88	507,89			513,71	411,87	
Prunes	EURO/TONE			194,14	175,72			213,29	165,42		250,53	210,24	265,16
Strawberries	EURO/TONE		867,09	1137,62			862,02	1031,44			756,58	1129,28	1498,09
Apricots	EURO/TONE		364,58	334,99			307,81	302,85			320,37	340,87	
Cherry	EURO/TONE		515,62	554,65			356,11	252,20			357,52	348,87	
Raspberries	EURO/TONE		1431,62	1451,54	1362,88		2045,64	1526,90	1391,27		1834,17	1615,97	1870,37
Grape	EURO/TONE			512,76	290,05			543,23	342,10			454,02	251,66
Grape (for wine)	EURO/TONE			348,19	233,92			349,24	300,00			316,12	299,38

(National Statistical Center – Bulgaria)

Announcing the ban has a psychological impact on the local distributors, which makes them put additional pressure over the prices. As it was mentioned earlier, the most affected products and respectively their producers are the cherries and the peaches. The following figures graphically illustrate the price-change of cherries and peaches in quarters for the period 2013-2015.

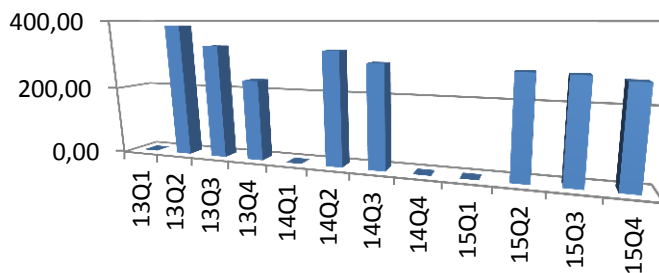
Figure 2: Price-change of cherries in quarters for 2013-2015,€



(NSI – Bulgaria)

There is a decline in the price of cherries. The decrease in 2014 is 14% for Q3. The decline continues in 2015: 13% for Q2 and 19% for Q3.

Figure 3: Price-change of cherries in quarters for the period 2013-2015 in EUR



*(NSI – Bulgaria)*

Similarly as in the price of cherries there is a decline in the price of peaches. The decrease in 2014 is respectively 17% for Q2 and 11% for Q3. The decline continues in 2015 but at a slower rate: 13% for Q2 and 5% for Q3.

#### 4. CONCLUSION

The ongoing political battle between the two major trading partners which began with the imposition of sanctions by the EU to Russia and the followed Russian import ban on certain food products produced by EU member states, affects the economic process of all parties involved. The one who suffer the most are citizens who are not directly involved in making and enforcing these decisions but are directly affected. The small and medium businesses which products fall under the ban also suffer. Some small producers fail under the strong pressure and go bankrupt because they don't have the opportunities and sustainability of major and large companies which by using different tools manage to limit their losses and adjust the production process to the current situation.

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## **UNITED STATES OF EUROPE – BETWEEN MYTH AND REALITY**

Taking into account recent developments in the global economy, where more and more countries develop and become true centers of power, I decided in this paper to provide insight into the possibility of deepening the integration process in the European Union to the status of a political union and perform a cost-benefit analysis regarding this hypothesis.

I considered necessary to present issues such as measures taken to date towards integration, but also premises that would form the basis of a future political union and how they would affect the countries of Eastern Europe. All this will help us to reach a conclusion regarding the main topic of the paper, the possibility of deepening the integration process towards an European political union.

### **1. INTRODUCTION**

Regional economic integration is a consequence of the phenomenon of intensifying the interdependencies of national economies. Trade relations are one of the most important forms of concretization of interdependencies. So, trade integration is a key component of economic integration, essentially, which may be defined as a “complex process of progressive liberalization of trade between the participating countries”. Stages that you can scroll through an integration process are: free trade area, customs union, common

market, economic union, monetary union, political union.

First of all, we should clarify what could signify “United States of Europe”. This phrase would represent the most advanced form of economic integration on the European continent, namely, a political union. I used “United States” as the objective of unification is one that for decades dominated European history. Meanwhile plural is used because it is intended to signify that it is not a simple unitary state but a federal structure composed of several states at one time were distinct. “Of Europe” is used in order to point out that European countries wishing to join a federal and democratic structure, similar to the United States, only to realize that this union in historical and cultural context of Europe.

## **2. A BRIEF HISTORY OF THE EUROPEAN UNION**

The idea of creating a “United States of Europe” has existed since 1849, when Victor Hugo sets out such a scenario. However, the proposal comes against a background of an Europe which is highly unstable, with many states newly created and three empires who wanted to retain influence over the continent.

On September 19, 1946, at the University of Zurich, Winston Churchill proposes recreating the "European family" and as the main way of doing this, he suggests a partnership between the two great rivals of War: France and Germany<sup>3</sup>. He comes up with the idea to constitute a kind of an European state, an idea of a great courage for those years. Churchill's proposal to create a master plan to revitalize Europe is supported by the United States through the famous Marshall Plan, a plan designed to support European economies to emerge from the crisis.

In 1950, the mainland to the idea of federalization, however, Europe was not yet ready for reconciliation after the war. Only now, by beginning the process of European integration, Jean Monnet comes up with a plan first presented by French Foreign Minister, Robert Schuman and German Chancellor, Konrad Adenauer, a plan that led eventually to the emergence of the European Union, the one we know today.

It is important to note that each stage of the integration process encountered some difficulties, obstacles and criticism, in addition to their current benefits. A good example is the Maastricht Treaty, which established a series of objectives to be met for deepening of the

integration process:

- Promoting economic and social progress, in particular the abolition of internal borders and to establish an economic and monetary union by introducing a single currency. This is one of the goals that managed to be implemented with great success. Thus, today, the European Union promotes the free movement of persons, goods, services and capital. To facilitate these freedoms there have been implemented a number of projects, such as the Schengen area, an area where state boundaries disappear. The second part of the objective has been fulfilled since 1999, when they founded the emergence of the euro. Euro-area continuously expanded, reaching today a total of 19 members.
- Affirmation of the union, through a Common Security and Defense Policy, which might lead to a common defense. This goal is very sensitive in Europe, since EU Member States have their very own security policies. This is easier to understand, given that national security, by tradition, is directly related to national sovereignty. Member States have agreed to adopt a common foreign and security policy (CFSP), but unfortunately, the implementation of this policy faces many obstacles. A good example is the speech of different states on Russia of penalties from conflict in Ukraine.
- Strengthening the protection of rights and interests of citizens of the Member States through the introduction of European citizenship. We can say that they have taken concrete steps in the protection of citizens' rights by adopting various laws at European level. However, we cannot talk, yet, about a so-called "European citizen". The biggest problem in this regard is the lack of awareness by citizens of various Member States to participate in a structure much higher than the national.
- To develop close cooperation on justice and home affairs. Unfortunately, so far, apart from the establishment of the European Court of Justice, there have not been taken any other steps in this direction. Each Member State is free to implement its own vision on justice and home affairs.

So far, European unification has checked several objectives, including peace, cooperation and political stability in the entire



continent. At the same time it was focused on ensuring greater prosperity for the citizens of Europe, because European social and economic model and the euro area, of course, were being achieved while respecting the environment. Europe has worked to strengthen democracy by respecting the Charter of Fundamental Rights of the European Union, which focuses on the principles of dignity, equality, solidarity and justice. And commercial areas have made progress by strengthening Europe's international role, and this has led, ultimately, to the progress of democracy. One last point that the European Union focused on is cultural concerns. The European Union aims to give greater attention to this area and to launch a series of programs to try to promote and develop European culture.

Economic union in Europe area is the most advanced method of interstate cooperation worldwide. It is pretty hard for such a continental block to function perfectly.

### **3. POLITICAL UNION**

Political union is the most advanced form of regional integration. Although this concept has appeared very long ago, we can say that this last stage of integration is not an end in itself but just a result of the actions taken in the history of European cooperation. Declaratively, the concept of political union is referred to by the founding father of the European community - Jean Monnet, but the first official reference to the possibility of political collaboration across the continent does not appear until the Maastricht Treaty of 1992. Under this treaty, we find the concept European citizen, which refers to the most advanced stage of cooperation. Then, in the Treaty of Lisbon in 2007, it has created the position of foreign minister of the union, meaning that one person is appointed as a representative of union interests worldwide.

The first and most important measure is the creation of the euro area. This area is represented by the 19 Member States whose common currency is the Euro and complying with the convergence criteria required for its adoption. These criteria are economic and legal and are designed to ensure that the economy of a country is ready for such a change on the monetary front. However, with the advent of the Euro, was born the European Central Bank, independent entity that has the responsibility of the monetary policy of the European Union. Duties on tax policy, however, remained at the level of national

governments.

It is well known that a decision of this magnitude shows costs and benefits. Among the main benefits of the single currency is both cost disappearance of foreign exchange from one currency to another, and price transparency recorded in the area. Among the costs of euro adoption can be mentioned interest rates that are not in accordance with the adaptability of all Member States of the euro area and that in this area there is vulnerability and contagion in the event of a financial crisis in one of the countries or worldwide .

We can say that the European Union undertakes activities that Member States adopt joint measures, step by step, turn their attention to this last stage of development of the union. The most representative of such measures are common policies adopted at European level, such as: common agricultural policy, security policy, environmental policy, competition policy, human rights policy and trade policy. Analyzing the objectives to support the idea of deepening the European integration process, we find that for most (security and peacekeeping, the EU is becoming globally competitive, it strengthens cooperation internally and reduces the economic and social differences) have already taken steps and there are programs focuses mainly on them. We should, however, be aware that such measures take time and effort from all participants, so only through their involvement can lead to a favorable outcome for all EU members.

Another measure taken towards making economic and monetary union into a political union can provide and create all common institutions. Thus, the European Union has seven institutions: the European Parliament, the EU Council, European Commission, European Council, European Central Bank, Court of Justice of the European Union and the European Court of Auditors. Competence Examination and amendment of legislation is divided between Parliament and Council, while executive duties are the responsibility of the European Commission and with limited capacity, the European Council. Eurozone monetary policy is coordinated by the European Central Bank. Interpretation and application of EU law and treaties is ensured by the Court of Justice of the European Union. There are also a number of auxiliary bodies operating in certain areas. We should mention that at the present time, the representativeness of these structures is mixed, it can be found in people of all EU states.

The European Union also comes with a special program

entitled Europe 2020. The development program includes three mutually reinforcing priorities: smart growth through the development of an economy based on knowledge and innovation, sustainable growth by promoting a more efficient economy in terms of resource - greener and more competitive and inclusive growth by promoting an economy with a high rate of employment, ensuring social and territorial cohesion. These priorities tend to lead to a deepening of the integration of the union.

All measures taken to date may lead to the creation of United States of Europe. However, the authorities' decision to choose the steps slowly but surely, towards deepening the integration process, may complicate the transition from economic and monetary union to a political one. However, we must admit that this path is one that, over time, can strengthen the measures taken so far and in the future. It is very difficult to anticipate reactions of the Union, of Member States or citizens, who are the main beneficiaries of integration measures necessary in the event of this lengthy process.

Following the analysis made earlier on integration at European level, we can weight the possibility of the EU to move to the next process by deepening integration. However, we must take into account both arguments supporting the continuity of the process, and those who oppose the transition to a political union.

#### **4. ARGUMENTS SUPPORTING THE FURTHER DEEPENING OF EUROPEAN INTEGRATION**

The first category of arguments are the geopolitical and legislative, which have a profound significance, particularly due to the fact that the United States of Europe wants to be an union of several states, which today are independent and sovereign:

- Security and maintenance of peace: in a political union, internal conflicts should disappear. At the same time, only a common security policy could make the EU an important player in the international security scene. Currently, a single state could face pressure from the outside, but a state the size of the entire European continent certainly could resist that pressure.
- The disappearance of legislative differences between countries: one significant legislation would create transparency

throughout the European continent. However, the existence of a common policy would lead to a balanced development of the states in the union. Here we speak of a reduction in the costs of legal proceedings which currently vary from state to state.

- One decision as a state, not 28 votes for a decision - Facilitate decision making: Today, a decision taken at EU level requires a majority of votes and in some cases even unanimously, a process that can be extremely difficult when it comes to some vital decisions. Creating new entities would mean the disappearance of these procedures. When referring to the American model, in the USA there is one government that takes decisions, which are later observed by all Member components.
- Strengthening cooperation internally: most effects of cooperation should be in the beginning of a commercial. A cooperation between all 28 Member States could lead to higher receipts from the EU budget. If in case of an economic union we talk about 28 different budgets, in the case of the political union there is only one budget that could be divided more efficiently due to cooperation and there would be a balanced development across the continent.

The second category of arguments are those of economic nature, which fades, especially amid increasing global competitiveness of the block, but also as a background for a reduction in economic disparities as the internal model of United States<sup>4</sup>, who managed in a relatively short time, but with great financial efforts, to reduce the economic gap between Member States.

- EU becomes a competitor in the world: in the current world, where states are becoming increasingly competitive, the only way to cope with the boom of trade of other actors on the world market is to create the Political Union. Thus, the European Union could become the most competitive country in the world, which is extremely beneficial.
- Decrease of economic and social disparities: the main advantage of reducing these differences is the interest of every European citizen to contribute to the prosperity of its own with the prosperity of the whole continent. We cannot compare a country like Germany with a new state joined from Eastern

Europe, such as Romania or Bulgaria. The differences between the economies of these countries are extremely high. Just by creating a common state could one day lead to the disappearance of these significant gaps. Where to add that, by creating this state, there would be far more strategic investments, such as infrastructure, agriculture or industry, aspects in which former socialist countries have a considerable amount of problems.

- **Reduce of government expenditure:** By creating a single state, there should be fewer choices, so less money spent from the budget. Each state would have to choose their own president and parliament. It would hold a single ballot on the whole continent.

## **5. ARGUMENTS AGAINST THE CONTINUATION OF DEEPENING THE EUROPEAN INTEGRATION**

Like in the arguments in favor of deepening European integration, the arguments that oppose it can be classified after by the nature of the differences between states. So, first differences are the socio-cultural, which are perhaps the most difficult to remove from the road to the formation of United States of Europe.

- **Differences in culture and religion:** perhaps the most important impediments to the creation of a political union are cultural and religious differences on the continent. Europe is a continent of multiculturalism. If Eastern Europe is predominantly Christian Orthodox, the rest of the continent is divided between Catholics and Protestants. Also in Europe there are many communities of Hebrews and Muslims. If religion is not a barrier, cultural differences definitely are. The most relevant examples can be correlated with events occurring right now and aimed at combating separation regions of countries they belong to. Inside conflicts in relatively small country on the subject: Scots in England and Catalans in Spain. What can we expect from a large construction created only about politics? EU citizens still do not see themselves as Europeans, they are not yet aware of such an entity. A state created by unresolved political issues and unconsulted population can only lead to failure.
- **Linguistic differences:** at present, in the European Union, there

are 24 official languages. It is hard to believe that forming a state in which they speak so many languages would be a success. It would be quite difficult, both at the legislative level and at the individual level to devise a system in which this impediment would disappear.

The second differences are related to the economic. These arguments come amid discrepancies both in terms of the level of development and the different legislation that Member States have in certain areas.

- **Differences in development level of states:** they relate to the classic problem of economic disparities between eastern and western Europe. On the one hand we have a prosperous west, with countries like Germany and France which, by themselves, could be true engines of the world economy and an underdeveloped east, which is still considered fresh out from under communism. This imbalance in development can be seen in every area, from the infrastructure to the number of mergers by companies or FDI. Such an imbalance would be very difficult to manage in a political union. There should pass decades and should be spent billions of euros to reach a delicate balance between the two areas. While it would be concerned with the development of poor areas of eastern Europe, it could lose the battle with major global competitors.
- **We cannot talk of political union without a fiscal union:** recently there appeared a new concept, namely that of fiscal union, which represents a new stage of economic integration. It is normal that after adopting the single currency, Member States should adopt the same fiscal measures in order to reach, eventually, a political union. However, each country has its own tax code, according to national interests and political doctrine promoted by the government.

Last, but not least, the most numerous category of arguments that oppose deepening European integration is the differences in the political vision of the Member States. This category is important because, as well as social differences, political mentality is very difficult to change.

- **Recent conflicts in the euro area:** the euro should be the last step before political union, countries once adhered to this area must be more connected to each other. However, there are many doubts in

this regard. Last year Lithuania was the nineteenth state to adopt the euro, a smoldering conflict lies in the south of the continent. Following the economic crisis and a change of government, Greece was on the brink of leaving the area.

- **Different policies addressed in the recession:** If the European Union promotes cooperation and mutual assistance, at the peak of the economic crisis were applied tactics of “everyone is on their own”. This almost led to disaster, everything that was happening with the economy of a Member States having impact on the entire union. Finally, intervention in cases as desperate as that of Greece, but that help did not come just because it was a country of the Union, but rather because the great powers wanted to be protected against other shocks coming from Greece and the eurozone members.
- **Different views on foreign policy for the Union:** regarding the conflict in Ukraine, even though the European Union has a foreign minister who should deal with the common foreign policy of the Union in mediating conflict, there were involved leaders of France and Germany, who negotiated for EU approach, which were boycotted by some countries such as Hungary. Also related to this conflict, one thing happens in statements and other in practical. If the union took the decision to penalize Russia, some countries did not support the decision and even offered to support Russia. Thus, Greece and Hungary have declared their option to cancel sanctions and even Cyprus has signed an agreement with Russia by allowing it to station warships in its territorial waters. But such things happen in larger countries. While Britain has sent weapons and equipment to Ukraine, Germany, which is largely dependent on Russian gas, has an extremely peaceful policy in relation to this country, even ending different business with large Russian companies.
- **Failure to adopt the euro by all Member States:** how can we speak of political union as long as some states cannot complete the monetary union. Member States of the European Union, such as the UK or Denmark, who completely refused adopting the single currency. Again, it is impossible to speak of a single state entity in whose territory there would be more official currencies; This would be hilarious.

- **Loss of national sovereignty:** just as it is with joining the Eurozone, where states have refused the single currency and a loss of national sovereignty, most likely it would happen because of an eventual political union. Most likely many countries which are now part of the European Union would reject the creation of a single state for fear they would lose their history, sovereignty or independence for which they had fought many wars and who have sacrificed a lot of people.
- **Opposing politicians:** do not believe someone would be willing to vote for his position to disappear tomorrow and to create, instead, a single parliament in order to form a single government in Europe.
- **The Brexit:** The decision of the United Kingdom of Great Britain and Northern Ireland to leave the European Union could be a warning to the rest of Europe. The referendum initiated by the United Kingdom leaving the block can lead to a chain reaction within the union. There are voices who want the taking of such votes in other EU countries.
- **Immigrants and terrorist attacks:** Many people blame the high wave of Muslim immigrants for the emergence of multitude religious conflict in Europe. Meanwhile, the European continent has become a target of terrorists.

#### **Factors that could influence the way for a political union**

The process of deepening integration at European level can be influenced by events abroad. In my opinion, amid the global fight against terrorism, cooperation between countries is beneficial that could strengthen security across the continent. We must admit that the real wars that are being fought these days are related to terrorism, and a small state would not be able to face a possible attack. Neither does it have the material resources, but neither the financial resources for this struggle. Instead, a developed country with a strong economy, with different strategic points focusing on the fight against terrorism could be the key to success.

Another factor that leads us to the option currently linked to political integration is economic development, one that gets increasingly stronger, but at the same time, very different in the European states. Highly developed states, such as Germany and France, will opt for a political union in which it would be able to



benefit from a larger market, newly created structure becoming world number one economic power. On the other hand, we have less developed countries which are in a process of development. These states are interested in entering such a structure just because that in it they would be able to develop without incurring costs as much as now.

Measures for progress on the path of political integration have been taken and taken, a good example depicting negotiations between European states on this situation. So, at EU level there is a desire to pass from an economic and monetary union to a political one, the only impediment being the cultural and political situation.

However, we must emphasize some factors that could halt or significantly slow down the process of integration. Here we talk about political regimes in member countries of the European Union, especially since the continent cannot even speak of political stability. Note that after the time of economic crisis, in many states there have emerged extremist parties who are against the European Union and which managed to win a significant number of seats in their countries and even in the European Parliament.

There are also people who believe that the European Union has only disadvantages and argue that countries should leave the Union or that it should be abolished. These people are known as Euro-skeptics<sup>5</sup>, and they come with good arguments to support their cause. Among these is the fact that the EU is not working effectively and has very high costs, but also that the union becomes too strong and it is not democratic.

These could be impediments that could get worse over time, leading even to a dissolution of the entire union. Recent geopolitical events in Europe have failed to bring back to light the Euro-skeptic arguments about the lack of unity within the European Union.

## **6. CONCLUSION**

Following the above analysis, the arguments for and against continuing the process of deepening integration by establishing a political union, I concluded that it could not be possible at this time, primarily due to large differences between the countries that make up the European Union. These differences, both cultural, political, economic and social have a great impact and importance on this sensitive issue represented the next stage of regional integration.

Considering the gaps in development between countries in western and eastern Europe with different approaches and inclined towards protectionism in each country during the recent crisis, we can say that a political union would be more harmful to the development of Member States than the current stage of the integration process through the existing lack of uniformity between them and the desire to prosper alongside each state to its citizens. The total amount of implications that such a political union would involve are currently far too expensive and would pose a disadvantage on the political and economic world, where other major players are developing without facing obstacles such as those found in the Union area.

However, adopting the euro by all Member States of the Union together with the fear of losing national sovereignty have led to different approaches both domestically and of visions regarding the foreign policy of the union, leading to instability throughout the intra-European area, which is another sign which demonstrates that the European Union is not yet ready for such a major change.

The crisis in Ukraine, the Brexit and the euro crisis from Greece may be the beginning of the end for a Political Union. Misunderstandings within the continent, along with self-interests that have revealed individualistic positions adopted by Member States may lead to a cooling of relations and the stagnation of deepening the European integration process.

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## **GREEN ECONOMY: PAN-EUROPEAN REGION**

The contents of the paper casts light upon sustainable development as an established vector for a range of authorities aiming at adjusting ecological and rational policy to the economy of their countries. The notion of green economy is explained as one of the instruments for gaining sustainable development. The manuscript analyzes the process of green economy implementation in the European area, namely in the European Union countries and a pan-European region.

**Keywords:** Green economy, inclusive green economy, sustainable development, economy of the European Union, pan-European region.

From the middle of the 20th century until now the global economic downturn and its consequences have triggered the international scientific community to providing analysis and finding an answer to a question of optimizing our harmonious coexistence and development in the shifting environment. Eventually, this initiative has revealed acute problems, such as the human-induced enhanced greenhouse effect, increasing surface temperature, changes in the sea-level rise, ocean and ice sheet dynamics, ocean acidification and extreme climatic events [5]. Understanding the seriousness of such climate tendencies, preoccupied authorities and researchers implemented the process of sustainable development.

The notion of sustainable development can be extracted from its definition formulated by Gro Harlem Brundtland, the Chair of the UN Environment Commission, in its Report on Environment and Development (1987) as '... development that meets the needs of the present without compromising the ability of future generations to meet their own needs' [2]. The concept of sustainable development is better framed from the point of view of its drivers, i.e. environment, economics and society, and its 'enablers' which result in sustainable development [7, p.41] (Fig.1).

With the global concern and thanks to the launch of national commissions and programmes for sustainability (e.g. the United Nations Environment Programme (UNEP)), the concept of sustainable development assumed a higher profile in the world economic order,

which led to an inevitable rebalancing of national priorities [2]. The rebalancing is being realized due to one of the crucial and indispensable mechanisms of gaining sustainability which is defined as a green economy (an inclusive green economy). Before giving the definition to the green economy it is worth stating that this comparatively new economy is based on sustainable development and the study of ecological economics [4]. It was first coined as a term in the first report of the UK Government “Blueprint for a Green Economy” in 1989, but implemented as a strategy, or economic policy, only after the issuing of the report of the UNEP in 2009 [7, p.31]

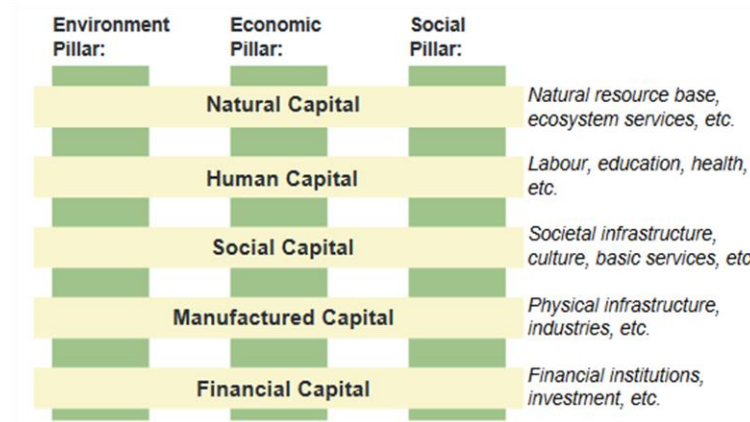


Figure 1. Drivers for Green Economy growth

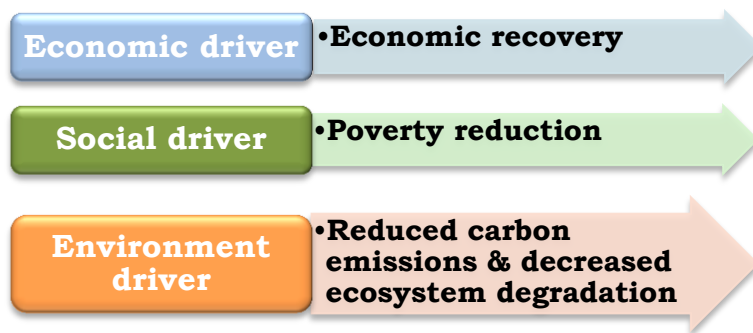
Having given the overall picture of how the green economy appeared, it is necessary to formulate its notion. According to the UNEP, a green economy is ‘one of the results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities’. In the course of investigation 7 other definitions of the green economy conveying respectively similar ideas and its concept were found (Table 1).

Table 1. Definitions for Green Economy

Author (Organization)	Definition of Green Economy	Source
UNEP	One of the results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities.	<a href="http://www.unep.org/">http://www.unep.org/</a>
UNEP	A system of economic activities related to the production, distribution and the consumption of goods and services that result in improved human well-being over the long term, while not exposing future generations to significant environmental risks or ecological scarcities.	<a href="http://www.unep.org/">http://www.unep.org/</a>
UNCTAD	An economy that results in improved human well-being and reduced inequalities, while not exposing future generations to significant environmental risks and ecological scarcities.	<a href="http://unctad.org/en/Pages/Home.aspx">http://unctad.org/en/Pages/Home.aspx</a>
Green Economy Coalition	Green Economy is “a resilient economy that provides a better quality of life for all within the ecological limits of the planet.	<a href="http://www.greeneconomycoalition.org/">http://www.greeneconomycoalition.org/</a>
International Chamber of Commerce	Green Economy is described as an economy in which economic growth and environmental responsibility work together in a mutually reinforcing fashion while supporting progress on social development.	<a href="http://www.iccwbo.org/">http://www.iccwbo.org/</a>
Danish 92 Group	The Green Economy is not a state but a process of Transformation and a constant dynamic progression. The Green Economy does away with the systemic distortions and dysfunctionalities of the current mainstream economy and results in human well-being and equitable access to opportunity for all people, while safeguarding environmental and economic integrity in order to remain within the planet’s finite carrying capacity.	<a href="http://www.92grp.dk/">http://www.92grp.dk/</a>
Government of South Africa	The Green Economy involves largely new economic activities and must provide an important entry-point for broad-based black economic empowerment, addressing the needs	<a href="http://www.gov.za/">http://www.gov.za/</a>

	of women and youth entrepreneurs and offering opportunities for enterprises in the social economy.	
UNCSD	Green Economy can be as a lens for focusing on and seizing opportunities to advance economic and environmental goals simultaneously.	<a href="http://uncsd2012.org/">http://uncsd2012.org /</a>

The first definition appeared to be the most cited and recognized by other organizations following the green economy strategy, therefore we shall operate it as well. The green economy implies three objectives originated from 3 drivers for sustainable development (Fig.2), i.e. economic recovery, poverty reduction and reduced carbon emissions along with decreased ecosystem



degradation [7, p.31].

Figure 2. Drivers for Sustainable Development vs Objectives for Green Economy

Analyzing the green economy in the scale of the Pan-European region as one of the novelties of the UNEP in the report “Global Environmental Outlook-6” (GEO-6), 2016, the countries forming the region are to be mentioned. According to the GEO-6 Report pan-European countries are grouped in 4 sub-regions: Western and Central Europe, Southern Europe, Eastern Europe and the Caucasus and Central Asia (Table 2).

It is a fully accepted fact that the EU practice in green growth management along with the UAE green economy initiative is pioneering and the most progressive at the present moment. But taking



into account our regional vector it is of outmost interest for us to make an overview of the EU practice.

Table 2. Countries of the pan-European region

Sub region	Countries
Western and Central Europe	Andorra, Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, the Netherlands, Norway, Poland, Portugal, Romania, San Marino, Slovakia, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, Vatican City State.
Southern Europe	Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia
	Turkey
	Israel
Eastern Europe and Caucasus	Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova, Ukraine
	Russian Federation
Central Asia	Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan

## 1. EUROPEAN UNION PRACTICE

In the EU, efforts made by individual member countries and at the EU level to green economies have been made for decades, including taxes on specific pollutants, energy and transport. In its latest economic strategy elaborated in the framework of “Europe 2020”, the EU’s objectives are ‘transformation’ to make growth ‘smart, sustainable and inclusive’ and ‘low-carbon, resource-efficient economy’. Broadly speaking, the EU aims and successfully manages to integrate sustainability criteria into funding mechanisms, i.e. avoid unsustainable trade-offs and invest in environmental infrastructures (water supply, waste water treatment, waste management and air pollution control) to comply with environmental objectives. There has recently been a new focus on active risk management, especially spatial planning and communication for flood risk, and proactive investment in the restoration of natural capital. Another tendency along with the increasing in-depth projects concern, EU programmes and projects are bound to be applied more widely with an outlook for the support by other governance levels (e.g. cities, regions, countries) [3, p.7].

The intentional looking upon the green economy management in the EU which forms part of the pan-European region can be easily explained by the accepted fact that a number of EU countries are the wealthiest nations of the world with innovative environmental policy initiatives. But according to contemporary demands, the pan-European region is considered to be a perspective area for gaining the objectives of green economy.

## **2. ASSESSMENT AND OUTLOOK FOR THE PAN-EUROPEAN REGION**

Regardless the pan-European region is very complex and diverse in terms of cultural, social, economic, environmental and political attributes and there is a noticeable difference in resource consumption, environmental, economic and social state among sub-regions [6, p.15], it bravely launches new initiatives. According to the GEO-6, the region can remain a pioneer in institutional innovation, balancing supra-national coordination and subsidiary.

A starting point for the pan-European region to become a unified system was on 11 March 2016 when the United Nations Statistical Commission (UNSC) agreed the framework for the goals and targets at regional, national and sub-national levels. All the goals have an environmental dimension, and half of the targets are relevant to the environment. From the perspective of the GEO reporting process, the integration of environmental aspects into sustainable development covers three key complementary areas, where the last goal is aimed at the transition to an inclusive green economy with resource-efficient, low carbon development:

- goals on climate, water, oceans and ecosystems, biodiversity and land that focus on the environmental resources;
- goals on poverty and health;
- goals on sustainable energy and sustainable consumption and production.

These goals face a range of challenges in the course of strengthening environmental governance at the level of the pan-European region. The governmental guarantee to attain the goals is to adopt a two-fold system. First of all, it implies strengthened implementation of already established policies with the improvement of commitments given in critical domains, such as climate change,

land and soil, as they are indicated as vulnerable at the present moment. Secondly, environmental management success presupposes re-calibrating policies and re-designing institutional settings to better integrate environmental policy into policies across different sectors, as well as stimulating innovation in markets and society and fostering the circular economy itself.

The two earlier defined directions to strengthening environmental governance entail much efficiency and importance. However, the pan-European environmental governance system remains fragmented, both in terms of the coverage of problematic areas and due to the participation of the region's 54 countries. Therefore, the need in establishing a common framework for action involving governments, business, civil society and citizens appeared. Such common framework has been formed by the United Nations Economic Commission for Europe in 2016 and was called the Batumi strategic framework. According to the Commission, it would be helpful for improving governance [6, p.151]. The framework includes 7 strategic approaches to adopting green economy and meeting sustainable development goals.

The first approach aims at the pluralistic governance, consisting in mobilizing not only central governments and regulatory authorities, but business, civil society actors, municipalities and citizens as well. Multi-level and pluralistic governance systems not only strengthen the regulative framework by command and control mechanisms, but also increase the level of active involvement of business, civil society and citizens.

Enhancing integration and coherence is the second approach. It is being successfully implemented at the multi-lateral and supra-national levels through the environmental policy domain, especially miscellaneous EU's Environmental Action Programmes. Nevertheless, integration remains actual, as its level varies significantly in the region. Moreover, the integration of environmental requirements and considerations in other policy areas in some countries has reached a stage where environmental objectives remain secondary and/ or have become part of a multi-sectoral or institutional arrangement, relating for example to urban development, climate mitigation, biodiversity or resource management.

A lot of countries of the region have succeeded in ecoefficient technology, which is defined as the following approach along with

innovation. The EU and its Member States, as well as a growing number of non-EU countries, have set up enabling policy frameworks, implementation programs, networks and technology roadmaps to facilitate eco-innovation and development of greener technology. For example, one of such programs is known as the EU EcoInnovation Action Plan.

Innovation in environmental technologies and infrastructure is successfully facilitated due to financial mechanisms and instruments, being another approach to strengthening environmental policies in the pan-European region. In “GEO-6 Assessment for the pan-European region” a number of active and efficient programmes are mentioned (e.g. the European Neighbourhood Policy (ENP), the LIFE Programme, the European Emissions Trading System (ETS), etc.).

The fifth approach to strengthening the environmental management of the region is transnational cooperation which is pointed as one of the most crucial mechanisms of coordination and cooperation between sub-regions and pan-European countries.

Transnational cooperation is an optimal approach, because it can be built upon global and regional programmes and networks of collaboration managed by UNECE and other UN agencies, funds and programmes. For instance, it is especially realized between EU Member States, as their system of policies is already implemented and being institutionalized. What is more effective in this approach is active participation of existing global and regional environmental institutions which would coordinate and improve mechanisms and means of cooperation and foster transition to the inclusive green economy, accelerate sustainable consumption and lifestyle changes in the areas of housing, food, mobility, leisure and tourism, together with public institutions, business, civil society and citizens.

The earlier mentioned approaches positively correlate with an approach of public participation which in turn ensures justice and tangible improvements in environmental policies. Public participation is being alternatively expressed in experimentation with formal and informal citizen's involvement within the countries of the region, participation in global environmental conventions and forums discussing thorny matters.

The last approach consists in the use of a monitoring method and organized processes (e.g. national websites, common data repositories, etc.) which will simplify the process of environmental

performance review [6, p.151-157].

Besides, the system of environmental governance was formed under administration of the UNEP in the framework of sustainable development and green economy in the pan-European region. To support the environmental vector of growth a range of further efforts were extracted, namely:

- achieving greater integration of, and synergies between, existing policies with an emphasis on pluralistic multi-level governance that also involves strong elements of trans-national cooperation;
- addressing gaps in coverage of existing policies with the aim of internalizing external environmental costs, reducing environmentally harmful subsidies and encouraging sustainable lifestyles;
- connecting existing and forthcoming policies with the SDG process;
- pursuing open data policies throughout the region;
- investing in research and development (R&D), as well as socio-technological innovations through public-private partnerships;
- re-calibrating the fiscal system and creating innovative financial instruments;
- enhancing the involvement of business, civil society actors and citizens in environmental policy-making [6, p.149].

Accordingly, it should be concluded that overcoming the institutional fragmentation among pan-European members as the weakest point could help the region and its countries achieve various sustainable development goals, especially shifting to the inclusive green economy, and also build capacity for social and economic improvements more generally. It also concerns implementation into an institutionalized process of co-design between government, business and civil society, being another aspect of fragmentation.

One more incentive to turning to sustainable development growth encompassing green economy growth is the creation of cultures of sustainability that will provide all actors (governments, institutions and citizens) with the confidence that they all need to commit themselves to a common future.

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## **YOUTH UNEMPLOYMENT CHALLENGES IN BULGARIA**

### **1. INTRODUCTION**

The countries in Eastern Europe have experienced a fundamental transformation in their economic and social patterns following the 1990 changes. Due to the dynamics of these changes,

each country is facing a number of socio-economic challenges and reforms. Today a major concern to the countries in the EU and Eastern Europe is the high level of youth unemployment with great disparities between the single countries and the regions within them. Bulgaria has slowly been transitioning to a market economy and has also been challenged by youth unemployment problems.

The present paper explores the latest statistics on the Bulgarian youth unemployment, introduces the measures taken by the EU and the Bulgarian government to tackle the problem of youth unemployment and makes recommendations on what further actions need to be taken. It starts with a general overview of the unemployment, outlines the relevant measures and programmes within the EU and Bulgaria, and ends with a conclusion and recommendations.

The potential labor resources of a given country depend on the number and structure of working-age population. The working-age population with respect to the economic activity could be classified as:

- 1) Employed - the part of the working-age population, who actually participate in the labor process, as problems may arise in relation to accounting for the employed in the grey economy;
- 2) Unemployed - a certain number of people above a certain age who do not have a full- or part-time job, but are fully capable of working and are making efforts to find a job.

Youth unemployment rate equals the ratio between the number of young people unemployed and the number of young people in the labor force. Unemployment rates don't count the inactive people as they are not considered to be in the labor market (inactive people would be the ones attending school or university, the ones having an unpaid internship and are not actively looking for a job, and the ones who are on a maternity leave).

According to Eurostat and the Bulgarian National Statistical Institute, in order to classify a given person in working age as unemployed, he/she should simultaneously satisfy the following criteria:

- Not to work at a given time
- To actively seek work
- To be available to start working within a definite period of time.

It is also important to determine the exact age of the young people included in the youth unemployment rate. Under the Bulgarian Youth Law, young people are people between 15 and 29 years old. Unlike this interpretation, the EU practice of calculating youth unemployment rate follows the definition of youth given in the Directive 94/33/EU according to which, young people are people between 15 and 25 years old. The EUROSTAT statistics of youth unemployment include the people between 15 and 24 years old. For the mere purpose of this paper, the statistics used in the paper only include people between 15 and 24 years of age.

Labor demand ultimately depends on the growth and labor-intensity of production in different sectors, which is subject to domestic as well as global influences. Through the channel of international trade, the financial and economic crisis in 2008 affected the economies of the EU countries causing the youth unemployment (15-24) to increase throughout the European Union. According to the International Labor Organization, for the period 2000-2014, the highest average youth unemployment rate of 14.00% was reached in 2002, dropped down to 12.5% in 2006 and went up again after the economic crisis in 2008. Consistent with Eurostat data, the average youth unemployment rate of the people between 15-24 years of age in the EU countries was 20.3% in 2015, in comparison with 22.2% for the previous 2014 and 15.9% in 2008. There is a significant variation in youth unemployment rates across countries, as Table 1 shows:

Table 1: Youth Unemployment rates by country, 2006-2015  
(%)

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EU	17.7	15.9	15.9	20.3	21.4	21.7	23.3	23.7	22.2	20.3
<b>Bulgaria</b>	<b>18.3</b>	<b>14.1</b>	<b>11.9</b>	<b>15.1</b>	<b>21.9</b>	<b>25.0</b>	<b>28.1</b>	<b>28.4</b>	<b>23.8</b>	<b>21.6</b>
Greece	25.0	22.7	21.9	25.7	33.0	44.7	55.3	58.3	52.4	49.8
Albania	21.5	22.5	26.3	25.6	25.9	27.1	28.2	28.3	29.2	29.5
Armenia	55.3	58.3	36.2	40.2	38.3	38.7	35	32.5	35.1	36.2
Macedonia	59.7	57.7	56.5	55.2	53.7	55.4	53.8	51.8	50.8	50.4
Serbia	46.8	42.8	34.2	41.7	45.5	50.4	50.6	49.7	49.5	49.3
Slovakia	27.0	20.6	19.3	27.6	33.9	33.7	34.0	33.7	29.7	26.5
Egypt	31.4	26.1	25.8	27	26.3	33.9	37.9	41.7	42	42.5



Turkey	18.4	19.3	19.9	24.5	21.2	17.9	17.1	16.5	17.7	17.8
Poland	29.8	21.6	17.2	20.6	23.7	25.8	26.5	27.3	23.9	20.8
Romania	20.2	19.3	17.6	20.0	22.1	23.9	22.6	23.7	24.0	21.7
Turkey	16.5	17.2	18.5	22.8	19.8	16.9	15.8	17.1	18.0	18.6
Germany	13.6	11.8	10.4	11.1	9.8	8.5	8.0	7.8	7.7	7.2
USA	10.5	10.5	12.8	17.6	18.4	17.3	16.2	15.5	13.4	11.6

Source: Eurostat (2016)

## 2. THE EUROPEAN RESPONSE TO THE CHALLENGE

Today more than 5 million young people aged 15-24 are unemployed in the EU. For that reason, increasing youth employment is central to the EU's employment policy, within the context of the Europe 2020 growth and jobs strategy. The specific initiatives proposed by the EU Youth Strategy 2010-2018 in the employment area are:

1. **“Youth on the Move”** initiative, which represents a comprehensive package of education and employment measures for young people. It is aimed at increasing young people's chances of finding a job by enhancing opportunities to go abroad for education or training purposes and by improving the quality and attractiveness of education and training in Europe. It includes the:

- **Youth Opportunities Initiative**, aimed at cutting youth unemployment;
- **Your first EURES Job**, a job mobility scheme which helps young people to find a job, traineeship or apprenticeship in other EU countries.

2. **The Youth Employment package**, including the:

- **Youth Guarantee** which aims to ensure that all young people up to the age of 25 receive a quality job offer, the opportunity for further education, an apprenticeship or a traineeship within 4 months of leaving formal education or becoming unemployed. The Youth Guarantee is based on successful experience in Austria and Finland that show that investing in school-to-work transitions for young people pays off. The Finnish Youth Guarantee helped to reduce unemployment amongst young people, with 83.5% successfully allocated a job, traineeship, apprenticeship or further education within three months of registering. The implementation of the

Bulgarian Youth Guarantee started in the beginning of 2014 with focus on a strategy for VET reform, traineeship legal framework, the national life-long learning strategy and reduction of dropouts and early school leavers.

- **Quality Framework for Traineeships** which objective is for trainees to acquire high-quality work experience in safe and fair conditions and to encourage more transnational traineeships;
- **European Alliance for Apprenticeships**, which brings together public authorities, businesses, social partners, VET providers, youth representatives and other key actors to promote apprenticeship schemes and initiatives across Europe.
- **The Youth Employment Initiative** which is exclusively targeting young people not in employment, education or training (NEETs) aged below 25 years in regions with a youth unemployment rate above 25%. Bulgaria was eligible for the Youth Employment Initiative, as the inactive youth NEET rate in Bulgaria in 2014 was 14.4% as compared to 6% in the EU. According to the National Statistical Institute, as of 31.12.2013 in Bulgaria there were 751,900 persons aged 15 to 24, and the number of NEETs were 167 670 people. The Roma and Turkish ethnic groups predominate in the structure of the NEET group, while 46% are Bulgarians. The reasons are complex, but the main causes for joining the NEET's groups are disruptions in the family and the social environment, early marriage, especially for persons giving birth at an early age and the level of the education attained.

### **3. THE BULGARIAN RESPONSE TO THE CHALLENGE**

Currently, Bulgaria is facing youth unemployment rate of 21.6%, which is higher than the EU average of 20.3%. At present about 65 000 young people aged 15-24 are unemployed in Bulgaria. Based on data from the National Statistical Institute Labor Force Survey, the youth unemployment in Bulgaria is mainly due to structural constraints such as insufficient qualifications, skills, experience and social capital. For example, in 2014, the highest unemployment rate among young people (15-24) was in the group with primary and lower education, at 65.3%. Therefore, having a

higher level of education has a major role in finding employment, but it is not necessary a guarantee for employment, as a large number of university graduates are not employed.

Drop-outs are another important category of youth unemployment in Bulgaria. The average number of students dropping-out of school annually in the past 10 years is about 26 000, which is approximately one-third of the average youth unemployment, around 60 000. Additional factor, which contributes to the high unemployment rate are the labor market mismatches. Even though unemployment rate is high in 2015, the number of vacancies of about 16-17 000 (according to NSI data) has been stable over the past three years. This means that there are jobs for which appropriate employees cannot be found in terms of qualifications, skills, education, and availability and so on.

Another reason for the high unemployment rate is the lack of sufficient initiative by the young people in Bulgaria. Often the young people expect the problem of employment to be solved by external bodies without their active participation. This passive behavior is mainly caused by despair of the present condition, unwillingness to change one's values and pay the price of personal resources and efforts.

Actions taken by the Bulgarian government include:

- 1) "National Career Days" forums, widely recognized and supported by Bulgarian businesses, which are assisting students and young graduates in finding career opportunities. The forums are implemented as a result of the Youth on the Move initiative of the EU.
- 2) In 2015, continues active implementation of the National Plan of the European Youth Guarantee 2014-2020 through activities funded by the state budget and from the European Social Fund.
- 3) The Employment Agency implements the **"Youth Employment"** project. The project is expected to provide practice and training of 8000 young people up to 29 years for a period of six months. Project "Youth Employment" allows employers to hire young people in two main areas: apprenticeship and training at work.
- 4) In 2015, under the Operational Programme "Human Resources Development" 2014-2020 the Employment Agency launched scheme **"Training and employment for young**

**people".** The total budget of the scheme is BGN 115 million, as it is planned to include 23 000 young people. Activities under the scheme cover unemployed under 29 years of age inclusive.

- 5) In 2015, Labor Agencies were established to the Employment Agency. So far, 18 specialized fairs have been conducted. As a result, at the end of July 2015 4408 young people began work, of which 2970 were registered in the labor offices.
- 6) National Programme "Activation of inactive persons" which aims to support unemployed persons to find a job with the assistance of individually appointed psychologists and case managers. National program "Activation of inactive persons" - hired 56 young people under 29 with higher education who neither study nor work. They serve as an intermediary between the economically inactive young people and the institutions that provide them with appropriate social, health, educational and other services.
- 7) Beginning September 2015, the on-the-job training (dual training) will be applied for two groups of persons – students, who have turned 16, in the XI and XII grade, and persons who have turned 16, who are in the labour market. The on-the-job training for the students will be related to the acquisition of professional qualification and acquisition of the general educational minimum for secondary education, while for the persons in the labour market – by the acquisition of professional qualification. The on-the-job training will be implemented in partnership between the training institution (vocational school, vocational high school, vocational college or a center for professional education) and one or several employers. The training will include on-the-job training in actual working environment under the guidance of a supervisor appointed by the employer and training at a training institution. The duration of the on-the-job training may be from 1 to 3 years depending on the level of professional qualification, which is to be acquired.

#### **4. CONCLUSION**

Although youth unemployment is probably the most visible aspect of the current youth employment crisis, the challenge for the majority of youth in Bulgaria is to improve the quality of employment rather than the quantity. The existing employment programmes and measures taken in Bulgaria have contributed to a decrease of the

unemployment rate from 28.4% in 2013 to 21.6% in 2015, however, they have not been very effective in reducing the number of young people from the NEETs group. The main reason for their low efficiency is the poor awareness of adolescents and young people about their existence, and hence – the low level of participation in such support instruments. The educational system in Bulgaria is still relatively inflexible and the VET system, in particular, often provides training in obsolete skills. The practical steps for bettering the balance between the demand and supply of the labor force and the youth labor force are slow and need to be accelerated.

Another quite important issue is the improvement of the links between all actors in the labor market: employers, workers' organizations, the national employment service and schools. The links between the employers and school directors are not well developed and better links are needed at the level of local employment. And the last, but not least important issue is the need for better balance and forecasting of the need of the labor market and the education system, especially in the area of professional and vocational education.

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**SOCIAL ENTREPRENEURSHIP AND CRISIS  
IN GREECE: A STUDY**

The concept of Social Entrepreneurship originally started in the beginning of the 20th Century. Karl Polanyi (1886-1964), in his book, *The Great Transformation* described in a systematic and convincing manner that, generally speaking, “market society” is unsustainable because it is fatally destructive to human nature and the natural contexts it inhabits. Roughly speaking, the very idea of Social Entrepreneurship is of an economy, or, more precisely, a part of an economy, based on social needs, the spirit of community, the sharing of goods. As it is expected, this kind of economy finds its wider

application and its practical power in periods of economic crisis. Greece, for 7 years now, faces a huge economic and social crisis, that has affected the lives of many. One of the major consequences is the increase in the rate of poverty and unemployment. The poverty rate from 20.1% in 2008 rose to 44.3% in 2013 and household income disposable over the years has fallen by one third. The unemployment rate rose from 7% to 27%, while unemployment among young people exceeds the rate of 25%. Note further that two thirds of the unemployed are long-term unemployed. As the public sector has "died", the development of entrepreneurship is the only way out right now in Greece.

The old model of entrepreneurship that is only motivated by profit and the accumulation of wealth in a few hands of few, is no longer an option. Also enterprises that rely on government subsidies and any other facilities are no longer solutions, as well as the "informal economy" and "para-economy", the closed markets and protected professions, as well as traditional forms of economy are not able to follow the evolution of technology and research and to adopt innovative changes. They must follow new production and business models such as social enterprises, as a way out and effective solution to the multifaceted crisis, the contraction of labor, the expansion of public debt and ecological degradation. Citizens can not depend on others or expect governments to solve. They should firmly take the destiny in their hands and change business conditions. Social entrepreneurship creates jobs and raises the core of every society needs in a sense of solidarity and the concept of Social Capital. In parallel with the public sector and the private - profit should develop a third area, that of the social economy which will provide solutions to address poverty and unemployment. With active policies and innovative activities and applications will help create new jobs and the integration of vulnerable groups into the labor market.

But what is exactly a social enterprise?

According to the term of European Commission the «Social enterprises seek to serve the community's interest (social, societal, environmental objectives) rather than profit maximization. They often have an innovative nature, through the goods or services they offer, and through the organization or production methods they resort to. They often employ society's most fragile members (socially excluded persons). They thus contribute to social cohesion, employment and the

reduction of inequalities».

The Social enterprises that propose new means of action, promote cooperation networks, Create jobs and strengthen the local community and social solidarity. Promote local and collective interests and ensure social cohesion and local development. Address social problems, offer new ideas for changes, taking into account the social and environmental impacts and interested in social integration activities, such as housing, feeding and health services.

They operate without shareholders, owners and bosses, with equal relationships both in the organization of work and decision making.

The same is equally possible and rewarding work, based on the principle of "equal pay for an equal work", regardless of age, gender and educational level of workers.

The aim of social enterprises is to generate social value. Social enterprises reveal a more functional, dynamic and efficient business model. Mobilize people with social sensitivity, giving new impetus and prospects to sponsoring, volunteer and social activities. Propose new means of action and address social problems by offering new ideas for changes. They enable people to try their otherwise. To exploit and utilize the strategic directions and experiences from international and Greek reality for the sustainability of social enterprises. Use innovative business tools for creation and growth , help young entrepreneurs start their business on the basis of social business model .

They are trying to create another kind of a large number of social enterprises because of the situation created in Greece in recent years, as already mentioned. The aim of social entrepreneurship is the production of social value through the development of activities and the adoption of practices that have reduced costs and income initially ensures company's survival and future further development. Earnings that are not used for the enrichment of shareholders but invested in the social purpose of the enterprise.

However, the rate of social enterprises in Greece remains very small. While the rest of Europe there are about 2 million. Social enterprises and account for 10 % of total enterprises, employing 11 million. Employees in Greece, according to 2014 data, only created 470 social cooperatives not active in the production sector but mainly to culture , environment and education.



In general, the overall situation is daunting in comparison with the European average. In Greece the Social Solidarity Economy is not enough nor 2% and the so-called Social Cooperative Enterprises - KoinSEp is almost nonexistent in the real economy. While economic and social conditions favor the development of cooperative forms of organization, the Greeks do not progress in the creation of this type of business and adhere to the old epocheirimatikotitas models. Although the welfare state has shrunk and the social economy actors can cover a part of and while the new movements have raise awareness in new values , such as concern for the environment, healthy eating, the need for a dignified care, social enterprises are very few.

The reasons why Greeks hesitate or avoid to follow this business model are many and are mainly due to the fact that there is not a clear legal and regulatory framework for the social economy. In the Open Conference on Social Economy held in June 2016 in Athens by the initiative of civil society the following proposals that were submitted indicate the legislative deficit in the operating support a social enterprise:

- Recognition of social economy as a social utility pole, separate from the public and private sector and the gradual formation of modern national identity need
- Improvement of the current legislative and regulatory framework for the social economy
- Creation of new institutions to tackle the social impact of the crisis
- Integration of EU Directive on Public Procurement Social reference
- Enactment of new financial support tools,
- Cooperation between the various legal forms of social economy, such as rural and urban cooperatives or credit cooperatives, cooperative banks etc.
- Creation of a favorable framework for cooperation of local government and the wider public sector with the players of the social economy
- Cooperation between educational institutions and the Ministry of Education for introduction of the social economy at all levels of education
- Introduction of new assessment and certification institutions of

social actors economy

- Creation of a Documentation Centre for Social and Economic Solidarity
- Emergence of untapped spiritual and cultural wealth that exists in thousands of small country collectives and volunteers
- Creation of a cooperatives movement of all citizens and collectives to address the fragmentation and intellectual misery
- Enactment of Regional Associations and the Panhellenic institution of Social and Economic Solidarity, for the representation of all bodies as a social partner.

The information also among citizens regarding the new form of entrepreneurship is small and asymmetric. To inform and raise awareness of various groups and collectives have been released on flyers, they have created websites on the Internet or have issued relevant guides, such as that of Wisdom Adam entitled Social Enterprise Creation Guide, published with the support and funding of the greek Heinrich Böll Foundation. They have also established local or international organizations that are active in Greece , such as Ashoka who in addition to information helps to the cooperation of businessmen, Greek and foreign or the Impact HUB, a collaborative global connected network. He has also written a small number of related books and published a series of articles.

Nonetheless, the citizens' response is not warm. Few new social enterprises are Created and even fewer show sustainability. A large number of them already closes after the first year of operation. Because most were created as an emergency operations without belief of its founders in the social entrepreneurship model and because they are something new that has not been tested in long-term practice, citizens tend to avoid it.

While also the lesson of entrepreneurship in Greece today is taught in the last three levels of education, only in a few university finance departments it is taught systematically.

The causes generally that prevent the development of social enterprises in Greece could be divided into two categories. Endogenous ones, which are the lack of viable business models, reliance on the public sector as a source of income, lack of entrepreneurship, lack of necessary capacity for development and external which is the lack of understanding of the characteristics of

social enterprises, lack of political and institutional framework, lack of specialized business development structures, difficulty in accessing markets, difficulty of financing from external sources, lack of common instruments for measuring the social impact and general economic climate"

A new business culture around this new model should in general be developed. In the development of this key role an important part should be played by the media, which can show the movement of social entrepreneurship and encourage citizens to actively get involved. To help to reverse the image of social enterprises, to dispel the suspicion and doubts that connect social enterprises with bad model of older rural cooperatives.

Of course an important role plays also the government itself. Public policies can support and accelerate social entrepreneurship by reducing taxation and cutting red tape, two factors that prevent people from getting indulged in areas pretty much unknown in Greece. The state should design and organize new institutions to address social effects of the crisis and ensure an environment that will encourage the creation of individuals capable of social action and enable the development of a new social dynamic that will help address the crisis.

But also citizens need to organize themselves. We need expertise, joining forces, collective action and a high level of organization, development and design . Driven by the priority of humans a new business ethic must be developed.

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## **ECONOMIC AND SOCIAL DISPARITIES BETWEEN EUROPEAN UNION COUNTRIES**

The study of social and economic disparities have always aroused questions and many economists over time have tried to study this phenomenon and to establish a theory of reducing the distances that exist between economies of the EU countries.

In this paper the propose is to highlight economic and social disparities between EU countries by applying different statistical methods, graphs and numerical that explain the phenomenon. In the structure of the paper, we planned that the economic and social phenomenon, to be studied independently, and later they will be also compared.

We analyzed the phenomenon disparities, where we measured and highlighted the economic and social disparities between EU countries. Also, we plan to study whether there are significant differences between the economic and social European Union countries by the year of adherence.

The main indicator highlighting economic disparities is GDP

per capita. It will be analyzed both with other economic indicators and social indicators, as follows: labor productivity, investment, report export-import, inflation, unemployment, poverty and social exclusion, the rate of employment, social protection expenditure (% of GDP) and overcrowded rate.

## **1. INTRODUCTION**

The EU is one of the richest regions in the world but despite this, it is very different in terms of key economic and social indicators between countries and regions. The European Union consists of 28 member states representing a community and internal market of almost 500 million people, which effectively represents 7.3% of the world, and which through diversity of member countries is influenced by economic and social disparities between these countries and regions to which they belong.

European Union through its policies of European convergence, cohesion and integration, proposes that these economic and social disparities be reduced. Perhaps the question is "Why is there still so much difference between countries?" The answer to this question is quite complex. One reason could be that most countries in Eastern Europe and part of the Central Europe were under the occupation of communist regime, an authoritarian regime that has not invested in creating prosperous economy, but rather some of the economies of these countries were "sacrificed". Another cause could be the major economic events of the beginning of the current millennium, such as the global economic crisis began in 2008, the current wave of migration unprecedented, the existence of divergences between countries, both within the EU and between non-European countries .

European integration has brought together countries, regions, but with a very different level of economic development and created a market economic space with very large differences in terms of competitiveness and living standards. Very important was the security for closer integration, involving political negotiations between member states anxious to protect national interests, while the popular legitimacy of the European project required a certain degree of redistribution of resources to maintain limits potential losses associated integration project.

The study of social and economic disparities have always aroused questions and many economists over time have tried to study

this phenomenon and to establish a theory of reducing the distances that exist between the EU economy.

The nature, causes and consequences of economic inequality have preoccupied economists, at least since Adam Smith (1723-1790) onwards. The famous Scottish itself considered income distribution was dependent on the institutions of society but largely independent of economic progress or decline. In relation to this, revenues rise or fall more or less in proportion.

According to Vorauer (2007), regional disparities are conditioned by several factors related to the unequality of economic potential of development in different regions.

Heidenreich and Wunder M. Ch. (2007) conclude that economic inequalities are rising in most Member States of the European Union, while inequalities between nations in an enlarged Europe are decreasing in recent years.

The concept of convergence translates as the reduction of the differences between the economic indicators of various countries belonging to a geographical area.

EU cohesion policy, built into the Treaties since 1986, has the objective of reducing the gap between the level of development of the various regions in order to enhance economic and social cohesion. The Single European Act (SEA- 1986) lays the foundation of real cohesion policy, designed to offset the constraints of the single market for southern countries and other disadvantaged areas.

The etymology of disparity comes from the Latin *disparitas*, which means divided. Most dictionaries referring to a disparity correlates it with inequality or disproportionality of different phenomena.

Disparities could be:

- Social disparities that relate to quality of life, standard of living, aging of a population, crime and other factors that tend to increase inequality.
- Economic disparities that relate to economic performance (economic structure, productivity, employment etc.), the countries or regions concerned.
- Regional disparities are directly related to geographical factors or location.

In general, the term, disparity is used by practitioners as an

inequality in expressing differences with appropriate mathematical techniques using specific indicators.

In this paper we propose to highlight economic and social disparities between EU countries by applying different statistical methods, graphs and numerical explaining this phenomenon. The structure of the paper, we suggested that the economic and social phenomena, to be studied independently, and later they will also be compared.

The main indicator highlighting economic disparities is GDP per capita. It will be analyzed both with other economic indicators and social indicators, as follows: labor productivity, investment, report export-import, inflation, unemployment, poverty and social exclusion, the rate of employment, social protection expenditure (% of GDP) and overcrowded rate.

## **2. DESCRIPTION OF THE DATA AND METHODOLOGY**

We can define statistics as the practice or science of collecting and analyzing numerical data in large quantities, especially.

**2.1 Descriptive statistics** include numerical and graphical procedures aggregating and processing data. This is used to transform data into information.

Multivariate analysis aims to highlight the links between statistical variables, numeric or nonnumeric, but also in the group of statistical units in clusters, by how much these units fit after recorded variables. Methods of this type of analysis can be grouped into two categories, namely methods of factor analysis and classification methods of statistical units.

We will use in this paperwork only the methods of factor analysis, so the methods most important part of this group are the principal component analysis and components factor analysis.

Principal components analysis deals with analysis of the links or associations between numeric variables. This is a descriptive method of multidimensional data analysis.

Application of principal component analysis may be performed to achieve the three major objectives:

- A first objective is to highlight the statistical links between the variables considered. For this, the software provides graphical

representation Issues variables and values of correlation coefficients between these variables and the factorial axes.

- A second objective is to explain similarities or differences between individuals in terms of the variables considered. To do this, the results of the statistical units will be correlated with the results for the statistical variables.
- A third objective is to highlight the similarities or differences between statistical units considered after all the variables recorded. To achieve this goal, specialized software provides specific numerical indicators and in the same time a graphical representation that is easy to interpret.

Principal components analysis results can be interpreted as follows:

- The determinant of the correlation matrix, can have values in the range [0, 1]. A value close to 0 indicates that there are strong links between variables, null indicates that between variables are not perfect connection, and a value of 1 is the unit matrix.
- $\chi^2$  statistic and Kaiser-Meyer-Olkin statistics (KMO and Barlett's Test) used to test the hypothesis of independence of variables. The range of statistics KMO is [0, 1] and can be applied only if  $KMO > 0.05$ .

Also, principal component analysis should take into account three criteria, namely:

- Kaiser's criterion (1960) according to which the factor axes are chosen to be analyzed if they have values greater than 1.
- Evrard's criterion (1966) according to which the plot is represented by their values and are chosen the axes that are preceding the breaks between variables.
- Benzecri's criterion that says that choosing to be analyzed factorial axes for which the variance is explained by at least 70%.

## **2.2 Regression models**

The term regression is due to Francis Galton (1886). He has conducted a study on the height of the population, showing that on average, parents of stature, children are born with a lower height than the parent, that is performing "regression" in height.

In the literature, the regression analysis is a statistical method for the analysis of dependence between a variable called the dependent variable, and one or more variables called independent



variables. Mainly, regression analysis involves estimating a model that explains how the dependent variable is influenced by the independent variable.

ANOVA model is the simplest model with one independent variable alternative form:  $Y = a_0 + a_1 \times D + \varepsilon$ , where  $D$  is the independent variable is the coefficient  $a$  alternatives and alternative independent variable.

### **2.3 Presentation of statistical variables**

To identify economic disparities, we have taken into account in the analysis the following variables:

- *Real GDP / capita (in PPS\_EU28)* - GDP is calculated initially in the national currencies of the countries and then converted using the slider PPS (Purchasing power parities) which takes into account the difference in price levels between EU countries, creating thus a fair comparison of the data. Using this indicator, there is an opportunity to study and compare the purchasing power of EU countries using different currencies and where the price is different.
- *The inflation rate* is calculated as the ratio of the average price index in a year and the previous year minus 100.
- *Labour productivity* per hour worked (euro) is one of the most importance indices of economic efficiency of enterprises, reflecting the effectiveness of labor consumed in the production process. Labour productivity growth is the most important factor to increase output, reduce production costs and increase the profitability and competitiveness of products. Labor productivity is determined either as a ratio of production volume and the amount of labor expended to acquire it, either by reporting work time spent on production volumes achieved.
- *Total investment (% of GDP)* shows how the % of the GDP of a country is allocated investments.
- *Export-import ratio* is the value of exports of goods and services divided by imports of goods and services. Values greater than 1 indicate a positive trade balance while values less than 1 indicate a negative trade balance.

To highlight the social disparities, we study the following variables:

- *Poverty rate and social exclusion* reflects the low income levels in

comparison with other residents of the same country.

- *Unemployment rate (%)* is the ratio between the number of unemployed, according to The International Labour Office and the total active population.
- *Employment rate of labor resources (%)* is the ratio of the employed population aged 15 and over and the total population in the same age group.
- *Social protection expenditure (% of GDP)* include: social benefits, which consist of transfers, in cash or in kind, to households and individuals to relieve them of the burden of a defined set of risks or needs; administration costs, which represent the costs charged for the management and administration; other expenditure, which consists of miscellaneous expenses of social protection systems (payment of property income and other). It is calculated in current prices.
- The rate of population in overcrowded households - defined as the percentage of people living in a household overcrowded. A person is considered as living in a household overcrowded if the household has at least a minimum of rooms equal to: room for household room the couple in the home, a room for each single person aged 18 and more, a camera pair of single people of the same sex between 12 and 17 years, room for each single person between 12 and 17 years and not included in the previous category, a camera pair of children under 12 years. The indicator is presented to the people of both sexes.

### **3. EMPIRICAL RESULTS**

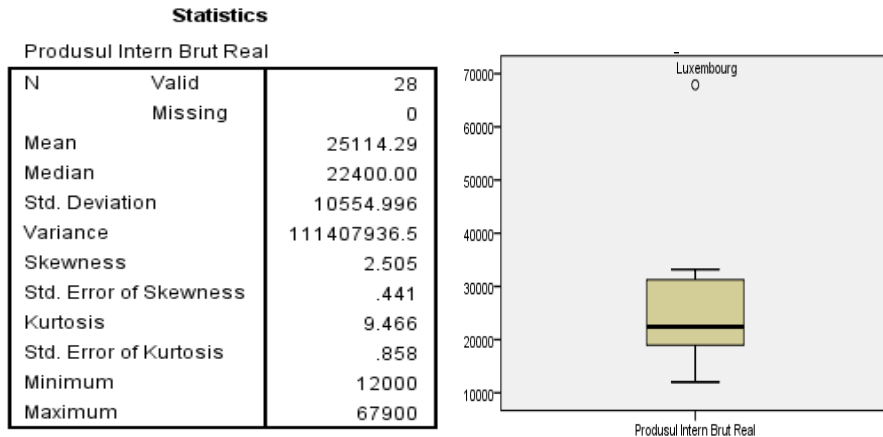
In this chapter we apply statistical methods to highlight the economic and social disparities between EU countries. Thus, we highlight the countries with the lowest values for the variables studied, but also the countries with the highest values. We will also highlight the biggest differences between developed and less developed. To achieve this we will study primarily real GDP per capita, reflecting largely the phenomenon disparities.

#### **3.1 Analysis of the distribution of real GDP / capita in EU countries**

To highlight these disparities, we considered most important macroeconomic indicator, namely real GDP / capita and we use both

numerical methods and graphs.

Figure 3.1 Distribution of real GDP / capita in EU countries



From the point of view of form, we notice that the asymmetry indicator shows that the distribution of real GDP, the European Union, is asymmetrical to right. Box-plot diagram above, we can notice that it is highlighted the extreme point, and that is the value of real GDP of Luxembourg.

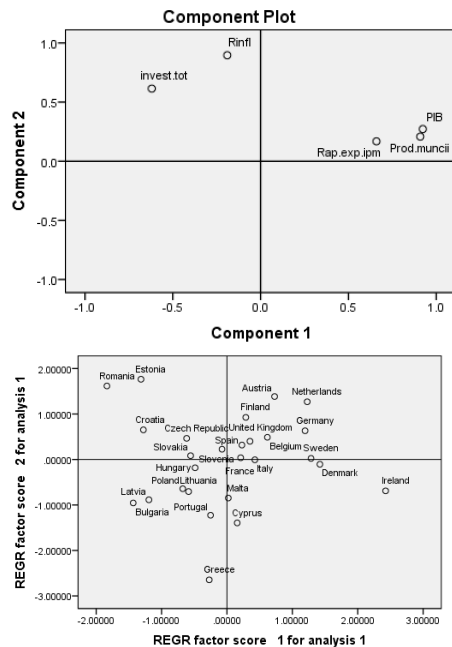
### 3.2 Economic disparities between EU countries

To identify disparities in EU economies, we use Principal Component Analysis method.

Economic indicators considered in this analysis are real GDP, labor productivity, inflation rate, total investments and export-import ratio

By overlaying the two charts we see that the first group of countries consisting in Ireland, Denmark, Sweden, Germany and Netherlands is characterized by the highest values for the Real GDP, Labour productivity and Report export-import and lowest values for Total investments, while group other countries consisting in Romania, Croatia, Latvia, Bulgaria and Estonia have the lowest values for the variables real GDP, Labour productivity, and export-import ratio and the highest values for total investments.

Figure 3.2 Graphical representation of economic statistical variables and statistical units

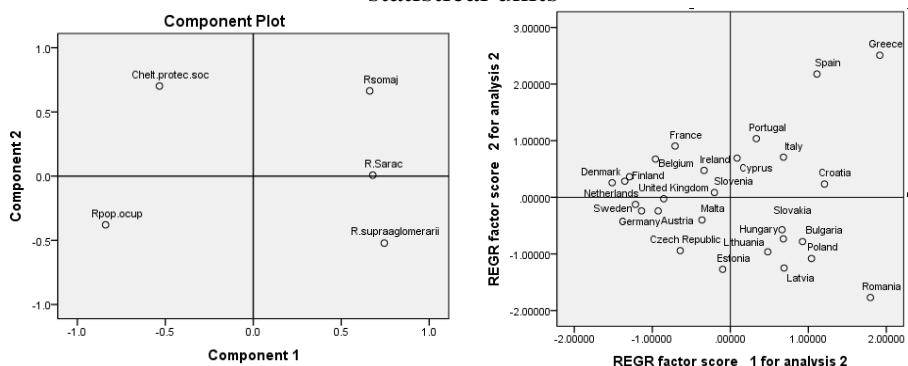


Second axle factorial highlights countries like Austria, Netherlands, Romania, Estonia which are characterized by higher values for the variables inflation rate and total investments (% of GDP), while Greece recorded the lowest values for them.

### 3.3 Social disparities between EU countries

To achieve this analyze we will use Principal Component Analysis method.

Figure 3.3 Graphical representation of social statistical variables and statistical units



In this analysis, social indicators that will be considered include employment rates, unemployment, poverty and social exclusion, overcrowded population rate in households and expenditure on social protection.

By overlaying the two charts we see that the first group of countries, Croatia, Bulgaria, Romania and Greece, is characterized by the highest values for the variables poverty rate and population rate of overcrowding in households while another the group of countries, Denmark, Netherlands, Sweden, Finland and Germany, indicated in the left diagram shows the lowest values for these variables.

### 3.4 Measurement of economic and social disparities between EU countries

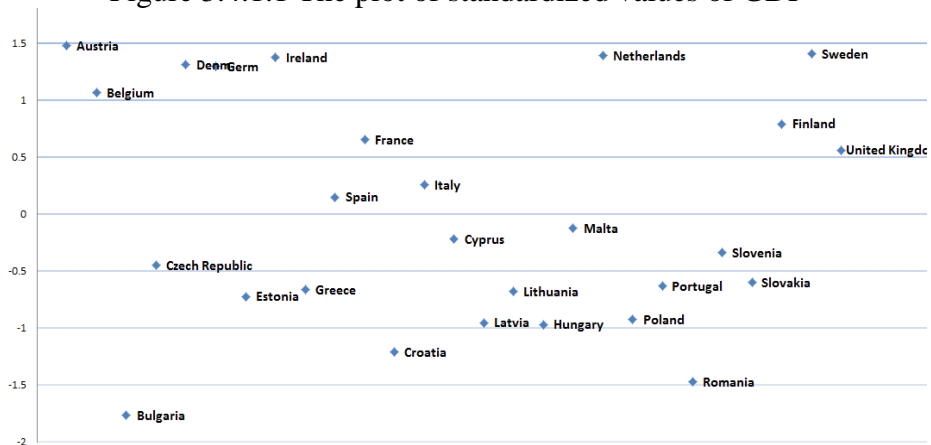
To see which disparities are a larger, we chose to represent graphically standardized variables analyzed so far. Standardized Z values were calculated by the formula:  $z = \frac{x - \bar{x}}{s}$

#### 3.4.1 Measurement of economic disparities between EU countries

To measure economic disparities, we chose variables real GDP / capita and labor productivity per hour worked, because they explain most first factorial axis, expressed in a previous analysis.

- The plot of standardized values of GDP

Figure 3.4.1.1 The plot of standardized values of GDP

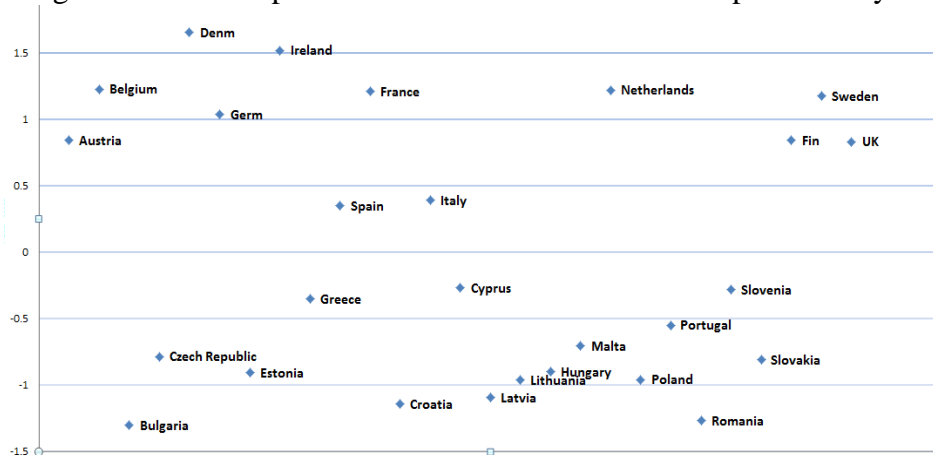


From what we can see from the chart above there are two groups of countries, some of which have values of real GDP above 0, and others that are below 0. The biggest differences we see between

the countries Austria, Belgium, France, Denmark, Germany, Netherlands, Sweden, characterized by the highest values of GDP and Bulgaria, Romania and Croatia have the lowest values for GDP.

- The plot of standardized values of labor productivity

Figure 3.4.1.2 The plot of standardized values of labor productivity



The biggest differences that we can see between countries Denmark and Ireland, characterized by the highest values of productivity and Bulgaria, Romania, Croatia and Hungary that have the lowest values for labor productivity.

### 3.4.2 Measurement of social disparities between EU countries

To measure social disparities, we chose variables poverty and social exclusion rate and overcrowded population rate, the reason being the same as the economic variables, and that is that these variables explain most first factorial axis.

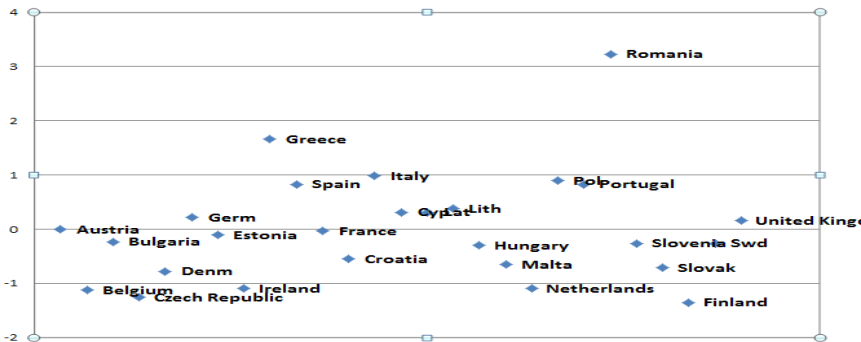
- The plot of standardized values of poverty rate and social exclusion

For variable rate of poverty and social exclusion is highlighted first country with highest value, namely Romania, then the country with the lowest such rate, namely Finland.

Secondly it highlights two groups of countries that have either positive or negative. Between the two groups of countries which highlights the biggest differences can be seen between Greece, which has a poverty rate and social exclusion high, and Belgium, Ireland,

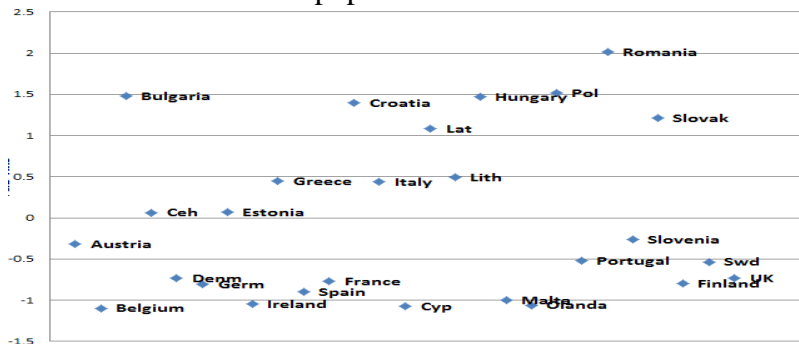
Czech Republic, Netherlands, which are characterized by the lowest rates of poverty the European Union.

Figure 3.4.2.1 The plot of standardized values of poverty rate and social exclusion



- The plot of standardized values of overcrowded population rate

Figure 3.4.2.2 The plot of standardized values of overcrowded population rate



For variable rate of overcrowding in households primarily highlights the country with the highest value of this rate, namely Romania, then the country with the lowest such rate namely Belgium. Secondly it highlights two groups of countries that have either positive or negative.

Between the two groups of countries which highlights the biggest differences can be observed between Hungary, Poland, Bulgaria, Latvia, Croatia, Slovakia, showing a rate of overcrowding

sea, Ireland, Cyprus, the Netherlands, Malta, which are characterized the lowest rates of overcrowding in the European Union.

### 3.5 Comparative analysis of the economic and social disparities between EU countries

In this analysis we intend to see which of disparities, or economic or social, are greater in EU countries. For this we compared the Z scores for the 4 variables discussed above, choosing for each of them lowest five values (showing levels below average) and the five highest values (which show above average levels) by country. I chose the smallest representation, namely the 5 largest values to highlight the greatest economic and social disparities, which are presented in the table below.

Figure 3.5 Highest and lowest Z scores

Level of values	GDP	Labor Productivity	Poverty rate and social exclusion	Overcrowded Rate
values above average	Austria (1.48029)	Denmark (1.65445)	Romania (3.23453)	Romania (2.01129)
	Sweden (1.40375)	Ireland (1.51824)	Greece (1.66242)	Poland (1.51661)
	Netherlands (1.3884)	Belgium (1.22725)	Italy (0.98866)	Bulgaria (1.47997)
	Ireland (1.37314)	Netherlands(1.22106)	Poland (0.89241)	Hungary (1.46775)
	Denmark (1.31191)	France (1.20867)	Spain (0.82824)	Croatia (1.39447)
values below average	Lithuania (-0.9536)	Lithuania (-0.96446)	Netherlands (-1.09679)	Malta (-0.99954)
	Hungary (-0.96891)	Latvia (-1.09448)	Ireland (-1.09679)	Ireland (-1.04839)
	Croatia (-1.21383)	Croatia (-1.14401)	Belgium (-1.12888)	Netherlands(-1.06061)
	Romania (-1.47406)	Romania (-1.26784)	Czech Republic (-1.25721)	Ciprus (-1.07282)
	Bulgaria (-1.7649)	Bulgaria (-1.30498)	Finland (-1.35346)	Belgium (-1.09725)

According to the comparison that we made, we can say that social disparities are greater than economic disparities. Thus, we conclude that to improve the economic situation of EU countries requires that, firstly, social protection expenditure and all the social investment must grow for social disparities to be as small as possible. What we can say from this comparison is that most countries that have values above average economic indicators have values below the average social indicators and vice versa countries that economic indicators below the average, have values of social indicators above average, which highlights the close link between economic and social disparities. This analysis shows the obvious differences between the region of Central and West which is developed from the point of view of economic disparities, as well as social and Eastern Europe region is much less developed compared with the Region of Central and West.



#### **4. CONCLUSION**

The comparison made between the social and economic indicators we can say that social disparities are greater than economic disparities in the European Union. Thus we can conclude that for improving the economic situation of EU countries requires that, firstly, social protection expenditure and all the social investment for social disparities grow to be as small as possible. What we can add from this comparison is that most countries that have values above average economic indicators have values below the average social indicators and vice versa, the countries economic indicators below the average, have values of social indicators above average . From the measurement of the economic and social disparities between countries, we noticed that the biggest differences in terms of GDP/capita is registered between Austria, Belgium, Denmark, Germany, Ireland, the Netherlands and Sweden are characterized by the highest values GDP and Bulgaria, Romania, Croatia which have the lowest GDP values. Also, the biggest differences in terms of labor productivity we see Denmark and Ireland among countries characterized by the highest values of productivity and Bulgaria, Romania, Latvia and Croatia who have the lowest values for labor productivity.

For variable rate of poverty and social exclusion is highlighted first country with highest value, namely Romania, then the country with the lowest such rate, namely Finland. Secondly it highlights two groups of countries that have either positive or negative. Between the two groups of countries which highlights the biggest differences can be seen between Greece, which has a poverty rate and social exclusion high, and Belgium, Ireland, Czech Republic, Netherlands, which are characterized by the lowest rates of poverty the European Union. For variable rate of overcrowding in households primarily highlights the country with the highest value of this rate, namely Romania, then the country with the lowest such rate namely Belgium. Secondly it highlights two groups of countries that have either positive or negative. Between the two groups of countries which highlights the biggest differences can be observed between Hungary, Poland, Bulgaria, Latvia, Croatia, Slovakia, showing a rate of overcrowding sea, Ireland, Cyprus, the Netherlands, Malta, which are characterized the lowest rates of overcrowding in the European Union.

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### **DIFFERENTIATION OF CONDITIONS FOR DOING BUSINESS IN POLISH PROVINCES – EMPIRICAL ANALYSIS**

The article presents the research results of comparative analysis of conditions for doing business in Polish provinces. In the article was used the method of linear ordering of objects with the use of Hellwig’s synthetic indicator. The analysis is based on the empirical

data, describing potential conditions of establishing and conducting the business, available in public statistics. The result of the analysis is the ranking of Polish provinces as well as the classification of objects into four groups with a similar level of opportunities for doing business. Our results show that the biggest improvement was observed in provinces located in Eastern Poland.in 2014, in comparison to 2004.

**Key words:** linear ordering, classification, doing business, Polish provinces.

## 1. INTRODUCTION

Poland is Europe's sixth-biggest economy. It is a large country with great possibilities. It was also the only country in the European Union to experience positive economic growth in 2010. The growing amount of companies choose Poland as an investment destination in Europe. Companies' decisions are often based on the analysis of potential conditions determining the future success of the planned business activity.

Poland has stable economy and well-grounded macroeconomic position. The attractiveness of Poland is derived from a number of factors (Kilar 2014; *Poland in figures* 2016): ambitious and hard-working people, diversified economy, macroeconomic stability, quality of products and services, transformation (eg. infrastructural modernization of road and rail transportation, energy infrastructure, access to information and communication technology – ICT ), vast internal market and free access to the European market (more than 38 million of consumers in Poland and free access to the EU market which covers 500 million consumers as well as easy access to Eastern European countries), price competitiveness (high quality at competitive price) or absence of ethnic and border conflicts.

The market economy in Poland is more than 25 years old. Throughout the quarter of a century, even during 2008–2009 economic crisis, a huge country's recession wasn't observed. The result of the global crisis in Poland is a slowdown of economy. The cumulative growth in 2008–2013 was 20.2%, which is the best result in the European Union and one of the top result among OECD countries (*EY portal*). However, within a single decade after the EU accession in 2004, Poland has become the European leader in economic growth and during its EU membership has experienced

always a positive economic growth (Kolodziejczyk 2016).

Poland consists of 16 provinces, according to the last changes implemented in 1999. The level of socio-economic development is diversified among provinces. In 2008 the regions with the most dynamic development were Mazowieckie, Dolnośląskie, Pomorskie, Śląskie

i Małopolskie. The regions with the lowest dynamics of growth in 2008 were Świętokrzyskie, Podkarpackie, Lubelskie, and Opolskie (Skrzyp 2009). Does it mean that a region with greater potential can grow faster? Do the differences among provinces increase or decrease? Our paper is an attempt to answer this and other questions.

The main aim of the article is to examine a differentiation in conditions of doing business in Polish provinces in two points of time 2004 and 2014. In 2004 Poland accessed European Union, and 2014 was the point in time when the latest data was accessible. In order to do it we created an aggregate measure based on values of selected indicators of an ease of doing business both in 2004 and 2014. On the basis of aggregate measures we provided the ranking of provinces as well as their classification into groups with the similar level of conditions for conducting business. We distinguished four groups: high, higher than average, lower than average, and low. In the concluding section we compared results obtained for both 2004 and 2014.

## **2. METHODOLOGY**

In the paper we use the method of linear classification of objects (16 Polish provinces) on the basis of Hellwig's synthetic measure. The procedure is widely presented in the scientific literature (Forys and Putek-Szelag 2014, Fura and Wang 2015), this is why we do not go into details while presenting the method. The analysis is based on data collected from secondary sources (Statistical Yearbooks of the Regions – Poland) of Central Statistical Office in Warsaw.

The first step of the procedure is the selection of the variables based on the substantial knowledge of the phenomena under study, comparable data accessibility, as well as fulfillment of statistical criteria.

As the initial indicators characterizing condition of doing business we selected the following variables:

$X_1$  – Enterprises using social media in 2014 (% of total enterprises).  
 $X_2$  – The proportion of entities in % of total population using own website.  
 $X_3$  – Net revenues from sales of new or significantly improved products in % of total turnover.  $X_4$  – Enterprises, which introduced product or process innovations in % of total enterprises during 2012–2014.  $X_5$ – Employed persons per 1000 population.  
 $X_6$  – Entities of the national economy in the REGON register per 10 thous. population.  
 $X_7$  – Investment outlays (current prices) per capita in zł.  
 $X_8$  – Enterprises with expenditures on innovation activity in % of total number of industrial enterprises.  
 $X_9$  – Entities with participation offshore capitals per 10 thous. residents.  
 $X_{10}$  – Unit investment in private sector per 1 resident (zł).  
 $X_{11}$  – Units on innovate activity in business per 1 active professionally person (zł).  
 $X_{12}$  – Express roads and motorways on 1000 km<sup>2</sup>.  
 $X_{13}$  – Graduates of academic institutions per 10 thous. population.  
 $X_{14}$  – Rate level of costs of totality activity (%).  
 $X_{15}$  – Return on sales from products, commodities and materials (%).

All diagnostic features are expressed in the form of indicators as relative values. The selected features are stimulants. Stimulant is the variable whose high values signal a favorable situation of on object, and low values indicate unfavorable situation of an object (Młodak 2014).

The next step is the standardization of the variables assuring their comparability. The Z-score standardization method is used, which compares each value of variable  $x_i$  to the mean and then divides it by the standard deviation:

$$z_{ij} = \frac{x_{ij} - \bar{x}_j}{S_{dj}}, \quad (1)$$

where  $z_{ij}$  is the standardized value of the  $j$ -th variable on object  $i$  ( $i=1, \dots, 16$ ),  $x_{ij}$  is the value of the  $j$ -th variable on object  $i$ ;  $\bar{x}_j$  is the mean value of the  $j$ -th variable; and  $S_{dj}$  is the standard deviation of the  $j$ -th ( $j=1, \dots, 15$ ) variable (Olczyk 2013). After standardization, the average of each standardized variable is equal to zero and the standard deviation for each variable is equal to 1.

That classification of objects is based on a the taxonomic measure of development ( $d_i$ ). We calculate the synthetic variable using the following formula:

$$d_i = 1 - \frac{c_{io}}{c_o}, \quad (2) \text{ where:}$$

$d_i$  – the taxonomic measure of development proposed by Z. Hellwig,

$c_{io}$  – the Euclidean distance between the country and the “ideal object”,

$c_o$  – the critical distance between objects and the “ideal object”.

The values of the synthetic indicator assumes values from  $[0,1]$ , whereas values closer to one the higher position of the object (Bujanowicz-Haraś et al. 2015).

### 3. SELECTION OF VARIABLES

Variables selected for the analysis should fulfill two main criteria. First of all the level of correlation between variables shouldn't exceed  $\pm 0.7$  in order the following variables shouldn't copy an information already provided. Second the variability of variables should exceed 10%, which is important from a point of view of desirable level of variability among examined objects.

Taking into account this criterions a set of primary selected variables ( $X_1$ – $X_{15}$ ) was reduced to 9 variables i.e.  $X_1, X_3, X_5, X_6, X_{10}, X_{12}, X_{13}, X_{15}$ . In the correlation matrix (Table 1) on the dark background there are variables we can't accept for a further analysis, the rest of variables (white background) have acceptable level of correlation with each other.

Table 1. Correlation matrix (2014)

	X1	X2	X3	X4	X5	X6	X7	X8	X9	X10	X11	X12	X13	X14	X15
X1	1.00	0.80	0.01	0.56	0.54	0.61	0.83	0.40	0.72	0.74	0.63	0.04	0.70	0.34	-0.15
X2	0.80	1.00	0.40	0.29	0.56	0.55	0.81	0.12	0.55	0.72	0.73	0.19	0.77	0.13	0.02
X3	0.01	0.40	1.00	-0.28	-0.07	0.36	0.23	-0.28	0.09	0.18	0.27	0.21	0.21	-0.17	0.16
X4	0.56	0.29	-0.28	1.00	0.31	-0.05	0.30	0.95	0.17	0.30	0.26	-0.11	0.47	0.24	-0.17
X5	0.54	0.56	-0.07	0.31	1.00	0.22	0.56	0.23	0.46	0.65	0.64	0.09	0.64	0.05	0.04
X6	0.61	0.55	0.36	-0.05	0.22	1.00	0.74	-0.10	0.88	0.66	0.62	0.19	0.38	0.26	-0.07
X7	0.83	0.81	0.23	0.30	0.56	0.74	1.00	0.17	0.88	0.93	0.89	0.14	0.61	0.24	-0.03
X8	0.40	0.12	-0.28	0.95	0.23	-0.10	0.17	1.00	0.12	0.21	0.14	-0.11	0.36	0.29	-0.23
X9	0.72	0.55	0.09	0.17	0.46	0.88	0.88	0.12	1.00	0.81	0.76	0.11	0.43	0.35	-0.12
X10	0.74	0.72	0.18	0.30	0.65	0.66	0.93	0.21	0.81	1.00	0.85	0.21	0.62	0.19	-0.01
X11	0.63	0.73	0.27	0.26	0.64	0.62	0.89	0.14	0.76	0.85	1.00	0.29	0.53	0.02	0.10

X12	0.04	0.19	0.21	-0.11	0.09	0.19	0.14	-,11	0.11	0.21	0.29	1.00	-0.13	-0.49	0.37
X13	0.70	0.77	0.21	0.47	0.64	0.38	0.61	0.36	0.43	0.62	0.53	-0.13	1.00	0.11	0.05
X14	0.34	0.13	-0.17	0.24	0.05	0.26	0.24	0.29	0.35	0.19	0.02	-0.49	0.11	1.00	-0.91
X15	-0.15	0.02	0.16	-0.17	0.04	-0.07	-0.03	-0.23	-0.12	-0.01	0.10	0.37	0.05	-0.91	1.00

Source: own study

Descriptive statistic of finally selected variables are provided in Table 2. Apart from minimum, maximum, arithmetic mean, and standard deviation of variables values of a coefficient of variation are also presented.

Polish provinces are differentiated mostly with respect to  $X_3$  variable i.e. net revenues from sales of new or significantly improved products in % of total turnover (67.7%), than in express roads and motorways on 1000 km<sup>2</sup> ( $X_{12}$ ), and  $X_{10}$  i.e. unit investment in private sector per 1 resident (zł). The lowest differentiation among provinces was observed in employed persons per 1000 population ( $X_5$ ). The share of net revenues from sales of new or significantly improved products in % of total turnover was highest in Pomorskie, and lowest in Warmińsko-Mazurskie. The maximum value of  $X_{12}$  was observed in Śląskie, and the minimum in Podlaskie. In Mazowieckie the highest unit investment in private sector per 1 resident (zł) was observed, while the lowest in both Warmińsko-Mazurskie and Świętokrzyskie. The highest share of employed persons per 1000 population was in Mazowieckie, and the lowest in Warmińsko-Mazurskie.

Table 2. Descriptive statistics (2014)

Descriptive statistics	$X_1$	$X_3$	$X_5$	$X_6$	$X_8$	$X_{10}$	$X_{12}$	$X_{13}$	$X_{15}$
Max	28.5	29.2	439.2	1391.0	36.3	7071.0	23.7	155.8	7.4
Min	15.4	3.5	295.3	763.0	24.1	2443.0	1.6	50.9	3.2
Mean	20.3	8.8	356.0	1023.4	29.6	3646.6	10.3	102.1	5.0
Standard deviation	3.23	5.92	37.17	179.35	3.47	1190.04	6.13	24.86	1.11
Coefficient of variety	15.93 %	67.70 %	10.44 %	17.52 %	11.74 %	32.63 %	59.71 %	24.34 %	22.26 %

Source: own study.

Presented data confirm a high level of differentiation among Polish provinces (Breński, Oleksiuk 2008) in terms of selected conditions of ease of conducting business. One of the best opportunities are observed in Mazowieckie province, while one of the worst in Warmińsko-Mazurskie.



#### 4. RESULTS

Values of a synthetic indicator calculated with the use of (2) formula both for 2004 and 2014 are provided in Table 3, and Table 4 respectively.

In 2004 the best situation for doing a business was observed in Dolnośląskie, and the worst in Podkarpackie. The average of the indicator was 0.55, and the coefficient of variety 28.76%. Provinces were thus differentiated at neither high nor low level.

Similarly to 2004, in 2014 at the top of the ranking is Dolnośląskie, with Mazowieckie at 2<sup>nd</sup> position. High in the ranking are Małopolskie, Śląskie and Wielkopolskie. Łódzkie, Lubelskie, Opolskie, Podkarpackie (in comparison to 2004) improved their positions respectively +2, +3, +4, +5. The biggest decrease in position was observed in Zachodniopomorskie (-8), but high also in Świętokrzyskie (-6).

The level of variability of the aggregate measure ( $di$ ) increased from 28.76% to 36.28% i.e. 7.52 percentage points (pp). Based on the values of the aggregate measures ( $di$ ) we classified the provinces into four groups (I–IV) both in 2004 and 2014 (Table 5, Table 6).

Table 3. Synthetic indicator ( $di$ ) for 2004

Rank	Province	$Di$	Rank	Province	$di$
1	Dolnośląskie	0.869	9	Świętokrzyskie	0.564
2	Mazowieckie	0.850	10	Lubuskie	0.541
3	Wielkopolskie	0.794	11	Kujawsko-Pomorskie	0.461
4	Zachodniopomorskie	0.706	12	Opolskie	0.432
5	Śląskie	0.650	13	Podlaskie	0.324
6	Małopolskie	0.608	14	Warmińsko-Mazurskie	0.279
7	Pomorskie	0.595	15	Lubelskie	0.256
8	Łódzkie	0.579	16	Podkarpackie	0.234

Source: own study.

Table 4. Synthetic indicator ( $di$ ) in 2014

Rank	Province	$Di$	Rank	Province	$di$
1	Dolnośląskie	0.823	9	Pomorskie	0.536
2	Mazowieckie	0.755	10	Lubelskie	0.520

3	Małopolskie	0.734	11	Podkarpackie	0.498
4	Śląskie	0.684	12	Zachodniopomorskie	0.497
5	Wielkopolskie	0.674	13	Lubuskie	0.421
6	Łódzkie	0.651	14	Podlaskie	0.412
7	Pomorskie	0.596	15	Świętokrzyskie	0.289
8	Opolskie	0.560	16	Warmińsko-Mazurskie	0.230

Source: own study.

Table 5. The classification of provinces in 2004

Group	Level	Range	Province
I	High	$d_i > 0.74$	Dolnośląskie, Mazowieckie, Wielkopolskie,
II	Higher than average	$0.54 < d_i < 0.74$	Zachodniopomorskie, Śląskie, Małopolskie, Pomorskie, Łódzkie, Świętokrzyskie
III	Lower than average	$0.35 < d_i < 0.54$	Lubuskie, Kujawsko-Pomorskie, Opolskie
IV	Low	$d_i < 0.35$	Podlaskie, Warmińsko-Mazurskie, Lubelskie, Podkarpackie

Source: own study.

The graphical representation of the classification in 2004 is figure 1.



Fig. 1. Classification of provinces in 2004

Source: own study

The best performing provinces are colored in green. They are located in western (Dolnośląskie, Wielkopolskie), and central Poland (Mazowieckie). All four worst performing provinces (colored in grey) are located in eastern Poland. Higher than average and lower than

average provinces are located in western, southern, and northern regions.

The results obtained for 2004 are consistent with findings of Skrzyp (2009) who underlined the high level of development of Mazowieckie, Wielkopolskie or Dolnośląskie, and low of Świętokrzyskie or Podkarpackie.

Dolnośląskie is located in the west of the country and shares the boarder with Saxony in eastern Germany and with the Czech Republic along Sudety mountains. Lubelskie and Podkarpackie are both located in the eastern part of Poland and at external boarder of the European Union to Belarus and Ukraine. The different geographic location of the regions, especially the distinction between western and eastern Poland, is usually regarded, as a main determinant of the socioeconomic situation of Polish regions, and it is even considered as the major determinant their future prospect (Buettner 2012).

The classification of provinces in 2014 is presented both in Table 6 and on Fig. 2.

Table 6. The clasification of provinces in 2014

Group	Level	Range	Province
I	High	$d_i > 0.71$	Dolnośląskie, Mazowieckie, Małopolskie
II	Above agerage	$0.55 < d_i < 0.71$	Śląskie, Wielkopolskie, Łódzkie, Pomorskie, Opolskie, Kujawsko-Pomorskie
III	Low	$0.39 < d_i < 0.55$	Lubelskie, Podkarpackie, Zachodniopomorskie
IV	Very low	$d_i < 0.39$	Świętokrzyskie, Warmińsko-Mazurskie

Source : own study.

The graphical representation of the classification in 2014 is figure 2. Among Group I are again Dolnośląskie, Mazowieckie. Małopolskie which is now classified high-moved from Group II. Higher than average provinces (Group II) are located in western part of Poland. Most of the provinces from eastern Poland moved from Group IV to Group III. In Group IV there is still Warmińsko-Mazurskie. The decrease from Group III to Group IV was observed in Świętokrzyskie.

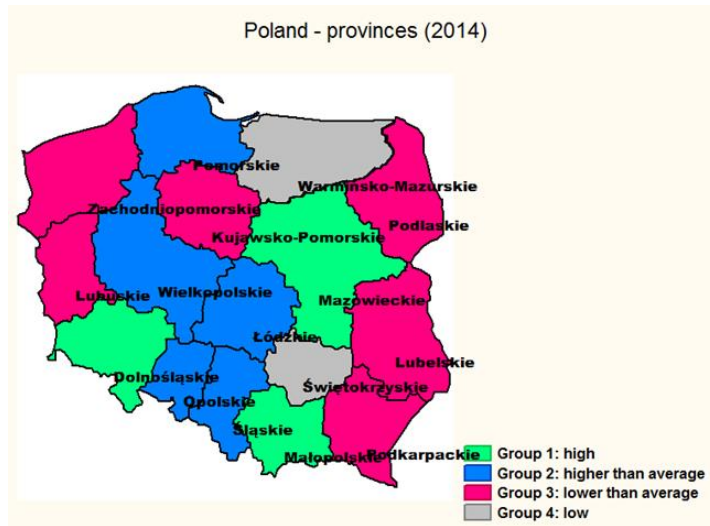


Fig. 2. Classification of provinces in 2014

Source: own study.

The provinces with the highest increase/decrease in 2014 in comparison to 2004 are presented in Fig. 3.

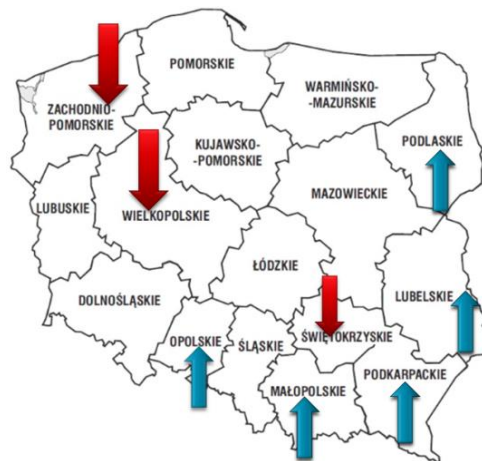


Fig. 3. Provinces with the highest increase/decrease

Source: own study.

The improvement of ranking positions was observed mainly in provinces in eastern and southern regions of Poland. All provinces Podlaskie, Lubelskie, Podkarpackie, Małopolskie, and Opolskie are located at eastern and southern border of Poland. These regions

become more and more attractive because of closeness to borders, lots of economic zones and technological parks, low level of pollution of natural environment, young and high qualified labor force and much more.

Polish eastern border is also the eastern boarder of EU. Stable socioeconomic situation of that region is not only Polish but also European concern. Thus, the presented results are confirmation of leveling the development level of Polish regions which in future can lead to better cohesion among Polish provinces.

One of the main reasons of positive changes was structural funds from European Union. Their beneficiaries were Polish entrepreneurs, farmers and others, as well as a lot of Polish institutions and organizations. Thanks to that funds the economy grew, unemployment decreased, more people found jobs, more people made decisions about starting a business not only in big cities but also in smaller towns and villages. EU's found influenced positively educational institutions. As a result Poland has a lot of well qualified employees. In Poland more and more modern, based on knowledge and ICT enterprises have been successively establishing,. It means that in the future there might be more specialized jobs in Poland.

#### **4. CONCLUSION**

The results of the presented research are important for both foreign and Polish entrepreneurs who have to decide whether to establish a company or not. If they decide to run a business in Poland, they have to make a decision about the convenient place/region. The results show that not only the most popular provinces and cities, such as Mazowieckie with capital in Warsaw or Małopolskie with capital in Cracow or Dolnośląskie with Wrocław may be attractive places for entrepreneurs. Also other regions, like Podkarpackie or Lubelskie have many advantages for doing the business.

The level of development of Polish regions is still quite diversified. This diversification is higher than in the moment of entering EU. This fact can mean that some provinces achieved more, and other regions less from entering EU. The best improvement was observed in provinces located in the eastern part of Poland. These provinces have already decreased the distant between them and more developed regions.

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## **EUROPEAN MIGRATION CRISIS**

The target of this research is to study the cross-country migration processes in Europe in the context of the need for global regulation. The author relied on the extensive scientific literature devoted to the analysis of cross-country migration processes, including in the EU (A. Geddes [3], M. Giugni, F. Passy [4], Hammar T. [6]).

**Keywords:** Europe, migrants, refugees, migration crisis, migrations flows, European Union.

### **1. INTRODUCTION**

The increasing mobility of the population in the age of globalization has greatly increased the value of the migration factor in the world economy and international economic relations. In modern conditions migration raises many issues that require concerted efforts of almost all states and develop global approaches to solving them.

The pace of development and the nature of migration processes due primarily to an increase in the needs of the developed countries in the labor force, the intensification of social polarization and that accompanying globalization and aggravation of the problems

associated with the steady increase of the global scale of military conflicts and as a consequence of poverty. International migration has become an integral part of the socio-economic and political development in both developed and developing countries. Today the European Union particularly acute feels this problem.

## **2. ON THE MIGRATION CRISIS**

Before the beginning of the XX century there was no acute problem of immigration in the world. Everything changed after the First World War, when states began to compete for the right to host foreigners in their own country, seeking refugees in their territory. The history of migration from rural to urban areas, from poor countries to richer and developing is old as the history of mankind because people have always sought a better life. Over 2000 years ago the Roman legions drove thousands of slaves from occupied territories to the Roman Empire. In the 1600s with the discovery of America a new era of migration as slaves from the African continent, as well as migrants from Europe began [8].

At the same time, international migration has become not only a powerful tool for the redistribution of the world's labor force but also the area that generates the trends that complicate bilateral relations and the internal situation in many countries of the world. As noted, the intensity of the flows of people crossing national borders is growing not only due to labor migration but also due to forced displacement caused by political instability and military conflicts.

Since the 90s of the last century immigration to developed European countries began to come out from the regulated limits. The explosive situation in North Africa, armed conflicts in the Middle East, acute interstate political conflicts caused the uncontrolled inexhaustible waves of migrants who swept the south of the continent and become a real threat to the indigenous population of the EU Member States. In some cases immigration levels significantly exceeded the capacity of host countries. Moreover, the problem is not confined to the growth of quantitative indicators and their material resources. No less important is the fact that the flow of new immigrants and refugees significant share of immigrants from countries with a predominantly Muslim population. This further aggravates the problem of their social adaptation in the countries where they intend to settle. After all, often immigrants are carriers of



the mentality, values and way of life, which are closed with great difficulty with the mentality, values and way of life of the majority of the indigenous population in developed countries.

Migration crisis in Europe worsened in 2015 year and it has become one of the topics discussed and important problems of the 21st century. However, the roots of today's problems lie deep in history. Historically the countries of Europe were the main conquerors and African countries where there is the greatest flow of refugees were colonies. After the liberation of these countries there were no problems. However, after determining clear boundaries between them the conflict began. To a certain extent this affected the migration crisis of the 21st century. Today the problem of military conflicts exacerbated the situation. The conflict in Syria, the violence in Afghanistan and Iraq, the abuse in Eritrea and also poverty in Kosovo and other issues lead people to look for a new place to live [7].

In 2015 year according to Eurostat data in Europe 1, 25 million people were granted refugee status that is more than twice the level of 2014year (562, 68 thousand). And it is the official statistics which do not include illegal entry into the territory of Europe. Figure 1 clearly apparent upward trend in the flow of migrants between 2010 and 2016 years [10].

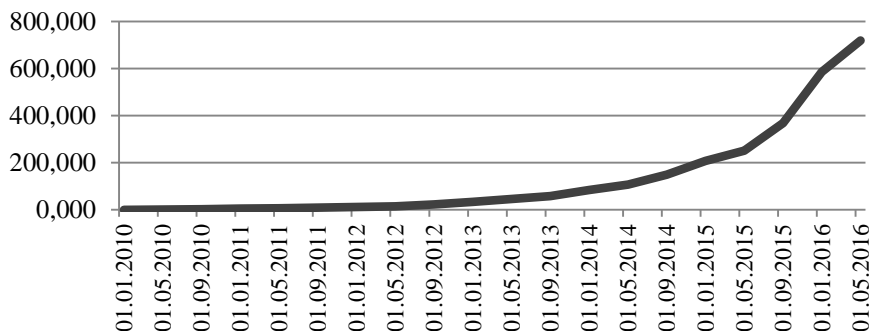


Fig. 1. The dynamic of the flow of migrants with refugee status in 2010-2016.

This migration crisis is the biggest in Europe since the Second World War. The repeated increase in the number of refugees and irregular migrants go to the European Union countries from North Africa, the Middle East and South Asia. The basic structure of refugees is the Syrians (29%), half of them for the first time asked for

asylum in Germany, 14% of all refugees in Europe – these are the people of Afghanistan, 10% - the Iraqis, that is demonstrated in the Figure 2.

The main refugee flows directed to Germany (more than 300 thousand persons in the period 2010-2016 years) which is shown in Figure 3. It is worth noting that there are countries in which refugees are running purposefully in order to live there. And there are countries that stand in the way of refugees to countries where they run. For example, Italy, Greece and Hungary have become a conduit while the main stream is directed to the center of Europe. Those who received a refusal of other European countries search for refugee status in Hungary. So these countries are also included in the list of major refugee flows. But it does not mean that they are still living there.

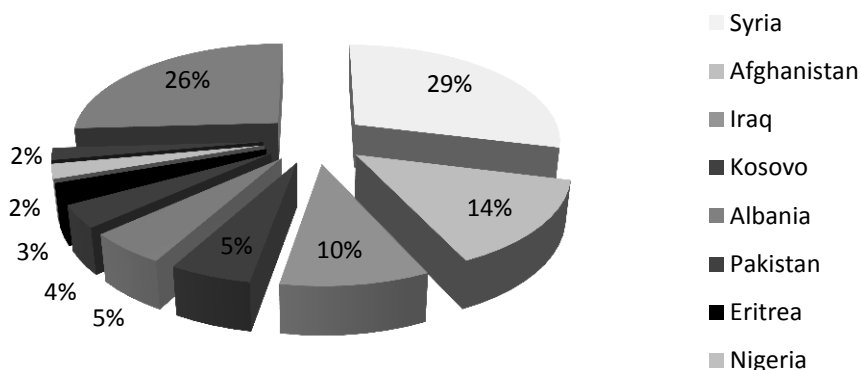


Fig. 2. The basic structure of refugees seeking asylum in Europe in 2015, thousand people [12]

The attractiveness of this territory for refugees is a result of hastily favorable possibilities adopted in the of time when the major number of them were arriving, the impressive economic and social basis for them, a simplified procedure for obtaining a residence permit for refugees. According to Eurostat, in 2015 the EU offered shelter 292,540 to refugees, immigrants, an increase of 60% compared to the same period in 2014 [2].

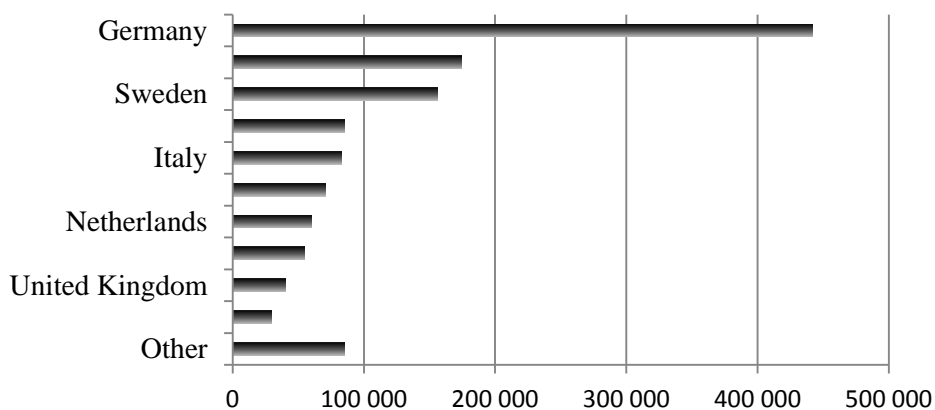


Fig. 3. Member States which sent the main flow of refugees in 2010-2016.

Bulgaria (91% according to the 4th quarter of 2015) demonstrated the highest percentage of approved applications for refugee status from addressed demonstrated, also did Malta (91%), the Netherlands (86%), Denmark (77%), Cyprus (76%) and Germany (72%). In France and the UK, these figures are much lower, 28% and 37% respectively. 98% of applications from Syrians receive a positive response, while the level of approval of immigrants from the Balkan countries is less than 3%. Europe despite the growing tensions within the Union is continuing a soft policy towards refugees, which adversely affects the ranking of political leaders who are rapidly losing confidence in the background of mass disorders and increase the economic burden.

The dramatic influx of immigrants began in June 2015. It is worth noting that at the beginning of the Russian military action in Syria in September 2015 migration flow was 165.3 thousand people, and it was a rush of refugees from Syria. In the first month of the Russian military operation flow of refugees from Syria began to fall, to the end of 2015, slightly higher than the August level. The growth of migration flows to Europe in October of this year was due to the Afghan refugees, which was not directly related to the conduct of Russian military operations in Syria. However, it should be noted that the peak of the influx of refugees from Syria is in August-September 2015, just when it was reported that Russia has increased its supply of

air and sea military aid routes into Syria to support the country's regime in media reports.

Thus, summing up, we should highlight the following leading trends of migration flows:

1. Turkish route. From Turkey mostly Syrian and Afghan migrants are sent to Greece, where then are sent to Hungary. On this route accounted for 57% of refugees in 2015. That is why Europe is trying to come to grips with the help of Turkey's problem. This route is used most often migrants because it is the shortest. To get from Turkey to Greece it is enough to cross the few kilometers between the Turkish and Greek banks [11].
2. The Italian route. Refugees from Eritrea, Nigeria and other African states are arriving to Europe through Italy (39.5%).
3. Spanish route. A small stream of refugees reached the Spanish coasts. This is mainly Syrians and people of Africa. This trend is losing popularity due to the tightening of control by the Moroccan authorities.

It is worth noting that the vast majority of those who are trying to overcome the Mediterranean route need international protection. Running from war, violence and persecution in their own country people go to desperate measures. Unfortunately, every year these movements continue to inflict a heavy toll on human life. For example, in 2016 more than 260 thousand people managed to overcome the sea. However, about 3 thousand had not reached the place [9].

Objectively, migration carries the possibility of additional labor market with labor, and has the potential to address demographic challenges that Europe remains topical. It is no accident in the official documents of EU reflected the view that in dealing with the solution of demographic problems the rate should be on the external migration. But along with the positive effects of a mass influx of immigrants, the process includes dangerous trend. They are related to the difficulties of management and control immigration flows, visa violations, finally peaking moments criminal (illegal immigration, trafficking in human beings, the shadow economy, corruption and so on.).

Speaking about the reasons for migration, Europe has also become a center of attraction of refugees because within the EU there was no border control at internal borders under the Schengen Agreement. In other words, it was enough to get to any EU country,

then to move freely in the European Union. Also the situation is complicated the fact that according to the Dublin Agreement greatest responsibility for refugees rests with the country in which a migrant entered, that is, the border states of Europe - Italy, Greece and Hungary.

All of these conditions have led to a number of factors, which provoked the crisis, namely:

Firstly, the members of the EU did not have solidarity between each other in the adoption of joint rules for solving the problem of settlement refugee which led to excessive load on the migration services of individual countries.

Secondly, Europe is economically not ready for an influx of: total initial quota of refugees was about 66 thousand people, but not 1, 2 million in contrast to the Middle East, where tents in the camps can suit the mild climate, but Europe has to submit a heated shelter.

Thirdly, migration processes are already out of control, acquiring the character of spontaneity. Earlier Libya restrained flow which settled in a favorable for life but now the problem of refugees and regulation no one does.

External factors should also include the processes that take place outside of Europe: the ongoing conflict in Syria, Iraq and Afghanistan, the refugee camps load on the Middle East as a result of which the latter began to save on the content of the refugees, reducing diet and etcetera, extension of the territory controlled by the forces of LIH.

After analyzing the factors it is possible to identify a number of negative consequences which led to the migration crisis, namely:

1. Brexit. In the UK, 23 June 2016 in the European Union referendum on membership was completed. Supporters Brexit won, gaining 51, 9% of the vote (17, 4 million people). Accordingly, opposed by 48, 1% (16.14 million people). For an exit from the EU voted in the majority of residents of England and Wales - against Scotland and Northern Ireland. However, the UK remains in the EU as long as not all documents will be issued. In the process of separating from the EU is given 2 years [1]. Europe is divided into countries, advocating for the reception of migrants, and the state with anti-migration policies. Eastern European countries have tried to lay the blame for what is happening in the West, since the latter are involved in military operations in Syria.

In Eastern Europe is growing dissatisfaction with the September 2015 EU plan to distribute 120 thousand refugees and migrants. Slovakia and Hungary are trying to challenge the decision on the distribution of migrants in the European Court of Justice in Luxembourg. The EU countries are competing among themselves for the toughest conditions for refugees to reduce the attractiveness of the country. These actions indicate that European countries have adopted a policy based on its national interests, regardless of the foundations of European integration. European states are not willing to solve problems collectively in the form in which Germany offers. But they don't promote their own project of overcoming the crisis, they do not advance, preferring to remain aloof from the workers and from the problem itself restrictive measures.

2. The growth of the terrorist threat. Europe's common belief that together with migrants penetrate the terrorists and recruiters. Given that more than 50% are young men from the conflict zones, these fears are not unfounded. In 2014 the Dutch authorities have identified among 50 asylum-seekers suspected of war crimes. In 2015 they identified 30 people suspected of war crimes. According to Europol in Europe today may be about 5 thousand. Jihadists trained in terrorist training camps. Some participants in the terrorist attacks in Paris returned to Europe as refugees. These messages form the European climate of fear and rejection to refugees than to play active opposition politicians.
3. Destabilization of Public Security also follows from the situation in the world. For example, disturbances in the New Year's Eve in the German cities of Cologne, Hamburg, Stuttgart, Berlin, Frankfurt, Nuremberg. In countries -. Sweden, Finland, Austria, Switzerland and other refugees have been guilty of crimes against women, theft, causing bodily injury. In the network there are numerous videos refugees' attacks on elderly women.
4. Strengthening the opposition of social forces acting in the interests of Europeans disadvantaged by migration policy. These forces are radical and marginal but gaining popularity on the background of the picture of helplessness before the aggressive Europeans migrants. For example, in Estonia registered a non-profit organization "Soldiers of Odin" the scope of which is called to protect and preserve the rights of citizens and specific groups of

the population. The movement intends to patrol the settlements to counteract crime by migrants. Members of the organization may be persons no younger than 21 years. The statute says nothing about the ban on membership of persons with criminal records. The movement originated in Finland after reports of mass violence cases refugees in Europe in relation to women, as extended to Estonia and Norway.

5. Changing European identity, smearing Christianity by Islam. Given the fact that in Europe the refugees - those who have just arrived in the country temporarily and leave it as soon as possible, European programs do not provide any adaptation or integration for refugees. The experience of Western Europe, where there are areas of compact residence, indicating that the integration of Muslims is practically impossible. These countries have their own culture, it is not necessary to take it in Europe; otherwise it will end in Cologne. Integration is possible only in the case of similarity of cultures (example - Ukrainian Diaspora) and refugees from Iraq and Syria should take up arms and confront the fighters of the Islamic State, instead of fleeing to Europe. Europe believes that the Christian and Muslim worlds are not able to get along, but at the same time requires peace in the Middle Eastern countries, where it is exacerbated conflicts on religious grounds - between Sunnis and Shiites, Christians and Muslims.

A Europe that defends human rights, and sometimes the Court awards compensation for the extremely far-fetched pretexts, unprecedented measures adopted on refugees, namely:

1. Barrier wall, sometimes with barbed wire and police attempts to prevent illegal border crossings. Such temporary control on its borders entered Belgium, Denmark, Germany, Hungary, Austria, Slovenia, Sweden and Norway. France introduced border controls in connection with the climate summit, and after the attacks of 13 November 2015 in Paris. Its borders to the flow of refugees was closed Macedonia, Slovenia. Croatia has banned the transit of refugees through the country. Serbia, which is not part of the EU, fearing the concentration of migrants in its territory as a result of the closure of European borders, blocked border with Macedonia. The refugees, including illegal migrants, accumulate in Greece because of tighter border control Macedonia. Due to the fact that the Balkan countries have imposed restrictions on the passage of

up to 580 people a day, Bulgaria in terms of the expected influx of refugees in the spring decided on the border with Turkey, if necessary, involve the army. Europe is also planning to create a common EU border service as part of a half thousand people.

2. The destruction of the refugee camps in public places. For example, the French authorities started to dismantle the buildings on the territory of the refugee camps in Calais city has accumulated up to 4 thousand. All migrants relocated to a nearby camp. The Greek authorities plan to resettle spontaneous refugee camp, which was formed on the Greek-Macedonian border.
3. Involvement of the decision of NATO forces crisis, which will provide information to help the Greek and Turkish Coast Guard carry out their work more effectively. That is directly NATO forces to deploy ships will not. However, the Europeans will do with illegal immigrants? Send them back, but then high risk of death. Migration to Europe has become a lucrative business for smugglers. Demand for transportation is so high that it exceeds the available ship's agent. As a result, the courts overweight, they often do not meet safety requirements, which lead to numerous floods.
4. The agreement with Turkey, through which Europe is the most numerous routes. The European approach is to curb the influx of refugees in Turkey. To do this, Ankara is planned to allocate about 3 billion. Euro per year to ensure decent conditions of stay of refugees in Turkey, as well as for control of the flow of migrants to Europe. Turkey also needs to provide work permits to Syrian refugees. The first of such project in the amount of 95 million. Euro, announced by the European Commission, will be education initiatives and humanitarian assistance. Turkey's position in dealing with the migration crisis was an ultimatum: either 3 billion a year, not two, or Turkey will cease to hold back the flow of immigration in Europe, opening the border with Greece and Bulgaria. On the March 18 an agreement was reached between the EU and Turkey on regulation of migration situation, unprecedented in the number of concessions to the Turkish side. Under the agreement, Turkey must be exchanged from the EU of illegal immigrants arriving in Greece after 20 March 2016, on the legal Syrian refugees, sending of illegal immigrants will be funded by the European Union. The EU can allocate 72 000 seats for this



purpose, 18 thousand places of which are approved under the program of resettlement of refugees to the EU from third countries, 54 thousand places to be agreed. Turkey undertook to take measures to prevent the opening of new sea or land routes of illegal migration to the EU in return promise to get preferences, namely the acceleration of negotiations on visa liberalization (EU no later than the end of June should abolish visas for Turkish citizens), the opening of new chapters of negotiation dossier EU accession and provided for it earlier than 3 billion euros, and additional funding (presumably up to 6 billion. euros). By the joint commitments related improvement in the humanitarian situation in Syria itself. This agreement led to the next debate in the Union. A number of European politicians condemned the agreement on the grounds that Turkey supports the Islamic State; it is responsible for the expulsion of more than two thousand Kurds from their territory.

5. The European Commission has presented an action plan for the salvation of the Schengen area in March 2015. It provides for measures such as the elimination of deficiencies in the Greek control of the external borders of Schengen. Termination of the member states of the process flow of refugees crossing through its territory to other Member States. The plan states that the restoration of border controls by individual countries unilaterally must be given way to a more coordinated European approach that aims to get rid of checks within the Schengen borders by December 2016. Decisions taken by the European Union, prove that Europe is not able to present a united front, European democracy in fact boils down to the dictates of the main sponsor of the Union – Germany.

Thus, the migration crisis in Europe has become an example of a system failure, to create a world beneficiary. As part of the global project of the golden billion it was supposed to contain the flow of refugees on the borders of conflict zones. Special UN agency UNHCR on refugee law was to sponsor and maintain camps in developing countries. States of the world have sacrificed contributions to the camps, which in fact were detachments for the mass influx of refugees in the country, its attractive level of economic development. However, the system has failed - the conditions in the camps have become invalid, the smugglers have established routes of sending migrants,

and Europe itself in the first months showed softness, provoking a situation of mass influx of refugees.

Europeans are guided by the letter of the law, believing that the Schengen area is able to take all refugees, we decided to increase the quota for the reception of refugees. As a result, Europe is faced with the fact that on its territory intersected two antagonistic worlds - on the one hand, the population of prosperous Europe, with its values and high standards of living, and on the other - a world of poverty, natural spontaneity, with the task to survive at any cost. Both worlds have become a product of beneficiary system - a world divided the world as a bundle once on capitalists and proletarians, now in the world of people with the privileges of the world and cut off from the benefits of civilization. Naturally, in the borders of Europe, these worlds hate each other, there is tolerant attitude of compliance with the rules, regulations, instilling values.

Migration crisis in Europe runs the risks of geopolitical weakening of the EU as a result of internal contradictions revealed by the crisis and the deterioration of public security and the economic situation. And it will be an important lesson for the world's history - the basis of any policy of the state in the first place are the national interests, and only then have numerous obligations under international treaties. A little less than a hundred years ago, Europe already laying the wave of illegal immigrants: more than two million have fled to the Russian territory of the former Russian Empire, ridden by civil war. The next wave of migration was caused by the Second World War. A quarter-century ago, Europe has experienced an influx of migrants caused by the civil war, this time in the Balkans. It was the Europeans, cultural and religious identity, living on the same continent. Therefore, newly arrived migrants were easier to integrate into the host society. [5]

### **3. CONCLUSION**

The international legal basis for cooperation in the area of migration are treaties, declarations, conventions, which can be divided into three groups:

- 1) acts regulating general issues of fundamental rights and freedoms of migrants;
- 2) acts regulating issues related to voluntary migration;
- 3) acts regulating issues related to forced migration.

Unfortunately, in spite of a sufficient number of international legal norms in the sphere of regulation of migration processes, the international community is increasingly faced with the problem of illegal migration, a massive outflow of funds, diversion of "drain" problems of assimilation, the aggravation of conflicts on ethnic grounds, and others. Heterogeneity, specific multi-layered stream of migrants requires the development of diversified and simultaneously based on the general principles of the approaches to the management of modern migration and balanced assessment of their possible consequences. Today, migration management at any level - global, regional or national - is a broad and full of gaps legal field. Folding in these conditions, an imbalance of interests inevitably becomes a hindrance, complicating prospects for global development.

To achieve lasting results, the European Union should consider the options for the application of its fundamental principles and regulatory standards to people who are not citizens of its member states. It should be based on the analysis of facts and rational thinking is promising to change many negative concepts underlying the current social and political debates about migration within its borders, i.e. strictly distinguish between internal and external migrants, as well as promoting the compilation of the roadmap of the evolution of this policy through the development of a comprehensive 25-year strategy with clear short-, medium- and long-term activities and the formulation of a common vision for the use of European Union mobility advantages in a generation.

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## **XBRL AS A GLOBAL ACCOUNTING CHALLENGE**

International business community and associations of accountants have defined new international XBRL standard which makes business reporting efficient and reliable. There are various

definitions of XBRL in literature, some of which are as follows: a software tool, a software standard and also reliable infrastructure for data verification. XBRL is a language for business and financial electronic communications, which made a revolution in business reporting. XBRL is one of the accounting standards that may be used by all parties interested in business reporting, even by citizens when reviewing financial data at the stock exchange. Nowadays, this standard is used worldwide, in more than 50 countries. Global financial crisis has highlighted the need to make efforts at international level to achieve higher market transparency, and to control and improve the power of regulatory authorities. XBRL is recognised as a new barcode for the financial statements.

## **1. INTRODUCTION**

Financial statements of companies are important and unavoidable source of information for the investors and creditors. In that respect they must contain information that is clear, relevant and comparable. The efforts of managers to beautify operating results and financial position of companies and present company performances better than they really are have resulted in financial statements' manipulations. Numerous frauds caused a large number of financial scandals as a result of false financial reporting. This resulted in much stricter and more detail control of the financial data and information. In search for the right tool that will enable the realisation of the aforesaid, the international business community and associations of accountants defined new international XBRL standard which makes business reporting more efficient and reliable. The revolution of information technology that started in the 1950s of the twentieth century has created a material basis for the new type of economy known as information economy. Such activities reflected inter alia, on the manner of preparing and publishing the financial statements. To put it more precise, information economy enabled availability of business information in the form of financial statements electronically. Nowadays, financial statements are mostly published electronically in PDF (Portable Document Format) and HTML (Hypertext Mark-up Language) format. Since this way of disclosure does not guarantee confidence in reporting, XBRL standard (eXtensible Business Reporting Language) is used. The beginning of the development of XBRL standard is connected with Charles Hoffman, who worked

until 1998 as a consultant assisting small and medium enterprises to resolve financial troubles and integrate their accounting systems. Hoffman had an idea to develop a standard that will be used by everyone and which will assist in turning financial statements into databases. He had a vision to make a chain which will serve for connecting all participants into one financial entity.

In February 1998, World Wide Web Consortium launched XML language, which defined tags for every part of information to be transferred. To Hoffman, XML was the last piece of the puzzle missing for his standard to become operational. He understood that thanks to XML he can make a revolution in the way of preparing and distributing financial statements. There are various definitions of XBRL in literature, some of which are as follows: a software tool, a software standard and also a reliable infrastructure for data verification. XBRL is "a language for business and financial electronic communications, which made a revolution in business reporting worldwide." XBRL standard operates in a way that US GAAP (United States Generally Accepted Accounting Principles) and IFRS (International Financial Reporting Standards) create certain taxonomies. These taxonomies refer to the terminology of business reporting which is based on XML language. To understand XML and taxonomy, the idea of data labelling must be understood. Document labelling is the way of defining the structure, meaning and visual appearance of information in a document. In computer technology, labelling is a process of using codes called tags (or sometimes symbols) for defining the structure, visual appearance and in case of XML, meaning of data. Basically, XBRL standard appeared as the implementation of information standard XML with specific design of rules and taxonomies intended for financial statements. Since there has been a long practice in the world that the financial statements of companies are posted on internet, the implementation of modern technologies is required that enable integration of information of various companies including also standards such as XBRL. The XBRL standard is characterised by unique terminology and database and as such, it is included in intelligent databases. Charles Hoffman, who is considered one of the XBRL creators, has explained in a simple way how XBRL standard operates. Basically, XBRL transforms nonstructured data into structured electronic methods of business reporting. Thus, it enables the user to compare financial

performances of a company against a group of companies or entire business industry, and business managers are aware that these data are correct, qualitative and comparable. Large quantity of text will, thanks to the implementation of these technologies, be converted into the form of information needed for financial reporting. Therefore, information tags of XML will enable accounting system to aggregate data from different databases into summarised reporting entities and translate them into the information needed to create each element in the internal or external report, and it will be which is, extremely important, completed instantly. The time needed to collect and broadcast business information through the application of new technology can keep up pace with changes of these information resulting in updated information in real time. XBRL standard, as a unified method, will present business reporting under uniform standards regardless of being present or operating in Europe, Asia or America. The exchange of information will be fully possible and transparent implementing this standard. XBRL is one of the accounting standards that can be used by all parties interested for business reporting and by citizens when reviewing financial data at the stock exchange. The US Advanced Research Project Agency (ARPA) was the first agency that prepared an initial rank for special definition of documents of financial reporting or financial taxonomy for the US Securities and Exchange Commission (SEC). Further development of XBRL continued through joint work of specialised organisation, primarily GAAP (Generally Accepted Accounting Principles), and later on the others, like: AICPA (American Institute of Certified Public Accountants), IFAC (International Federation of Accountants), CICA (Canadian Institute of Chartered Accountants), with synergy of other professional bodies and organisations, in order to use Internet for business reporting. Nowadays, this standard is used worldwide, in more than 50 countries, and hundreds of thousands of XBRL reports are compiled every year replacing old reports in hard copy. XBRL enables swift, precise and electronic exchange of information between various companies thanks to its terminology of reporting used for uniform and universal representation of the content of the financial statements. This format does not diminish the contribution and quality of financial reporting; it opens a series of new possibilities of the use of business information.

## 2. BENEFITS OF XBRL IMPLEMENTATION

The Table 1 below identifies some of the items concerning the quality of information obtained through the implementation of XBRL standard, items concerning financial reporting, and expenses resulting from the implementation of this standard. The table review depicts benefits of the XBRL implementation.

Table1: Overview of benefits of XBRL implementation (Financial Reports: Why You Need XBRL, Royce D. Burnett, Mark Friedman, and Uday Murthy, 2006 Wiley Periodicals, Inc. page38)

<b>Information:</b>	<b>Internal</b>	<b>External</b>
Enables risk reduction	✓	✓
Facilitates access to information	✓	✓
Facilitates data finding	✓	✓
Ensures quality and accuracy	✓	✓
Enables efficiency and effectiveness	✓	✓
Enables automated data exchange	✓	✓
Facilitates precise data integration	✓	✓
Enables more efficient data finding	✓	✓
<b>Impact on financial reporting</b>		
Reduces time of compiling financial statements	✓	✓
Improves decision making	✓	✓
Guarantees timeliness of updating data	✓	✓
Increases value of content	✓	✓
Improves communication with stakeholders	✓	✓
Enables adequate analysis and evaluation	✓	✓
<b>Costs</b>		
Efforts to prepare reports are reduced	✓	✓
Costs of software integration are reduced to a minimum	✓	✓
Costs of finding information are reduced	✓	✓

Overview of the above facts indicates that the XBRL implementation increases the efficiency of using of financial reports, and on the other hand, it reduces the possibility of error (e.g. information on fixed assets in the last five years, thanks to XBRL format, can be accessed and they can be used by the same regulatory authorities that have access and transparent right to use information that have extremely high level of accuracy). The entities that will benefit from the XBRL report implementation should be mentioned. Companies are bearers of economic activity. They organise the production, offer certain quantities of products striving to maximise income and are highly interested in accurate information flow in their



business system and environment. Additionally, accurate business information contributes also to more accurate measurement of business activities and risk management. It means that anyone producing financial information will also benefit from the XBRL standard: accountants, auditors, managers, financial analysts. Financial authorities, primarily financial regulators, will have at their disposal easily comparable statistical data on the financial performance of individual business entities through the application of XBRL. Government as well, as the highest body of executive authority, would manage to reduce bureaucracy and improve data adjustment in order to understand better the performances of companies and market and the accompanied risks, which would be in favour of attracting the investors. The investors, foreign investors in particular, could easily compare potential investments and understand and analyse effects of future investments (foreign direct investors are very important factor of economic development, where transparency of financial reporting should be highlighted). Risk of corruption and nontransparency is one of the most important risks characterised by trans-national companies (TNCs). As key challenge for the South East Europe region (SEE). This risk, which ranks second together with the financial risk, is characteristic of all SEE countries that belong to a group of post-transitional countries. In addition, TNCs assess factors like: economic condition of a country, transparency of capital movement, foreign and domestic investments trend, and the like. The importance of XBRL can be analysed in the context of transparency. XBRL enables the publication of reports in a way which guarantees accuracy of information, and thanks to this accurate and more precise analyses, it reduces the volume of errors and enables the use of information by people speaking different languages. The largest business value of its implementation is that it amortises accounting processes, processes referring to business integration of data within companies, and processes of reporting from the region. After last global financial crisis, many problems are opened that needs to be solved. Debts between companies, growing number of frozen companies and business code of conduct lead us to think on the manner of how to prevent them. To that end, measures should be undertaken (long-term) that would resolve the above issues, contribute to and increase competitiveness, and the like. The implementation of XBRL standard would affect the increase in competitiveness, where

the competitiveness reflects primarily in strengthening corporate image of producers, which is very important for attracting foreign investors. Based on available data, quantitative illustration of entire group of countries that introduces XBRL standard was prepared. When the same data were compared with to 20 countries with FDI inflows in billions of U.S. dollars (for period 2013-2014), the conclusion was made that only two of top 20 countries under the criterion of FDI inflow did not implement XBRL standard.

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## **THE ECONOMIC RELATIONS OF RUSSIA AND SOUTHEAST EUROPEAN COUNTRIES: TRENDS AND OPPORTUNITIES FOR THE DEVELOPMENT**

The article considers the features of economic cooperation of Russia and Southeast European countries in the context of the sanctions imposed by the European Union in relation to the Russian Federation. The author analyzes the main problems of trade and economic relations between the countries and considers the prospects of their development.

**Keywords:** The world economy, economic cooperation, Russia, Southeast Europe, The European Union.

### **1. INTRODUCTION**

In the context of transformation of the international economic system Russian Federation realizes the policy of diversification of economic cooperation for the purpose of forming of stable foreign economic relations with various regions of the world.

Important geopolitical and geo-economic value for Russia is the region of Southeast Europe, better known as the Balkans, which with its multi-ethnicity, the unique geographical location, political instability and economic heterogeneity has always attracted and will attract the attention of the world powers. It is here facing the strategic interests of Russian Federation, the United States of America (USA) and the European Union (EU).

For Russia, the Balkan countries remain a special zone of traditional influence which needs to be supported and strengthened systematically. The Russian foreign policy concept says: «Russia aims to develop all-round pragmatic and equal cooperation with the countries of Southeast Europe.

The Balkan region has a strategic importance for Russia, including as the largest transport and infrastructure hub through which

territory the delivery of oil and gas to the countries of Europe is performed» [1].

In the conditions of increase of political and economic contradictions both in the European Union, and in the relations of the EU with Russia, including within sanctions policy, there is a need of determination of a role of the countries of Southeast Europe for structure of the world economy, identification of the main partners for the region to Russia, search of opportunities of intensifying of economic relations with the countries of the region in specific spheres and in the context of the Russian interests.

## **2. STATISTICAL ANALYSIS OF TRADE RELATIONS BETWEEN RUSSIA AND SOUTHEAST EUROPE**

Considering in dynamics the trade of the countries of Southeast Europe and Russia at the present stage (2001-2014), it is important to note that for the researched period the growth of a goods turnover almost by 5 times is observed, that is provided by the growth of both the value of exports (by 12 times), and the value of imports (by 4 times) (Table 1).

Table 1. The dynamics of trade in goods of the countries of Southeast Europe and Russia in 2001-2014, millions USD

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Turnover	935	1057	1437	2008	2652	3391	4160	4616	3600	4231	5491	4508	4333	4607
Export	94	105	147	175	250	342	483	579	393	589	874	946	1143	1135
Import	842	951	1290	1832	2402	3049	3677	4037	3208	3642	4618	3562	3190	3472
Balance	-748	-846	-1142	-1657	-2152	-2707	-3194	-3458	-2815	-3052	-3744	-2616	-2047	-2337

Sources: ITC calculations based on UN COMTRADE statistics: <http://comtrade.un.org>

During this period the trade balance remains negative, and the growth more than by 3 times is noted (in 2001 – 748 million dollars, in 2014 – 2,3 billion dollars), that testifies to weak competitiveness of the export industries of the countries of Southeast Europe in the conditions of incomplete structural and institutional reforming of economies (the reform of market institutes and the legislation in the field of improvement of a competitive environment, business organization and management, fight against unemployment and

corruption, etc.) within integration into the European Union.

Estimating a share of Russia in trade of the countries of Southeast Europe, it is possible to note that on goods turnover amount it averages 7,6%, on export volume – 3,2%, on import volume – 9,5%. Judging by indicators, the share of Russia in export of the countries of Southeast Europe since 2001 grew from 2,8% to 4% while the share in import of the countries of the region decreased from 10,7% in 2001 to 7,5% in 2014 [2] that demonstrates some decrease in an dependence on import from Russia, first of all, it concerns the energy resources, and simultaneous strengthening of an export component of trade of the East European countries in relation to Russia.

### **3. THE MAIN DIRECTIONS OF ECONOMIC COOPERATION OF RUSSIA AND THE COUNTRIES OF SOUTHEAST EUROPE**

The determining factor of development of trade of Russia with the East European countries is the Russian export which is based on oil and gas supplies. Russian exports to the region more than 44 million tons of oil, which half is the share of Poland. The countries of Southeast Europe that are members of the EU and are aimed at accession to the total market, apply the special mode of Community in trade in energy goods, including provisions of the Unified Gas Directive (Third Energy Package).

It is offered to develop the concept of creation of the single energy market – the idea which is actively promoted in Poland, Romania, Bulgaria.

In recent years, the countries of Southeast Europe have intensified their trade policies towards Russia for the purpose of development of our market.

The countries managed to reverse the trend of deepening trade imbalances with Russian Federation under the influence of export diversification by sectors of industrial processing. In 2014 the deficit of trade of East Europeans with Russia decreased to 32,5 billion dollars (36,3 billion dollars in 2013). But still the trade imbalance in favor of Russia is 1.2 times higher than the export of Eastern European countries to Russia.

The economic advantages and technical assistance expertise allow Russian firms to hold positions on the nuclear power plants modernization market. Agreement on the participation of Russia in the

construction of new power units in the «Paks» NPP was signed with Hungary in 2014. The reconstruction of the Slovak nuclear power plant is carried out in cooperation with Western partners. At the same time, opposition to the participation of Russian nuclear scientists in the development of nuclear power plants in Bulgaria is increasing.

There are several areas for cooperation between Russia and South-East European countries in high-technology sphere. In these conditions it is important to maintain the relations in the field of military cooperation which example is the purchase of the MI-8T helicopters by Hungary.

#### **4. THE PROBLEMS IN DEVELOPMENT OF ECONOMIC RELATIONS OF RUSSIA AND SOUTHEAST EUROPE**

The aggravation of the general international situation, particularly the confrontation between Russia and the West as a result of the Ukrainian crisis, complicated the relations between Russia and the countries of Southeast Europe. Most of these countries in the European Union have joined the political, economic and financial sanctions aimed against the Russian Federation.

The Russian economy, in turn, is experiencing great difficulties under the influence of the process of deepening global economic crisis and the blatant economic blockade by the Western countries. Sectoral sanctions, including limiting access to financing through the loans, a prohibition on investment into infrastructure projects of transport, telecommunications and energy sectors, the ban on the import of a number of Russian high-technology products can't but be reflected in the Russian economy, the rates and the prospects of its development. By recognition of the chairman of the Russian government Dmitry Medvedev, for 2014 sanctions of Russia have caused damage in 25 billion euros [3].

In 2013, Russia's GDP growth slowed to 1.3%. In 2014, the physical volume of the gross domestic product increased by only 0.6%, while in the first quarter of 2015 Russia's GDP fell by 4.2% compared to the same period in 2014. The weakening of the economy entails a change in the Russian position in the world market, including in relations with the partners in Southeast European region.

In 2013 the Russian foreign trade exchange still remained at the level of 2012, and in 2014 it was reduced by 6,7%, including on

export – by 5,4%, on import – by 9,1%. At the same time, in the conditions of the stagnation of all foreign trade turnover in 2013, commodity turnover of Russia with the countries of Southeast Europe retained the increase which has made 2,8% (export – by 1,5%, import – by 4,4%), but in 2014 there was a decrease, with a higher rate in comparison with average values. In 2014 the trade exchange with the countries of the region was reduced by 8,2% with a decrease in exports by 8.8%, imports – by 6.9%.

Reduction of prices, especially on fuel and energy goods which share in commodity structure of export of the Russian Federation to foreign countries constituted in 2014 73,3% (in 2013 – 74,4%), and to the countries of Southeast Europe – 85% (in 2013 – 86,1%) became a major factor of reduction in cost of the Russian export-import deliveries. In 2014 the total amount of the Russian export of crude oil decreased by 4,2%, natural gas – by 9,8%. At the same time the tendency of increase in a share of supply of the processed raw materials in group of fuel and energy, chemical and metallurgical products was planned [4].

The imposition of Russian embargo on the import of agricultural products from countries applying sanctions against Russia contributed to a breach of the promotion process in the mutual markets. The countries which were guided by expansion of export of livestock products in the conditions of the application of the WTO rules, which Russia joined, were damaged. Disappointments comprehended Poland, Hungary, Slovakia, Romania. Besides the embargo considerably broke the stability of the agrarian market of the East European countries, generating processes of deflation in these countries.

The elimination of the South Stream project has also had adverse effects. The losses suffered by Gazprom (200 million euros) [5] and the losses of the countries which lost possible supply of gas and the income from the project cannot fill some two-way deals about the problem resolution (with Hungary, Serbia – about the opportunities of creation of sections of the pipeline).

The reduction of the Russian mutual trade turnover with the countries of the region was the main feature that determines the development of our relations in the years 2014-2016. The increase in trade exchange was provided only in relation to the Slavic countries, Latvia and Estonia.

Another problem in relations between Russia and the Eastern European countries is the weakening of the competitive position of Russia in the Southeast Europe. Competitors of the Russian exporters in the region are not so much the local producers, but the multinational companies, which determine the state of the local market of power equipment, electronic, computer equipment and vehicles. Among the industries determining export deliveries for the Russian market the production of vehicles acts mainly. The high-technology products falling under the sanctions by the deliveries to Russia are practically absent in the export of the East European countries.

Terms of the activities of the Russian companies in the countries of Southeast Europe also became complicated. Such Russian companies as Gazprom, Lukoil, Mechel, OMZ, etc. suffered losses. The Russian-Ukrainian iron and steel plant "Dunafer" in Hungary and the Petrotel oil refinery in Romania appeared in the crisis state. Withdrawal of the metallurgical company "Mechel" from Romania significantly weakened the Russian investment presence in the country.

The aspiration of the companies to get rid of the assets in the mutual markets is observed. So, Lukoil sold the assets in Hungary, Slovakia, the Czech Republic, and the Hungarian bank «OTR» closed the departments in the Crimea [6].

Pragmatical approach to the solution of specific questions remains. Until 2014 optimism in the relations of cooperation with Russia was maintained by the idea of Russia's accession to the World Trade Organization. In Hungary, Poland, Romania, Slovenia the new situation was regarded as chance for promotion of the Russian market – chance which was considerably lost with accession of the countries of Southeast Europe to sanctions against Russia [7].

The development of trade and economic relations between Russia and Southeast European countries, despite the efforts to deepen relations, retains basically barter transactions. The priorities of foreign economic policy in the Eastern European countries, and Russia did not provide a basis for the strategy of development of relations based on mutual interest. Practice has shown that a purely commercial approach is contrary to the process of improving the structure of relations and trade exchange, and in the period of political conflict it exacerbates the issue of partnership.



At the moment influence of the western partners on forming of the foreign trade exchange of the East European countries amplifies. The structure of deliveries is determined by the productions connected with the head operating companies.

In contrast to this general for Southeast Europe trend to enhance the exchange within transnational production, relations with Russia continue to be based on cross-industry exchange. The overwhelming role of the energy sector limits the development of export industries of higher technological level.

The diversified nature of the Russian export in case of a lack of support of export of more high-tech production does not allow to resist the competition in the market of the East European partners. The most effective Russian export of the energy equipment is reduced. Decrease in both a share, and supply rate of machine-building products to the region continues. In 2014 they were reduced from 1,5 billion dollars to 1,3 billion dollars.

The growth of the supply of industrial products from the countries of Southeast Europe to Russia has remained, but the volume of deliveries of machines and equipment, which account for more than half of their exports to the Russian market, has decreased. In 2014 the export of machine-building products from the countries of Southeast Europe to Russia exceeded the Russian deliveries of machines to Southeast Europe to 10 times. Nevertheless only 5,3% of all export volume of mechanical engineering of the countries of Southeast Europe are the share of Russia [2].

At the same time the Russian export of machines and vehicles in import of this group of goods to the East European market constituted only 0,6% of its amount. Mutual deliveries are not approved and play a small role in providing the countries with import technical means.

The relations of Russia with the countries of Southeast Europe are still oriented on the Russian commodity export, which basis continues to be determined an oil supply and gas. In 2014 their value amounted to 85% of its import from Russia. However, the low interest of the East European partners in enhancing the influence of the Russian energy business contributes to the active support of the countries of the European energy policy, the search for alternative energy supplies, creating a single energy market in the EU.

There is a tendency to reduce the demand for energy supplies

which share in import of the countries continued to decrease (14,3% in 2012, 12,5% in 2013 and 11,3% in 2014) [2]. Supplies of fuel and mineral products from Russia fell from 56 billion dollars in 2013 to 50,4 billion dollars in 2014. Due to the fall of production demand, Hungary, Slovenia and Romania declared the decrease in needs for gas import.

With the fall of the rate and volume of Russian commodity exchange with Southeast European countries, the share of Russian and East European countries in their foreign trade tended to decline. In 2014, Russia accounted for 5.6% of the total turnover (in 2013 – 6.3%). The countries of Southeast Europe have provided 11.0% of the Russian trade (in 2013 – 11.1%) [2].

Problems of balancing of the foreign trade exchange become a significant argument in the choice of partners for participants of foreign trade activity. So far the cooperation within Community provides to the countries of Southeast Europe positive results of presence in the world markets. The indicator of balance of trade and services improves. The import covering export in a cumulative goods turnover approaches parity – 98,8% in 2014 [8].

In the relations with Russia the indicator of a covering of import by export also improves (45,2% – in 2014), but it is far from the optimum and does not stimulate the interest of the East European partners in the expansion of deliveries of goods from Russia.

## **5. CONCLUSION**

Despite the diversity and specific problems of Russia's economic cooperation with the Southeast European countries unifying motive of its development is the desire of these countries to gain a foothold in the Russian market. The management of the East European countries, especially at the level of heads of governments (Hungary, the Czech Republic, Slovakia), supports unwillingness to endow the missed business opportunities in Russia.

The weakening of the political contradictions and the strengthening of the economic development is provided by contacts at the highest state level. The visit of the Russian President Vladimir Putin to Belgrade in October, 2014 and to Budapest in February, 2015 was important for the development of the relations of Russia with the countries of Southeast Europe. The visit allowed to make a contribution to the solution of the major questions of the economic

relations in the field of energy cooperation with Hungary and mutual trade with Serbia.

Thus, Southeast Europe should not be perceived as the field of geopolitical opposition of Russia and the West any more. There are real conditions for large-scale economic cooperation of our country with the countries of the region.

The opportunities for the development of trade and economic relations in all sectors of the economy remain a significant reserve of growth of mutual economic exchange of Russia and the Southeast European countries.

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**INNOVATIONS IN GREEN ECONOMY**

The article is dedicated to interaction of the green economy with innovative technologies in the energy sector. Eco-innovation is a fairly new and very promising area of economic development. Currently, this direction is developed by a lot of countries have already switched to economy based on eco-innovation or are on the way to it. Today there are various sectors that actively using the eco-innovation. Recently, the most popular in the world become renewable energy. Thanks to the introduction of renewable energy business develops, new jobs, new born technology innovation and production. The widespread use of renewable energy will prevent environmental degradation and avoid the ecological crisis

**Keywords:** Green economy, innovation, technology, eco-innovation, climate, renewable energy.

The world today is facing new challenges for sustainable development, especially in relation to energy and the environment. To rise to this challenges we need to build green economies. We need a global economic transformation that promotes a rapid shift to sustainable infrastructure, technologies and lifestyles, and a more equitable distribution of resources.

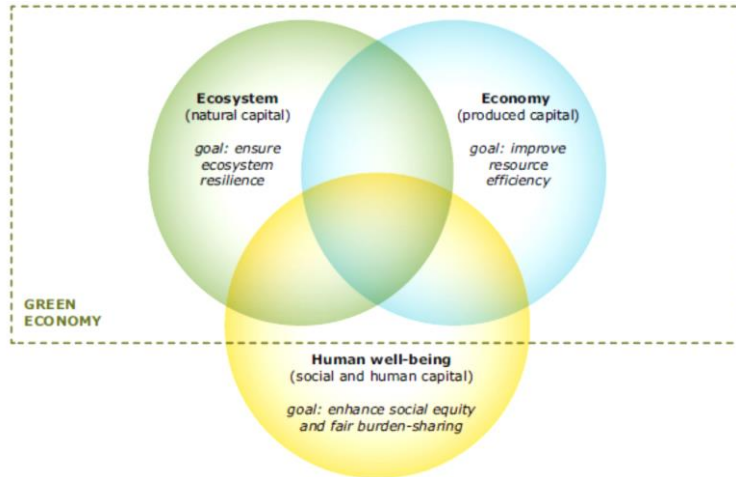
The definitions by different international organisations of the green economy are broadly characterised by the following three objectives (Fig.1):

- improving resource-use efficiency: a green economy is one that is efficient in its use of energy, water and other material inputs;
- ensuring ecosystem resilience: it also protects the natural environment, its ecosystems' structures and flows of ecosystem services; and
- enhancing social equity: it promotes human well-being and fair

burden sharing across societies.

UNEP defines a green economy as one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities [1].

Figure 1. Green economy



Source: European Environment Agency. Resource efficient green economy and EU policies. 2014.

The development of green economy in different countries is different, because it depends on the specifics of the natural, human and physical capital, level of development, socio-economic priorities and environmental culture of each country. Technological innovation can play a crucial role in the change to a green economy. Although some types of technological innovation lead to an increased use of resources, eco-innovation can be a powerful lever for achieving resource efficiency.

The adoption of new technologies can be hindered by a number of barriers:

- lack of knowledge in application;
- lack of finance;
- insufficient incentives for the substitution of old technology by the new;
- high costs;
- insufficient market demand [1].

Green economy policies deliver social and economic benefits by improving resource efficiency and inducing domestic companies to innovate, which may provide them with a competitive edge.

For example, climate change problems require that innovations, once they exist, also be applied widely and not used by only a few technology leaders [2].

Eco-innovation is central to meeting climate mitigation goals while and supporting economic and energy security objectives.

Eco-innovation strategies can be a source of competitive advantage for companies. UNEP Executive Director Achim Steiner said: “As momentum for a sustainable future grows, we are already seeing the enormous opportunities for business of an inclusive green economy. The market for low-carbon technologies and innovations is not some future concept. It is thriving today, and offers huge potential for those who would capitalize on it.”

Also, governments can play a critical role for promising technologies by ensuring stable, longterm support in all stages of innovation.

The most common eco-innovation received in the economically developed countries of Western Europe. Eco-innovation is key to Europe’s future and at the heart of the European Union’s policies. The EU’s economic prosperity and well being is intrinsically linked to its natural environment, and the global demand for renewable energy and resource-efficient solutions will be a source of jobs and economic growth in the years to come.

The Eco-Innovation Scoreboard illustrates eco-innovation performance across the EU Member States (Fig.2) [3].

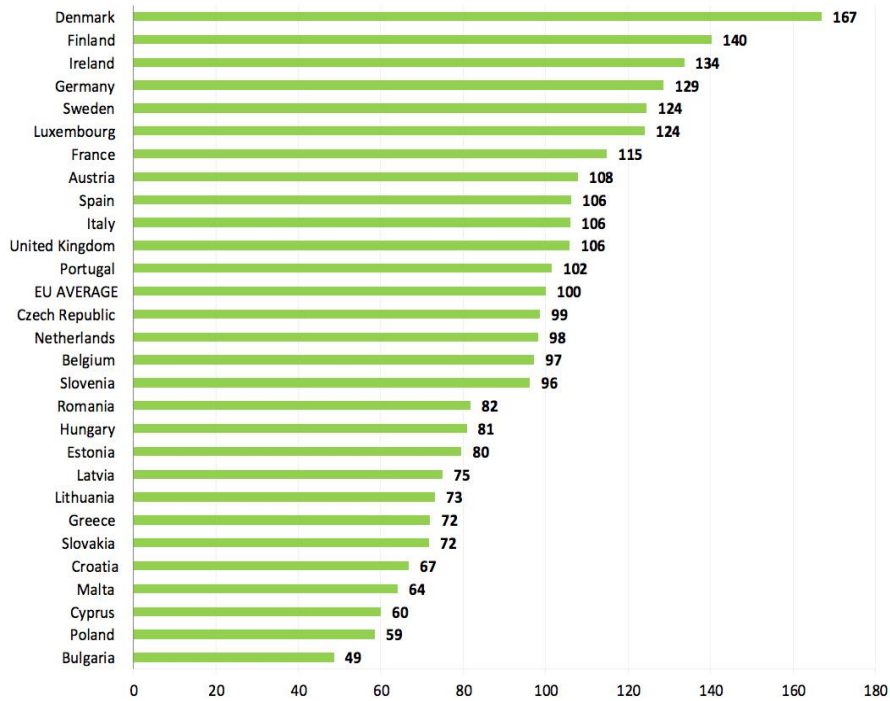
Today there are various sectors that relate to clean technologies sector and actively using the eco-innovation. Adoption and diffusion of eco-innovation are extremely important, even more so than invention, for the resource efficiency benefits of innovation to reach a macro-level [1].

Deployment of innovative technologies would reduce dependence on resources exposed to energy market price fluctuations. So, the cost of electricity produced entirely from renewables would be half the price of modern nuclear technology and fossil-fuel burning.

Eco-innovation also focused on technology improvements including streamlining manufacturing processes, lowering costs through materials substitution, improving efficiency and reducing

environmental impacts.

Figure 2. The Eco-Innovation Scoreboard, 2015

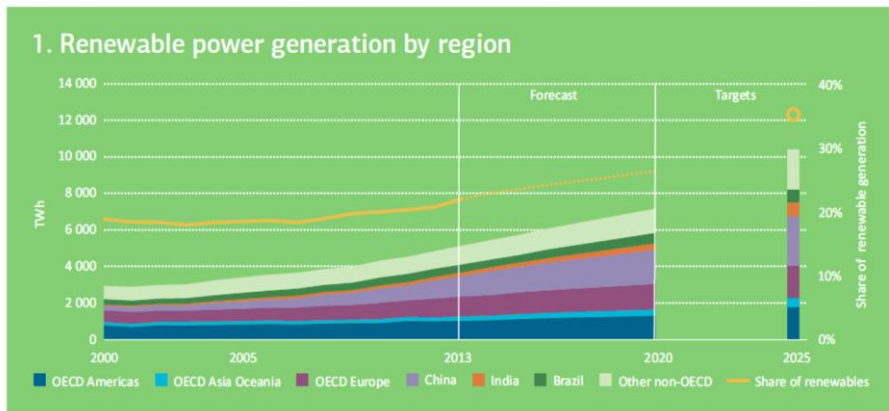


Source: <https://ec.europa.eu/environment>

Renewable energy includes energy derived from natural processes that do not involve the consumption of exhaustible resources such as fossil fuels. The constituents of renewable energy are hydroelectricity, wind and wave power, solar and geothermal energy and combustible renewables and renewable waste.

In 2015, global renewable electricity generation rose by an estimated 5% and accounted for around 23% of the overall generation. The People's Republic of China (hereafter "China") remained the largest market, accounting for an estimated 23% of global renewable electricity generation in 2015, followed by the European Union (17%) and the United States (US) (11%) (Fig.3) [4].

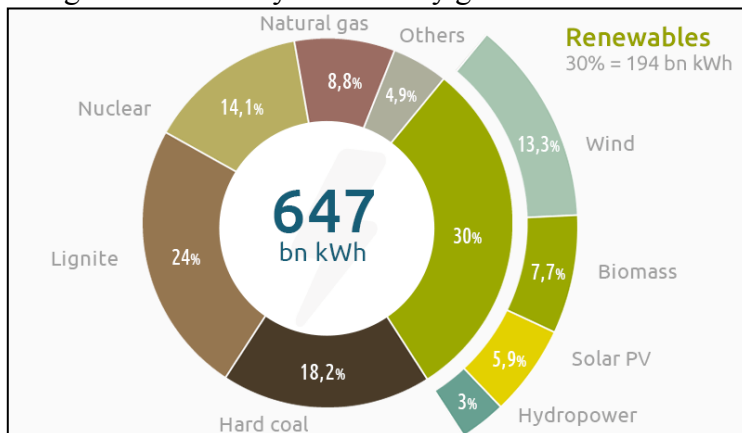
Figure 3. Global renewable electricity generation by region



Source: Tracking Clean Energy Progress 2016. International Energy Agency.

Germany is a vivid example of European countries for which renewable energy sources are the most important source of energy. According to numbers provided by the German Association of Energy and Water, renewable energy based electricity generation will reach the 30% mark in 2015 (Fig.3)[5].

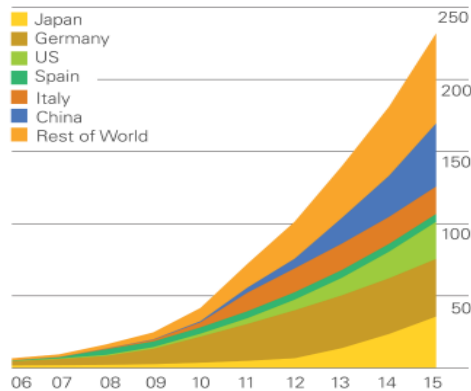
Figure 4. Germany's electricity generation mix 2015



Source: <http://strom-report.de/renewable-energy>

Figure 5 Solar PV generation capacity, 2015

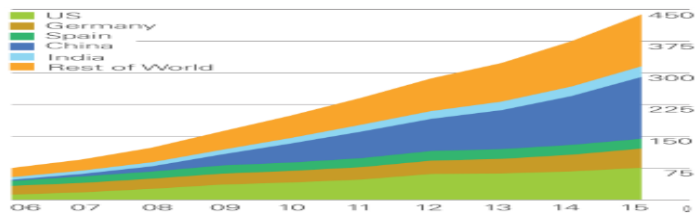




Source: <http://www.bp.com>

Wind power continues to grow strongly, providing 3% of global power. China leads the world in terms of installed wind capacity (145 GW). In 2015 China recorded the largest addition of new wind capacity (30.5 GW), followed by the US (8.6 GW) and Germany (5.8 GW) (Fig.6) [6].

Figure 6. Installed wind generation capacity, 2015



Source: <http://www.bp.com>

The cost-effectiveness of some renewable options has improved because of a combination of sustained technology progress, expansion into newer markets with better resources, and better financing conditions

For example, solar is scaling up rapidly, with capacity more than trebling over the past four years. The largest increments in 2015 were recorded in the Asia Pacific region (Fig.5). Solar is starting to have a noticeable impact in terms of sources of power generation growth, contributing more than 30% of the growth of global power in 2015 [6].









Thanks to the introduction of renewable energy new jobs. Employment in the renewable energy sector increased by 5% in 2015, to 8.1 million jobs (direct and indirect), as estimated by IRENAi [7]. In table 1 presents the estimates of direct and indirect jobs in renewable energy worldwide, by industry.

The past decade has seen a dramatic and sustained improvement in the competitiveness of renewable power generation technologies. Around the world, renewables have benefited from a virtuous cycle of increased deployment leading to greater economies of scale and manufacturing improvements, increased competition, technology improvements and falling costs.

Costs for the more mature renewable power generation technologies – biomass for power, geothermal and hydropower – have been broadly stable since 2010.

Where untapped economic resources remain, these technologies can provide some of the cheapest electricity of any source [7]. Renewable costs, especially solar PV and onshore wind, have fallen dramatically in 2015.

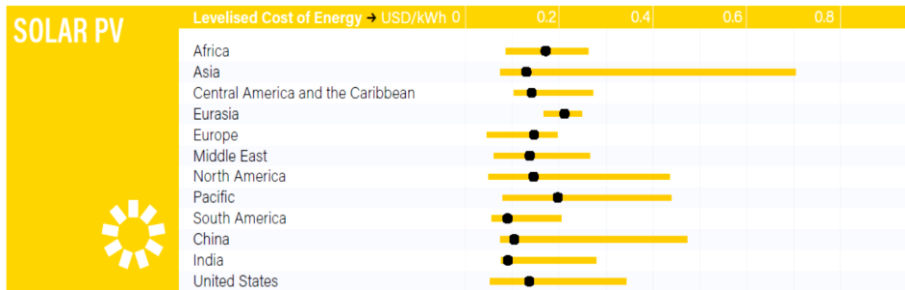
Table 1. Estimated Direct and Indirect Jobs in Renewable Energy Worldwide, by Industry, 2015

	World	China	Brazil	United States	India	Japan	Bangladesh	European Union <sup>i</sup>		
	THOUSAND JOBS									
 Solar PV	2,772	1,652	4	194	103	377	127	38	21	84
 Liquid biofuels	1,678	71	821 <sup>c</sup>	277 <sup>i</sup>	35	3		23	35	47
 Wind power	1,081	507	41	88	48	5	0.1	149	20	162
 Solar heating/cooling	939	743	41 <sup>d</sup>	10	75	0.7		10	6	19
 Solid biomass <sup>a,d</sup>	822	241		152 <sup>a</sup>	58			49	48	214
 Biogas	382	209			85		9	48	4	14
 Hydropower (small-scale) <sup>b</sup>	204	100	12	8	12		5	12	4	31
Geothermal energy <sup>d</sup>	160			35		2		17	31	55
 CSP	14			4				0.7		5
Total	8,052 <sup>b</sup>	3,523	918	769	416	388	141	355 <sup>i</sup>	170	644 <sup>k</sup>

Source: Renewables 2016. Global status report

Costs and capacity factors are shown in the example of solar energy in tables 2 and 3.

Table 2. Status of Renewable Technologies: Costs and Capacity Factors, 2015



Source: Renewables 2016. Global status report

Table 3. Status of Renewable Technologies: Costs and Capacity Factors, 2015 (continued)

Investment Cost → USD	min	max	wa	Capacity Factor → %	min	max	wa
Africa	944	4110	●2649		0.016	0.278	●0.199
Asia	819	7997	●1624		0.101	0.247	●0.166
Central America and the Caribbean	1600	4000	●2076		0.155	0.227	●0.198
Eurasia	1545	3697	●2775		0.117	0.127	●0.119
Europe	944	2827	●1408		0.098	0.30	●0.123
Middle East	1311	4000	●2553		0.174	0.347	●0.256
North America	800	5900	●2365		0.095	0.336	●0.196
Pacific	1180	7539	●2857		0.114	0.271	●0.191
South America	1132	4326	●2249		0.130	0.404	●0.320
China	998	7780	●1439		0.101	0.184	●0.170
India	833	4916	●1403		0.159	0.247	●0.206
United States	965	5900	●2336		0.095	0.336	●0.197

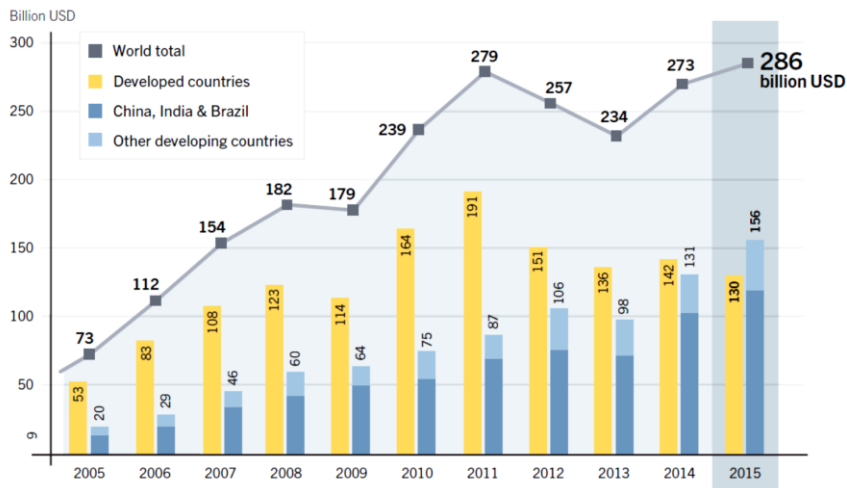
Source: Renewables 2016. Global status report

In 2015 global new investment in renewable power and fuels was 285.9 billion USD, as estimated by Bloomberg New Energy Finance (BNEF). This represents a rise of 5% compared to the previous year and exceeds the previous record of 278.5 billion USD achieved in 2011 (Fig.7). Investment in renewable power and fuels has exceeded 200 billion USD per year for the past six years [7].

In 2015 investments in renewable energy varied by region, with increased investments in China, India, Africa and the Middle East, and the United States, and decreased investments in Canada and Europe.

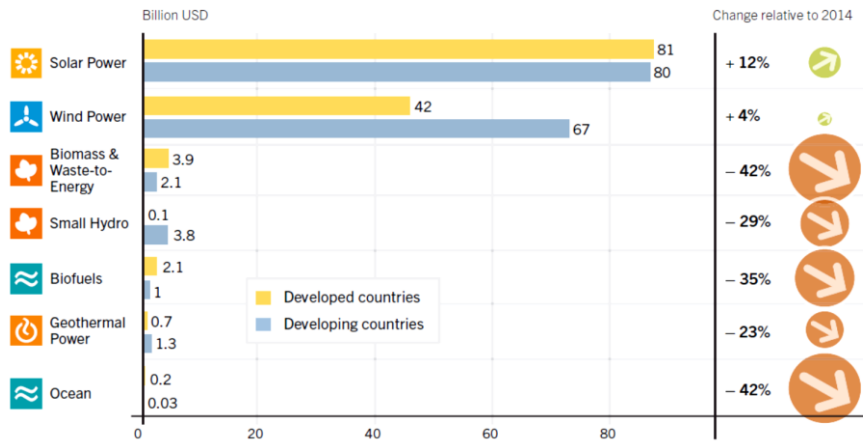
Among varieties of renewable energy sources, solar power was again the leading sector by far in terms of new investment committed during 2015. All technologies except solar and wind power saw investment decline relative to 2014 (Fig.8).

Figure 7. Global New Investment in Renewable Power and Fuels, Developed, Emerging and Developing Countries, 2005–2015



Source: Renewables 2016. Global status report

Figure 8. Global New Investment in Renewable Energy by Technology, Developed and Developing Countries, 2015

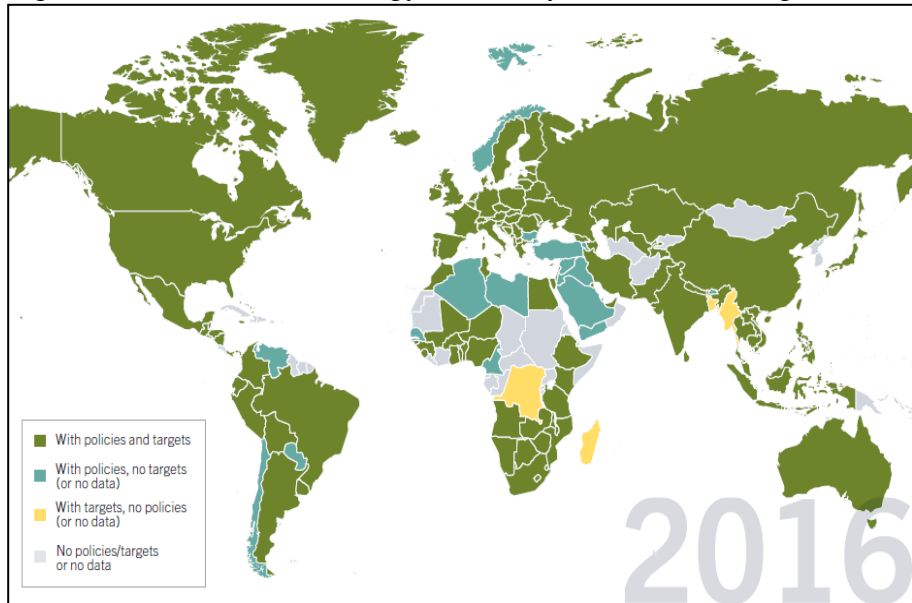


Source: Renewables 2016. Global status report

Green economy policies, if properly designed, deliver social and economic benefits by improving resource efficiency and inducing domestic companies to innovate, which may provide them with a

competitive edge – first mover advantage – vis-à-vis their competitors [2]. Every year an increasing number of countries in the world support the policy of renewable energy sources. States continue to develop new policies on renewable energy that eliminate barriers, attract investment and encourage innovation (Fig.9).

Figure 9. Countries with Energy Efficiency Policies and Targets, 2015



Source: Renewables 2016. Global status report

The year 2015 saw an increased emphasis on energy efficiency activities at the international, regional and national levels. This was due to the recognition of energy efficiency's key role in reducing energy-related emissions and in providing multiple economy-wide benefits, such as enhanced energy security, reduced fuel poverty and improved public health. In 2015 at least 146 countries had enacted some kind of energy efficiency policy, while at least 128 countries had enacted one or more energy efficiency targets [7]. Russia is one of the world's largest producers of energy such as oil, natural gas and coal. The country focuses on those resources for production and export, means it has paid little attention to renewable energy. In Russia, the common opinion is that renewables are significantly more costly than the traditional ways of electricity production coal and gas. However,

According to the report Lazard Investment Bank, which annually publishes a report “Levelized Cost of Energy Analysis – 9.0”, which analyzes the costs of generating electricity from conventional and alternative technologies, wind and solar energy are the cheapest ways of generating electricity.

Table 4. Costs of electricity generation, not including subsidies, 2015

<b>Alternative energy</b>	<b>\$/MWh</b>
Wind	32-77
Solar PV—Crystalline Utility-Scale	58-70
Solar PV—Thin Film Utility-Scale	50-60
Geotherma	82-117
Biomass	82-110
<b>Conventional</b>	<b>\$/MWh</b>
Natural Gas Reciprocating Engine	68-101
Gas Combined Cycle	52-78
Gas Peaking	165-218
Coal	65-150
Nuclear	97-136
Diesel Reciprocating Engine	212-281

Source: Lazard estimates

Renewable energy development in South-Eastern and Eastern Europe, as well as Caucasus and Central Asia is lagging behind the global trends despite their large potential. In Russia, important for the conservation of natural capital is the development of renewable energy, which is an important sector in the green economy. For example, hydropower is the most used form of renewable energy in the country, and there is large potential in Russia for more use of hydropower. In recent years, Russia has become increasingly interested in competing in the international market for solar energy in order to boost its own innovations. Unfortunately, today Russia's renewable potential is underdeveloped. Opportunities for green economy exist in practically all sectors of the economy, especially in energy savings, renewable energy, manufacturing green construction, water and waste treatment, forestry and tourism. There are many economic, political, cultural and social obstacles to the creation of green economy, the main ones being corruption, gaps in legislation

and insufficient development of civil society.

In conclusion, recent trends reaffirm the need to accelerate energy technology innovation, including through policy support and new market frameworks. With the improving competitiveness of a portfolio of renewable technologies, the outlook for renewable power is more optimistic.

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### **TRADE RELATIONS OF RUSSIA AND GREECE**

The consequences of the global financial crisis, economic recession and political uncertainty in Greece have made major adjustments in the structure and dynamics of the Russian-Greek trade and economic ties. Due to these trends, the military-technical cooperation was suspended and FDI inflows slowed down. At the same time, the trade recovered significantly (especially Greek exports to Russia), and Greece has become a key destination for Russian

tourists. The article provides a detailed analysis of these changes and gives special attention to the current issues and prospects for economic cooperation, especially in trade and investment, in the context of deterioration of Russia's relations with the European Union.

**Keywords:** external trade, economic cooperation, Russian-Greek relations, investment cooperation.

At the turn of 2000-2010 for changing of the long-term improvement in the Russian Greek economic relations, which were based on the development of joint energy projects and military-technical cooperation, it came a time of revaluation and search for new areas of cooperation.

But economic relations between Russia and Greece were under pressure of negative factors in the first half of the new decade. In addition to the global financial crisis, which was a severe blow to mutual trade and investment relations, the role also played by the rejection of the construction of the Russian-Bulgarian-Greek oil pipeline Burgas - Alexandroupolis and the continuing uncertainty regarding the branch of the gas pipeline "South Stream" to southern Italy via Greece.

Nevertheless, due to the mutual interest of enterprises of both countries to closer ties Russian-Greek economic relations continued to develop, because Greece occupies a special place in the foreign Russian policy, and, according to the Russian minister of Foreign Affairs Sergey Lavrov, there are few countries in the world, which have such long history of sincere friendship as Russia and Greece. "

Greece stays one of the main foreign trade partners of Russia among the Balkan countries [1]. At the end of January 2015 Russia's foreign trade turnover with Greece increased by 0.7% compared to the same period in 2014 to a level of \$ 317.9 million., Including Russian exports amounted to \$ 307.6 million. (Increase by 5.5 %), imports from Greece fell by 57.4% to \$ 10.3 million. Russia Positive balance in trade with Greece amounted to \$ 267.4 million.

Table 1. The dynamics of trade turnover between Russia and Greece in 2009-2015, billion dollars

	2010	2011	2012	2013	2014	January 2014	January 2015
turnover	3275,7	5269,7	6581,5	6855,9	4168,4	315,7	317,9



<b>growth in %</b>	122,3	160,9	124,9	104,2	60,8	-	<b>100,7</b>
<b>Greece share in volume of Russia foreign trade</b>	0,5	0,6	0,8	0,8	0,5	0,5	<b>0,8</b>
<b>export</b>	2852,4	4683,8	5947,6	6244,6	3671,9	291,6	<b>307,6</b>
<b>growth in %</b>	122,0	164,2	127,0	105,0	58,8	-	<b>105,5</b>
<b>Greece share in volume of Russia export</b>	0,7	0,9	1,1	1,2	0,7	0,7	<b>1,1</b>
<b>import</b>	423,2	585,9	633,9	611,3	496,5	24,1	<b>10,3</b>
<b>growth in %</b>	123,9	138,4	108,2	96,4	81,2	-	<b>42,6</b>
<b>Greece share in volume of Russia import</b>	0,2	0,2	0,2	0,2	0,2	0,1	<b>0,1</b>
<b>balance</b>	2429,2	4097,9	5313,7	5633,3	3175,4	267,5	<b>267,4</b>
<b>Greece place in Russia foreign trade</b>							
<b>in turnover</b>	33	27	26	26	33	33	<b>26</b>
<b>in export</b>	28	26	23	21	30	30	<b>21</b>
<b>in import</b>	50	48	50	54	57	60	<b>63</b>

Turnover falling is explained by the following indicators:

- decrease in exports of oil and oil products (reduction of the volume of deliveries):
  - in 2013 - 4,7 billion dollars.
  - in 2014 - 2,7 billion dollars.
- decrease in gas exports:
  - in 2013 - 1,2 billion dollars.
  - in 2014 - 0,7 billion dollars.
- decrease in fish imports (reduction in the volume of supply, importation is prohibited in connection with the sanctions against Russia EU):
  - in 2013 - 18,3 million dollars.
  - in 2014 - 3,4 million dollars.
- decrease in imports of strawberries (volume reduction of supply, the import is prohibited in connection with the sanctions against

Russia EU):

- in 2013 - 47,6 million dollars.
- in 2014 - 38,7 million dollars.
- decrease in imports of kiwi (volume reduction of supply, the import is prohibited in connection with the sanctions against Russia EU):\
- in 2013 - 49,2 million dollars.
- in 2014 - 18,9 million dollars.
- decrease in imports of medicines (decrease in the volume of deliveries):
- in 2013 - 60,4 million dollars.
- in 2014 - 31,1 million dollars [2].

In terms of value of commodity shipments to Greece Russia came out on top (about 11% of all goods delivered to Greece is in Russia), ahead of such traditional trade partners of the country, such as Italy and Germany.

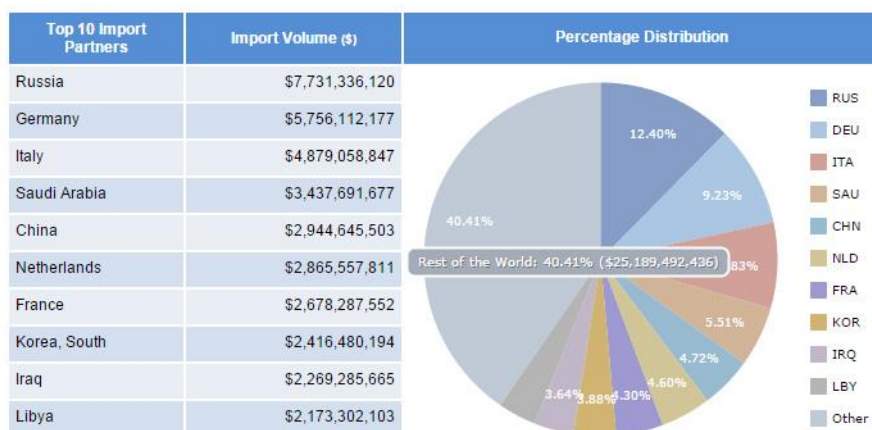


Fig.1 Top 10 import partners of Greece

However, Russian exports to Greece has clearly pronounced raw material character: as in 2012, 55% of deliveries accounted for crude oil, 23% - for refined products, 15% - for natural gas, 2% - for aluminum and 1% - on wheat [3]. Russia exported about 65% of consumption gas and oil in Greece. The growth was ensured at the expense of oil, since much of it is processed at the Greek refineries and in view of the fuel sold in the European markets. [4]

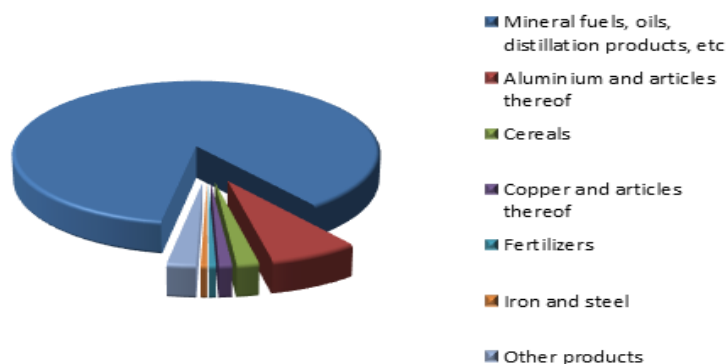


Fig .2 Structure of Russian Exports to Greece in 2015

The possibilities for expansion of Russian gas supplies to Greece quite limited: because of the economic recession on the demand for natural gas in this country is not increased. In addition, the government complains about the excessive, in his opinion, prices for Russian gas. In 2014, between "Gazprom" and the Greek distribution company DEPA a lucrative contract was signed for Greece to provide 15 percent discount. If earlier the price was \$ 477. Per 1 cu. m, now - a little less than \$ 400 discount will be effective from 2013 (ie backdating) until 2016 with the possibility of prolongation for 10 years. In addition, the Greek authorities, which concerned about energy security considerations, seeking to diversify gas imports, expanding cooperation with Algeria (from that country to procure LNG) and Turkey, despite the fact that the price competition of these countries lose out to "Gazprom". If the project will be the construction of the Trans-Adriatic pipeline to transport Caspian gas to Italy via the Greek and Albanian territory, Greece will be able to opt out of purchases of Russian gas and to reduce its share to a minimum, that would automatically lead to a significant reduction in the volume of trade.

Comparing the sectoral structure of Russian exports to Greece are currently before the crisis, we must note that it has become less diversified. And this is connected not only to the increased share of energy exports, but also to the fact that Russia is no longer supplying arms to Greece (with the exception of spare parts for already purchased machinery). During the second half of the 1990s - 2000s.

Russian-Greek military-technical cooperation (MTC) was one of the most dynamic areas of bilateral relations. On the Greek Army weapons were delivered anti-aircraft missile systems S-300 PMU1 and TOR-M1, a few landing craft air cushion type "Bison". It is also preparing a contract for the supply of infantry fighting vehicles BMP-3 totaling about € 1.2 billion, but the deal did not take place under the official reason - due to the difficult financial situation in Greece. Trying to restore cooperation in this area was undertaken at the end of 2013, when after the visit of Russian Defense Minister Sergei Shoigu in Athens between the two countries signed an agreement on military-technical cooperation. However, no new contracts for the supply of Russian arms this was not followed, and with allowance for the deterioration of relations between Russia and the EU in 2014 the future of MTC between Russia and Greece remains uncertain.

With regard to imports of Greek goods, here in the post-crisis years I have witnessed a steady growth: in four years the value thereof increased by almost two times - from 342 million to \$ 611 million and expanded nomenclature of Greek goods. By the usual for Russian consumers fur products, pharmaceutical products and new fruit are added new goods- decorative materials, new types of food products (jams, whole fish).

In the stagnation of the European economy Greek exporters seek to develop new, especially in emerging markets, including Russia. As at the national level and at the level of public organizations, Greece pursues an active policy to promote their own products abroad. To a large extent the supply capacity of Greece contributed to the campaign "Buy Greek", in which the active role played by the representatives of large Greek diaspora. Through this promotion, new brands have become recognizable, which is particularly important given that many of the traditional brands, which are perceived by consumers as the Greek, in fact, those are no longer. It should be noted that a significant part of Greek foods belong to the premium segment, so when advertising these products the focus is on their high quality and environmental performance [1].

Thus, despite the impact of the crisis, which is especially painful blow to Greece, the first years of the new decade characterized by stable development of bilateral trade and tourist exchanges. However, in 2014, again prevailed negative trends related to the crisis in Ukraine, the EU sanctions against Russia and response of the

Russian government. Since the Greek supplies leading place occupy food, just because of the Russian ban on food from the EU annual revenues suppliers could fall to 200-240 million euros (in case not be able to redirect exports to other countries). If Russia will spread restrictions on fur products (which is still 21.5% of imports from Greece), Greek companies actually lose access to the Russian market. For some regions in Greece it can conceive severe social consequences: for example, the economy of the city of Kastoria, in the northern part of the country is based on the manufacture and sale of fur coats, 45% of which is exported to Russia, and the area of Imathia specialized in the cultivation of peaches, also coming mainly at the Russian market.

Given that the involvement of foreign capital and access to new foreign markets for Greece are almost the only possibility to overcome the long-term recession, the question of economic relations with Russia is here quite acute. In general, in solidarity with the general EU position, the Greek government, however, has repeatedly expressed doubts about the appropriateness of sanctions pressure on Russia, arguing that the sanctions - a "double-edged sword." Despite the increase in the trade balance and investment between Greece and Russia, the two sides "can not be satisfied with this," and believe that there are "plenty of opportunities for economic cooperation". Today in Russia, according to the Department of Economic and the Embassy of the Hellenic Republic on trade in Moscow, running 128 joint Greek-Russian companies, while 41 companies is purely Greek capital. In general, their total turnover of 2,5 billion euros. The company employs about 17 thousand people. According to the Department of Economic and Commercial Affairs of the Embassy of the Hellenic Republic in Moscow, among the Greek companies operating on the Russian market are the following:

- "Greek bottling company", which owns 11 factories in Russia for bottling soft drinks (in particular, CocaCola). Its structure consists of two companies: Frigoglass, which supplies professional refrigerators for Multon products ranked second bottling in Russia. The total turnover of the company in Russia is about 1, 5 billion euros;
- Chipita, which has a factory in St. Petersburg and produces for a plurality of points of sale and export of confectionery and bakery

products, as well as snacks. The company has already invested about 60 million euros in the Russian economy;

- Michaniki in the construction of seven major projects implemented in Moscow, earning more than 600 million euros.

In addition to Russia are also major Greek construction company Aktor and Gek. However, the Greek Experts believe that promotion of Greek companies to the Russian market hampered by factors such as saturation of the Russian market, legislative and bureaucratic difficulties, unknown brand «Made in Greece», more High total cost of Greek goods, than in other European manufacturers, and others. Russian companies in the Greek market, in turn also face many challenges, for example, numerous differences in the legal framework, the current Russian system of limits and quotas on imports of large volumes of goods, serious bureaucratic barriers, lobbying on the part of Western companies, especially from the European Union and the United States.

However, despite these difficulties, a definite plus of Russian companies in Greece should be the fact that the Greek market - a "market, consisting not of 11 million consumers, and of 65 million consumers as through Greece, they may go many Balkan countries with using the network established Greeks in these countries" [5].

In conclusion, it should be emphasized that the potential for the development of Russian-Greek economic and trade relations do not exhausted, as evidenced by the rapid restoration of trade speed after the crisis, the growth of tourist exchanges and the emergence of new investment projects.

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## **LOGISTICS CONCEPTS OF THE GREEN ECONOMY**

This article discusses the basic logistics concepts of the green economy in modern conditions of globalization of business. A review was undertaken of the traditional aspects of the theory of logistics, which includes the ecological parameters to reduce the negative impact on the environment. Special attention is paid to issues associated with the use of a green logistics on the enterprises. Also, the article covers the main areas of activity of "green" logistics, reasons of its application and barriers that hamper the implementation of "green" technologies in the logistics system.

**Keywords:** Logistics concepts, emerging markets, green technology, environment, economy.

In connection with the rapid development of globalization and economic integration, negative human impact on the biosphere progresses, for this reason, it is necessary to pay special attention to issues related to the protection of the environment. Today, almost any activity of global economic entities is directly associated with the logistics processes on a global scale, this fact obliges to consider logistics not only as the primary management of flows of goods but also as a system with the inclusion of environmental objectives. Thus, there is such a term as green logistics, which is a mechanism of effective management of the supply chain that minimizes environmental and economic damage to the environment by using

energy - saving and resource-saving technologies of logistics.

Among the factors that have a negative impact on the overall state of the environment are the following factors:

- pollution of surface and ground waters;
- air pollution from industrial emissions;
- acoustic pollution (their sources are transport and industrial enterprises);
- the reduction of biological diversity of living beings;
- soil pollution is household waste.

## **1. THE ESSENCE OF THE CONCEPT OF "GREEN" LOGISTICS**

The talk about green logistics began in the 1980s, for the first time, when the concept of environmental protection began to gain popularity in the transport industry. With increasing negative impacts on the environment, the population increasingly alarming issues of ecology. The depletion of the ozone layer, acid rain, and global warming have become major environmental problems [2]. In 1987 appeared for the first time the term "sustainable development", it had been used in the report of the International Commission on environment and development called "Our common future". The main goal of "sustainable development" was to improve the quality of life people without compromising the stability of ecological systems. In this context, the concept of "sustainable development" is a combination of economic and social development with environmental issues. Directly in the framework of this concept "green logistics" started to develop Figure 1 is a scheme showing the ideological structure of the "green logistics".

The concept of green logistics includes all the activities that involve sustainable management of direct and reverse flows of products between production and consumption, and the use of advanced technologies aimed at minimizing environmental damage. Green logistics operates in three main areas: economy, society, environment. These areas of green logistics are closely interconnected among each other. In the economic aspect, economic growth industrialization and new technologies result in increased waste, dumping and poor disposal. Open economics /free trade - increased travel causing an increase in the carbon foot print. This in turn leads to



changes in the environment, namely air pollution, deforestation, reduced air quality, land degradation, bio diversity, waste. These negative changes in the environment entail such consequences to society, as poor health, less agricultural production, climate change, etc.

Figure 1. The main areas of the green logistics



Let us consider the main differences between traditional logistics and green logistics, which are depicted in Figure 2.

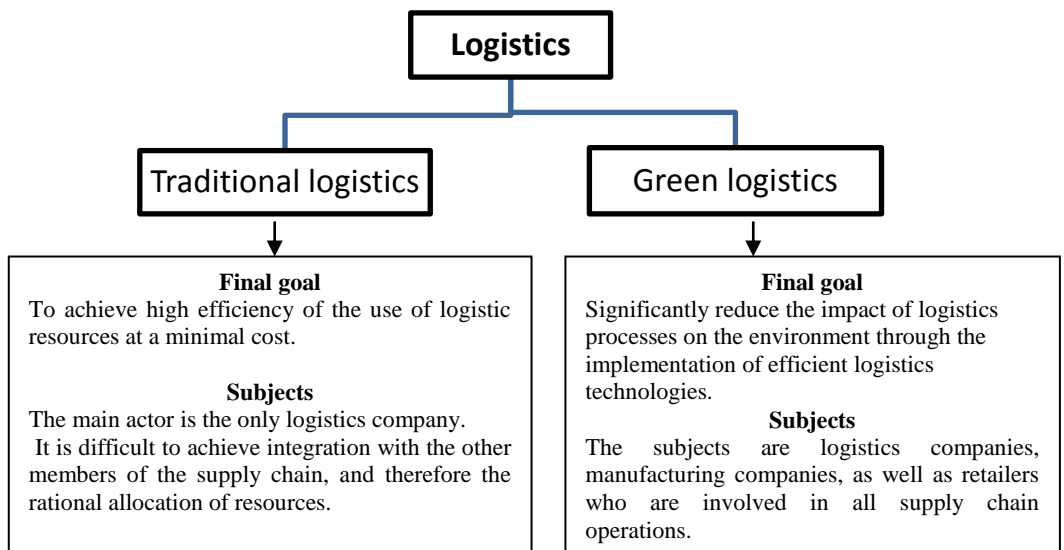
Scope green logistics includes three main groups:

- 1) **Transportation.** This type of logistics activities has the greatest impact on the environment. This group includes the use of environmentally friendly transport, reuse of pallets and containers, picking and optimization of goods, standardization duty trucks, reduction of CO<sub>2</sub> emissions and the choice of the carrier, based on sustainable development.
- 2) **Warehousing.** This group includes environmentally friendly loading equipment, recovery and reuse of pallets and containers, optimization of processes, automate warehouse systems, minimization of inventory, occupancy, internal processing and optimum product sales. Now, many

companies have equipped their storage so that they do not adversely impact on the environment, for example, the use of solar walls, internal. But, a key factor hindering companies to build these warehouses is their high market value.

- 3) **Additional types of services.** This group includes the detection and tracking of the use of environmentally friendly packaging technology [4].

Figure 2. Differences between traditional logistics and green logistics



It should be noted that green logistics not only has an influence on the environment, but also has a social orientation.

Consider the impact of "green" logistics in the formation of the economic and social cost (table 1).

Table 1 The impact of green logistics on the creation of economic and social costs

The economic cost	The social cost
Increasing the degree of customer satisfaction;	Reducing the impact on the environment; Improved method for the exploitation of

The creation of environmental reputation of the company; Improving relations with shareholders; Increasing the level of supply reliability by optimizing route planning and lower downtime of trucks; Reducing the risk of liability; The increase in financial indicators	natural resources; The reduction of social costs (health); The creation of new jobs
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Thus, the use of green logistics has a positive impact on the following important aspects:

1. the quality of customer service;
2. the efficiency of labor;
3. attracting new investors;
4. financial performance.

As noted earlier, the technologies of green logistics is influenced by such incentives as increased awareness of environmental issues among consumers, the increased cost of raw materials and energy, the law on the protection of the environment and the influence from investors. However, at the moment the use of green technology faces many challenges, namely high costs to implement new technologies, lack of awareness among consumers, unprocessed processes of communication and coordination. Thus, the company can be divided into two groups in their desire and the way to use green logistics:

#### *1. Companies functioning in developed countries*

In the case of a consumer awareness and high cost of raw materials and energy resources, combined with strict legislation on environmental protection and a high degree of pressure from investors, most likely, the company will apply a wide range of green technologies at all levels.

#### *2. Companies from countries with emerging markets*

In the case of low performance incentives, and high levels of barriers, most likely, the company will implement the technology of "green" logistics not systematically.

At the moment many of the characteristics that hinder the implementation of green technologies, present in the majority of cases in countries with emerging markets.

## **2. THE GREEN LOGISTICS IN EMERGING MARKETS**

Table 2 shows the main characteristics of emerging markets and their impact on the implementation of the methods of "green" logistics.

Table 2. Main characteristics of emerging markets and their impact on the implementation of the methods of "green" logistics

<b>№</b>	<b>Field of activity</b>	<b>Features</b>	<b>The possible influence on application of methods of "green" logistics</b>
1	Logistics	Low levels of quality logistics systems; The high costs of transportation and warehousing; Less use of intermediaries as agents of logistics	<ul style="list-style-type: none"> <li>• The lack of modern and integrated logistics concepts;</li> <li>• Lack of standardization;</li> <li>• The dominance of short-term projects that are based on minimization of costs</li> </ul>
2	The political system and the legal system	Ineffective monitoring system; Weak regulation; Corruption	<ul style="list-style-type: none"> <li>• Weak implementation of measures to promote "green" logistics;</li> <li>• Weak legislation on environmental protection;</li> <li>• The lack of long-term sustainable development plans</li> </ul>
3	Social sphere	<ul style="list-style-type: none"> <li>• The problem of poverty and inequality;</li> <li>• Weak rural development;</li> <li>• Weak level of investment in education and health care</li> </ul>	<ul style="list-style-type: none"> <li>• Weak awareness of environmental issues;</li> <li>• Consumers in their behavior in most cases focused on low prices;</li> <li>• Senior executives avoid attracting corporate employees in decision-making</li> </ul>
4	Stock markets	<ul style="list-style-type: none"> <li>• High inflation;</li> <li>• High interest rate</li> </ul>	The weak trend in investment
5	Labor market	<ul style="list-style-type: none"> <li>• Low labor costs;</li> <li>• High costs for staff training</li> </ul>	Weak trend to increase productivity through the introduction of new technologies; The low level of training among the employees of the companies
6	Infrastructure and resources	<ul style="list-style-type: none"> <li>• The high cost of new technology;</li> </ul>	Limited resources for the application of new

		<ul style="list-style-type: none"> <li>• High operating costs;</li> <li>• The low level of public and private investment in public infrastructure</li> </ul>	technologies; Limited resources for the implementation of preventive maintenance; Inadequate transport and information system
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It is also worth noting that indicators such as low labor costs, high inflation and high interest rates have a negative impact on the introduction of new technologies in logistics. Therefore, many companies have no incentive to move to a new stage of production and transport, taking into account the environmental dimension.

Consider the basic principles of environmental logistics enterprises:

- Rational use of natural resources;
- The full and rational use of resources of the enterprise;
- Maximum use of production wastes and their environmentally safe disposal;
- Introduction of innovative technologies in order to reduce the environmental burden on the environment;
- Improving environmental education and responsibility of staff;
- Economically sound and environmentally safe transport and storage of material resources;
- Minimal use of raw materials and packaging, which are not subject to recycling or safe disposal.

Most of the problems in the implementation of these principles based on the fact that the existing nature conservation aspects profitable to ignore. For this reason, enhancing environmental education and awareness is not enough; you must provide the financial incentives that will make environmental protection economically justified. On the other hand, modern logistic approaches to materials management can improve the profitability of the company's assets at the expense of the coordination of the various stages of advancement resources from producers to the final consumer. This includes issues such as the selection of packaging, organizing transport and handling, placement of warehouse space, and wholesale and retail distribution centers of production. Therefore, this integrated approach can be used for the integration of environmental parameters in the structure of logistics management, the interdisciplinary direction of green

logistics.

Based on the experience of European countries, we can say with confidence that the implementation of environmentally friendly production process is a very urgent task, in addition to the treatment of emissions and discharges into the environment, the organization of sorting and recycling of production waste. This is especially true of packaging and packaging waste, because they are the most dangerous, they cause irreparable damage to the environment and the living world.

Companies need to design wasteless (low-waste) and closed technological cycles that minimize emissions and discharges of harmful contaminants into the environment, to implement high-tech production that the result will contribute to the competitiveness of the final product. Thus, for effective use of ecological principles in logistics, it is necessary to put and solve the following problems:

1. small business development, able to solve problems related to separate collection, recycling and disposal;
2. the use of a separate collection of waste, and waste packaging with the further intended use;
3. Introduction of new technologies, involving the use of secondary raw materials for the production of material resources which are suitable for the production of enterprises;
4. the use in the production of environmentally friendly packaging materials, particularly in cases where recycling is impossible or difficult;
5. the use of natural energy production to minimize contamination of the environment following the example of developed countries (wind, water, sun, proper use of the climatic characteristics of the region, etc.).

In conclusion, it is worth noting that companies need to comply not only economic requirements for the efficient functioning of the market. In order for the company to remain competitive, you must also take into account environmental and social factors. Therefore, many businesses around the world are beginning to be used in their work methods of the "green" logistics, whose potential will enable it in the near future to become a key factor in achieving sustainable development. The principle of "green" logistics is also applicable to emerging markets, despite the fact that at the moment

they are facing special difficulties of development which slow down the introduction of "green" technologies. Nevertheless, the potential of these countries is great, that is why it is important to adapt the modern technologies used in logistics, for their further development.

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## **FRANCHISING AS AN EFFECTIVE FORM OF INNOVATIVE DEVELOPMENT OF SERVICES SECTOR IN RUSSIA**

**Keywords:** Innovation, franchising, franchise, franchisee, franchiser, services sector, innovative development, royalty, small and medium business, enterprise

In modern society, services becomes one of the main part of business administration during the transition process of countries to a postindustrial society. Services sector acquires the changes necessary for compliance with the realities of the new system. The needs of the people change very fast. This leads to wide diversification of services on the market in many areas that were previously not required. In addition, it increase consumer's requirements for quality and speed of services.

The rebuilding of market is forcing service companies to reconsider the usual business practices and discover new innovative mechanisms for themselves. Russia just begin to enter the transition process to a postindustrial society. This means that for our country using of innovations is only way to make a more quick adaption to the new global trends and to be competitive not only at the national, but also on international markets.

According to official data, large-scale investment crisis started in the beginning of 2014 in Russia, foreign capital is almost completely stopped coming to the country. Such a sharp drop in interest to invest in the domestic economy in the first place was due to the imposition of sanctions against Russia EU countries and a sharp decline in oil prices. This conditions increases inflation, unstable exchange rate of the ruble, difficulties in financing, high interest rates that led to the difficulties of the work of industrial markets. As a result, many small service companies go bankrupt in the first months of its work, what makes countries unemployment to grow. In the current crisis conditions, the most effective and efficient way to make business expansion is to find mechanism, which not requires large resources. One of these appropriate mechanisms is franchising.

Franchising is a special form of licensing in the form of relationships between business entities in which one business structure (the franchisor) transfers the right of developed business model of reference to another business structure (the franchisee) to the terms of



payment (royalties).

An innovative feature of franchising as a method of network marketing is that it creates precisely those conditions that are necessary in today's realities, revealing a number of advantages as for franchisor so as franchisee.

Advantages for the franchisor lies in the fact that having a successful business model, it is the most profitable and can quickly develop a network of the brand in the vast territory that cover at their own expense he would never have happened. Franchising brings extra money for the dissemination of business at regional, national or international markets by the franchising. Franchisees make an initial payment, acquiring a full franchise package. With signing several additional franchise agreements with franchisees, the franchisor will be able to sell them to other management services such as special support, consulting and marketing. The initial sale of the franchise and the cost of special services are an additional source of income for the franchisor. In addition, we cannot ignore the additional income from the payments that the franchisee make to support the services provided by the franchisor (training, consulting, etc.).

From other side, the benefit of the franchisee in franchising is quick and effective start of business. Franchise system provides information that helps the franchisees to find a suitable location for the company, to make its design and to be sure that the business is working correctly. Franchisees do not need to worry about problems at an early stage, because they operate on experience of the franchisor. However, it is important to note, that even on the basis of such a close depending on the brand of the franchisor, the franchisee continue to be independent company. This independence means that franchisee will never be fired from this job, and he is responsible for making their own decisions on business management. Franchisees only receives professional support from the franchisor, which helps him to avoid the mistakes that usually make independent entrepreneurs in first steps of making business.

As the most important advantage for franchisees is ability to use reputation of the franchisor's trademark. While the franchise agreement working, the franchisee receives a mandate from the franchisor to use the franchisor's trademark. Therefore, the possession of the franchise gives you the rights to use the name of the company that provides instant recognition of your service point on the market as

a business operating in the international market. At the time of opening of the franchise enterprise customers already clearly know that it will provide services on a highly professional level, that certainly bear fruit in the form of a rapid return on investment and greater profits than those that can be oriented at the opening of a similar field of activity entrepreneurs with their own new brand. At the time of opening of the franchise enterprise customers already clearly know that it will provide services on a highly professional level. Therefore, you can quickly recoup your investment in the purchase of the franchise, as well as earn more money more than you probably could make in the opening of own new brand.

In addition, important thing is that the franchise establishes clear territorial boundaries of business. The franchisor determines its franchisee business area, delimited by the terms of the franchise agreement. Receiving the territory, the franchisee can effectively grow their business, provided the lack of competition in its territory by the other owners of the same franchise. Individual entrepreneur's area is always more open to competitors and, consequently, increase the business risk of bankruptcy.

The main advantage of using the service sector of franchising is that it based on the trust of customers to the franchise brand. Customers certainly are familiar with the brand of the company. When they come to any company's service point, they form a common opinion about the company. Small business by its close proximity to customers, focusing on a narrow market of consumers, responding quickly to new market conditions, has the ability to make efficient and quick respond to customer needs. This system is already working on the global market in different spheres (picture 1)[1].

A recognized leader in franchising, as well as a major exporter of franchises in the United States is the world market. Almost 15 stitches franchises rating «The Top 100 Global Franchises» [2] International Franchise Association relate specifically to the United States.

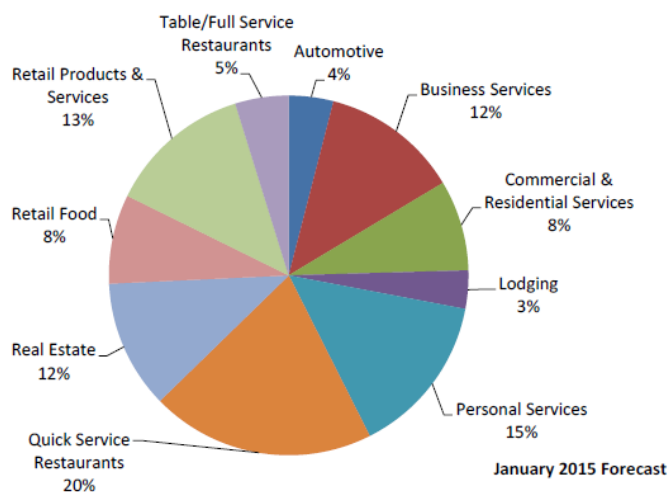


Fig.1. Global distribution of Franchising by sectors

Table 1. Rating «The Top 100 Global Franchises» (first 10 places)

№	Franchise Name	Country	Industry
1	<a href="#">McDonald's</a>	United States of America	Fast Food Franchises
2	SUBWAY®	United States of America	Sandwich & Bagel Franchises
3	KFC	United States of America	Chicken Franchises
4	<a href="#">Burger King</a>	United States of America	Fast Food Franchises
5	<a href="#">Pizza Hut</a>	United States of America	Pizza Franchises
6	7 Eleven	United States of America	Convenience Store Franchises
7	<a href="#">Wyndham Hotels and Resorts</a>	United States of America	Hotel Franchises
8	<a href="#">InterContinental Hotels and Resorts</a>	United Kingdom	Hotel Franchises
9	<a href="#">Hilton Hotels &amp; Resorts</a>	United States of America	Hotel Franchises
10	<a href="#">Marriott International</a>	United States of America	Hotel Franchises

Sales carried out through the franchise system in the country; make up about 40% of all retail sales, which estimated at more than one trillion dollars. When both the European market currently operates more than 4,500 franchise systems and about 180,000 franchisees who reach total sales of more than \$ 150 billion dollars.

Of course, the degree of development of franchising business in Europe is much lower than in the US. The most specific to the

establishment and operation of a franchise is the market of Russia and the former Soviet Union. According to experts in 2014, turnover of the Russian franchise market was estimated at about \$ 5 billion, and its contribution to GDP ranged from 1 to 3.5%.[3] At the beginning of 2014 the portal franshiza.ru reported 1,300 franchise concepts and 74,600 franchised outlets operating.

These statistic data suggest that Russia has a sufficiently high potential for using of the franchising. However, its effectiveness as a tool for attracting foreign investment is undervalued and this type of market relations has not widely popularity. The development of franchising in the territory of our country prevent a number of problems. There are economic problems, lags in the law system, also social and psychological problems.

By analyzing economic problems, it should be noted that franchising is such kind of business organization, which can work in the country with developed market infrastructure. The unstable economic situation in Russia shows problems of using franchising in our market: absence of the necessary start-up capital in the majority of entrepreneurs who want to become a franchisee; the difficulty of obtaining loans for the creation of start-up capital.

The next important factor impeding the development of franchising in Russia is the presence of a number of organizational and legal issues. There is no legal support of franchising in the country. For example in the modern Russian legal system, the term "franchise" is found only once, in chapter 54 of the Civil Code (the Civil Code)[4], which states that the commercial concession is synonymous with the franchise.

Another one kind of problem is the social and psychological problems, which have great influence on the development of franchising in Russia. There are lack of experience in organizing and conducting this kind of business, the uncertainty of domestic entrepreneurs in decision-making; disrespect for intellectual property; absence of training of franchising practices among representatives of small business.

Thus, the above-mentioned problems in their totality have a huge impact on the formation of the franchising and hinder its application in the domestic economy. Whereby the solution of these problems need to improve the conditions of the market in this situation.

The most important part of the economic problems of franchising is the lack of the required start-up capital. The specialty of this kind of market relations is the need for one-time franchise fee payment (lump-sum payment). This significantly increases the size of seed capital in comparison with other forms of business organization. Obtaining the necessary funds through bank loans is complicated by high interest rates. The fact that the franchisee has to carry out a large number of regular payments (royalty payments to the central advertising fund and other payments) significantly impedes the return of borrowed funds. These problems are due to lack of special franchise lending conditions in Russia.

It should be noted that in developed countries, the potential franchisee is considered more reliable borrowers than other aspiring entrepreneurs. This is due to the minimization of the credit risk of banks in connection with the bankruptcies among low deductibles. According to statistics, only 14% of franchised businesses within the first 2-3 years of operation are closing for various reasons.

Thus, it is advisable to use in Russia, the experience of many developed countries in this regard. For example, special franchise departments operate in the UK commercial banks. The state is actively involved in supporting the franchise, ensuring 2/3 of a small business loan from a commercial bank. [5]

An important step to stimulate the development of franchising in the country is the creation of a system of tax incentives for franchisees, especially at the initial stage of development of the franchise system.

The result of the implementation of these measures will obviously not sufficiently effective without the decision of a number of organizational and legal problems. It is necessary to create an effective system of laws, which will be the foundation for the Federal Law of the Russian Federation "About the franchise in the Russian Federation".

The solution of economic, organizational and legal problems, however, does not preclude a decision of social problems. Firstly, it is necessary to make long-term and systematic work aimed at overcoming the traditional neglect of Russia's intellectual property. In our country goods are valuates only at material form, but franchising involves the transfer and intellectual property costs. Solving this problem requires a combination of economic and legal effects, which

will make ineffective the unauthorized use of someone else's intellectual property. [6]

Secondly, it is necessary to create an educational system that would ensure the training of Russian entrepreneurs about franchising to expand their knowledge about the mechanism of functioning of it. This can be done by creating on the whole territory of the Russian Federation, specialized training centers, which, among other things, could provide counseling services to franchisors and franchisees on specific economic issues and problems arising in the course of a franchise operation.

Implementation of the above actions, taken together, will lead to the creation of a developed market infrastructure, under which the operation of the franchise will be significantly more cost-effective.

Active formation and support of franchising in our country contributes to innovation in business, for not only the franchisee, but also entail changes in the market around them. Increasing competition caused by the development will lead to the development and implementation of innovative business standards on the part of local business who have to adapt to a new level of quality of their work. This will improve the service sphere as a whole in the state, transferring it to a new stage of development. Using a franchise also will allow the crisis painlessly and without deterioration of the quality of services, to reduce costs companies to increase advertising effectiveness and increase profitability. That contributes to the development of the service sector and the economy as a whole.

To make everything into conclusion, at conditions of the financial and economic crisis, franchising is unique mechanism, which will help Russia to catch up the global market and go to the next level of its developing and also to improve the welfare of citizens in the country.

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## **COMPARISON OF CLIMATE CHANGE POLICIES IN SOUTHERN AND EASTERN EUROPE**

Climate change is a global challenge, but in different regions impact is different. In some regions global warming is a serious threat that could destroy them and make them uninhabitable. For other regions, at least for now, climate change is not as dangerous, Climate change policies in different countries also vary. Some countries are leaders in the fight against climate change, other ones are indifferent, or even detractors. The purpose of this paper is to highlight specifics of climate change policies in Southern and Eastern Europe, and especially in Bulgaria and Russia.

### **1. CLIMATE CHANGE – ESSENCE OF THE PROBLEM**

Global warming (climate change) occurs when the Earth's atmosphere absorbs some of the radiation that comes from the sun. Earth's surface reflects part of the solar radiation, but part of it is trapped by greenhouse gases. They prevent radiation/heat that is absorbed to be released. The greenhouse effect is not a negative phenomenon as a whole. Without it, Earth would be a frozen planet with temperatures around  $-18^{\circ}\text{C}$ .

Some experts say that the Earth's warming now is a result of a natural cycle of warming and cooling of our planet. The other point of

view does not deny this fact totally, but focuses mainly on the causes of the warming that Earth suffered over the past 50 years. This rate of increase in temperature is not known in the history of mankind. This is the reason much of the scientists to determine the human activity as the main cause of global warming.

As a result of human activity about 4.4 billion tons of extra carbon dioxide (CO<sub>2</sub>) released into the atmosphere each year. At the beginning of the Industrial Revolution, atmospheric CO<sub>2</sub> levels were about 270 ppm (parts per million). As of June 2016, the data shows that the amount has reached 406.81 ppm. The amount of carbon dioxide in the atmosphere has grown steadily since the Industrial Revolution, and the majority of the growth was noted after the start of the measurements in 1959. Since then, this amount increases each year, making it one of the most predictable environmental trends in the world.

The main consequences of the climate change are melting of polar ice sheets and glaciers; increasing of sea level; extreme weather events like heat waves, droughts, heavy rain and snow, storms and floods; shifting of rainfall patterns, etc. Extreme weather events pose a direct risk to the health and safety of people, but indirect risks also are fact – expectations are about more diseases to become typical for region currently not affected of them.

## **2. CLIMATE CHANGE POLICY IN RUSSIA**

We could say that climate change policy for Russia is a kind of instrument for achieving other primary goals of the country. The ratification of the Kyoto Protocol by Russia in 2004 was crucial for the entry into force of the international treaty. Russia used this circumstance. The ratification of the Protocol was used as a way to bargain a membership of the country in the World Trade Organization. Ratification and inclusion of Russia in Kyoto Protocol as whole is advantageous for the country. Since 1990 greenhouse emissions are reduced because of economic decline, transition from heavy industry to services and reduced deforestation and Russia could sell its carbon credits or implement joint projects with other countries.

Russia clearly states that won't be part of Post-Kyoto agreement in case main emitters – China and especially USA are not involved in binding mechanism for reducing emissions. The result is that Russia is out of second phase of Kyoto protocol. Russian



Federation doesn't officially leave the Protocol, but just doesn't take commitments in the second period of the Protocol.

Russia could sometimes be defined as detractor in the field of climate change policy. In 2013 Russia, with the support of China, blocked efforts to have climate change recognized as an international security threat by the UN Security Council (UNSC). The reason is that UNSC does not operate under the principles of Common but differentiated responsibility.

At a time when most of the international community is increasingly unified around the necessity of action to mitigate the worst effects of global warming, Russia remains an outlying skeptic. There are some reasons why climate change policy is not first priority for Russia. The first and main one is the country's heavy reliance on fossil fuels. The second one is that according to some projections, countries like Russia, could benefit from warming temperatures, as enormous swathes of perpetually frozen, barren territory are transformed into arable land and the extraction of mineral resources farther north of the Arctic Circle becomes possible. The third one is that there are assumptions that Russian agriculture could benefit from climate change and especially grain production could increase.

In 2013, with Decree of the President of the Russian Federation has been fixed a national target to reduce greenhouse gas emissions by 25% by 2020 compared with 1990 levels. Russia continues to adhere to the principle that developed and developing countries can have differentiated targets to combat climate change, but commitments have to be taken by both groups of countries with compulsory element - accountability. Russia adheres to a "bottom up" approach - each country should alone determine its commitments.

Russia always insists that in the country are the largest forest and this fact should be taken into account as they absorb significant amounts of carbon dioxide and thus reduce anthropogenic pollution with greenhouse gases.

In September 2014 during the Summit on Climate in New York Alexander Bedritsky, Adviser to the President of the Russian Federation and Special Envoy for Climate, announced a long-term goal of Russia to reduce greenhouse gas emissions with 70-75% by 2030 compared to levels 1990. According to some experts declaring an official goal to limit greenhouse gas emissions at an international forum has mainly political motives. Due to the crisis in Ukraine and

the subsequent measures against Russia, the Russian Federation noticeably strengthened its policy in the field of international environmental cooperation as a means of avoiding international isolation.

Intended nationally determined contribution (INDC) of Russia confirms the same long-term goal - to reduce greenhouse gas emissions with 70-75% by 2030 compared to levels 1990, but if it is recognized absorbing function of forests in the country. The objective will be achieved without the application of international market mechanisms.

### **3. CLIMATE CHANGE POLICY IN BULGARIA**

As a country that has ratified the UNFCCC (1995) and the Kyoto Protocol (2002) Bulgaria has undertaken corresponding obligations to meet the requirements of the Convention and the Protocol, including: regularly preparing the national communications, national emission inventories, national action plans on climate change, participation in the meetings of the Parties, as well as related European initiatives. Since 2007 Bulgaria is a member of European Union and that means the country is part of European climate change policy. Bulgaria participates as a full member of EU within the framework of international negotiations since then and Bulgarian position is coordinated position of the Union in the negotiations. Some experts define climate change policy of EU as a tool to strengthen and develop its role as a global actor. So we could say that climate change policy for Russia, as well as for EU, is way to achieve their global goals. In 2009 the EU climate and energy package – “20-20-20” was adopted. By 2020 there should be a 20 % reduction of GHG emissions compared with 1990, a 20 % share of renewables in EU energy consumption, and energy improvement by 20 %. Every EU country has specific target – for Bulgaria the share of total energy consumption, that comes from RES has to be not less than 16%.

In October 2014 EU adopted the 2030 climate and energy framework which included three key targets for the year 2030. The first one is cut of greenhouse gas emissions with at least 40% compared to the base year 1990. This will help EU to go forward to its long-term objective of cutting emissions by 80-95% by 2050. The second one concerns share of the renewable energy in the whole energy mix of the Union and the target is at least 27%. This target will

be reviewed in 2020 having in mind a 30% target. The same percentage – 27% is set for the improvement in energy efficiency.

Bulgaria has met and even overachieved its international commitments for emissions reductions until now, but there are a lot of opportunities for improvement, especially if we take a look on the energy sector. It has the largest share in the national GHG emissions. The primary energy generation mix is dominated by coal (52.1%). Bulgaria has the highest energy intensity of the EU-28, with 2.5 times more energy consumption per unit of GDP than the EU average. Although GHG emissions decreased after 1988 the structure of final gross energy consumption remains oriented towards fossil fuels. The most economically advantageous measures to reduce GHG in Bulgaria are the ones in the waste sector followed by those in the industry and energy sector. The measures in the agricultural sector require the biggest amount of resources, but they lead to a relatively small reduction of greenhouse gases and may be considered as recommended measures.

Both countries – Russia and Bulgaria have reduced emissions because of reduced economic activities in the end of XX century. Both countries are not among most vulnerable of climate change as are for example islands and the poorest countries in the world. At the same time Bulgaria and Russia and their policies are pretty different to be compared. Russia, as one of the major world player, could use its climate change policy as a tool to achieve other aims. Bulgaria is not among big international players and its climate change policy is harmonized entirely with climate change policy of European Union. Nevertheless Bulgaria and Russia could seek areas for cooperation in climate change challenges. Possibilities to greening economies could be found and applied in many sectors – energy, manufacturing, waste management, building, transport, tourism and Bulgaria and Russia could search possibilities to cooperate.

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Александра Бедрицкого, 11 ноября 2013 года

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## **THE ROLE OF PLACE BRANDING IN LOCAL ECONOMIC DEVELOPMENT - ON EXAMPLE OF RZESZÓW (POLAND)**

**Keywords:** city branding, place branding, place marketing, brand equity, brand image

## **1. INTRODUCTION**

Today's countries, cities, as well as other settlement and territorial units, increasingly use place marketing to achieve strategic goals associated with their development. It is used in competition for limited resources, which is based on the belief that proper orientation on customers-partners bears a decisive influence on the results. It is a philosophy of achieving goals set by settlement units. Conducted communication activities are subordinated to increasingly better constructed strategies to build place brands. Cities are especially active in this respect. Cities are the most amazing becoming important to several nations not only due to the rising population, but also as they offer several advantages. With this the concentration of economic activities. Cities are increasingly becoming important to several nations not only due to the rising population, but also as they offer several advantages to the concentration of economic activities.

Marketing activity of cities is usually modeled on the experience of the corporation, building their competitive position. There are many similarities between corporate branding and city marketing. Both corporate brands and city brands:

- have multidisciplinary roots,
- address multiple groups of stakeholders,
- have a high level of intangibility and complexity,
- need to take into account social responsibility,
- deal with multiple identities,
- need a long-term development.

It is the ability to identify the content, formulate and then transfer it to the environment that determines the effectiveness of their communication in shaping a positive image of the place and building brand equity. With regard to urban brands we also use the notions of city branding and place branding.

For settlement units the basic target groups of marketing communications are residents investors and tourists. They are specific "customers", who are encouraged to make use of what the city has to offer. To achieve this, it is necessary to call a specific, desired set of positive associations about the distinguishing features of the city, municipality or region. In this way, we built a positive image of the place brand.

The aim of this article is to draw attention to the need to build

a place brand based on the results of studies evaluating the current brand image.

## **2. TARGET GROUPS IN PLACE BRANDING**

It is widely known that attractiing tourists to the cities is extremely important because it is associated with profits for the region. Tourists undoubtedly drive growth. When incomers make purchases in stores and use the services, the sellers earn. Expanding both their business and all of cooperating entities. Moreover, the residents of the region benefit.

In the past, tourists chose their holiday destinations mainly on the basis of guidebooks, travel agencies' offers or opinions of trusted friends. Currently, the majority of them are looking for places worth visiting on the Internet, taking into account the opinions of other people in online forums or social networks. The final decision concerning the choice of destinations is conditional upon a notion that arises in the mind of a tourist on the basis of a number of messages and subjective opinions which they encountered. Destination branding from the customer's (tourist's) point of view was included, among others, in the theoretical conceptualization consisting of awareness, image, quality and loyalty dimensions, known as a Customer-Based Brand Equity for a destination. As research shows, destinations exist in the minds of tourists as well as the brand in the minds of consumers.

For investors and those seeking a place of permanent residence for themselves and their family, the decision on the site selection is usually more rational than emotional. In these cases, however, an important factor is the general idea emerging in the longer term based on a variety of messages reaching through the media, including the Internet.

For cities which want to develop dynamically, it is important not only that the conditions prevailing in their areas were convenient and tempting. They must adequately formulate messages presenting their products and consistently use them to communicate with target groups. The challenge is to formulate and deliver the message that will reach customers attract their attention, encourage those sitting on the fence, and reassure those who have already taken a preliminary decision.

Modern cities should encourage others to visit their sites for

tourism, investment or residential purposes. An important step is a preliminary diagnosis of which aspects of their operations are received positively by the target groups and which demand better preparation. One of the most common mistakes of the city authorities is the fact that the analysis of the potential of the regions is based on their own feelings and not public opinion surveys.

This results in a situation where cities invest in places and attractions that are not encouraging enough for people to drive hundreds of kilometers away, or take all their belongings and move. Brasillia is an example - a city built from scratch by the government in order to place the capital of the country in its heart.

The assumption was to create the ideal infrastructure solutions, good conditions for living and development. The project uses state of the art solutions used in urban planning and architecture. The construction of the city was started in 1956., And the official inauguration of the capital took place April 21, 1960. In reality, however, when the city was opened, it turned out, it did not meet objectives and was not perceived as planned. The ideas that have been implemented did not meet either economic or environmental conditions not to mention social ones. Residents did not and still do not hide their dissatisfaction with the implemented solutions.

### **3. RZESZÓW - CAPITAL OF INNOVATION**

Rzeszów is located in south-eastern Poland, has a population of 180 000 people and is the capital of Podkarpackie province. The city is over 600 years old but there are not not many interesting historical monuments or places. Rzeszów has a big population of students. About 60000 young people study at local public and private Universities. As Eurostat confirms, Rzeszow has the highest factor of proportion of students to citizens in the whole Europe.

The city authorities chose in 2009 a strategy of presenting Rzeszow as a Capital of Innovation. The city has an ambition to be seen as a national center of innovation in the area of: economy, culture, science, civil initiatives and management. The essence of the brand of this town is based mainly on the development, the pursuit of becoming a powerhouse, but also a high focus on the education of young people.



The region has a heavy concentration of aircraft industry, scientific research centers, as well as educational and training facilities. This area is even called Aviation Valley and is one of the best places in Central Europe for the development and fulfillment of aerospace projects. Moreover one of the largest IT companies in Poland and a major player in the European software producers market – ASSECO is located here. In addition, the number of IT companies is still increasing.

The city has different groups of recipients in the auditorium. The first one and the closest is the group of citizens. According to the campaign they should be more active as a society. Young people should stay in the city after graduation.

The second group consists of outside environment. There are: possible investors, specialists and professionals from hi technology branches, students from other cities and countries, scientists who could work at local universities and entrepreneurship.

The authorities of the city and the region are trying to build a positive image of Rzeszów, presenting its strengths in communication with various audiences.

Despite assumptions about place brand building, the representatives of different target groups do not always consider the communication of information as important and interesting. Sometimes they remembered and took into account completely different aspects of the place, as an element of their opinion about the place. Both the source of these opinions and the already functioning associations in the minds of consumers should be examined and used for planning activities that build place brand image.

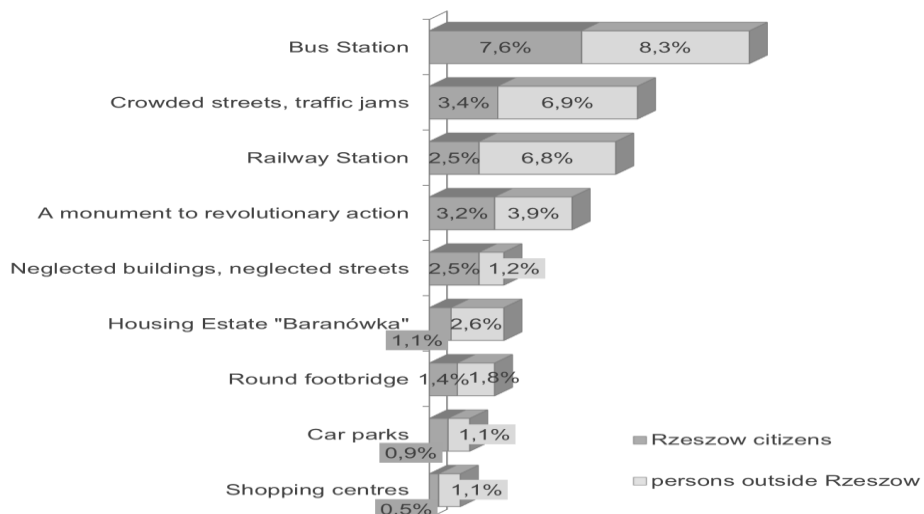
#### **4. FINDINGS**

In this part of the article, there are presented the results of a survey on the perception of Rzeszów as a place brand. The survey was conducted from 12th to 22nd November 2015. Its scope concerned



the image of Rzeszow both as the city and the place brand. We used structured interview with the quota selection of research sample, in which the control characteristics were: gender, age, and place of residence of the respondents. Thanks to this research sample maintains the structure of the respondents reflect the study population, which were inhabitants of Rzeszow and visitors to the city, and residing abroad. The study involved 649 people. Interviews were conducted with respondents who were students of the Faculty of Economics of the University of Rzeszów in the framework of the project implemented by the Scientific Association of Business Leaders under the patronage of Dr. Gregory Hajduk from the Department of Marketing and Entrepreneurship at the University of Rzeszów. By collecting opinions on the strengths and weaknesses of the city it is possible to envisage its development by improving negatively evaluated aspects. The diagnosis can also be used to select the assets of the city, which can be used in place branding as the foundations of the region's attractiveness. In the chart (graph. 1) we present a summary of the most frequently mentioned places and objects decreasing the attractiveness of the city. For the identification purposes, we used an open question with any number of answers.

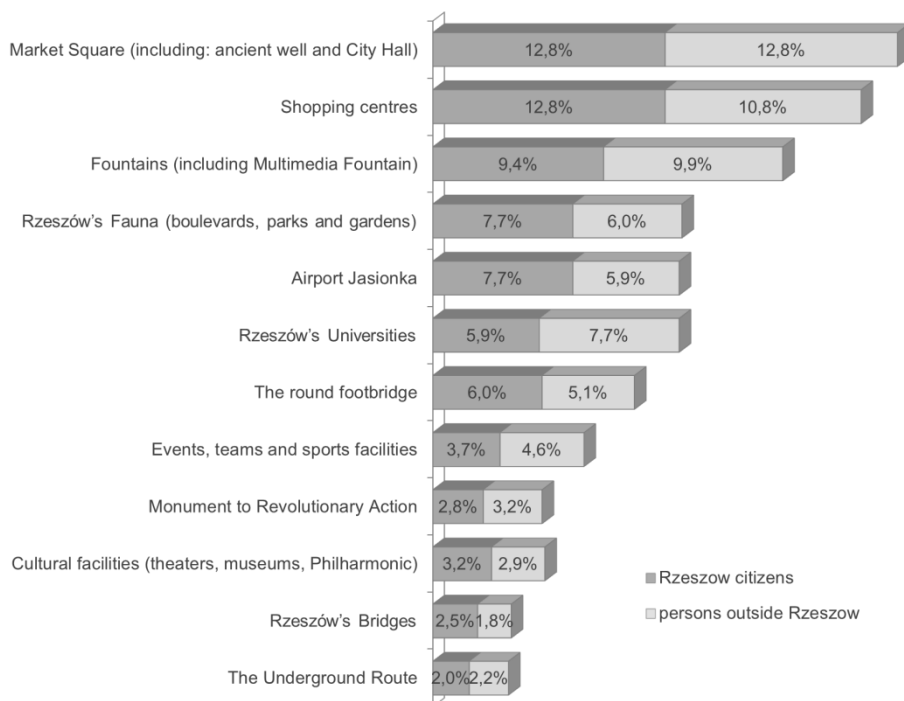
Graph. 1. The places or facilities which reduce the attractiveness of Rzeszow (n: 649)



Source: own study based on research

Rzeszów's bus and train stations and their surroundings received the most negative ratings. According to a large group of respondents, they reduce the attractiveness of the city. This is particularly important for tourists as a target group. For them the station often is the first object seen while visiting the city. Negative impression that is triggered may have a significant impact on the overall assessment of its attractiveness. Fewer respondents are bothered by the congestion in the city, neglected buildings and streets. Rzeszów's Monument to Revolutionary Action and the round footbridge have their opponents too, but the percentage of the dissatisfied is negligible.

Graph. 2. Place and facilities that increase the attractiveness of Rzeszow (n: 649)



Source: own study based on research

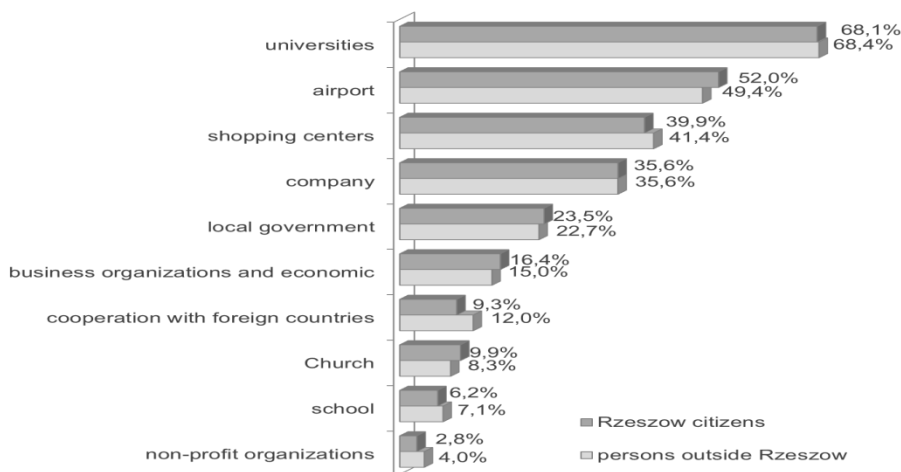
According to the largest number of respondents, such places as: Rzeszow's Market Square with its attractions and shopping malls

have positive impact on the attractiveness of the town. Rzeszow is known for its large number of shopping malls. There are 15 of them in the city. There is one shopping mall for the area smaller than 8 km<sup>2</sup>. This is a very high percentage for a city of 187 208 inhabitants (as of end of June 2016.). Customers of these shopping centers are both residents of Rzeszow and incomers from the surrounding area. Due to the proximity of the border, they are also frequently visited by citizens of Ukraine and Slovakia.

Respondents also appreciated qualities of such places and facilities as Rzeszów's fountains, boulevards, parks and gardens, Airport Jasionka, Rzeszów's universities and the round footbridge. These are often used as illustrations in the promotional materials issued by the city. Information about which of them have gained the recognition of customers is very helpful in planning the future of communication.

The assessment of the impact of institutions, organizations and actions taken by the city on the status and image of the city, was made taking into account the diagnosis of the current situation and expectations for the future. Respondents could indicate from 1 to 3 responses (graph. 3).

Graph 3. Institutions and organizations that affect the status and image of Rzeszow



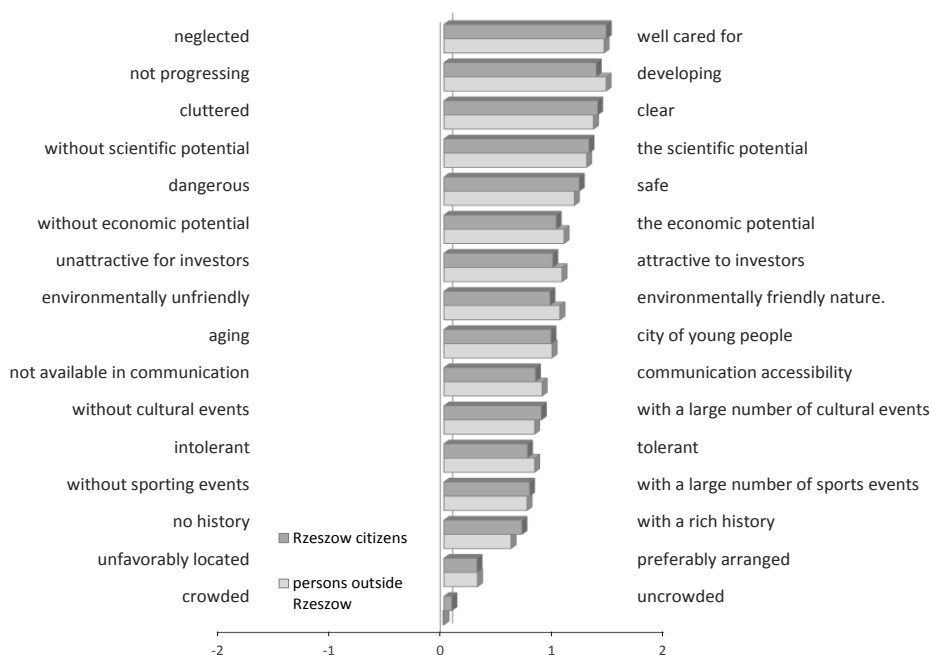
Source: own study based on research.

Rzeszów's residents's responses were not significantly

different from the declarations of visitors. Frequently indicated institutions affecting the status and image of the city were Rzeszow's universities, airports, shopping centers and local businesses. This was followed by the operation of local government and business and economic organizations. People rated relatively low against the above mentioned characteristics the importance of international cooperation, the role of the church and schools.

To determine the respondents' opinions on the city, they were asked to assess 16, deliberately selected aspects of its operation. Respondents were presented with a 5-step bipolar ordinal scale. The distribution of overall responses after averaging is shown in Figure 4.

Graph. 4. Evaluation of some aspects of the functioning of the city of Rzeszow into account the opinion of residents and people from outside the city



Source: own study based on research.

Rzeszów is perceived by most respondents as: neat, developing, clean, with the scientific potential and safe. All of the proposed features have received on average a positive assessment

from the respondents. Among the lower assessed aspects of the city are: tolerance of its inhabitants, the number of sporting events, historical heritage and location of Rzeszow. The lowest assessed aspect was the degree of congestion of the city. Opinions of visitors were not significantly different from the opinions of the residents of Rzeszow.

The analysis shows that features such as the developing potential of the city, order and security, could provide credible arguments in communication, while the attractiveness of the cultural and historical factors require prior proof and justification. Given these circumstances, it is easier to choose a closed list of attributes, messages and communications that build the brand image of the city.

## **5. SUMMARY**

The accurate diagnosis of the current image of the city is the basis for the creation of an effective strategy to build its brand. Testing allows us to identify the characteristics of the area. From among them, it is necessary to select the attributes that will be used in communication with the target groups of the brand. Not all the characteristics of a city or region should be used in the process of brand positioning. Some obvious attributes do not often have a trump card originality. As in the case of commercial brands, it is important that the selection of unique characteristics will distinguish the city and its offer to other units.

The results of the study confirm the positive image of Rzeszow. Both in the opinion of the residents, and visitors, the city is well-kept and has a large growth potential. The tourist potential of the historical and cultural city was rated slightly lower.

The biggest challenge now seems to be to build the desired image of the city abroad. Both Rzeszow's location, its size and competition from other Polish cities, are a major constraint in achieving this goal.

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## **THE TRADE BETWEEN RUSSIA AND EUROPE**

Considering the trade relationships between Russia and Europe within the span of the past decade (2005-2015) we will review the in dept relationships -between trade and economy, and especially in the fields of energy, consumer goods and services. We will study the official data about the balance of payments and current trade accounts in order to explore their relationships.

**Keywords:** Balance of trade, Current account balance, Consumer goods, Energy, FDI (Foreign Direct Investments).

### **1. INTRODUCTION**

The European Union and Russia have a strong trade relationship. Bilateral trade and investments continue to grow rapidly.

Since 1997 the Partnership and Cooperation Agreement has been the framework of the EU-Russia relations, regulating the political and economic relations between the EU and Russia. One of

the main objectives of this agreement is the promotion of trade and investment as well as the development of harmonious economic relations between the EU and Russia. There has been a dead lock in negotiations of this New Agreement with Russia, which started in 2008 and efforts have been made to re-evaluation and re-establishment of trading relations, especially after Russia's membership in WTO (world trade organization) in 2012.

The new EU-Russia Agreement should provide a comprehensive framework of bilateral relations, with stable, predictable and balanced rules for bilateral trade and investment relations. It should focus on improvement of the regulatory environment by building upon the WTO rules and strengthening bilateral trade relations.

## **2. Literature review**

As Skalemiera M. (Energy Research, Feb 2016) stated, at the time of the so-called macro-level of the past decade, the individual EU states and Russia signed an agreement on the development of joint pipelines. This article considers a number of political explanations for gas policy and shows that the actual beneficiaries are the economic interests of big energy firms, which are often being ignored or are hidden as factors.

In addition Vytautas Kedaitis (2014) came to the conclusion that external economic relations provide a very good framework for the aforementioned countries; continue the exports increased by 71% and imports by 74% (bilateral trade agreements, as of the year 2006 that became the preferred international trade policy of EU).

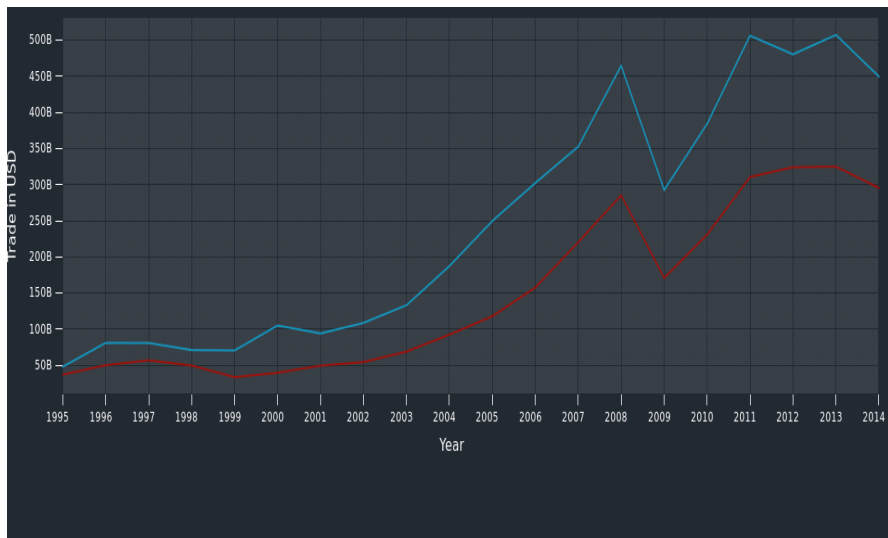
Also some future scenarios of Russian natural gas in Europe (Mitrova T. Energy Strategy Reviews, June 2016 refers that Russian natural gas will continue to play a prominent role in the EU).

## **3. Economic Characteristics of Russia**

Russia provides the largest land area in Earth with a total population of approximately 144 million citizens thus making it one of the most dominant political-economical powers worldwide. Although Russia is the 10th largest export economy in the world, it is also the 27th most complex economy according to the Economic Complexity Index (ECI). In 2014, Russia exported \$449B and imported \$295B, with a positive trade balance of \$154B. In 2014 the GDP of Russia

was \$1.86T and its GPD per capita was \$23k.

The top exports of Russia are Crude Petroleum (\$155B), Refined Petroleum (\$88.3B), Petroleum Gas (\$35.9B), Coal Briquettes (\$12.7B) and Raw Aluminum (\$7.64B), according to the 1992 revision of the HS (Harmonized System) classification. On the other hand, its top imports concern Cars (\$15.7B), Packaged Medicaments (\$10.2B), Vehicle Parts (\$9.5B) and Computers (\$5.75B).



In the graph above we can see exports(blue line) and imports(red line).We can see the evolution of trade for Russia since the 1995 when the positive trade balance(net exports) was \$11B till2014 when the positive trade balance for Russia was \$154B.

#### **4. Trade Relations between Russia and Europe**

The Partnership and Cooperation Agreement between the EU and Russia has been the main framework of the EU-Russia relations since 1997.This agreement regulates the political and economic relations between the two parties.

Russia is the third trading partner of the EU and the EU is the first trading partner of Russia.

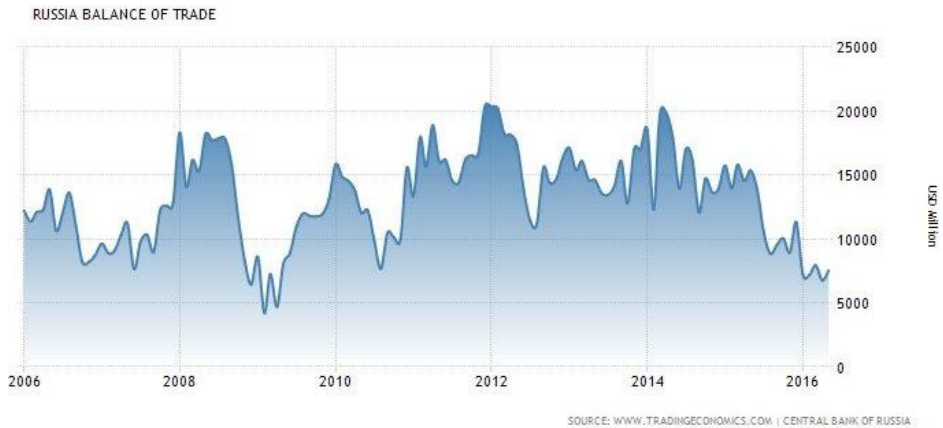
- Trade between the two economies showed steep growth rates until mid-2008 when the trend was interrupted by the economic crisis and the unilateral measures adopted by Russia, which had a



negative impact on EU-Russia trade. However after 2010 mutual trade has resumed its growth reaching in 2012 at record levels.

- EU exports to Russia are dominated by machinery and transport equipment, chemicals, medicines and agricultural products.
- EU imports from Russia are dominated by raw materials and in particular, oil (crude and refined) and gas. For these products, as well as for other raw materials, Russia has committed in the WTO to freeze or reduce its export duties.
- The EU is the most important investor in Russia. It is estimated that up to 75% of the Foreign Direct Investment (FDIs) in Russia come from EU Member States.

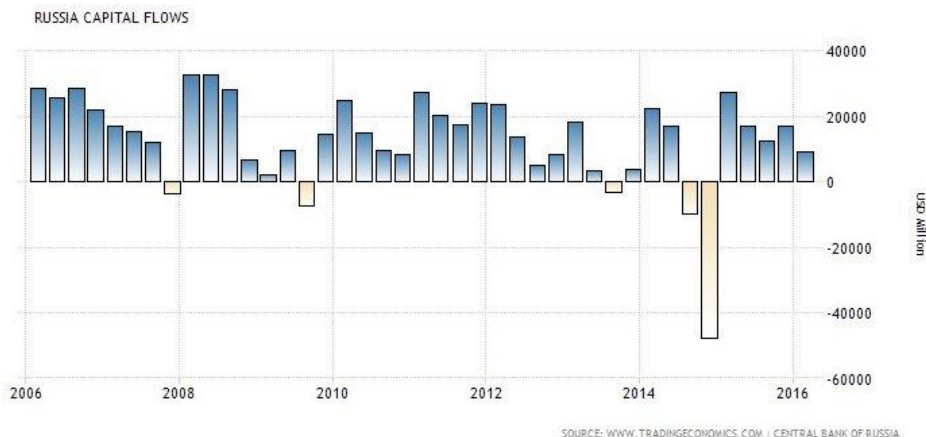




<http://www.tradingeconomics.com/russia/balance-of-trade>

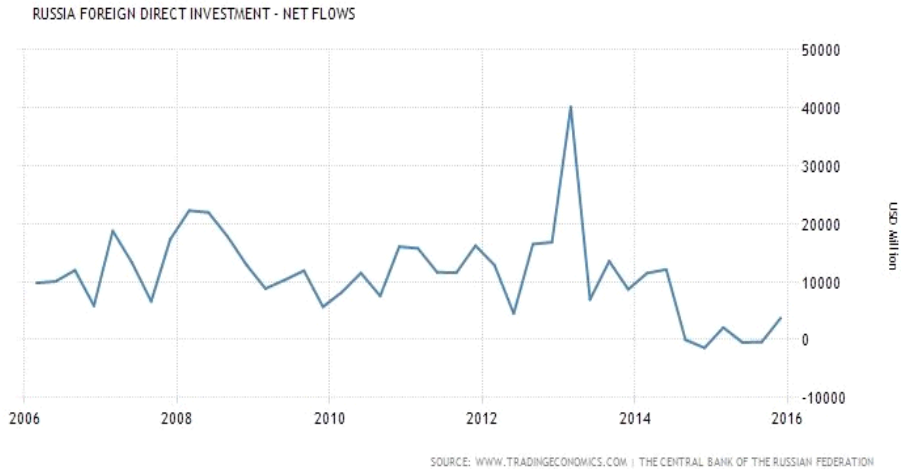
As we have already shown, Russia has been running trade surpluses since 1998 primarily due to high exports of commodities like crude oil and natural gas. However in 2015, Russia's trade surplus was narrowed significantly, led by the plunge in oil prices and sanctions imposed by Europe and the US over the Ukraine crisis. Overall for the period from 1997 until 2016, Russia reached the highest level of 20356 USD Million in January of 2012 and the lowest level of -185 USD Million in February of 1998.

Russia accounts for Exports to European Union using cumulative values for each year (CMLV).



<http://www.tradingeconomics.com/russia/capital-flows>  
Capital Flows in Russia averaged 11535.92 USD Million from

2000 until 2015, reaching an all time high of 32843 USD Million in the first quarter of 2008 and a record low of -43071 USD Million in the fourth quarter of 2014.



<http://www.tradingeconomics.com/russia/foreign-direct-investment>

Foreign Direct Investment in Russia averaged 5839.42 USD Million from 1994 until 2015, reaching in the first quarter of 2013 at the highest level of 40140 USD Million and at the lowest level of -3922 USD Million in the fourth quarter of 2005 for the examined period of the 20 years. In 2013, more than 90% of Net Inward Foreign Direct Investment in Russia came from six countries: United Kingdom (26.8 percent), Luxembourg (16.5 percent), Ireland (14.8 percent), British Virgin Island (13.3 percent), Cyprus (11.8 percent) and Netherlands (8.14 percent).

## 5. THE TRADE - ECONOMIC RELATIONS BETWEEN THE EU AND RUSSIA

The trade relations of Russia with the EU continuously grow and to become particularly interesting despite what the stagnation showed at the beginning of the crisis of 2008. The trade volume between the two counter partners (total value of imports and exports) was 246 billion dollars in 2010, an increase of 185% compared to 2000. The exports from the EU to Russia decreased from 105 bn. euros in 2008 to 66 bn. euro in 2009, but later increased to 86 bn. Euros in 2010 and 108 bn. euros in 2011, while the imports from Russia

decreased from 178 bn. euros in 2008 to 118 bn. euro in 2009, but later increased to 160 bn. euros in 2010 and 199 bn. euro in 2011. Therefore, the trade deficit of the EU with Russia increased from 56 bn. euros in the first nine months of 2010 with 67 bn. over the same period of 2011 mainly due to the Russian imports of energy products, which make up about three quarters of exports to the European Union. Exports from the EU to Russia have been generally increasing since the beginning of the century, with the exception of 2009, when a 38% reduction compared to the 2008 data was registered. However, the value of EU exports in 2010 again showed a significant increase by 31% between 2009 and 2010.

The trade deficit may theoretically be compensated by the exports of manufactured goods from the EU, which account for about 80% of European exports to Russia. Although the EU shows a surplus in industrial goods (such as chemicals, power systems and industrial machinery, computers, electrical and electronic parts and equipment, road vehicles and parts, ships, airplanes and railway equipment, furniture, clothes, shoes, scientific instruments) of +72.047 million euro and in agricultural products in the range of + 8.083 million euro, however regarding the energy products and raw materials a deficit of about -159.554 million is being recorded. As far as the trade in the sector services is concerned, the European Union is quite dominant on the subject, which recorded a surplus of € 11.8 billion in 2011 (the EU exports to Russia were up to 25.4 billion euro, while imports amounted to 13.6 bn. euro). The surplus in services in 2011 was mainly due to the increase recorded on tourism (5.8 bn. euro), to other business services (+3.0 bn. euro), computer and information services (+1.5 bn. euro) and financial services (1.2 bn. euro) and was partly offset by a deficit in transportation (-1.2 bn. euro).

Among the members of the EU, Germany (34.3 bn. euro or 32% of EU exports) was the largest exporter to Russia in 2011, followed by Italy (9.3 bn. euro or 9%) and France (7.5 bn. euro or 7%). Generally speaking, the deficit occurs in the bilateral trade between the EU and Russia due to the fact that the European Union is energy dependent from Russia and for this reason the energy is one of the most significant goods when trading between the two partners.

Certainly the dominance of European exports in the service sector and the industrial sector (and rural) due to the developed technology (innovation and knowledge) of Europe, the growing

demand of the Russian market for the EU products and the increasing purchasing power of the Russian middle class.

As for the investments EU is by far the biggest investor in Russia. It is estimated that up to 75% of FDI in Russia comes from the EU members. The Foreign Direct Investment (FDI) of the EU in Russia decreased from 26.4 billion euro in 2008 to 8.3 billion. During 2009, the investments increased to 18.6 billion in 2010, while a while later they were converted into disinvestments of 2.3 bn. euro in 2011, while the Russian direct investments into the EU from Russia increased from 2.0 bn. euro in 2008 to 2011, 3 bn. euro in 2009, then fell to 7.0 bn. euro in 2010 and declined further to 1.4 billion. euro in 2011.

**EU27 FDI flows with Russia**  
(million euro)

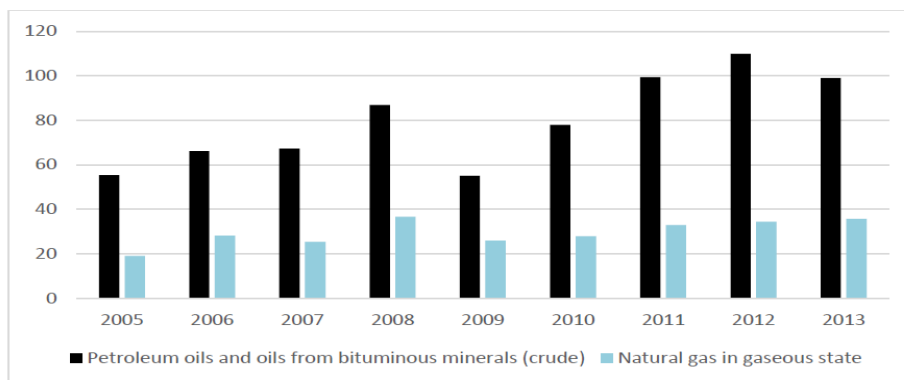
	2008	2009	2010	2011*
EU27 FDI in Russia	26 375	8 252	18 645	-2 340
Russian FDI in the EU27	2 010	11 283	7 021	1 376

The EU investments in all their major partners grew in 2011, except of Russia's. The activities in the manufacturing sector (51%) sales and marketing (33%) concentrated 84% of the FDI in Russia. 343 FDI projects between 2007 and 2011 derived from European countries, i.e. 44% of the total quota in Russia. (42% of investment projects located in Moscow and St. Petersburg) .The Russia's industrial sector attracts more FDI than in any other sector and in particular in the form of new investments (Greenfield). The automotive industry was the key sector for attracting foreign direct investment in Russia over the past five years, with 90 projects and 16,787 jobs been created

The other services sector only plays a small part in inflows of foreign direct investment in the region, but the importance of services can be increased by joining the World Trade Organization (WTO). Through the WTO, the country has pledged to reduce restrictions on foreign investment in a number of services (including banking, insurance, business, telecommunications and distribution). Russian FDI are addressed mainly in South - Eastern Europe and in the primary sector (gas and oil companies) and mainly in the form of mergers and acquisitions (M&A). The Russian multinational

companies (with state influence) are by far the biggest reason on the increase in FDI outflows, particularly those operating in natural resource activities since they inspect four fifths of the foreign reserves of Russia.

Energy is considered one of the most important areas in which both partners invest. Russia is endowed by rich sources of oil and particularly in gas (considering that only 8% of the Siberian territory has been explored) and the EU is "thirsty" energy wise. Both partners argue that they want energy security, one as the importer and the other as the exporter. Russia perceives energy security as a regime for investment and secure markets, while the EU considers energy security as a stable legal regime to govern the Euro-Russian energy trade. Until the role of natural gas in the energy future of EU there will be increased import needs resulting from the substitution of coal (and oil) and for this reason, the gas market needs significant improvement, furthermore it is still necessary for long-term gas supply contracts to be more flexible and the role of LNG (liquid natural gas) and unconventional sources of gas is increased. Given the anticipated significance of gas to the EU a cooperation with Russia as the main supplier is of high priority.



*EU-28 Imports of Energy Products 2005-2013, billions of Euros* **Source:** Eurostat

## 6. CONCLUSION

Based on the information above we can conclude that Russia is a very important partner for the European Union (EU). The major part of Russian exports account for fuels (75.3%) and other raw materials, Russia managed to become the third (after the USA and China)

biggest trading partner of the EU. The European imports of Russian energy accumulated for more than a half of Russia's foreign trade; more than two-thirds of the foreign investments made to the Russian economy also came from Europe. The price of raw materials severely increased, in particular that of the crude oil. Thus, economically speaking the net cash flow of Russia is a prime example of a blooming economy. In recent months, the oil prices and the exchange rate has improved for Russia. Consequently, we can deduct that the trading relations between Russia and the E.U. are a very promising strategy for both of the participants.

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Outward Foreign Direct Investment to the Natural Resource  
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**POLISH-RUSSIAN ECONOMIC RELATIONS, PROBLEMS  
AND STRATEGIES OF IMPROVING RELATIONS BETWEEN  
RUSSIA AND POLAND**

This article is made up of three main sections including;

- Polish-Russian trade of goods and services
- Problems affecting polish-Russian relations
- Strategies to be adopted in order to improve Polish-Russian relation,
- Conclusion and the list of references.

This article contains a deep analysis of relations between Russia and Poland. These relations include trade of goods and services between Russia and Poland for a particular time period. This article also contains reasons for ineffective relations between Russia and Poland. This piece also brings into light the various strategies that can be adopted to improve relations between Russia and Poland.



## **1. POLISH-RUSSIAN ECONOMIC RELATIONS**

First and foremost, one of the elements of polish-Russian economic relations is trade of goods and services between these two parties involved. Trade of goods and services can be explained as the exchange of commodities between economic subjects or countries. Bilateral trade of goods and services has a wide range of benefits for all parties involved including:

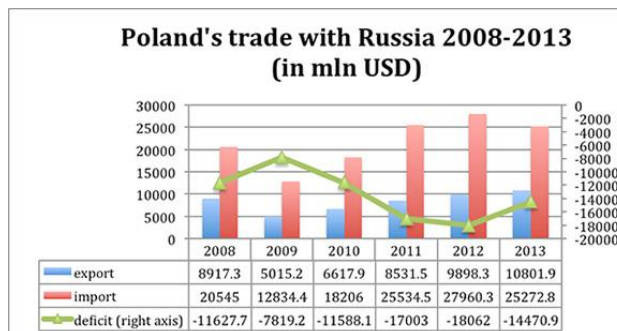
- Source of foreign exchange
- A platform for having access to new products
- A source of improved methods of production
- A great source of employment for the unemployed
- Improvement of trade relations
- Strengthening of the positions of countries in international division of labour

It is a known fact that Russia is one of the most valued trading partners of Poland. Bilateral economic relations witnessed a great improvement but as a result of the embargo of Russia on EU pork imports indicates that the polish should be ready to withstand the risks and consequences involved in trading with Russia.

Within a period of 12 years (2000-2012) export of Poland was estimated to have increased by ten times while the year 2012 witnessed a loudable estimate – the exports increased by \$9.9bln (16% growth y/y), exceeding the value in the year 2008 by almost \$1 bln.

Furthermore in the year 2013 Russia occupied 5<sup>th</sup> position as one of the biggest importers of polish goods but occupied 2<sup>nd</sup> position after EU. According to the polish stats report, goods imported from Poland was valued at \$10.8bln which is higher than the figure in 2012 by 9.2%.

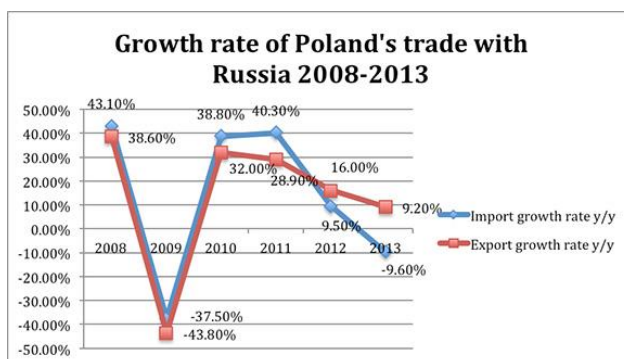
In the area of exports, Russia exported goods to Poland to a sum of \$25.3bln which means a decrease by 9.6%. With this figure Russia occupied second position after Germany in terms of exports to Poland. Thus Russian segment in polish is made up of 5.3% in exports and 12.3% in imports. Poland exports a wide range of consumer goods and for that matter processed ones to Russia. Some of these include electronic machinery and on the other hand imports basically natural resources and crude oil. This makes the bilateral trade between Poland and Russia more beneficial to Poland.



Source: GUS, prepared by PAP Fig.1.

As a result of disproportion between exports and imports caused by large volumes of natural gas being imported by Poland from Russia, Poland recorded a trade exchange deficit of over \$14bln with Russia. This problem of trade exchange deficit with Russia is not faced by only Poland but is faced by other members of the EU.

According to the Ministry of Economy in its communiqué, in the year 2012 imports from Russia comprised of 74.1% of basically mineral products. During this period Russia preserved a better position in terms of imports from Russia as a result of price trends on international resources market.



Source: GUS, prepared by PAP Fig.2.

In terms of Polish exports to Russia, a different trend is witnessed. Dating back to the year 2012 exports covered over 2,500 varied products. Some of the commodities which make up a great percentage in Polish include; cosmetics, furniture and chemicals, medicine, apples, semi-trucks, hygienic goods, electronic parts,

automotive parts and many more. These goods in 2012 exports were estimated ranging from 1000k to 350 mln euro.

Even though positive results have been recorded in the economic cooperation between these two countries, Polish exporters are enveloped with risk to some extent. A vivid picture is the recent Russian embargo on EU imports of pork, potato products and apples. Polish export of pork experienced an increment of more than 100% between 2012 and 2013. In the year 2012 Polish pork exports and precisely to Russia was estimated to be EUR 43.5 mln whilst in 2013 recorded a sum of EUR 23.1 mln. In the first quarter of 2012 and 2013 Poland exported pork products to a tune of EUR 15.8 mln and EUR 33.1 mln respectively.

According to reports by the Russian Transport Ministry, 600 trucks on an average enter Russia from Poland on daily basis. Each of these trucks can earn as much as EUR 2,500 daily. Unfortunately this agreement between these two countries expired on January 21<sup>st</sup> 2016 and there is no agreement signed for the deal to continue this year.

In November 2015 Russia exported goods to Poland at a value of \$9 billion according to statistics from the International Trade Centre. Imports of consumer goods from Poland to Russia hit \$3.7 billion during the same time frame against \$6.6 billion in 2014. This indicates a decreasing trend.

## **2. PROBLEMS DISTURBING POLISH-RUSSIAN RELATIONS**

Firstly, It can be noticed that trade exchange deficit of Poland with Russia is one of the problems disturbing issues that disturbs the cooperation between these two countries. This problem disturbs not only Poland but also other European countries.

Secondly, unilateral and anti-Russian sanctions. Another disturbing occurrence is the ban on apples, potatoes and pork. This greatly affects Polish exporters as these three products form a larger percentage of exports to Russia and consequently loss of revenue. Before the sanctions were imposed, Polish exports to Russia had been witnessing growth by 23-30% yearly and even exceeded 10 million euros by the end of 2013.

Thirdly, economic crisis in Russia is also a setback to the development of bilateral trade relations between Russia and Poland. The quantity of goods consumers buy largely depends on the

purchasing power of the consumer. And in a country where there are economic crises such as unemployment and inflation the consumers basket will be affected. This situation cuts down demand for polish goods which results in weakening of trade ties between these two countries.

Fourthly, politicizing trade and economic relations with Russia by Poland. This has been the case for more than 20 years now. This policy gave birth to discrimination against Russian business restricting its presence and operation in Poland. It can also be noticed that the EU sanctions against Russia in Poland strongly affects polish entrepreneurs who have interests in Russia. And despite all these limitations Russia still maintains a surplus in its trade with Poland.

Additionally, Poland's negative political perception of Russia and the overall world perception is a great hindrance too. This is an old political and social affliction of the Polish elite that it is struggling to overcome in spite of the many achievements our peoples have made during the period of their common history. Hundreds of thousands of people with Polish names live in our country. Many of them have made notable contributions to science, culture, industry and military affairs. These people have become the pride of Russia, but they have been erased from Poland's official history. It is a very complicated problem, but it is a Polish, and not a Russian problem. It is up to the Poles to solve it.

There is no discrimination in Russia of Polish companies on the basis of nationality just like there is no discrimination against other countries. The problems Polish businessmen face in Russia are well known to German, American and Russian entrepreneurs. But in spite of the complexities and inconveniences of Russian life the number of those who want to work in Russia is not diminishing because the profitability of doing business in Russia outweighs all the shortcomings from which businessmen all suffer regardless of their national affiliation.

Furthermore, the resumption of harmonious relations of Poland to its eastern neighbours as a result of its membership with EU is a problem worth discussing.

### **3. STRATEGIES THAT CAN BE ADOPTED TO IMPROVE POLISH-RUSSIAN RELATIONS**

Even though modern polish-Russian relations face a wide range of challenges, different strategies can be adopted to strengthen

these relations between these two countries.

In the first place open, free, fair and impartial discussions of the condition and prospects of business cooperation between Russia and Poland can be organized. Russia and Poland should work out plans towards a quick compromise. This can help these two parties involved not to lose billions of dollars in their trade exchange. For instance the restriction of movement cargo from Poland to Russia could fetch Russia 2500 euros daily. Additionally Poland loses as much as EUR 52 mln monthly as a result of the ban ; EUR12 mln from pork, EUR 35mln from apples and EUR5 5mln from potato.

Secondly, inter-cultural activities can be organized frequently between Russia and Poland. This will go a long way to cultivate a culture of tolerance between these two parties and in the long run strengthen the relationship between them.

Thirdly, the relations can be pushed forward through keeping politics out of their relations, avoidance of publication of negative sides of each other and intensive public education on the need to preserve peace, the negative effects of instability and the undeniable benefits of cooperation with the outside world.

Additionally, the idea of joint-educational programs is a way forward too. These programs can be conferences, free educational exchange programs, forums and many others.

Finally, polish and Russian businessmen can take up partnerships and joint businesses with free exchange of workforce, joint scientific and production research programs.

In conclusion, it can be seen that Poland and Russia can become the best of trading partners if the right strategies are adopted. We are in the era of modernization and for that matter these two countries can even employ social media tactics to achieve great results. Information can be shared on different platforms such as youtube.com, facebook.com, Gazeta.pl, Allegro.pl, Google.com, Wp.pl and many more.

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## **STUDY OF EXTROVERT DEVELOPMENT OF GREEK MEDICINE**

### **1. INTRODUCTION**

The purpose of this research refers to the study and analysis of the Greek pharmaceutical industry aiming at the export of pharmaceutical products in the countries of the European Union. According to the president of the Greek Union of pharmaceutical industry, Mr. Tryfon Theodorou, the Greek pharmaceutical industry can firmly contribute to the country's transition to development and the way out of the financial crisis as it constitutes one of the most dynamic industries of the Greek economy. In his contribution at the recent industry congress of SEB (Federation of Greek Industries), Mr. Tryfon declared that the Greek pharmaceutical industry, even during the financial crisis, affects directly or indirectly more than 50,000 jobs and it constitutes a field with a great amount of expenditure for labor development and skilled jobs. The 20 manufacturing units of Greek pharmaceuticals give the possibility in the Greek pharmaceutical industry to cover directly over 60% of the country's pharmaceutical needs and to firmly contribute in the GDP (Gross Domestic Product) and the public revenue.

The Health sector presents a lot of particularities compared to the rest economic sectors. One of the most crucial characteristics is the uncertainty that dominates both on the part of demand (asymmetrical information between the doctor and the patient), and on the part of the supply (deficient information for the effects of the therapeutic interference). This uncertainty combined with the risk of a disease which every person deals with and which threatens their health, their quality of life or even life itself, has led to the searching for security in the health sector, to a greater extent compared to other economic sectors.

Another characteristic of the health sector is the time increasing tendency of the health and pharmaceutical expenditure. The causes of this phenomenon are the increase and ageing of the

population as well as the possibility of fighting against diseases (with the development of innovative drugs) which were not possible to be treated in the past. In addition, the pharmaceutical treatment, either complementary or as a substitute of the health care and hospitalization, not only has contributed to the decrease of the death rate and the increase of life expectancy (as far as through the prevention and the treatment of diseases) but also has improved significantly the quality of life, mainly of the chronic patients. However, the increase of the pharmaceutical expenditure often leads to the decrease of the total health expenditure, as it substitutes other forms of medical care (e.g. hospitalization).

Moreover, what characterizes the pharmaceutical market is the strict regulatory framework, as far as during the development of a new pharmaceutical product (with strict controls, regarding safety, quality and efficiency etc.), and during the distribution of this product in the market (supervision and controls, pharmacovigilance, criteria of economic efficiency etc.). The purpose of this regulatory framework is the protection of the patients, the protection of the pharmaceutical company and the constraints of the pharmaceutical expenditure.

The purpose of the present research is the analysis of the Greek pharmaceutical industry and the prospects of its development at international level.

## **2. PHARMACEUTICAL INDUSTRY ANALYSIS**

### **2.1 Characteristics of the Industry**

The pharmaceutical companies constitute the first and the most significantly connecting link, composing the supply of the pharmaceutical industry. The industry works under the supervision of an institutional framework, both in a level of demand and in a level of supply. The last years it is observed in our country, a stable demand for pharmaceutical products.

The key point of the industry under review concerns the distribution system. Its organization and its development are necessary for the penetration and the maintenance of the position of each company in the market. The sales network, among others, constitutes a source of information for a company, as it gives the possibility to draw information with regard to the competition. The right function of the Greek dense distribution system, which ensures the explicit and sufficient market supply with pharmaceutical products, constitutes a



primary factor for the advancement of the public health, as well as for the industry development. The pharmaceutical companies (importing and manufacturing) advance the promotion of pharmaceuticals and of para-pharmaceutical items, on the one hand at the hospitals, and on the other hand at the pharmaceutical wholesalers, which in their turn channel the products of the industry mostly at the pharmacies and (in a small scale) at other pharmaceutical wholesalers.

The pharmaceutical industry constitutes one of the most closely supervised and regulated industry of the Greek economy, because of its strict institutional framework. This particular framework, determines the most general spectrum of the industry's activity and it covers the need for securing the quality of products manufacturing, the modernization and the compliance of the specific requirements, the price determination, the prescription, etc.

## **2.2 Structure and outline**

The development and production of branded generic pharmaceuticals is the main field of activity of the domestic pharmaceutical industry, whereas important investments have occurred towards redesigning and the optimization of existing medical treatments and the development of a limit innovation.

The fact is that the manufacturing activity of the Greek pharmaceutical industries regarding the area of generic pharmaceuticals is a pillar on which the effort of development of the Greek economy has to be based, especially if taken into account the opportunities of an extroverted behavior that exist for the Greek pharmaceutical industries in new markets, on which the economic development of the last years has developed the demand for quality and brand generic pharmaceuticals.

The pharmaceutical industry consists of companies, which occupied either with the production, or with the import of pharmaceutical and para-pharmaceutical products. The industry includes companies with an important dynamic and with a long-term and powerful presence on the market under review.

Regarding the evidence of the Greek Medicines Agency, in the Greek pharmaceutical market, it is estimated that, at the present time, more than 100 pharmaceutical companies (manufacturers and importing) are operating, many of which are members of Hellenic Association of Pharmaceutical Companies (SFEE). It is estimated that on the industry under review around 13,000 employees are occupied

at the present time. Special attention is paid on the expansion of their co-operating distribution network (pharmaceutical wholesalers), in order to promote the produced/imported products and to meet the requirements of the market. The prices of products, which are for sale by the pharmaceutical companies, are provided according to the current institutional framework (Pharmaceutical Market Prices). Moreover, significant amounts are invested by the companies with a strong presence in the pharmaceutical industry at research programs, which concern therapeutic areas with a major margin of development. According to market sources, in 2010 €40 million were invested for Research and Development (250 clinical trials) especially by domestic and international pharmaceuticals.

The development of the total turnover of the most important manufacturing pharmaceutical companies (a sample of 32 companies) is presented in the following table. It is indicated that the turnover of the pharmaceutical companies in the table, except for the pharmaceuticals, contains sales for products like cosmetics, other para-pharmaceuticals, etc., which, in certain cases, occupy a significant proportion of it. According to the evidence of that table, the total turnover has been formed in €1.817,2 m. in 2010, increased by 16% (€346,4 m.), compared to 2009. Furthermore, if we take into account the companies, for which there are available sales in 2010 and 2011, a decrease by 21% will be indicated.

Then a financial analysis is carried out for the seven most extended, (according to turnover), abovementioned companies of the industry for the period in 2007-2011, regarding with their published financial evidence. Especially, for every company eight indexes are calculated in 2007-2011, and also the corresponded average for 5 years.

<b>Chart 2.1 Turnover of pharmaceutical companies (2007-2011)</b>					
	2007	2008	2009	2010	2011
Total	1.774.238.988	1.985.468.251	2.163.477.364	1.817.067.860	1.123.209.548
<i>Value €</i>					
<i>Source of information : ICAP GROUP (published balance sheet)</i>					

Source of information : ICAP GROUP (published balance sheet)

<b>Chart 2.2 Financial indicators of manufacturing Pharmaceutical companies (2007-2011)</b>
Profitability

Fringe of mixed profit (%)						
Group A (1)	32,59	37,89	37,53	33,25	28,60	33,97
Fringe of net profit (%)						
Group A	10,17	9,26	10,76	-37,08	10,43	0,71
Efficiency						
Efficiency of same capitals (%)						
Group A (1)	65,84	27,06	60,49	7,53	41,54	40,49
Liquidity						
General liquidity						
Group A (1)	2,23	1,43	1,58	1,31	1,41	1,59
Financial structure						
<i>Source of information : ICAP GROUP, Sector study 2011</i>						

The profitability of the pharmaceutical companies ranges generally to high levels, during the whole period under review (2007-2011). The five year average of the gross profits has been reached the 33, 97 % for the sample of the seven companies. At much lower levels and with annual fluctuations the net profit margin indicator has been formed with a five year average marginally positive (0, 71 %). The average profitability of the own funds has presented high fluctuations in the period under review, came to 40, 49 % for the sample of the presented companies. The five year average of the general liquidity has been formed at 1, 59 for the seven manufacturing pharmaceutical companies. As far as the indexes of the financial structure are concerned, the foreign average towards the own funds, has presented fluctuations and it has been formed at 3, 73 (five year average), whereas the average of the financial expenses at 69, 84. Regarding the activity indicators the average of demand recovery of the sample companies has been formed at 198 days, whereas the average of the due day to pay suppliers at 182 days.

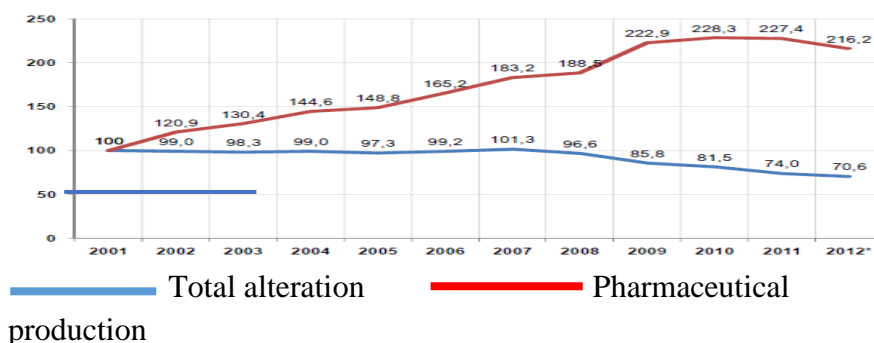
**Chart 2.3 Financial indicators of manufacturing Pharmaceutical companies (2007-2011)**

relative debt to equity						
Group A (1)	3,12	2,06	3,81	3,54	2,88	3,08

cover financial expenses						
Group A	76,46	113,93	73,82	79,24	5,76	69,84
Activity						
debt recovery period (days)						
Group A (1)	191	174	226	185	214	198
Average of notice supplier's redemption (days)						
Group A	161	174	231	183	163	182
<i>Source of information : (published balance sheet), ICAP Group A.E.</i>						
Source of information : (published balance sheet), ICAP Group A.E.						

## 2.3 The market of pharmaceutical companies

Diagram 2.1 Index of industrial production of pharmaceutical products



According to the evidence of the Foundation of Economic and Industrial Research (IOVE) the industry of manufacturing pharmaceuticals in Greece had been highly developed during the decade of 2000, increasing its level (volume) of production in more than double. It constituted one of the most rapidly developing industries of the domestic processing in a period during which the Greek industry was in a total decline. This is mainly due to the increase of investments in the industry with the development of new manufacturing units and the preparation of pharmaceutical products.

The development of pharmaceutical manufacturing (in value) during the period 2006-2010 is presented at the following table. It is noted that the value of domestically manufactured pharmaceuticals is recorded by the Hellenic Statistical Authority (ELSTAT) and that the

number of the products is categorized in accordance with the single community codification PRODOCOM. Especially according to the specific codification, the following product categories are included in the object of the specific study:

<b>Chart 2.4 Pharmaceutical's Amendment</b>	
<b>Code</b>	<b>Account</b>
2120116000 2442116000	Pharmaceutical made of penicillin, streptomycin or derivatives in measured doses or etc.
2120118000 2442118000	Pharmaceutical made of others antibiotics, etc.
2120127000 2442126500	Medicines containing corticosteroid hormones, derivatives and structural analogues thereof, put up in measured doses or packed for retail sale.
2120134000 2442134000	Medicines made of alkaloids or derivatives, etc.
2120136000 24421360000	Other medicines made of vitamins or other products of heading 29.36 HS etc.
2120138000 24421380000	Other medicines made of mixed or no mixed products etc.
<i>Source of information : Greek statistical authority</i>	

As a result of this data, the domestic manufactured pharmaceuticals were increased in 2006-2010, with an annual average rate of change 6,2 %. However, the last year a deceleration of the growth rate has emerged. Especially, in 2010 (during this year the first price reductions of the pharmaceuticals have been imposed) the value of the domestic production (€ 884 m.) ranged around the same levels compared to the previous year. According to market sources, the values of the domestically manufactured generic pharmaceuticals (at wholesale prices) is estimated at €360 m. in 2011 from €430 m. the previous year. Market experts estimate that a percentage of 13 -15 % of the overall pharmaceutical expenditure concerned the domestically manufactured pharmaceuticals.

<b>Chart 2.5 Development of the domestic production of medicines in value (2006-2010)</b>		
<b>Έτος</b>	<b>Αξία</b>	<b>Μεταβολή</b>
2006	693,8	3,0%
2007	793,1	14,3%
2008	858,1	8,2%

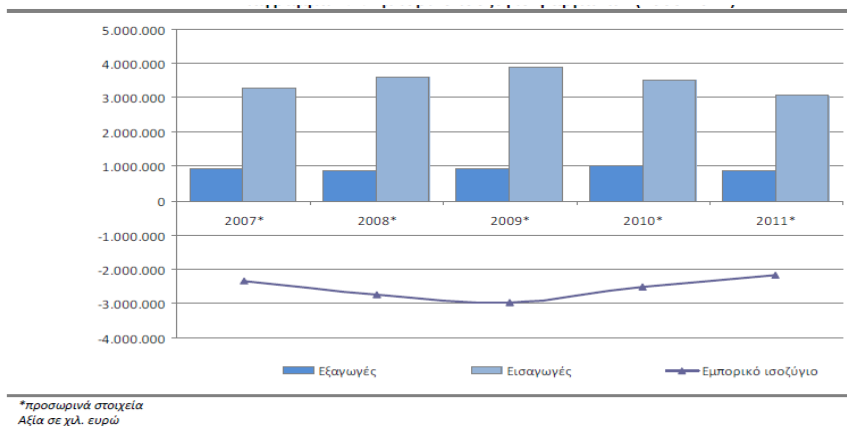
2009	883,8	3,0%
2010	884,0	0,0%
Value in thousands €		
<i>Source of Information : Prodcorn</i>		

The development of the trade balance of the pharmaceutical products from 2007 to 2011 is presented in the following table in accordance with the evidence of ELSTAT.

<b>Chart 2.6 Trade balance of pharmaceuticals (2007-2011)</b>			
<b>Year</b>	<b>Exports</b>	<b>Imports</b>	<b>Trade balance</b>
2007 *	931.958	3.293.586	<b>-2.361.625</b>
2008 *	857.488	3.602.541	<b>-2.745.053</b>
2009 *	915.715	3.887.821	<b>-2.972.106</b>
2010 *	999.574	3.512.370	<b>-2.512.796</b>
2011 *	867.303	3.054.919	<b>-2.187.616</b>
* Provisional data			
Value in thousands €			
<i>Source of information : Greek statistical authority</i>			

The total value of exports of pharmaceuticals presents intense fluctuations during the five-year period under review. The Greek pharmaceuticals (manufactured/imported) are available at comparatively low prices which make them particularly competitive in the global market resulting in the formation of the value of exports of these products in 2010, at €999,6 m., indicate an increase of 9,2 % in relation to 2009 (€ 915,7 m.).

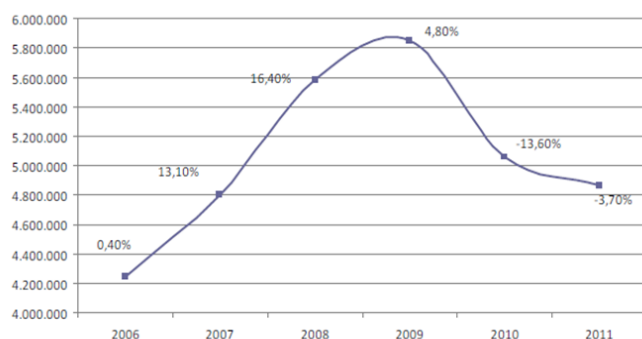
Diagram 2.2 Trade balance of pharmaceuticals (2006-2011)



In 2011 an increase of the value of exports is observed only in certain groups of medicines resulting in the reduction of the total value of exports at €867.3 m. (13, 3 % reduction) in relation to the previous year. The total value of the imported pharmaceutical products is growing during the period 2007-2009 with an annual average variation rate about 9% while the last two years it has been reduced and in 2011 it has been formed at €3.055, 0 m. (about 13% reduction compared to 2010).

Chart 2.7 Domestic market of pharmaceutical companies (2006-2011)		
Year	Market size	Change
2006	4.245.654	0,4%
2007	4.800.237	13,1%
2008	5.585.204	16,4%
2009	5.852.138	4,8%
2010	5.055.565	-13,6%
2011	4.868.903	-3,7%
In thousand €		
Source of information: National Organization of medicines		
Processing : ICAP Group		

Diagram 2.3 Domestic market of pharmaceutical companies



Value in thousands €

Source of information: Greek statistical authority

Chart 2.8 Structural indicators of domestic pharmaceutical industry		
Indicator in millions € except where is refers in other measurement unit	Alteration	Pharmaceutical production
Number of companies	83.565	51
Turnover	54.883,8	1.441,0
Value of production		
Mixed fringe	50.150,2	1.334,9
Added value	1.630,8	117,6
Gross functional fringe	16.901,2	640,6
Total markets of possessions and services	8.154,3	392,2
Markets of goods	42.390,0	921,7
Cost of work	6.991,7	157,8
Salaries and wages	8.905,5	248,4
Cost of social security	1982,2	55,0
Gross investments	3.131,2	575,3
Persons in work (persons)	400.934	8.082
Buying in energy products	1.893,7	10,4
Turnover per person in work (thousands € )	136,9	178,3
Apparent productivity of work per person in work	42,2	79,3
Productivity of work costumed with wage	150,6	253,9
Gross added value per	53,1	80,5



person in work		
Portion of work's cost in product value	17,8	18,6
Average cost of work ( thousands €)	28,0	31,2
Number of persons in work per company	4,8	158,5
Gross functional product (%)	14,9	27,2
Added value as percentage of product's value (%)	33,7	48,0
Portion of work's cost at total markets of goods and services (%)	21,0	26,9
Portion of gross functional fringe at added value (%)	48,2	61,2
Portion of added value at total of remaking (%)	100,0	3,8
Portion of product value at total of remaking (%)	100,0	2,7
Portion of turnover at total of remaking (%)	100,0	2,6
Portion of employment at total of remaking (%)	100,0	2,0
Investments per person in work (thousands €)	7,8	71,2
Volume of investment activity (investments / added value) (%)	18,5	89,8

Source of information: Eurostat

The size of the pharmaceutical market in this specific study has been estimated on the basis of the sales of the pharmaceutical companies (manufacturers/importing) to hospitals and pharmaceutical wholesalers/pharmacies (at wholesale prices). As a result from the presented evidence, the total size of the market under review has presented an increase during the period of 2006-2009 with an annual average rate of increase of 11%. The more general recession which is obvious in the Greek economy and the continual reduction on the

prices of pharmaceuticals had as a result the recession of the value of market both in 2010 (-13,6 %) and in 2011 (-3,7%). Particularly, in 2011 it is estimated that it fell in €4.868, 9 m. from € 5.055,6 m. of the previous year.

It is noted that the Hellenic Ministry for Health and Social Solidarity (YYKA) published, on April 2012, the new Price List of Pharmaceuticals for Human Use which concerns the recalculation for 12.320 codes of pharmaceuticals. This development marks even more reduction of the wholesale price of a great number of pharmaceutical products resulting in a new decline of the market under review during 2012.

In order to examine the intensity of the competition in the industry, the concentration factor was calculated for the most important companies. The concentration factor is given for this reason:

$$CR_n = \frac{\text{sales n large companies}}{\text{totalsales}} * 100$$

Where the number is the sum of the size of n the biggest units and the denominator is the total size of this specific market. According to the results, the 3,5 and 10 of the biggest companies cover respectively the 24,6%, 35,2 % and 56,5% of the total market under review (in value).

In the following table some companies' brands are presented, included in the samples of the sector studies.

<b>Chart 2.4 Companies' brands including at samples of sectoral studies Pharmaceutical companies</b>	
<b>Sample sales</b>	
ALAPIS A.B.E.E.	
BIOSPRAY A.B.E.E.	
BOEHRINGER INGELHEIM ΕΛΛΑΣ A.E.	
BROS E.Π.E.	
CANA ΦΑΡΜ. ΕΡΓΑΣΤΗΡΙΑ A.E.	
DEMO A.B & E.E.	
ELPEN ΦΑΡΜΑΚΕΥΤΙΚΗ ΒΙΟΜΗΧΑΝΙΑ A.E.	
FREZYDERM A.B.E.E.	
GALENICA A.E.	
GENEPHARM A.E.	
HELP A.B.E.E.	
IASIS PHARMACEUTICALS HELLAS A.B.E.E.	

LAVIPHARM A.E.
PROEL Ε.Γ. ΚΟΡΩΝΗΣ Α.Ε.
SPECIFAR A.B.E.E.
UNI-PHARMA A.B.E.E.
ANFARM ΕΛΛΑΣ ΑΕ.
BIANEX Α.Ε.
BIOΣΕΡ INDUSTRY Α.Ε.
GAPA.E.
KLEVA Α.Φ.Β.Ε.Ε.
KOPER PHARMACEUTICAL INDUSTRY Α.Ε.
MINERBA PHARMACEUTICAL Α.Ε.
NORMA HELLAS Α.Ε.
DOCTUM PHARMACEUTICAL Κ. ΓΙΟΚΑΡΗΣ & ΣΙΑ ΑΕ.
PETSIAVAS Ν. Α.Ε.
ΡΑΦΑΡΜ Α.Ε. & Β.Ε.
Σ.Μ. PHARMACEUTICALS PRODUCTS Ε.Π.Ε.
TSETI Ι. & ΕΙΡ. Α.Β.Ε.Ε.
FAMAR Α.Β.Ε.
FARMANET Α.Β.Ε.Ε.
FOINIXS ΦΑΡΜ Ε.Π.Ε.
<b>SPECIMEN FINANCIAL ANALYSIS</b>
ALAPIS Α.Β.Ε.Ε.
BOEHRINGER INGELHEIM ΕΛΛΑΣ Α.Ε.
DEMO Α.Β. & Ε.Ε.
ELPEN ΦΑΡΜΑΚΕΥΤΙΚΗ ΒΙΟΜΗΧΑΝΙΑ Α.Ε
SPECIFAR Α.Β.Ε.Ε.
BIANEX Α.Ε.
FARMATEN Α.Β.Ε.Ε.
<i>Source of information : ICAP Group AE</i>

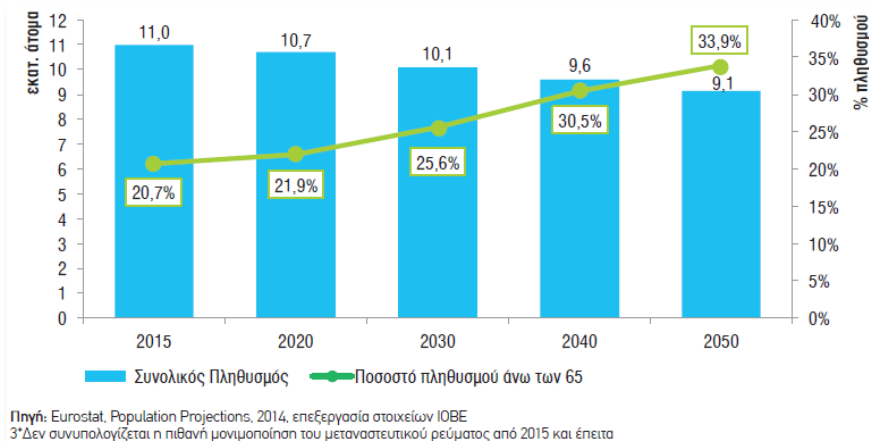
### 3. DOMESTIC MARKET

#### 3.1 Macroeconomic developments

As far as demographic changes are concerned, the negative sign of the physical change of the last years (difference between births-deaths-21.592 for 2014) it is estimated that it will be continued and it will lead the total population of Greece in a gradual decline until 2050, in this way changing the structure of the age groups. Particularly, in 2050 the percentage of the population over 65 years-old in Greece will constitute almost the half of the total population (46.6%) resulting to significantly deteriorate its dependency index and

to put even more pressure on the social security funds.

Diagram 3.1 Population growth



Source of information: Eurostat. Population Projections, 2014, processing data IOBE

For a fifth year in a row, the public pharmaceutical expenditure was decreased, as the target was defined at €2 billion from €2,37 billion in 2013, thus showing total decrease by 60,8% for the period 2009-2014. Respectively, the per capita public pharmaceutical expenditure of Greece followed a sharp downturn, where from €456 per inhabitant in 2009 was decreased in €183 in 2014, putting Greece at the last positions among the European Union countries. We should also take into account the great participation of the industry, in order to cover the needs of the Greek patients, through the rebates and the claw back mechanisms. Specifically, the pharmaceutical industry in 2014, has given €226, 4 m. in rebates and €201, 8 m. in claw back thus contributing, 21.6% of the real pharmaceutical expenditure compared to 13.9 % in 2013 and 9, 4 % in 2012.

According to the latest data, the total expenditure of health in Greece was formed in €15, 5 billion in 2013 (8, 6 % of GDP), from which €10 billion concern the public expenditure of health (5, 5 % of GDP). From the total expenditure, the services of medical care and of rehabilitation constituted the largest part followed by the pharmaceutical expenditure (€4, 6 billion), the expenditure of the auxiliary services of health care (€833 m.) and the expenditure of

administration (€582, 6 m.). Likewise, the expenditure of hospitalization was decreased by 9, 4 %, compared to 2013, reaching at €1, 6 billion. The biggest reduction in each category of the expenditure for hospital treatment has been observed in the expenditure for services (-18, 2 %) and in the relevant pharmaceutical expenditure (-13, 7 %).

In 2014 the total sales in value of the pharmaceutical companies toward the pharmaceutical wholesalers/ pharmacies reached at €3,88 billion, presenting a decrease by 2% compared to the previous year, in contrast with the sales toward the hospitals / EOPYY, where they are presented increased by 4,5 % respectively. The total sales in volume were in an opposite direction, where the number of the packages that they were sold in hospitals/ EOPYY, is presented reduced by 3, 6 %, while respectively in pharmacies/ wholesalers is presented increased by 2, 8 %.

The penetration in volume of the on-patent pharmaceuticals came up to 11,2 % in 2014, a higher percentage than the average of Europe (7%), which is connected with their significantly lower price compared to the respective European average (52% lower).

Furthermore, the market share of the off-patent pharmaceutical products in 2014 came up to 64, 2 % (off-patent 35, 0 % % generics 28, 7 %) presenting a rising trend in comparison to the previous years.

According to the available evidence, the size of the market of the over-the-counter medicines (OTC) has been formed in 2014 at €331 m., in higher levels than these of the previous years.

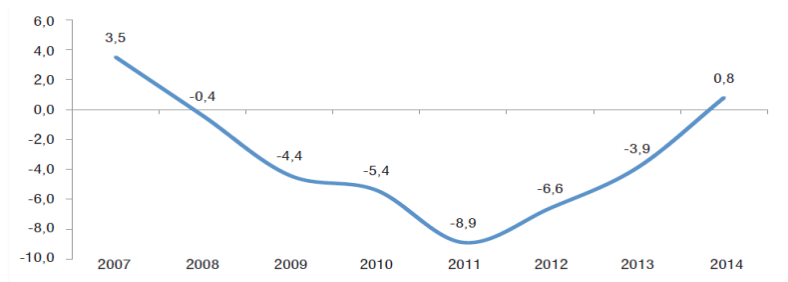
The production of pharmaceuticals in Greece in 2014, in ex-factory prices, came up to €857 m., reduced compared to 2013 by -2, 8 %. The industry of the domestic manufacturing of pharmaceuticals presents a stable participation in the domestic industrial manufacturing and compared to the rest of the industries it is placed in the 10th position among the 24 processing industries for 2014.

In the field of the pharmaceutical manufacturing, the employment in Greece was comprised of 13, 3 thousands of individuals in 2014, increased by 0, 8 % compared to 2013. The employees of the pharmaceutical industry represent the 0, 4 % of the total number of employees in the Greek economy for 2014, while the proportion in the total industry came up to 3, and 6 %. These proportions occur over the average of EE28 (2, 1%).

The imports and exports of pharmaceuticals in 2014, came up

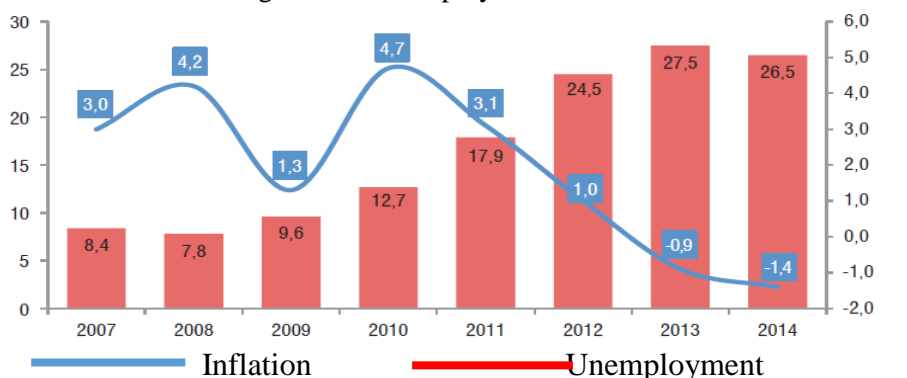
to €2, 7 billion and €1, 0 billion respectively. In relation to 2013, the imports of pharmaceutical products presented a decrease by 2,2 %, while the exports were decreased by 0,7 %, as a result the deficit was decreased by 3,1 %, while in absolute amounts it was formed at -€ 1,6 billion, in contrast with -€1,7 billion in 2013.

Diagram 3.2 Alteration of GDP  
% alteration



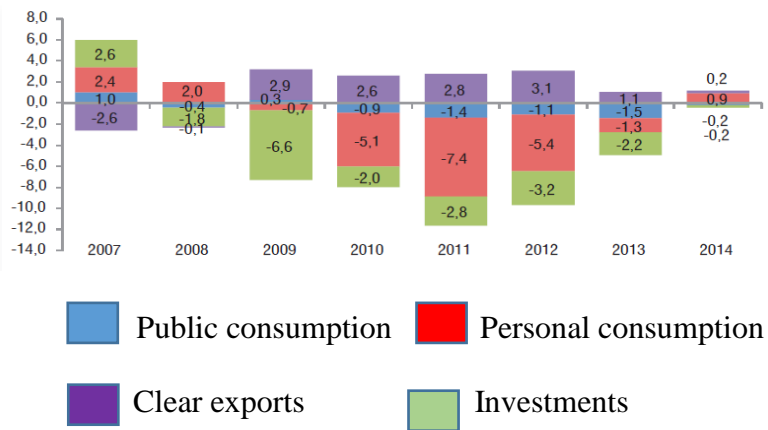
Source of information: Eurostat, 2015, GDP indicators 2010

Diagram 3.3 Unemployment and inflation



Source of information: Eurostat, 2015, GDP, indicators 2010

Diagram 3.4 Component's analysis of GDP



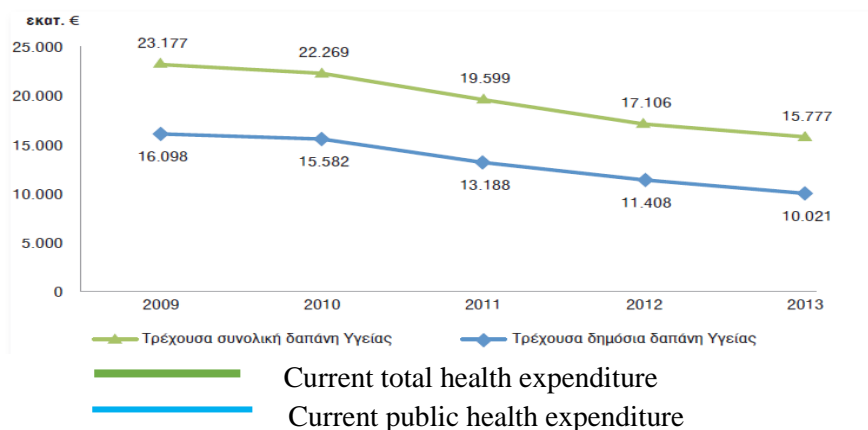
*Source of information: Eurostat, 2015, GDP, indicators 2010*

The development of Greek economy after 2007, presents a quantitative change, with the GDP being reduced by  $\frac{1}{4}$ , but in parallel we note the restructuring of its components in its formation. More specifically, the development of the Greek economy until 2007 was based on the consumption (public and private), while the role of the investments was limited to circular fluctuations. The net exports (imports-exports), because of the intense commercial deficit, usually functioned negatively in the formation of GDP. After 2008, the image reverses, as the public and private consumption were decreased significantly because of the reduction of income, resulting to the limitation of the rate of change of GDP.

### **3.2 Domestic demand of pharmaceuticals**

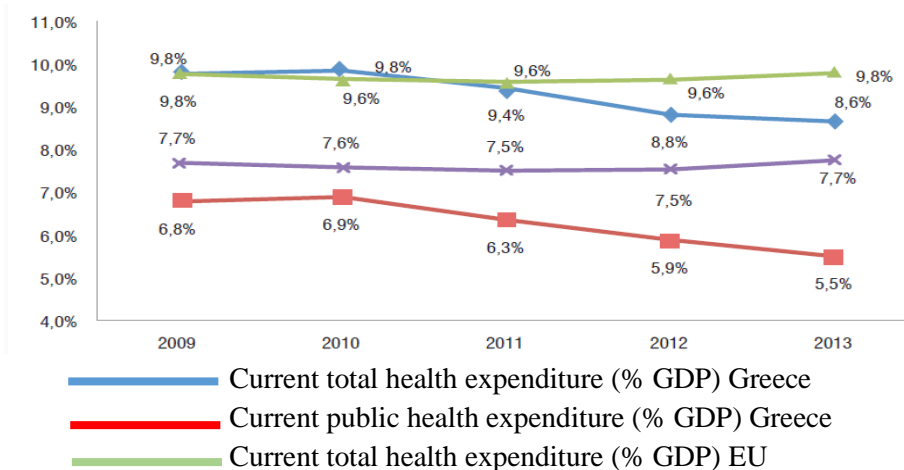
In 2013, the total expenditure of health in Greece was formed at €15, 8 billion from which €10 billion concerned the public expenditure of health. During 2009-2013, both the total expenditure of health and the public expenditure were decreased as well as GDP, with reductions that reached at 31, 9 % and 37, 8 % respectively. It is worth being noted that the pharmaceutical expenditure with the other medical products underwent a greater reduction compared to the rest expenditure of health during the period 2009-2013.

Diagram 3.5 Current total health's expenditure and current public health's expenditure in millions €, millions €



Source of information: System health accounts, 2013, processing data IOBE

Diagram 3.6 Current total health's expenditure and current public health's expenditure as percentage of GDP in millions €  
% GDP



Source of information: System health accounts, 2013, ELSTAT, 2015, OECD, Health Data, processing data IOBE, EU-23 (no data about Bulgaria, Croatia, Cyprus, Romania and Malta)

Especially, while in 2009 the total expenditure of health in Greece corresponded to 9, 8 % of GDP, in 2013 it was decreased at 8, 6 %, a percentage significantly lower than the average of the European Union (9, 8%), whereas the respective percentage for the countries of

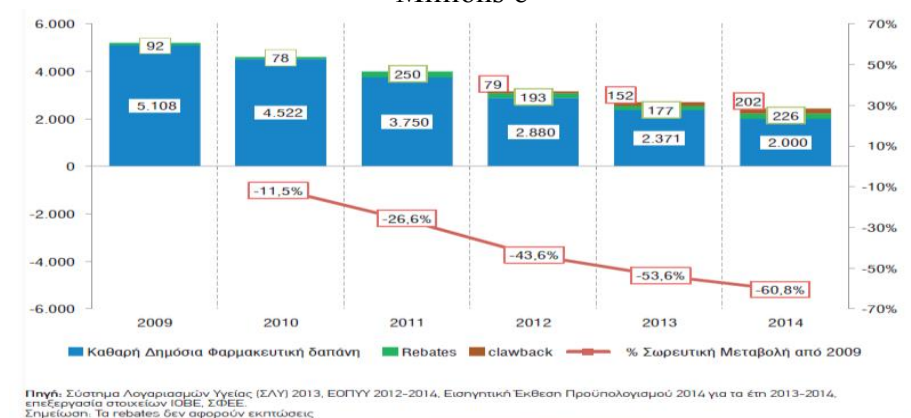


the Eurozone (available evidence for the 17 countries) was at 10, 2 % for 2013, without particular changes since 2009. In the individual countries, the percentage of the expenditure of health in GDP reaches at 9% in Portugal and 8, 8 % in Italy.

In relation to the public expenditure of health the percentage of Greece approached 5, 5 % in 2013, as opposed to 7, 8 in European Union and 8, 0 % in Eurozone. Respectively in Portugal the percentage is formed at 6 % and in Italy at 6, 8%.

The medicine market, even though it is only a part of the total health expenditure it constitutes an important part of the health sector, thus the part analysis of the pharmaceutical expenditure is very interesting, especially today that the budgetary adjustment and the reduction of the available income have formed a new economic environment.

Diagram 3.7 Public pharmaceutical expenditure 2009 – 2014  
Millions €



■ Clear public health expenditure    ■ Rebates  
■ Claw back    — % Cumulative change from 2009

Source of information: System health accounts, 2013, National Health Organization, Budget report 2014 about years 2013-2014, processing data IOBE

In order to totally understand the part expenditure for pharmaceuticals, it is really useful the clarification of certain parameters of the pharmaceutical expenditure, as they are presented below.

Since 2012, the reduction of the pharmaceutical expenditure does not cover needs of the patients from the state, as a result there is a great transition of the cover of these needs in the private sector and especially, in the pharmaceutical industry. Particularly, as it is depicted in the table 5, the refunds which burden the pharmaceutical companies they are constantly increased. As a result their participation in the real public pharmaceutical expenditure has increased from 9, 4 % in 2012 to 21, and 5% for 2014.

### 3.3 Domestic supply

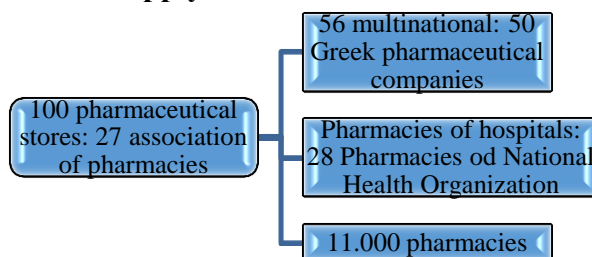
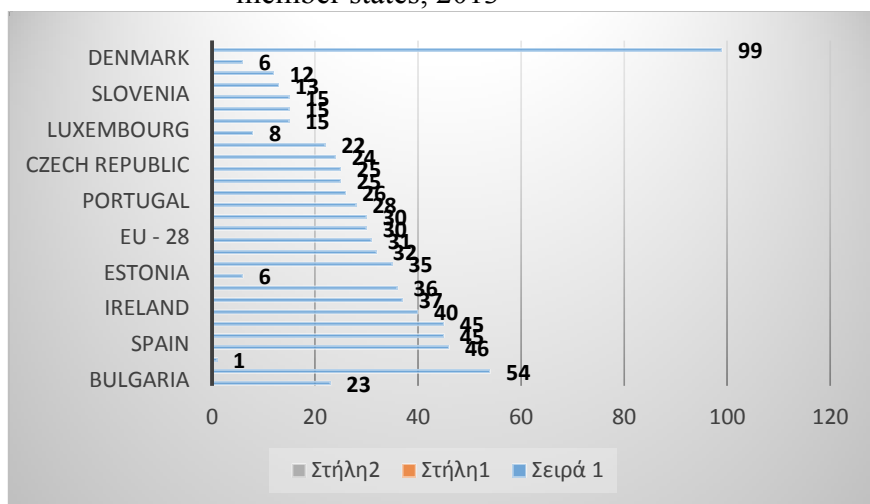


Diagram 3.8 Number of pharmacies per 100000 residents in EU-27 member states, 2013

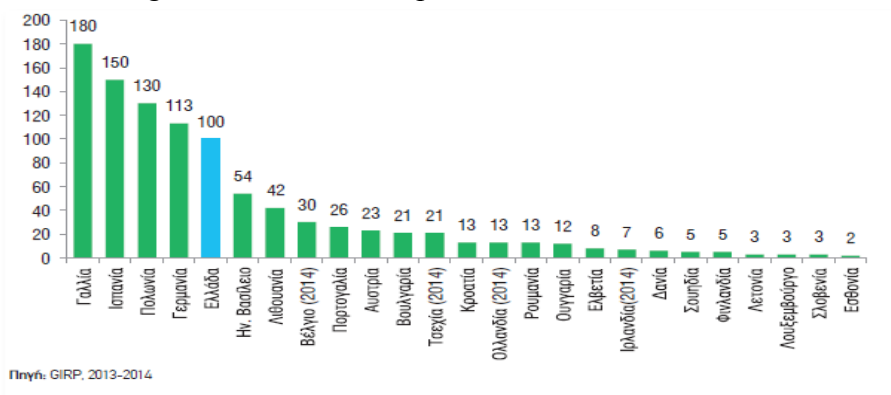


Source of information: ABDA, German Pharmacies, Figures Data Facts

The manufacturing and the distribution of the pharmaceutical products is one of the most dynamic industries of the Greek industry. In 2014, according to Eurostat, about 13,3 thousands of employees

were occupied in the manufacturing industries of the basic pharmaceutical products (the employees, of the wholesale trade industry of the wider health sector are not included, transformed the pharmaceutical industry in a crucial and supporting factor of the occupation and the development of the national economy.

Diagram 3.9 Number of pharmaceutical stores, 2013



Source of information: GIRP, 2013- 2014

Chart 3.1 Pharmacies and warehouses in Greece and Europe, 2013 – 2014				
Country	Pharmacies	Full – line wholesalers	Warehouses	Rate of warehouses per wholesaler
Austria	1303	7	23	3.3
Belgium	4998	8	30	3.8
Bulgaria	3652	3	21	7.0
France	22655	17	180	10.6
Germany	20921	13	113	8.7
Denmark	314	2	6	3.0
Switzerland	1744	4	8	2.0
<b>Greece</b>	<b>11000</b>	<b>100</b>	<b>100</b>	<b>1.0</b>
Estonia	469	4	2	0.5
United States	14186	9	54	6.0
Ireland	1701	2	7	3.5
Spain	21458	42	150	3.6
Italy	18102	52	-	
Croatian	1111	-	13	
Cyprus	477	-	-	
Latvia	783	3	3	1.0
Lithuania	1383	3	42	14.0

Luxemburg	91	3	3	1.0
Hungary	2334	7	12	1.7
Netherlands	1981	5	13	2.6
Poland	11297	10	130	13.0
Portugal	2885	46	26	0.6
Romania	7932	7	13	1.9
Slovakia	1935	2	-	
Slovenia	321	9	3	0.3
Sweden	1303	3	5	1.7
Czech Republic	2450	4	21	5.3
Finland	818	2	5	2.5

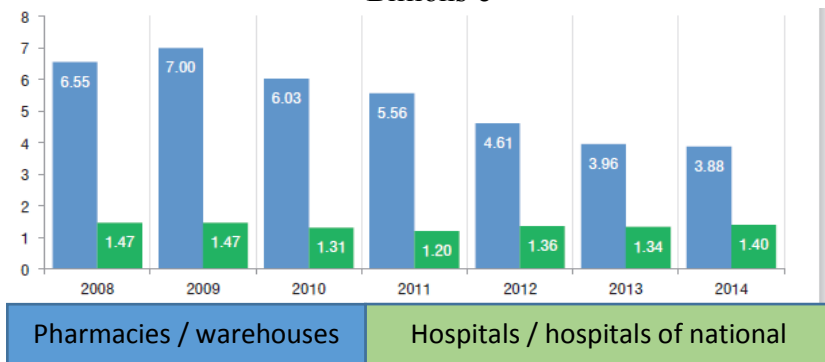
*Source of information : PGEU, 2014, GIRP, 2013-2014, Data about EE-27 countries, except Cyprus and Malta*

Chart 3.2 Pharmacies per geographic region and prefecture							
	Geographical region and νομός	2004	2011		Geographical region and νομός	2004	2011
	TOTAL	9211	11315				
1	East Macedonia & Thrace	402	560	7	West Greece	514	662
	Drama	81	149		Aetolia and Akarnania	149	204
	Kabala	109	132		Achaia	265	324
	Evros	98	114		Hleia	100	134
	Canthi	55	78	8	Central Greece	333	507
	Rodopi	59	87		Voiotia	50	123
2	Central Macedonia	1723	2125		Evvoia	143	185
	Hmathia	119	143		Evritania	8	9
	Thessaloniki	1121	1308		Fthiotida	110	136
	Kilkis	58	82		Fokida	22	54
	Pella	105	147	9	Peloponnisos	410	564
	Pieria	113	159		Argolida	73	89
	Serres	130	187		Arkadia	56	74
	Xalkidiki	77	99		Korinthia	93	132
3	WestMacedonia	195	308		Laconia	67	91
	Grevena	20	46		Messinia	121	178
	Kastoria	32	66	10	Attiki	3809	4241
	Kozani	115	153	11	North Aegean	126	199
	Florina	28	43		Lesvos	68	87
4	Thessalia	655	810		Samos	24	68
	Karditsa	95	129		Chios	34	44
	Larisa	251	320	12	South Aegean	215	295

	Magnisia	186	217		Dodekanisa	143	199
	Trikala	123	144		Kiklades	72	96
5	Hpeiros	235	331	13	Crete	442	527
	Arta	53	73		Iraklio	236	284
	Thesprotia	34	47		Lasithi	54	60
	Ioannina	130	158		Rethimno	49	61
	Preveza	18	53		Chania	103	122
6	Ionian islands	152	186				
	Zakynthos	28	38				
	Korfu	77	91				
	Kefallinia	27	36				
	Lefkada	20	21				

Source of information : ELSTAT, 2012

Diagram 3.10 Pharmaceutical's sales in value in Greece, 2008 – 2014, Billions €

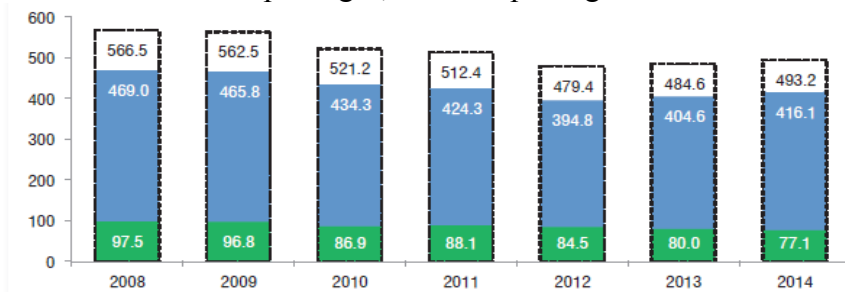


Source of information: National Pharmaceutical Organization, 2015, (Pharmacies / Warehouses at retail price and Hospitals at hospital prices)

The authorized/approved medicines which circulate in the market, are distinguished with the criteria of their protection or not by the patents. In Greece, according to the evidence of IMS, the penetration in volume of the on-patent pharmaceuticals has reached at 11,2 %, a percentage much higher than the average of Europe (7,0 %), which is justified from the significantly lower prices of these products as opposed to the EU countries (0,82 € per unit as opposed to 1,72 €). The share market of the off-patent pharmaceutical products in 2014 came up to 64, 2 % in total (off-patent & generics 35, 0 % & 28, 7 % respectively) presenting a rising trend compared to the previous years

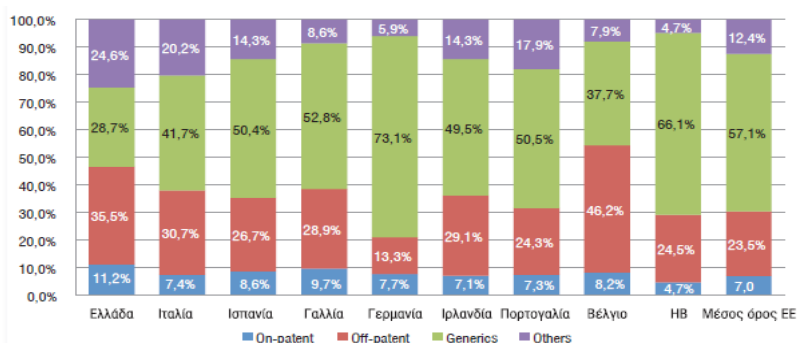
(Diagram 33), while there is not a great deviation between them.

Diagram 3.11 Pharmaceutical's sales in volume in Greece, millions packages, millions packages



Source of information: National Health Organization, 2015

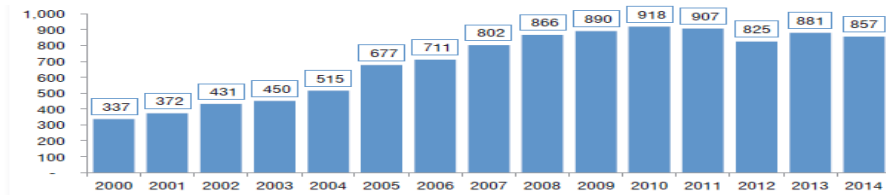
Diagram 3.12 Penetration of pharmaceuticals products based on production's regime in EU member states, 2014, per point in volume



Source of information: IMS, 09/2014

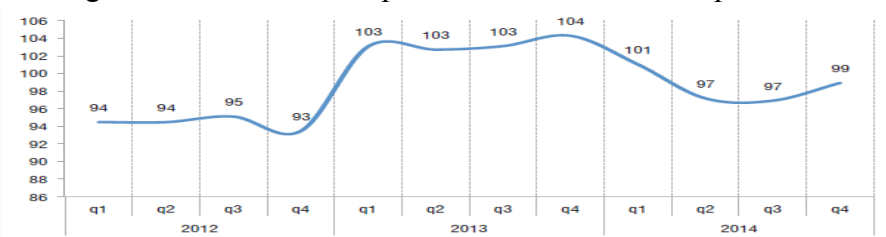
Analyzing the evidence of the index of the industrial manufacturing, the development of the manufacturing in the industry is depicted up to May in 2015. The index of its processing which concerns the manufacturing of pharmaceuticals, noted a reduction in the first semester of 2014, which was replaced partially in the second half the year.

Diagram 3.13 Development of domestic pharmaceutical production, period 2000 – 2014 in millions €, millions €



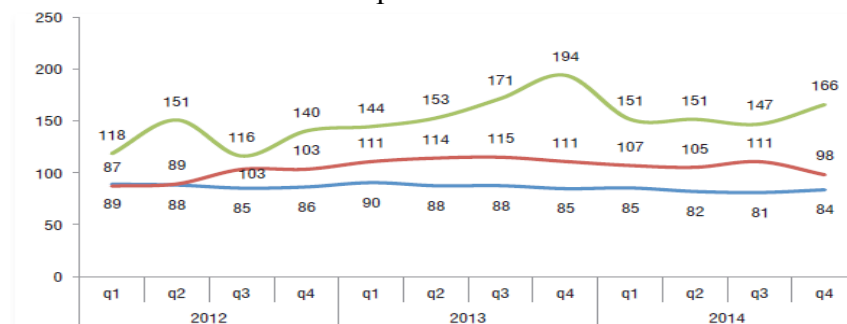
Source of information: Eurostat, 2015, Data base PRODCOM

Diagram 3.14 Indicator of pharmaceutical industrial production



Source of information: ELSTAT, 2015

Diagram 3.15 Indicator of turnover in industrial pharmaceutical production



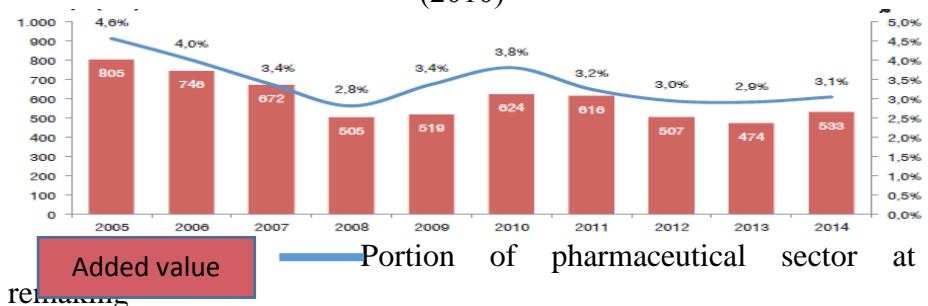
- Indicator of turnover, domestic market
- Indicator of turnover, countries of Eurozone
- Indicator of turnover, countries out of Eurozone

Source of information: Eurostat, 2015

In the following diagram is depicted the development of the turnover in the pharmaceutical industry, divided in the turnover which is created in the domestic market, at the exports towards the countries of Eurozone and towards the countries out of the Eurozone. In this diagram the stability of the index for the domestic market is depicted but also for the countries of Eurozone, while on the contrary significant fluctuations are noted for the countries out of the

Eurozone.

Diagram 3.16 Added value of pharmaceutical production, millions € (2010)



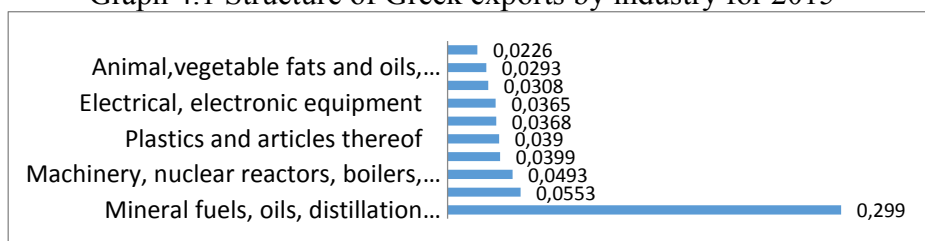
Source of information: Eurostat, Processing data IOBE, 2015

## 4. THE POSITION OF GREECE IN THE GLOBAL PHARMACEUTICAL MARKET

### 4.1 The exports of pharmaceuticals in the total of the Greek exports

The pharmaceutical products contribute especially to the exporting nature of the Greek economy as they are in the 4th position of the total country's exports for 2015, according to the evidence of the International Trade Center. In the following chart the percentage structure of the country's exports is presented, in value for 2015.

Graph 4.1 Structure of Greek exports by industry for 2015



Source of informations : processing data from ITC - UN Comtrade - International Trade Statistics Database

### 4.2 Pharmaceutical exports

In the table below the most important destination countries of the exports of the Greek pharmaceuticals during the five-year period 2011-2015, are presented according to the evidence of the ITC database.



Countries of destination	Exported value in 2011	Exported value in 2012	Exported value in 2013	Exported value in 2014	Exported value in 2015
<b>Total exports</b>	<b>1.267.232</b>	<b>1.237.006</b>	<b>1.392.041</b>	<b>1.380.057</b>	<b>1.125.444</b>
Germany	370.721	322.474	299.838	297.167	212.576
United Kingdom	149.251	139.978	169.003	178.141	167.193
Cyprus	95.233	74.733	82.434	94.055	84.569
Italy	60.611	89.094	106.953	106.724	77.707
France	82.671	98.377	124.994	97.275	69.611
Netherlands	103.152	80.184	79.383	80.910	65.047
Spain	39.542	48.887	59.150	51.273	47.306
Austria	48.400	41.614	77.310	55.207	45.036
Czech Republic	3.591	2.532	15.685	56.599	38.953
Poland	32.665	29.304	36.229	39.970	30.533
Others	281.398	309.828	341.062	322.738	286.918

Source of information: ITC Trade Map – UN Comtrade - International Trade Statistics Database

Notifications: Products: 30 Pharmaceutical products in thousands \$.

The percentage structure of the exports per destination country during the period 2011-2015 is presented below:

Chart 4.2 Exports of Pharmaceutical products

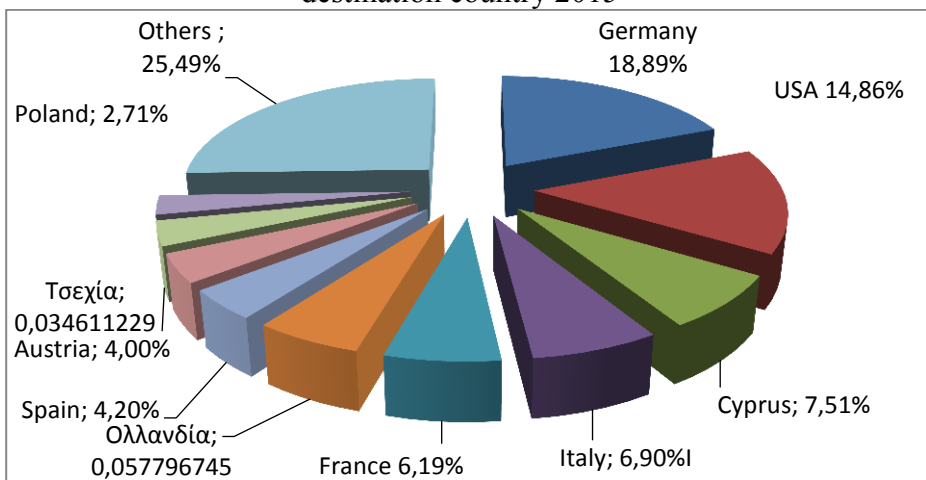
Importers	Share in value in Greece's exports, % in 2011	Share in value in Greece's exports, % in 2012	Share in value in Greece's exports, % in 2013	Share in value in Greece's exports, % in 2014	Share in value in Greece's exports, % in 2015
<b>TOTAL EXPORTS</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Germany	29.3	26.1	21.5	21.5	18.9
United Kingdom	11.8	11.3	12.1	12.9	14.9
Cyprus	7.5	6	5.9	6.8	7.5
Italy	4.8	7.2	7.7	7.7	6.9
France	6.5	8	9	7	6.2
Netherlands	8.1	6.5	5.7	5.9	5.8
Spain	3.1	4	4.2	3.7	4.2

Austria	3.8	3.4	5.6	4	4
Czech Republic	0.3	0.2	1.1	4.1	3.5
Poland	2.6	2.4	2.6	2.9	2.7

Source of information: Processing data from ITC - UN Comtrade -  
International Trade Statistics Database

In the following chart the percentage breakdown of the exports of the Greek pharmaceuticals is presented in value, per most significant destination country for 2015.

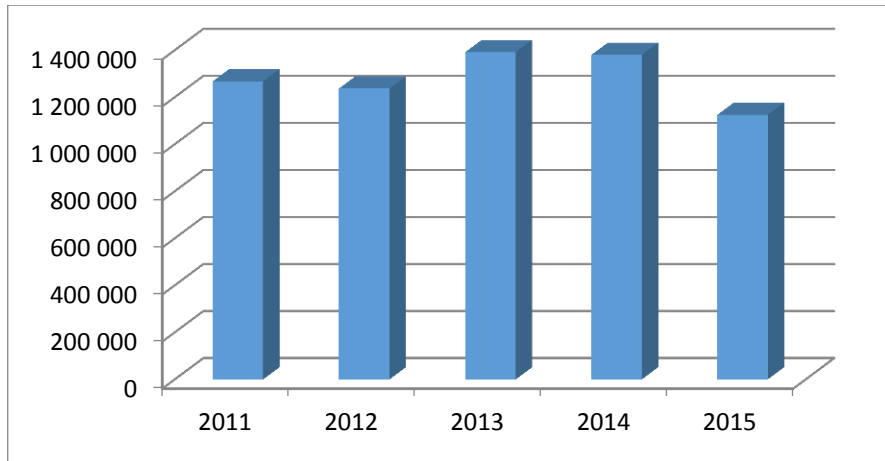
Graph 4.2 Pharmaceutical's exports of Greece in value per main destination country 2015



Afterwards, the development overtime is presented of the exports of the Greek pharmaceuticals in value, for the period 2011-2015.

It is worth being noted that according to the study of Mckinsey & Company<sup>2</sup>, the exports of the generic pharmaceuticals were close to €250 m. in 2011, presenting a particular dynamic and an exporting character the last years.

Graph 4.3 Timeless evolution of Greek pharmaceutical's exports in value, 2011-2015



Source of information: Processing data from ITC – UN Comtrade -  
International Trade Statistics Database  
Notifications: Products: 30 Pharmaceutical products, value in  
thousands\$

According to the above tables and charts, these results emerge:

- The pharmaceutical industry in Greece constitutes one of the most dynamic industries of the economy the last years with a very extroverted character, as it is in the fourth position of the total exports of the country for 2015.
- The main destination countries of the exports of pharmaceuticals is Germany and Great Britain with a percentage of 18, 89 % and 14, 86 % respectively for 2015, while Cyprus and Italy follow.
- The exports are addressed in their majority to European countries.
- The development overtime of the exports of pharmaceuticals of Greece in value, presents fluctuations.

#### **4.3 The Revealed Comparative Advantage index (RCA)**

One very useful tool in international economics for the calculation of the relevant advantage or disadvantage of a country in a particular category of products or services (e.g. in an economic industry) is the Revealed Comparative Advantage index (RCA) or in other words the Balassa Index (BI)<sup>3</sup>. The index emerges according to the trade flows and it is calculated like this:

$$RCA_{ij} = (X_{ij}/X_j) / (X_{iw}/X_w)$$

Where X are the exports i, j, and w which refer to the industry (or the product category), the country and the world total, respectively. Alternatively, the index is designated as the percentage of the exports of a country in an industry towards the percentage of the global exports of this particular industry towards the world total exports in all the industries. The value of the index more than the unit proves the existence of the RCA in this particular product or industry for the country under review.

In the following table the overtime development of Balassa Index or RCA is presented for Greek pharmaceuticals during the period 2011-2015, as it was calculated in accordance with the evidence of the International Trade Center. The index remains stable more than the unit the last five years, revealing a relative comparative advantage in the Greek pharmaceutical industry.

Chart 4.3 Balassa Index or RCA

	Exported value in 2011	Exported value in 2012	Exported value in 2013	Exported value in 2014	Exported value in 2015
Total World Exports	18.223.780.06 5	18.461.735.53 9	18.925.086.84 4	18.986.152.03 3	16.329.281.32 6
Total World Exports Pharmaceutical s (30)	467.705.780	467.373.523	484.579.930	514.726.250	497.222.054
Total Exports Greece	33.377.039	35.151.146	36.261.644	35.755.371	28.202.835
Pharmaceutical s Exports Greece (30)	1.267.232	1.237.006	1.392.041	1.380.057	1.125.444
<b>Balassa Index (BI) - RCA</b>	<b>1,48</b>	<b>1,39</b>	<b>1,50</b>	<b>1,42</b>	<b>1,31</b>

#### 4.4 Imports of pharmaceutical products

In the following table the most significant countries, from which Greece imports the pharmaceuticals for the five-year period 2011-2015, are presented according to the evidence from the database of the International Trade Center.

Chart 4.4 The main import's countries for Greece in value, 2011 - 2015

Exporters to Greece	Imported	Imported	Imported	Imported	Importedd
---------------------	----------	----------	----------	----------	-----------

	value in 2011	value in 2012	value in 2013	value in 2014	value in 2015
<b>TOTAL IMPORTS</b>	<b>4.378.440</b>	<b>3.666.617</b>	<b>3.548.458</b>	<b>3.464.868</b>	<b>2.974.782</b>
Germany	913.460	970.442	1.002.000	947.008	829.533
France	370.960	384.651	372.451	381.007	326.306
Switzerland	595.370	449.705	444.953	431.908	309.211
Netherlands	299.935	279.078	250.154	281.890	293.360
Belgium	641.767	315.999	324.167	290.798	275.157
United Kingdom	363.171	277.939	216.176	215.406	171.312
Ireland	177.962	132.380	163.795	158.690	159.878
Italy	261.874	254.677	240.521	187.937	152.037
Spain	124.621	124.341	122.405	130.374	99.945
Denmark	154.927	106.569	71.925	103.316	67.622

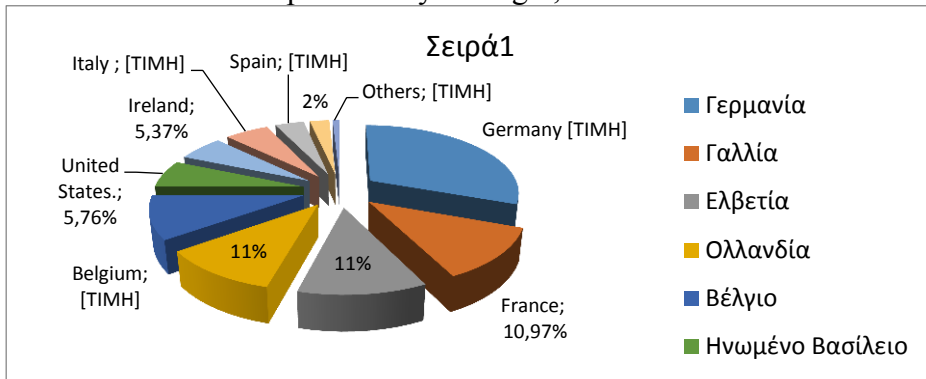
The percentage structure of the imports per country for the period 2011-2015 is presented in the following table:

Chart 4.5 Percentage structure of pharmaceutical's imports for Greece,  
2011 – 2015

Exporters to Greece	Share in value in Greece's imports, % in 2011	Share in value in Greece's imports, % in 2012	Share in value in Greece's imports, % in 2013	Share in value in Greece's imports, % in 2014	Share in value in Greece's imports, % in 2015
<b>Total imports</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Germany	20.9	26.5	28.2	27.3	27.9
France	8.5	10.5	10.5	11	11
Switzerland	13.6	12.3	12.5	12.5	10.4
Netherlands	6.9	7.6	7	8.1	9.9
Belgium	14.7	8.6	9.1	8.4	9.2
United Kingdom	8.3	7.6	6.1	6.2	5.8
Ireland	4.1	3.6	4.6	4.6	5.4
Italy	6	6.9	6.8	5.4	5.1
Spain	2.8	3.4	3.4	3.8	3.4
Denmark	3.5	2.9	2	3	2.3

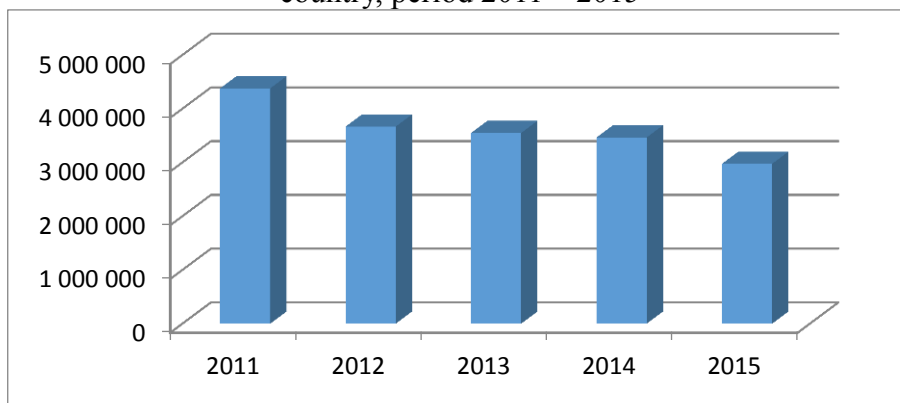
Source of informations: Processing data from ITC - UN Comtrade -  
International Trade Statistics Database

Graph 4.4 Percentage assignment of pharmaceutical imports in value per country of origin, 2015



Source of information: processing data from ITC - UN Comtrade - International Trade Statistics Database

Graph 4.5 Timeless evolution of pharmaceuticals imports in value per country, period 2011 – 2015



Source of information: Processing data from ITC – UN Comtrade - International Trade Statistics Database

From the following tables and charts these results emerge:

- The most significant countries of origin of the imports of Greek pharmaceuticals are Germany and France with a percentage of 27, 89 % and 10, 97% respectively for 2015, while Switzerland and the Netherlands follow.
- The majority of imports come from Europe.
- The imports of pharmaceuticals in value indicates a reduction for the period 2011-2015.

#### 4.5 Foreign Trade

In the following table and diagram the foreign trade for pharmaceuticals of Greece is presented, as it emerges from the variation of the total exports and imports of the country for the period 2011-2015.

Chart 4.6 Overtime development of the trade balance of pharmaceuticals for the period 2011-2015

	2011	2012	2013	2014	2015
ΕΙΣΑΓΩΓΕΣ	4.378.440	3.666.617	3.548.458	3.464.868	2.974.782
Ρυθμός μεγέθυνσης	-4,53%	-16,26%	-3,22%	-2,36%	-14,14%
ΕΞΑΓΩΓΕΣ	1.267.232	1.237.006	1.392.041	1.380.057	1.125.444
Ρυθμός μεγέθυνσης	-7,58%	-2,39%	12,53%	-0,86%	-18,45%
ΕΜΠΟΡΙΚΟ ΙΣΟΖΥΓΙΟ ΦΑΡΜΑΚΩΝ	-3.111.208	-2.429.611	-2.156.417	-2.084.811	-1.849.338

Source of informations: processing data from ITC – UN Comtrade - International Trade Statistics Database

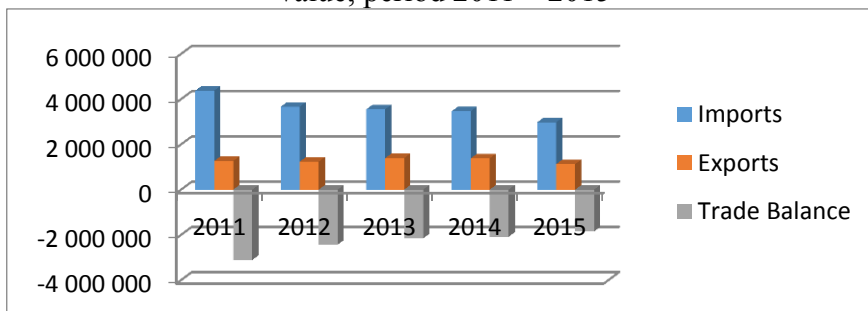
Notifications:products:30 pharmaceutical products, value in thousands\$.

From the following table and chart these results emerge:

- The trade balance of the Greek pharmaceuticals is negative during the all of the last five years.
- The average of the rate of the last five years of the imports comes up to -8, 10 %.
- The average of the rate of the last five years of the exports comes up to -3, 35 %.
- This means that the negative trade balance is being gradually reduced.

Graph 4.6 Overtime development of pharmaceutical's trade balance in

value, period 2011 – 2015



Source of informations: processing data from από ITC – UN Comtrade - International Trade Statistics Database  
 Notifications:products: 30pharmaceutical products, value in thousands\$

#### 4.6 Global Market of Medicine

According to the evidence of European Federation of Pharmaceutical Industries and Associations (EPIA), in 2013, an increase is noticed of this particular market in emerging economies, such as Brazil, China and India, leading to an “immigration” of the economic and research activities from Europe towards these markets. In 2013 the market of Brazil and China grew by 17% and 14% respectively. North America represents 41, 0% of the global sales of pharmaceuticals, while Europe represents the 27, and 4 %. Moreover, the 55% of the sales of new pharmaceuticals was carried out in USA for the period 2009-2013 (evidence IMS Health) whereas the 23% was carried out in the European market.

Graph 4.7 Percentage structure of new imported pharmaceuticals, period 2009 – 2013, global level



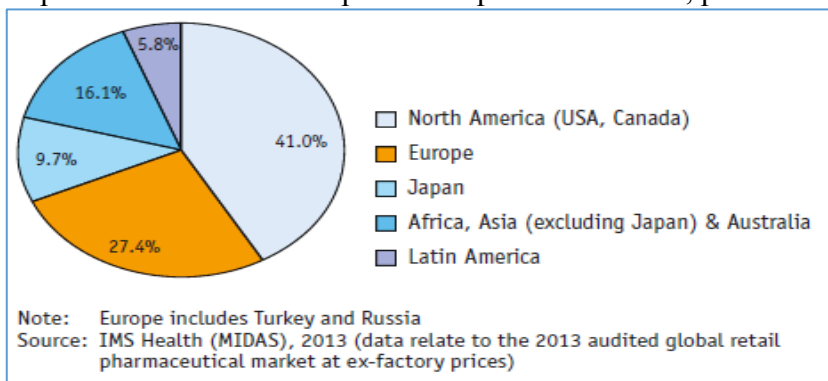
Source of information: IMS Health & EFPI  
 The following chart presents the percentage breakdown of the



sales of new pharmaceuticals, which were imported during the period 2009-2013 in a global level.

According to the evidence of the abovementioned organization, the global market of pharmaceuticals is estimated at €655.222 m. for 2013 (in ex-factory prices). The market of North America (USA & Canada) holds the largest share market (41, 0 %) whereas Europe follows with 27, 4 %.

Graph 4.8 Global market's portion of pharmaceuticals, period 2013



Source of information: EFPIA

In the following table the ten largest pharmaceutical companies in a global level are presented according to their turnover for 2014.

Chart 4.7 10 bigger pharmaceutical companies worldwide by turnover 2014

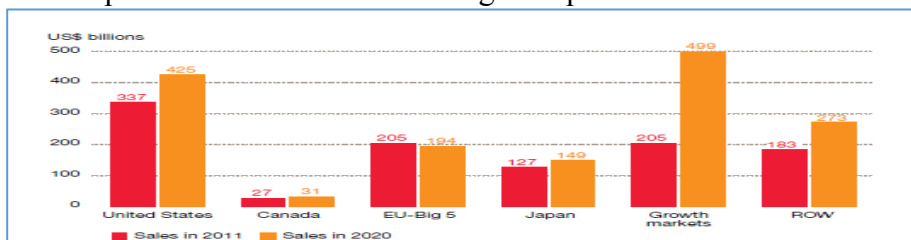
A/A	Companies	2014 (\$m)	2013 (\$m)	Growth (\$m)	Growth (%)
1	Novartis	47.101	47.468	-367	-1
2	Pfizer	45.708	47.878	-2.170	-5
3	Roche	39.120	39.163	-43	0
4	Sanofi	36.437	37.124	-687	-2
5	Merck & Co.	36.042	37.437	-1.395	-4
6	Johnson & Johnson	32.313	28.125	4.188	15
7	GlaxoSmithKline	29.580	33.330	-3.750	-11
8	AstraZeneca	26.095	25.711	384	1
9	Gilead Sciences	24.474	10.804	13.670	127
10	Takeda	20.446	19.158	1.288	7

Source of information: healthcare.globaldata.com Top Pharma List 2014

The tendencies in a global level, as they are presented by IMS Institute for Healthcare Informatics, are summarized below:

- The global use of pharmaceuticals in 2020 is estimated that will be increased by 24% compared to 2015. The majority of the usage of medicines is estimated that it will take place during the next five years in countries like India, Brazil and Indonesia (pharmerging markets), representing about the half of this increase. The developed markets are expected to remain relatively stable. The generic and counterfeit branded products and the OTC products will represent the 88% of the total use of pharmaceuticals in the abovementioned countries (pharmerging markets) and they will constitute the biggest contribution to the increased access in pharmaceuticals in these countries. The new indication medicines are estimated that they will have relatively low rate of penetration in the countries above because of the lack of infrastructure in health.
- The global health expenditure is going to be increased by 29-32 % until 2020, compared to an increase by 35 % in the previous five years. The highest levels of expenditure will be presented for the branded pharmaceuticals, at the same time with the greatest use of generics in pharmerging markets, which will be offset by the influence of the patent expiring.
- More than 90% of the pharmaceuticals in USA will correspond to generics up to 2020. The pharmaceutical expenditure in USA is estimated that it will be increased by 34% up to 2020.

Graph 4.9 Portion's estimates of global pharmaceutical market



Source of information: [www.pwc.com/pharma2020](http://www.pwc.com/pharma2020)

Indicatively, we are presenting some estimations for the size increase of the global pharmaceutical market at 1, 6 trillion \$ in 2020

from 1, 08 trillion in 2011 (in accordance with the evidence of PwC4).

#### **4.7 European Market**

The pharmaceutical industry based on the research, plays a leading role in the European economy, having presented particularly high performance (EFPIA). According to the evidence of the European Federation of Pharmaceutical Industries and Associations (EFPIA), in 2013 the European pharmaceutical industry invested more than €30.630 m. in Research & Development in Europe, employing directly more than 690.000 workers and creating four times more employment indirectly. However, after 2010 the industry faces real challenges as the governments adopt restrictive budgetary policies and they apply austerity measures affecting directly the industry's economics.

In relation to the developments of the last few years in health at a European level, the OECD reports that:

- The life expectancy continues being increased in the European Union and approached 79,2 years for 2012.
- The expenditure for health in real terms, were reduced for half of the EE countries, as a result of the financial crisis. More specifically, during the period 2009-2012 it was reduced by 0,6 % annually compared to the annual increase of 4,7 % during the period 2000-2009. However, in countries as Germany, Austria and Poland a small increase was observed.
- In average among European countries, the number of the doctors per capita, was increased from 2,9 doctors per 1000 inhabitants in 2000 to 3,4 doctors in 2012.
- The ageing of the population is estimated that it will continue to increase the needs of health and its systems in a long term. The estimations report an increase of the state expenditure of health at 1%-2% in average in the countries of the European Union between the years 2010-2060.

#### **5. S.W.O.T ANALYSIS- PERSPECTIVES**

As it emerges from the abovementioned data of the present study, the pharmaceutical industry presented rising trends overlooking the financial crisis which affects the country. The pharmaceutical industry constitutes one of the most important economic industries, as it is estimated that in 2011 it concerned more than 3% of the total

country's GDP. In the Greek pharmaceutical market a significant number of companies is already activated in the level of manufacturing but also in the level of import, with a long-term and powerful presence and dynamic. Some of these companies constitute subsidiaries of multinational companies. According to the evidence that emerge from the present study, the pharmaceutical industry presents a great mobility the last years.

### **5.1 S.W.O.T Analysis**

#### **Advantages**

- Industry's nature, given the fact that the pharmaceutical is an unreplaceable product with a stable demand.
- Certified products from competent authorities.
- A great number of established and developed distribution networks with a great geographical cover.
- Domestic manufacturing of generic pharmaceuticals.
- Highly skilled and educated staff with a high performance in a level of issues.

#### **Disadvantages**

- Defined- controlled profit, as in accordance with the legislative framework there is a set price that limits the development of the companies.
- Large volume in public debt at companies and late payments.
- Lack of a stable legislative framework with constant changes.
- A low level of technological modernization of the companies.
- Limited usage of the research.

#### **Opportunities**

- Greece is already a member of the European Union.
- Development and expansion of the exporting activity.
- Reinforcement of the penetration of the generic pharmaceuticals in the domestic market.

#### **Threats**

- A constant financial crisis since 2008 with a direct consequence, the drastic cutting of expenditure for health.
- The lack of liquidity in the market, with a particular burden since July of 2015 when capital controls emerge, which limits the number of commercial movements and investments.
- A large volume of debts from hospitals and social security funds

- High discounts and refunds of companies at the social security funds.
- Changes in the way of prescribing.
- Withdrawal of a great number of pharmaceuticals from prescription.
- Unstable fiscal-political and economic environment.
- Negative view of Europeans for the country because of the last developments.

As it emerges from the above SWOT analysis, the pharmaceutical industry is one of the most important industry for the economy of the country with the contribution of a National System of Research and Innovation but also in economic terms. There are many advantages and opportunities but also disadvantages which have to be attenuated.

## **5.2 Perspectives**

In the priorities of the pharmaceutical (but also of the wider economic) policy they have to be the assurance of the direct access of all the patients in the pharmaceuticals which they need, the sufficiency of the market through the establishment of a pricing system and of recompense of pharmaceuticals which will give the right motivation to the participants, and also the creation of a stable business environment that assures and reinforces the investments and the development contribution of the pharmaceutical companies, especially in the field of research and development. At the same time, the problems of funding of the public hospitals and the institution of social security have to be resolved soon, and the issue of debts toward the pharmaceutical companies has to be gradually resolved (also through the offsetting of debts) in order to regularize the conditions of the pharmaceutical market. We have also take into account the losses which made the companies of the industry suffered from the impairment of the value of the Greek bonds that they received as opposed to the debts of the previous years (e.g. with the offsetting with the future fiscal obligations). The ongoing crisis which affects the country, has influenced on the economic activities of all the industries, and particularly of the pharmaceutical industry. A great limitation of the state expenditure that concern the pharmaceutical expenditure has been presented the last few years of the financial crisis. A lack of medicines, a decline of sales and profits, changes in the credit policy, a

declined prescription, lack of pharmaceuticals are only few of the examples of the new reality in the pharmaceutical industry.

As the factors of the industry declare, the delay of payments and the accumulation of the public debt, create intense problems and domino effect, given that the already acute problem of liquidity and productivity of funds is getting worse, putting at risk the most of the industry's companies.

The climate that dominates in the industry under review is very negative, as we talk about the suspension of the function of the industrial units and a simultaneous withdrawal of the subsidiaries of large multinational companies, with direct consequences in the regular supply of the pharmaceutical market. The effort of the state to honor its memorandum commitments, requires more tariff adjustments and a reduction in the prices of pharmaceuticals (Price List of Pharmaceuticals of April 2012).

According to the study of IOVE (2013) which recorded the leading position of the domestic pharmaceutical industry in the field of processing, it presented the highest average annual increase in terms of the gross value-added during the period 2000-2010 compared to the rest industries of the domestic processing. This increase is the largest in the member states of the EU (in the respective industry) in this specific period of time. More specifically, during the last decade the industry's contribution in the domestic processing activity followed a rising trend reached at 10% (of the total processing manufacturing) in 2010. This proportion is the 3rd higher in EU after that of Slovenia and Denmark. Particularly, for the same time period (200-2011), the industry noted a bigger increase of manufacturing in the domestic processing. This increase is the biggest in the EU for this specific period as far as the pharmaceutical manufacturing is concerned. Moreover, it is noted that the exports of pharmaceutical products have the 4th biggest proportion from the total of the exports of the Greek processing.

The president of the Hellenic Union of Pharmaceutical industry, Mr. Dimitris Demos, commented on the findings of the study as follows: "The study of IOVE for the development dimension of the domestic pharmaceutical industry showed the most obvious fact: that the Greek pharmaceutical companies are from the least remaining clusters of development and of hope for the country, and probably the most important. When estimations put the unemployment soon at 30%

and the recession become deeper and deeper, the Greek pharmaceutical industry insists on investing and producing in an environment of intensified deindustrialization and of debilitating policies, which undermine its own existence. Thus, the results of the study create mixed feelings: on the one hand they confirm the firm positions and the findings of other international studies which determines the Greek pharmaceutical industry as an emerging factor of the economic life of the country. On the other hand, they surprise us more negatively when we perceive the distance which separates the dynamic function of the Greek pharmaceutical industries from the future, which are being designed for them by the unreasonable policies in the pharmaceutical field.

## **6. POLICY MIX**

### **6.1 Protectionist trade policy**

The traditional tools for exercising the national trade policy like the tariffs, the custom duties of imports and the export subsidies, the export limitation and non-tariff barriers are not applied in a national level given that our country is a member of the EU.

The world trade is based on rules that the World Trade Organization (WTO) has established, which ensure the transparency and equivalence at the trade agreements and the obligations among the countries. The WTO administrates the international trade bargains, functions as a forum for the negotiations, settles the disputes, monitors the national policies, provides technical help and coordinates the collaboration with other international organizations.

The EU is a basic member of WTO and simultaneously it is responsible for the trade policy of the member states. The European Commission take on the relevant negotiations on behalf of the member states which practically means that the national governments of the states cannot negotiate bilateral trade agreements with countries which are not partners of the EU. The specific responsibility is based on the conditions of the EU. The trade policy of the Union is based on 3 main fields of activities and more specifically a) on the undertaking of an active role in the negotiations under the authority of WTO, b) on the development of bilateral trade relations with countries and regions and on the application of unilateral measures, like the privileged treatment of developing countries and c) on the application of a strategy aiming at the elimination of barriers in the important markets

of exports.

The EU has the exclusive power to legislate for issues of commercial transactions and to make international trade agreements, according to the rules of WTO on behalf of its 28 member states. Its policy covers the commercial transactions of products and services and publishes the trade defense and access measures in the markets aiming mainly at the protection of the EU companies from the trade barriers. Finally, it helps the developing countries to develop commercial transactions through the lower tariffs and supporting programs.

The conclusion which emerges is that there are no margins of exercising of the protectionist policy in a national level, given that on the one hand the intra-Community trade is governed by European rules of the single internal market, and on the other hand the trade with third countries (out of EU) is the object of administration of the EU institutions.

## **6.2 Proactive trade policy**

As we saw above, the effort of improvement of the total consideration of the domestic manufactured products meaning the protectionist/reactionary trade policy face an exceptionally restrictive international framework of commercial transactions. On the contrary, the margins of exercising the proactive trade policy, meaning the effort of improvement of the value in usage of the domestic manufactured products in the international market, are bigger. Particularly, the proactive policy in the pharmaceutical industry can be based on the below actions:

**A quality certification:** A basic priority of the proactive policy has to be the support of the domestic pharmaceutical industries toward the recognition of the quality of their products. Today, in a national but also in a global level, a complex and compulsory system of quality assurance has been created, which advances even more than being a competitive weapon of the company or simply aiming at the satisfaction of a client. The quality is not a product that is purchased occasionally and advertised, but we experience it and we build it step by step.

**Exploitation of a political and economic diplomacy:** Aiming at the supporting of the Greek economic interests in a bilateral and a multilateral level, the reinforcement of the extroverted entrepreneurship and of the Greek business presence in the global



environment, and the development of collaboration bonds with international companies, the Offices of Economic and Trade Cases of the Ministry of Foreign Affairs can be more exploited. There is already a dense network in the foreign countries with a commercial interest for the Greek entrepreneurs, which take actions for the acquaintance of the domestic consumers with the Greek products, services, tourism but also the opportunities of attracting investments. In addition, the Greek companies can have a direct access to the services of a skilled commercial counsellor, who is permanently located at the area of their interest, with a good knowledge of the local market, the procedures and the local characteristics.

### **6.3 Project of an extroverted development**

According to the abovementioned restrictions but also to the main conclusion that emerge from the analysis of the domestic and the global pharmaceutical market, the project of the extroverted development of this specific industry is estimated that it has to be based on the following axes:

- Exploitation of the highly skilled and educated staff with best performance in a level of publications, as well as of the significant number of research centers & educational institutions.
- Reinforcement of the domestic manufacturing of generic pharmaceuticals but also of new pharmaceuticals, following the rising trends which are presented in the international market. McKinsey in a relative study estimates that the future of the domestic manufacturing of the generic pharmaceuticals seems very positive, as it predicts an increase of the domestic sales and exports at € 2,2 billion until 2021 from € 1,2 billion in 2010 while in parallel we expected the creation of 4.000 more jobs.
- Strengthening of research, development, and technology with a) the development of interconnection policies of research entities of the universities and the private sector b) the creation/modification of the legislative framework for the consolidation and the commercialization of the copyright of the research project c) the maintenance and the exploitation of the research potential of the country and d) the reinforcement of the legislative framework, policies for the development of the clinical research in Greece and the authorization of pharmaceuticals.
- Reinforcement of the manufacturing and the exports with a) the

adoption of a favorable taxation policy for the manufacturing and the technological investments in the pharmaceutical industry and b) reinforcement of the extroversion and the internationalization of the Greek manufacturing companies of the industry.

- Application of the “Action plan for the promotion of the exports”. The Action Plan emerged through the collaboration of the Ministry of Economy, Development and Tourism, the Ministry of Foreign Affairs, of the supervising institution “Enterprise Greece” and the business institutions (SEB, Export institutions etc.). Briefly, the actions of the plan for the promotion of the exports concern in a level of the creation of an information system & a portal of extroversion, of updating Helpdesk services toward the existed and the potential exporters, of the creation of a framework of specifications and criteria according to which the propositions of certified educational institutions for public funding of educational programs will be evaluated and approved, as well as of the programs in exporting and potential exporting companies, the preparation of entrepreneurship guides and the updating of function of offices for Economic and Trade Cases (OEY) in which we were previously mentioned.
- Mitigation and as much as possible improvement of chronic malaise of the domestic system, such as the bureaucracy and the complexity of the domestic institutional framework, which decelerate the business activity and create more costs, making the domestic manufacturing units less competitive compared to the foreign businesses.
- Review of the overtaxed legal persons and of high costs of social security, which increase the cost of function of subordinate companies and constitute disincentives for new investments.
- Exploitation of the possibilities of product diversification such as the possibility of extension of the manufacturing activity in herbal and therapeutic medicines and cosmetic products (essential oils, herbals) and of sectorial diversification such as the possibility of more development of the medical tourism and also out of the hospital treatment development for elderly and chronically ill people.
- Finding of sources of financing and reinforcement of the domestic pharmaceutical industry. The sources of financing for the actions

can be potentially derived from a) borrowed funds from the banking system (necessary presupposition the recapitalization of banks and the function of healthy domestic banking system, b) the exploitation of national financing programs such as the New Development Law and co-financed programs from European Union, such as ESPA and c) Public and Private Partnerships, like PPP.

- Exploitation of the global Greek diaspora given the powerful presence of the Greek element abroad and particularly in the medical field. It is about an important national factor which remains unexploited in a significant level.

## **7. CONCLUSION**

The pharmaceutical industry presents a great resistance and dynamic the last years instead of the adverse developments of the financial crisis. The pharmaceutical industry constitutes one of the most important industries of the economy, as it is estimated that in 2011 it concerned more than 3% of the total GDP of the country. In the Greek pharmaceutical market an important number of companies are operating in a level of manufacturing but also in a level of importing, with a long-term and powerful presence and dynamic.

The characteristic of the pharmaceutical market constitutes the strict regulatory framework, both during the development of a new pharmaceutical product (with strict controls for security, quality, effectiveness etc.), and during the release of product in market (observation and controls, pharmacovigilance, criteria of economic efficiency etc.)

The manufacturing industry of the pharmaceutical products in Greece noted during the decade of 2000 a significant development, over-doubling the level (volume) of its production. It constituted one of the most rapidly developing industries of the domestic processing, in a period during which the Greek industry in total was in decline. This is based mainly on the increase of investments in the industry with the creation of new manufacturing units and of pharmaceutical products.

The domestic manufactured pharmaceuticals were increased in 2006-2010, with an average annual rate of processing at 6,2%. However, the last years a deceleration of the development rate

emerges. Particularly in 2010, the value of the domestic manufacturing approached at €884 m., whereas the value of the domestic manufactured generic pharmaceuticals (in wholesale prices) is estimated at €360 m. in 2011, from €430 m. the previous year.

For 2011, it emerges that the three, five and ten biggest companies cover respectively 24,6%, 35,2% and 56,5% of the total market under review (in value).

The Greek pharmaceutical industry constitutes one of the most dynamic industries of the Economy the last years with a particular extroverted character, as it is in the 4th position of the total exports of the country for 2015 (4% × total).

Germany and United Kingdom are the main destination countries of the pharmaceutical exports with a percentage 18,89% and 14,86% respectively for 2015, while Cyprus and Italy follow. The exports address in their majority to European countries. The exports of generic pharmaceuticals approached €250 m. in 2011 having a particular dynamic and an exporting characters the last years.

The most significant countries of origin of the Greek pharmaceutical exports are Germany and France with a percentage 27,89 % and 10,97 % respectively for 2015, while Switzerland and the Netherlands follow. The imports are coming from their majority from Europe. The pharmaceutical imports in value present a reduction during the period 2011-2015.

The trade balance of the Greek pharmaceuticals was negative the previous five years, however a gradual reduction is observed of the negative processing rate.

The trends in a global level, are particularly favorable as it is estimated that the global usage of pharmaceuticals in 2020 will be increased by 24% compared to 2015. The most of the usage of pharmaceuticals is estimated that it will become the next five years in countries such as India, Brazil and Indonesia (pharmerging markets) representing about the half of this increase. It will expected that the developed markets will remain relatively stable. The generic, non-genuine branded products and OTC products will represent 88% of the total usage of pharmaceuticals in the above countries (pharmerging markets) and they will constitute the biggest contribution of the increased access at medicines in these countries.

In our point of view, the reinforcement of the quality certification and the exploitation of the political and economic

diplomacy must constitute the basic axis of a proactive trade policy in the domestic pharmaceutical industry.

In the preparation framework of a project of extroverted development of the pharmaceutical industry, a main priority is estimated that it has to be given in the exploitation of the high skills and education of the human resources, in the reinforcement of the domestic manufacturing of the generic pharmaceuticals, in the strengthening of the research, development and technology, the reinforcement of manufacturing and the exports with the adoption of a favorable taxation policy and in the finding of financial sources through borrowed funds from a healthy banking system and from the exploitation of national and community funding programs.

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## **THE POVERTY OF NATIONS AND SUSTAINABLE SOLUTIONS**

Poverty is the state for the majority of the world's people and nations. Why is this? Is it enough to blame poor people for their own predicament? Have they been lazy, made poor decisions, and been solely responsible for their plight? What about their governments? Have they pursued policies that actually harm successful development? Such causes of poverty and inequality are no doubt real. But deeper and more global causes of poverty are often less discussed.

Behind the increasing interconnectedness promised by globalization are global decisions, policies, and practices. These are typically influenced, driven, or formulated by the rich and powerful. These can be leaders of rich countries or other global actors such as multinational corporations, institutions, and influential people.

In the face of such enormous external influence, the governments of poor nations and their people are often powerless. As a result, in the global context, a few get wealthy while the majority struggle.

The injustice of poverty demands a powerful and practical response to address both its causes and its impact on peoples' lives. Using an eight-sided strategy will help to tackle the issue of poverty.

**Keywords:** Poverty, creating jobs, education of girls,

microfinance, transparency, national debt, health insurance, clean water, infants.

### **1. Creating jobs**

Creating jobs is a great way to reduce poverty. When people have jobs, they have income, and when people have income, they can more easily get themselves out of poverty. The UN says that “unemployment and underemployment lies at the core of poverty. For the poor, labor is often the only asset they can use to improve their well-being.

The best pathway out of poverty is a well-paying job. To get back to prerecession employment levels, we must create 5.6 million new jobs. At the current pace, however, we will not get there until July 2018. To kick-start job growth, the federal government should invest in job-creation strategies such as rebuilding our infrastructure; developing renewable energy sources; renovating abandoned housing; and making other common-sense investments that create jobs, revitalize neighborhoods, and boost our national economy. We should also build on proven models of subsidized employment to help the long-term unemployed and other disadvantaged workers re-enter the labour force.

### **2. The education of girls**

The education of girls and women impacts the rest of the societies in which these girls and women live. Degree of education is linked to the age at which women marry and have children, to their health and diseases, to their economic opportunities, to their social standing, and to their general future wellbeing. Educating girls and women can reduce poverty in developing nations.

### **3. Microfinance**

Microfinance is defined as the “supply of loans, savings, and other basic financial services to the poor.” Right now, only about “10 percent of the global population has access to traditional banking,” according the Gates Foundation. However, using microfinance, people who are unemployed or who have a low income could get small loans to help themselves become self-sufficient. Microfinance is a promising way to alleviate poverty.



#### **4. Government transparency**

Creating transparency in government spending of money can help reduce corruption in governments. When governments are accountable to their citizens for their action, or inaction, in different areas of the federal budget, the citizens will be able to accurately assess how well their leaders are leading their country. Also, it allows citizens to see if money is being taken away from poverty-reduction plans and into the pockets of their leaders, which could be a cause of a stagnant economy or job market.

#### **5. National Debt**

National Debt As mentioned by Share the World's Resources, "the debt burden of the world's poorest, most indebted countries has to be tackled if they are to set themselves on a path of sustainable growth, development, and poverty reduction." This is why the International Monetary Fund and the World Bank have created the Initiative for Heavily Indebted Poor Countries (HIPC's). The initiative helps with the debt relief to currently 23 poor countries (mostly in Africa) who are committed to eradicating poverty in their nations.

#### **6. Universal health insurance**

The President of the World Bank, Jim Yong Kim, says that he believes "Universal health insurance coverage in all countries can help achieve a goal of ending extreme poverty by 2030." He says that because about 100 million people are pushed into extreme poverty every year by having to spend money on health issues, and that because health issues push about another 150 million into severe financial hardship, universal health insurance could greatly relieve poverty, globally.

#### **7. Access to Clean Water and Sanitation**

The World Bank says that "Access to clean water and sanitation is one of the most cost-effective development interventions, and is critical for reducing poverty." The reason for this is that women can use the time that they would have spent fetching water to work and produce more, and agricultural production could increase, the costs of services and goods could go down a fair amount. Not only that, but because "diseases caused by unsafe drinking water and poor sanitation are the most significant child health problems worldwide," having

access to clean water could significantly lower the health care costs of these many children.

## **8. Nutrition, Especially in Infants**

Adequate nutrition is an incredibly important indicator of a person's ability to get out of poverty, later in life. Those who are malnourished during the pregnancy, postpartum have higher risks of lifelong physical and mental disability. Because of this, they are "often trapped in poverty," and are not able to make the full contribution to the "social and economic development of their households and communities, as adults." This is a cause of poverty for many people, and in many countries, the GDP goes down due to this early malnutrition in infants.

### **The 11 facts about global poverty:**

- Nearly 1/2 of the world's population — more than 3 billion people — live on less than \$2.50 a day. More than 1.3 billion live in extreme poverty — less than \$1.25 a day.
- 1 billion children worldwide are living in poverty. According to UNICEF, 22,000 children die each day due to poverty.
- 805 million people worldwide do not have enough food to eat. Food banks are especially important in providing food for people that can't afford it themselves. Run a food drive outside your local grocery store so people in your community have enough to eat.
- More than 750 million people lack adequate access to clean drinking water. Diarrhea caused by inadequate drinking water, sanitation, and hand hygiene kills an estimated 842,000 people every year globally, or approximately 2,300 people per day.
- In 2011, 165 million children under the age 5 were stunted (reduced rate of growth and development) due to chronic malnutrition.
- Preventable diseases like diarrhea and pneumonia take the lives of 2 million children a year who are too poor to afford proper treatment.
- As of 2013, 21.8 million children under 1 year of age worldwide had not received the three recommended doses of vaccine against diphtheria, tetanus and pertussis.
- 1/4 of all humans live without electricity — approximately 1.6

billion people.

- 80% of the world population lives on less than \$10 a day.
- Oxfam estimates that it would take \$60 billion annually to end extreme global poverty--that's less than 1/4 the income of the top 100 richest billionaires.
- The World Food Programme says, "The poor are hungry and their hunger traps them in poverty." Hunger is the number one cause of death in the world, killing more than HIV/AIDS, malaria, and tuberculosis combined.

These are only 8 causes of poverty. They are both external and internal causes; both man-made and natural. Just as there is no single cause of poverty, there is no single solution. Nevertheless, understanding the ways that complex forces like these interact to create and sustain the conditions of widespread global poverty is an important first step in formulating comprehensive and effective responses to combat poverty around the world.

The text included in the section or subsection must begin one line after the section or subsection title. Leave two blank lines (10 point) before the section title and one line before the subsection title.

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## **TOURIST SPECIAL ECONOMIC ZONES**

The article considers the role and importance of tourism for the development of regional economy. The author analyzes aspects of tourist special economic zones creation and their impact on tourism development.

**Keywords:** Special economic zones of tourist-recreational type, tourism, tourism industry, infrastructure, special economic zone (SEZ).

### **1. INTRODUCTION**

Tourism is one of the fastest growing economic sectors, aimed at satisfaction of people's needs and improvement of the quality of life. Tourism accumulates large financial flows, contributes greatly to the development of regional economics and has a stimulating effect on

such sectors of economy as transport, telecommunication, commerce, construction, agriculture and others. Tourism is one of the main income for many countries [1]. The amount of government revenues from the tourism sector depends on the economic and social situation of potential consumers of tourism services, natural capital of a country, historic cultural heritage and the effectiveness of organization and management of tourism and service activities. In future the importance of tourism services will only increase, because in many countries with a mixed and developed economy the rate of return in the recreation and tourism is higher than in the other sectors of the economy. By the beginning of the third millennium the international tourism accounted for 8% of total world exports and 30-35% of world trade in services.

According to the United Nations World Tourism Organization (UNWTO) in 2015 about 1.1 billion tourists were recorded in the world and income from international tourism amounted to more than 1200 billion dollars [9].

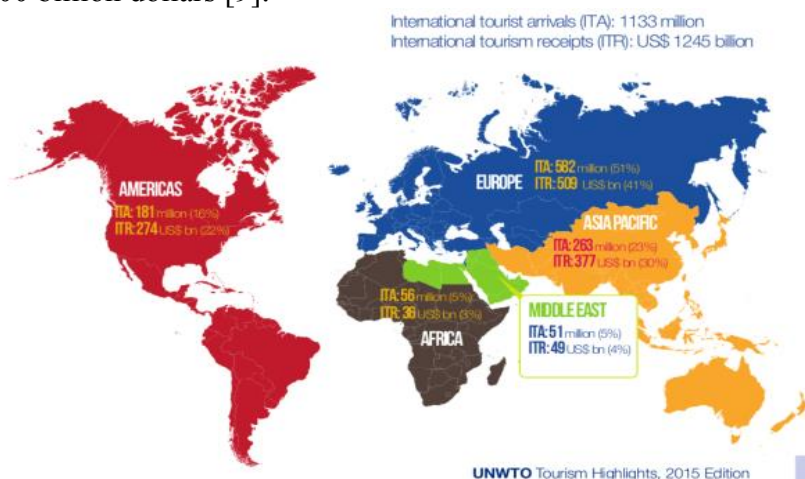


Fig.1. International tourist arrivals and international tourism receipts [9]

However, in Russia the contribution of tourism to the GDP (gross domestic product) is negligible, despite the fact that Russia has huge natural and cultural potential. World practice shows that the problems facing the tourism industry can be solved by creating special economic zones of tourist-recreational type that provide a special investment regime for tourism enterprises registered within the zone.

By special economic zone (SEZ) is meant a particular area with a special legal status and favorable economic conditions for entrepreneurs that is created in order to fulfill the strategic tasks of national or territorial development. Special economic zone of tourist-recreational type is a type of special economic zone that is created for development and rendering of services in the sphere of tourism. Special economic zones – the term assuming under the solution of many state problems of the both in external, and in domestic economic policy [2].

The main objectives of creating special economic zones of tourist-recreational type are:

- improving competitiveness of tourism;
- developing health resorts;
- improving employment;
- people's quality of life;
- increasing tourist flow;
- preserving the environment;
- cultural heritage;
- developing transport infrastructure.

The main types of activities in tourist special economic zones are:

- hotel business;
- ecotourism;
- sport tourism;
- extreme tourism;
- wellness tourism;
- business tourism;
- water tourism;
- SPA-tourism.

Special economic zones of tourist-recreational type exist in the world long enough. According to experts in 120 countries exist more than 2000 special economic zones with turnover of \$600 billion per year [2]. The creation of special economic zones of tourist-recreational type is especially important for Russia because it is necessary to increase the tourism industry's rate of growth by attracting both foreign and Russian tourists as well as creation of special economic zones will increase the industry's return due to increase of tourist flow. And what about Russia?

## **2. RUSSIAN SEZ – HISTORY AND GOALS**

In 2005 German Gref, the then-Russian minister of economics, championed the idea of creating special economic zones (SEZ), geographical areas which have more liberal economic laws than the rest of the country. Gref's goal was to use SEZ to diversify Russia's economy, stimulate the processing industry, and attract new investments, especially into depressed economic regions. In support of his proposal the minister relied on the successful examples of similar zones around the world. There are more than 1200 such economic zones globally, from the so-called "techno-parks" (California's Silicon Valley is one example), to off-shore investment zones in developing countries. Whereas different types of economic zones offer different packages of financial incentives, as a norm those include certain tax benefits and exemptions for investors.

President Putin supported Gref's initiative, helping to overcome skepticism of the more conservative members of the Russian cabinet. In January of this year the Russian vice-premier, Sergey Ivanov, reiterated the idea that SEZ will help Russia escape "the oil curse." Initially the Russian SEZ law, which took effect in January 2006, provided for two types of zones: "industrial production," or processing industry zones, and "technical innovation," i.e. "hi-tech economy" ones. Even though the law aims to attract capital by liberalizing conditions for investment and for conducting business, its provisions could be more favorable.

In July 2006, six months after passing the federal SEZ law, the Russian government expanded its vision of SEZs. It amended the original law to provide for creation of "tourist-recreational" zones. The stated goal of tourist SEZs is to stimulate tourism and development of resorts, spas and other "therapeutic facilities" across Russia. General goals include, as with other types of SEZs, attracting direct Russian and foreign investment, creating additional work places and testing of new methods of management and labor efficiency.

Tourist SEZ are different from the other two types of SEZ in that they can be located on private as well as state land, and even on parts of protected natural areas' territories. The law does not limit the potential territory of tourist SEZ. In contrast, technical innovation zones cannot be larger than two square kilometers, and industrial production zones are limited to 20 square kilometers.

In February 2007 the SEZs agency approved creation of seven tourist SEZs. Both administrative regions (“constituent entities”) that share Lake Baikal’s watershed, the Irkutsk region and the republic of Buryatia, participated in the federal competition. From the beginning both regions felt that they were competing with each other. One of the SEZs agency vice-directors told me that they initially opposed creating two different zones on the opposite shores of Baikal. The agency did not think it made sense to divide the potential tourist stream between two areas, and instead wanted to concentrate on “getting it right” in one place at a time.

The administrations of Irkutsk and Buryatia saw the federal tourist SEZs competition as an opportunity to get federal financing for much-needed improvements to their transportation infrastructure, along with other potential economic benefits. Ironically, in choosing between the Irkutsk and Buryatia proposals the SEZ agency initially leaned towards selecting the Irkutsk project because Irkutsk has better infrastructure, including a bigger, newer airport, better roads, and a source of cheap electricity, the Angara dam [6].

### **3. NOWADAYS SITUATION**

For modern Russia creation of tourist and recreational special economic zones became business of the state importance, especially in the conditions of the sanctions against our country declared by the USA and Canada, the countries of the European Union. But despite it, the authorities of the Russian Federation take steps for country development as a whole and regions in particular [3]. It is considered that creation and O EZ functioning in Russia will be one of the main directions and a condition of market transformations, the most important instrument of the international economic cooperation expansion and trade for the next 10–15 years. World experience of tourist special economic zones creation testifies that is one of the most effective ways of investments attraction, the catalyst of foreign economic relations development and national economy and the region in which SEZ takes place. It is important that for the beginning of 2016 the volume of the investments declared by residents made more than 400 billion rubles.

Potentially profitable tourism industry of Russia in the post-Soviet period can not get rid of many problems, such as lack of investments for the construction of hotels. And almost all modern



infrastructure which we need to attract tourists and to reorient Russian citizens, who prefer to travel abroad, on domestic tourism market, as well as the decline in the popularity of our own tourism and recreational areas, due to their expensive prices. It is important to use the positive experience of creating SEZ in the Republic of Belarus, which can be created only in cities with a population of less than 50 thousand people.

However, unfortunately, small towns in Russia do not get a spread, despite the fact that they have big potential for development and contribution to the tourist industry and well-being of Russian economy [5]. Due to the fact that the process of creating tourist-recreational special economic zones in Russia started relatively recently, it is early to speak about the results. Therefore, it is interesting to study the initial stages of their formation in today's economy.

High euro exchange rate and dollar in comparison with Russian ruble in 2014-2016 didn't allow to leave about 4 million Russians on rest abroad. This is one more reason to develop our own tourist zones.



Fig.2. Tourist special economic zones of Russia

So, the country has 1040 resorts and more than 400 thousands tourist enterprises. Special economic zones of tourist-recreational type are located in the following regions of the Russian Federation:

- Republic of Altai, SEZ «Altai Valley»;
- Altai Territory, SEZ «Turquoise Katun»;
- Republic of Buryatia, SEZ «Baikal harbor»;
- Irkutsk region, SEZ «Gate of Baikal»;
- Primorsky Territory, SEZ «Russky Island»;
- North Caucasus tourism cluster;

Today financing of it like special economic zones makes – 71 billion rubles. From which – money of residents - 23,36 billion rub (32 %), and 47,64 billion rub (68 %) – the state investments. The resident in the territory of a special economic zone as the businessman, pursues one main aim, namely, attraction of money and gradual increase in profit. However feature of formation of tourist SEZ in the territory of Russia is – large-scale. Considering foreign experience, arrangement of 1 sq.km. manages in more than 50 million dollars. The total area of special tourist economic zones in Russia makes 101,43 sq.km. The authorities of the Russian regions have no abovementioned sum of money which would be possible to be directed on its development [3].

Benefits of investing into tourist-recreational zones:

- Construction of infrastructure facilities at governmental expense (federal, regional and municipal budgets);
- “Single window” administration system;
- Privileged rent and purchase of land parcels
- Tax benefits

The system of privileges provided to a bonded economic area has to serve as the realization instrument of available comparative advantages of the territory, instead of the available shortcomings compensation mechanism or absent factors of development.

#### **4. CLUSTER APPROACH**

Tourism cluster - a group of tourist attractions within a limited geographical area with high level of infrastructure and services, which has established social and political relations, as well as improved management in the companies that make up the network for the production of tourist services that provide strategic competitive and comparative advantages.

Formation of tourist clusters has to be one of modern tools of the solution problems in tourism sphere. Features of clusters in

comparison with other forms of the organization consist in the following:

- unusually wide structure of participants;
- the geographical size of a cluster can vary from city scale to level of the country or group of neighboring countries;
- existence of synergetic effect;
- flexibility and dynamism of functioning;
- competitor companies go on cooperation with a realization view of the territory capacity and its competitive advantages. Cluster's forms of the activity organization are present at various branches [4].

Formation of a tourist cluster promotes creation of a modern competitive tourist complex. Its functioning provides ample opportunities for employment of local population and satisfaction of Russian and foreign citizens needs in tourist services. Entering of the significant contribution into development of economy is carried out at the expense of tax revenues in the budget, inflow of foreign currency, increase in quantity of workplaces, preservation and rational use of cultural and natural potential.

Recently cluster approach is used for further development of tourism in Russia. In September 2010 The government of the Russian Federation ahead of schedule eliminated the special economic zone of tourist-recreational type in the territory of Anapa, Sochi, Gelendzhik and Tuapse, because during the three years of its existence has not been made any one investment contract. However, this region of the South of Russia attracts special interest, and in October 14, 2010 by the Decree of the Government of the Russian Federation was established a new Tourist cluster in the North Caucasus Federal district, Krasnodar region and Republic of Adygeya. And in accordance with the state program of development till 2025, the budgetary allocations of the Federal budget in 2013-2020 are 234,9 billion rubles.

#### **4.1 North Caucasus tourism cluster**

North Caucasus tourism cluster was formed in order to develop tourism activities.



Fig.3. North Caucasus tourism cluster [7]

Table1. Tourist-recreational complexes of North Caucasus tourism cluster

<b>Tourist-recreational complex</b>	<b>Priority trends of tourism development</b>
"Armghi" (Dzheyrakhsy District Republic of Ingushetia)	Ecotourism; historical; cognitive; ski
"Arkhyz" (Zelenchuk and Urupsky District Karachay Cherkessia)	Ski; therapeutic recreation
"Veduchi" (Itum-Kale district of the Chechen Republic)	Ski; cultural and educational
"Caspian coastal cluster" (Derbent, Kara-budakhkentsky, Kayakentsky and Magaramkentsky District Republic of Dagestan)	Therapeutic recreation; ethnographic; educational
"Lagonaki" (Absheron district of Krasnodar region and Maikop district of Republic of Adygea)	Ski; rafting; climbing; horseback riding
"Mamison" (Alagir and Kirovsky districts of the Republic of North Ossetia - Alania)	Ski; therapeutic recreation
"Matlas" (Khunzakhsky District)	Therapeutic recreation;

Republic of Dagestan)	educational; ski
"Balneological resorts of Stavropol Territory" (Resort town of Yessentuki, Zheleznovodsk resort town, resort city of Kislovodsk, Lermontov, resort city Pyatigorsk, Mineralnye Vody and Predgornyi municipal areas of Stavropol Territory)	Therapeutic recreation; cultural and educational
"Tsori" (Dzheirakhsky and Sunzha districts of the Republic of Ingushetia)	The issue of development of the resort is in process
"Elbrus-Bezengi" (Chereksky, Chegem, Zolsky and Elbrus district of Kabardino-Balkaria Republic)	Ski; sightseeing; ecological; therapeutic recreation

Analysis of tourism and recreational facilities of the North Caucasus Federal District shows that in times of economic crisis ongoing development and financing are observed only in the all-season tourist-recreational complex "Arkhyz".

Despite the difficult situation in the economy, "Arkhyz" will develop within the tourism cluster project. At the same time as part of the import substitution program in the field of tourism tourist cluster project plays a key role in the country. For example, during the Christmas holidays resorts "Arkhyz" in Karachay-Cherkessia and "Elbrus" in Kabardino-Balkaria, parts of the resorts of the North Caucasus tourist cluster, were visited by about 75 thousand tourists [8].

## 5. CONCLUSION

The study showed that the number of tourist special economic zones in Russia can be considered sufficient and their efficiency is average. A good example of this is the closure of SEZ in the Krasnodar Territory in 2010 and closure of tourist SEZ on the Curonian Spit. The concept of SEZ «Caucasian Mineral Waters» in the Stavropol territory has also been modified. Instead of placing SEZ on the territory of seven municipal units of the Caucasian Mineral Waters, as originally planned in 2007, it was decided to locate the SEZ

near the mountain Yutsa. The reasons for this were legal and regulatory issues, insufficient budgetary financing, lack of investors skilled personnel, unregulated land issues.

It should be noted that despite the complexity of legal and other problems, cluster approach is the most effective for further development of tourism in Russia and in the world. In the long term tourist special economic zones will have a considerable impact on the development of tourism in Russia through the creation of an effective model of integrated tourism development with government support, innovations in tourism management and services, rapid development of engineering and transport infrastructure.

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## **THE REFUGEE CRISIS & A VIABLE ALTERNATIVE APPROACH**

It is globally known that the European Union is facing one of the greatest immigration flows in recent history, due to the prolonged crisis in the Middle East Area. Greece, being the closest entry to Europe, has been called to deal with a massive number of immigrants, and as it is sensible, many implications have taken place. This paper, from Greece's viewpoint, examines the cost for the management of the refugee flows and refers to its potential effects on the Greek economy. Based on specific articles of the European Treaties about Immigration and adopting a short analysis of the Solow model as a theoretical background, we propose an alternative viable solution to this situation and promote the benefits that may arise from the absorption of immigrants. The general idea is to exploit the massive power that the internet offers to humanity. Our proposal has to do with the creation of an online application which will have as a main function the analyzing of the immigrants' data and the distribution of these people to specific areas across the Eurozone where suitable job opportunities exist. This application takes into consideration the special needs, the characteristics and the preferences of immigrants and in this way contributes to the maximization of the social welfare. This essay includes the detailed description of our application and the strategic goals of such a venture. Of course, the application is open for the participation of non-European countries, which is something that we estimate as a sure fact, especially after the presentation of the incentives via our analysis.

### **1. INTRODUCTION TO THE RECENT REFUGEE CRISIS**

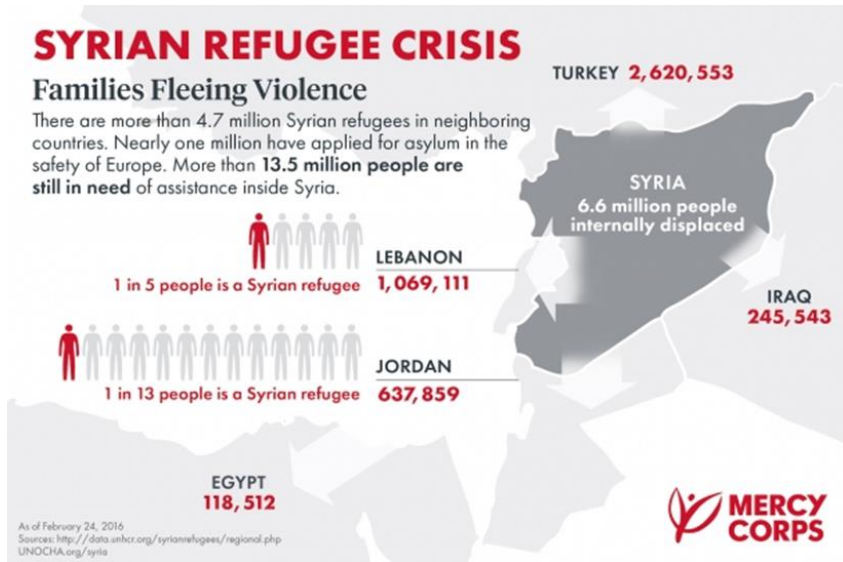
One of the greatest socioeconomic challenges, not only for the southeastern Europe, but for the whole world as well, is the current Refugee crisis. In this paper, we examine the refugee crisis from

Europe's -with an emphasis in Greece's- viewpoint as it is considered to be the closest entry to Europe. Due to the prolonged crisis in the Middle East Area, one of the greatest immigration flows in recent history has been observed. At this point, it would be useful to refer to the origin of these great immigration flows in order to be able to examine the situation in a spherical manner. It all started in March of 2011 in Syria, when anti-government demonstrations began. The protests were peaceful, only until the government's violent crackdown, and then the rebels began fighting back against the regime. By July of 2011, army defectors had loosely organized the Free Syrian Army and many civilians of Syria took up arms to join the opposition. Since then, divisions between secular and Islamist fighters and between ethnic groups have been complicating the politics of the conflict. It all started as a simple civil crisis but it has been transformed to a series of terrorist acts.

As it is sensible, the civilians of Syria, in their effort to flee violence, are immigrating in other areas inside or outside Syria. According to the United Nations Office of Humanitarian Affairs, more than 13.5 million people, including 6 million children, are in need of humanitarian assistance. Syria's civil war is the worst humanitarian crisis of our time as half of the country's pre-war population have been killed or forced to leave their homes. Some families are struggling to survive inside Syria, others are immigrating to neighboring countries or risking their lives on their way to Europe. But one fact is sure. Now is the urgent time for humanity to make use of the solidarity values that have been left and correspond to this socioeconomic challenge with the least possible social loss.

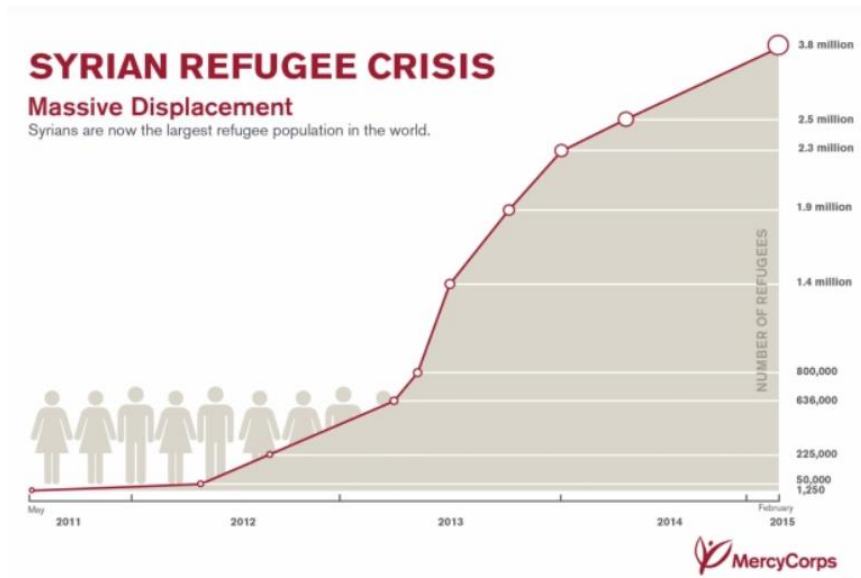
At this stage, we make use of some info-graphics powered by the global organization Mercy Crops in order to show the direction of the immigration flows and the size of the refugee crisis. The countries that have received the majority of the immigrants are the neighboring to Syria: Iraq, Lebanon, Turkey and Egypt. As these countries cannot deal with the massive number of the immigrants, nearly one million refugees have applied for asylum in Europe.





In numbers, there is a total of 6 million people that has been forced to leave their country. And of course this number will gradually become even higher as the terrorist acts continue to take place. Turkey has received over 2.6 million immigrants and constitutes the final country before the entry to Europe. Every single day, thousands of refugees are traveling under very cruel conditions with the hope of finding a safe place to start their lives again from scratch.

According to recent surveys, Syrians are now the largest refugee population in the world. The diagram below makes clear the intensity of the refugee flows. During the middle of 2013, a very steep increase of the incline that is referred to the refugee flows can be observed. Since then, the flows have been allotted better in the time periods, but the number of immigrants leaving their country is getting worryingly higher. All policy makers agree that the situation needs to be dealt with the cooperation of nations as the origin of this whole situation does not seem to stop the terrorist acts in the short-term period.



The number of immigrants cannot be absorbed by 4 or 5 countries. A viable solution needs to be implemented in order to alleviate the situation and deal with the massive displacement of a whole nation. The info-graphics used, are the proof to the size of this crisis. It is a vital need of every nation to help in alleviating the crisis and offer to these people, who have suffered a lot of cruelty, the opportunity for a normal life with hopes and dreams.

As we have already introduced the readers to the situation that stands around our analysis, it would be useful to refer to the cost, the effects & the macroeconomic outcomes for the European country that constitutes the closest entry to Europe for these refugee flows, the country of Greece. As we have already mentioned, the refugee flows are directed to the European area, as they consider it to be the suitable one for starting a new life.

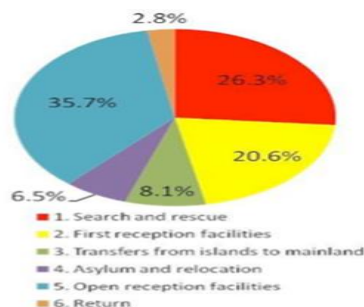
## **2. THE REFUGEE CRISIS' COST ON THE GREEK ECONOMY**

Economists say that it is very difficult and sometimes impossible to estimate the exact cost of a crisis with an intensity like the current one; because it is not just about numbers. It is about something more. There are human lives inside the economic model that have to be estimated. Nevertheless, we will try to estimate (choosing some parts of the total cost) how the Greek economy has

been affected by the refugee crisis. After taking into consideration that Greece is suffering, since 2009, because of the great economic crisis, we observe that the refugee crisis has created additional problems in the already fragile Greek economy. The Greek government had and has to take measures in order to help these people, always under the economic restriction of the governmental budget.

### **2.1. The fiscal cost for Greece**

According to the Greek Minister of Foreign Affairs and a research of the Central Bank of Greece (CBG) (published on 17 December 2015) the cost of managing -only for the Greek case- the refugee crisis is an estimated amount of 600 million euros, or 0.3% of Greece's GDP (a prediction for the economic year of 2016). Those 600 million euros are directed to research and rescue, first reception facilities, transfers from islands to mainland, asylum and relocation, open reception facilities and returns. The following tablet shows the exact direction of the funds that are going to be managed by the Greek government in an effort to alleviate the refugee crisis in 2016.



Source: [www.huffingtonpost.gr](http://www.huffingtonpost.gr)

### **2.2 Some detectable consequences on the Greek economy**

The refugee crisis has also affected the islands that are in close proximity to Turkey. More specifically, the islands of Dodecanese archipelago and the well-known islands such as Chios or Lesbos have been dramatically affected. According to Mr. Pericles Antoniou, the president of the Hotel Association of Lesbos, the room reservations have been reduced by almost 90% comparatively with 2015. Similar data come from Kos with the president of the Hotel Association of the island, Mrs. Konstantina Svinou, saying that they are facing a 36% reduce in room reservations. In Chios there is a 60% reduce and in Samos a 40% according to Mr. Kostas Kiriatzis. Despite the facts

stated above, SETE (The Greek Union of Tourism Enterprises) and its president Andreas Andreadis are claiming that, despite the fragile economic situation, the arrivals have been increased; and the total revenues from 14.2 billion, in 2015, will reach 15 billion euros in 2016, a fact that will contribute to the creation of 15.000 job opportunities. As a result, we understand that the refugee flows affect both positively and negatively the Greek economy. The field of tourism, which is considered to be the most crucial one regarding its contribution to the national GDP, will both gain and loose from this situation. At the end of the day, although, it seems that the benefits overcome the drawbacks and new opportunities have taken place.

### **2.3 The EU's contribution to the management of the refugee crisis**

In this crucial situation EU's reaction was very slow. The first estimations about the cost of managing the crisis have been repeatedly reforming and many believe that the cost will be even higher than the most recent estimated, as HSBC notice.

The EU financial support for Greece has two directions. The first one is the *Asylum, Migration and Integration Fund (AMIF)* and the second one is the *Internal Security Fund (ISF)*. AMIF promotes the efficient management of migration flows and the implementation, strengthening and development of a common Union approach to asylum and immigration. ISF promotes the implementation of the Internal Security Strategy, the law enforcement cooperation and the management of the Union's external borders. The ISF is composed of two instruments, ISF Borders and Visa and ISF Police. AMIF has been awarded from the European Commission with 249.5 million euros and the ISF with 214.7 million euros for the period 2014-2020.

In March 2, 2016, the European Commission, due to the unpropitious situation, decided to fund Greece with an additional amount of 700 million, for the period 2016-2018, in order to be able to satisfy refugees' needs for food, shelter, access to clean water and health services. The management of these funds will be under the authority of UNCHR and NGOS. One part of these funds will be given so that 20.000 refugees can have their own shelter, a fact that will definitely give a positive impact in the local economy due to the multipliable effects of the "new money" inflows into the Greek economy.

The EU support, despite the primary slow reaction, was

extremely significant for the alleviation of the problems that the massive refugee flows created. In this paper, one of the basic goals that have been set, is the promotion of the notion that the refugee crisis can only be dealt with success, with the cooperation between at least all European nations and a great number of countries that can absorb a significant number of refugee flows without many implications. At the next stage of the paper, a theoretical background is going to be set in order to complement our viable alternative proposal for corresponding to the socioeconomic challenges of the refugee crisis.

### **3. THE THEORETICAL BACKGROUND REGARDING OUR VIABLE PROPOSAL**

#### **3.1 A social experiment**

Before referring to the pure theoretical background of our alternative proposal, we would like to share the feelings that a YouTube video created to us while watching it. The name of the video is Momondo- The DNA Journey and it is about a social experiment that aims to show that we actually have much more in common with other nationalities than we would ever think. Different people from around the world have been chosen in order to participate in a DNA test. All of them, are appeared to think that they surely derive from a specific nation on Earth. This test examines the DNA of the participant and results in the nations that the participant's ancestors came from. The results leave the participants speechless. It appears that all participants have some DNA connection with countries that they do not appreciate or countries that they have never been to. This reference has been made to declare that humans know only a little about themselves and an ancestor of them could derive from Syria or a country that has suffered from violence. The general feeling that this video promotes, is to understand that people, no matter what race, age, sex or color they have, should behave to each other like they are family members. And that is what humanity needs to do at these difficult times, to show the value of solidarity and help in dealing with the problem of the refugee crisis.

In order to present our alternative approach to the refugee crisis, some theoretical data are going to be used as a sign that our approach is on the right direction. First of all, a series of macroeconomic outcomes based on the simple Solow Model are going

to be presented for the region of Greece. But, it has to be noted that the outcomes are similar for the majority of the European and non-European countries.

### **3.2 A simple macroeconomic analysis**

In the short term period, the basic macroeconomic effect from the refugee surge is likely to be a modest increase in the GDP growth, reflecting the fiscal expansion associated with support to the asylum seekers, as well as the expansion in labor supply as the newcomers begin to enter the labor force. The impact of the refugees on the medium and long-term growth depends on how they will be integrated into the labor market. International experience with economic immigrants suggests that immigrants have lower employment rates and wages than natives, though these differences tend to diminish over time.

Initially, the macroeconomic impact will be in the aggregate demand and in labor force. In the short term, because of the needs that immigrants have, some public spending is necessary as we have mentioned before. This will increase the aggregate demand, the GDP and is going to cause some effects on the inflation rates. Furthermore, there would be an expansion in the labor supply. At this point, we should also note that because of the high unemployment rate of Greece, the newcomers might face many difficulties especially on wages assimilation (Åslund and Rooth 2007). In order to overcome this difficulty, Greece can make use of European measures so as to help immigrants integrate in the labor force (f.e tailored introductory programs, reducing taxes, measures that lower barriers to entrepreneurship, access to financial services etc.)

In the medium and long run, the impact of the refugees on employment and the GDP will depend on: the speed of their integration in the labor market, the extent to which the newcomers' skills will complement or substitute those of the native labor force, and their impact on the allocation of resources, product mix, and production technology. In this way, it is easy to observe how important is for Greece, and in general for every country, the quick and right integration of those people. In Greece and generally in Europe, there is a huge problem because of the over ageing population. Immigration flows can help alleviating this problem with the parallel restructure of the insurance system as the European Commission suggests in its economic forecast for the fall of 2015.

Of course, the macroeconomic outcomes will be different for each and every specific country that is going to receive refugees. The basic and general outcomes, although, can be considered to be the same for the receiving countries.

### **3.3 Michael Kremer's Theory and a short analysis of Solow's Model regarding the current crisis**

After this first introductory analysis, it would be useful to refer to the economist's Michael Kremer theory about the human conglomeration. Michael Kremer supported that the increase of the population in a specific area is the basic tool that can lead to the maximization of the economic welfare. The general idea behind Kremer's theory is that if an economy is constituted by more people, there will be more engineers, economists, physicians, entrepreneurs that will contribute to the increase of the innovation levels and the faster technological progress. Kremer uses some historical data as a proof about his theory. For instance, the worldwide industrial growth was much higher at the 18<sup>th</sup> century a.c., when the Earth's population was about one billion people, than the 5<sup>th</sup> century b.c., when there was an estimated of 100 million people on the planet Earth. This historical fact supports Kremer's theory about the correlation between the variables of population and technological progress. Characteristically, Kremer refers to the isolated Flinders island. In 1500 a.c., this island had the slowest technological progress reported on Earth, due to the very small population that lived there. Several years later, the human society of that island vanished as no technological progress or innovation took place.

Michael Kremer's theory included the very significant variable "technological progress". If technological progress is added to the simple Solow economic model, some very useful conclusion, regarding the refugee crisis, are going to appear. As it is generally accepted, if a nation's population suddenly increase, the GDP per capita will fluctuate to lower levels than before. But, if the human inflows contribute to the technological progress, the economy will return to the previous GDP per capita levels in the long run. What is more, there are great possibilities for an even higher GDP per capita. Consequently, it is clear that the refugee flows can even help the economy's boost and therefore lead to substantial growth levels. Recent surveys indicate that the majority of the refugees aged between 20-25 are highly educated. This is the human capital, that Solow

thought for. These highly skilled people can easily be absorbed by nations that aim to grow. In this way, the refugee crisis constitutes an opportunity for the rest of the world, as they can take advantage of the highly skilled human capital that is immigrating. It is not irrelevant, the fact that the prime Minister of Turkey recently recognized many of the Syrians refugees as official citizens of Turkey. There is a plan behind this action, a plan of investing on these people and taking advantage of the possible benefits that may arise for the Turkish economy. Moreover, it is important to note that when the war is over, these people will try to return to their homes and rebuild their country and their economy. One can understand that trade relations might be created between the countries that received immigrants and Syria, when this crisis is over. Consequently, there is an extra incentive for the countries who want to achieve the long term benefits of possible trade relations with the immigrants that will return back. But at this stage, the previous statement sounds unimportant. For this reason, we would like to present an additional reason for why the nations should help relocating those refugee flows. It is a reason that has to do with the human nature. When a person goes through a lot of difficult times, he/she gets stronger; and these people have suffered a lot. So, we take for granted that these people are going to make their best possible efforts to succeed in the job opportunity that they will be given. Unless they succeed, they might go through the same difficulties again, the difficult time of immigrating. In this way, if one examines it macro economically, these great working behaviors will definitely lead to the better function of the economy. The short analysis above, suggests that these refugee flows are not going to harm the economies and the social welfare of the receiving nations. The exact opposite might happen, if we (the rest of the world) invest on these people and give them the opportunity to live again a normal life without violence or war.

As it has been stated, this chapter is the theoretical basis of our alternative proposal. It is a chapter that fortifies our belief that the refugee flows should be seen as an opportunity and not a threat. In the meantime, a reference on some European Treaties, that are basic for the viable function of our approach, is going to take place.

### **3.4 The principle of Solidarity & the EU-Turkey Treaty**

First of all, it should be stated that the following article of the European Treaty that was signed in Lisbon, Portugal, constitutes a



core clue of our theoretical background. The Article 80 of the Treaty on the Functioning of the European Union states that the policies of the Union and their implementation shall be governed by the principle of solidarity and fair sharing of responsibility, including its financial implications between the Member States. Whenever it is necessary, the Union's acts should contain appropriate measures to give effect to this principle. This Treaty notes that the European Union should act as a Union while forming its policies. The European policy about immigration and external safety, according to this treaty, has to promote the fair sharing of the burden of this situation. Not only Greece, or Italy and Germany are supposed to carry the burden of the refugee crisis, but every EU member should contribute.

The proposal about a worldwide treaty about migration is something that could be examined at a time. Solidarity needs to be a synonym value of humanity; and at this frame, a worldwide treaty about immigration, just to remember that the majority of the nations have once experienced a war or a negative situation, should be signed.

To continue, an other Treaty which is also fundamental about the implementation of our proposal is the most recent one between the European Union and Turkey. As we observed at the info-graphic at the beginning of this paper, Turkey is one of the countries that have received the greatest refugee flows so far. The collaboration between the Union and Turkey is crucial about the management of these flows. Greece, being the closest entry to Europe, plays a key role as well. On the treaty, it is stated that all the illegal refugees that have entered the European Union area will be sent back to Turkey and an equal number of legal refugees will be received. This Treaty is very significant for the legal control of the flows. Our proposal is created on the basis of these two Treaties, as the refugee flows have to be controlled. Furthermore, Turkey in collaboration with Greece and the Europol agency need to cross examine the data of the refugees in order to avoid the reception of people who want to harm the rest of the world. Turkey plays a significant role in the legal part of this situation, and needs to collaborate with Europe and the rest of the world in order to alleviate the refugee crisis. The treaties are taken as granted and at the next chapter we are going to introduce the reader to our viable alternative proposal about the refugee crisis.

#### 4. THE INTRODUCTION OF OUR VIABLE ALTERNATIVE APPROACH

Isaac Newton, who is considered to be the father of classical physics, once said: 'If I have seen further, it is because I have been standing on the shoulders of Giants'. As Newton used as a scientific background the existing theorems of other excellent physicians, so we do. We take into consideration the existing technology and knowledge so as to create an application that can lead us a step further in our effort to alleviate the situation caused by the intense refugee crisis. For instance, in the process of thinking about our innovative idea, we came across with some applications that move to the same direction as we do. Our viable alternative approach exploits the opportunities that the world wide web offers to the humanity and aims to decrease the implications that are caused by the recent refugee crisis.

As it has been already implied, our approach has to do with the creation of an online/offline smartphone application which is called **HOW. Humans Of the World** is a smartphone application directly connected with a strong data processing system. On the one side, this data processing system uses the specific personal information that are asked to the refugees arriving at the hotspots and generates a graphic that shows the employment prospects of each immigrant. The system also takes into consideration other useful information for each and every immigrant. On the other side, the data processing system includes job offers from the whole European Union and the other countries that want to participate. These job offers originate from the private and the public sector of every country and are inserted to our system with the form of keywords. Finally, the system analyzes the supply and the demand of the working positions and leads to the most suitable match for every different occasion. The important innovation stands behind the fact that the refugees are going to be placed in working positions not only by examining the factors of supply and demand but also by taking into consideration their specific preferences and needs. In this way we will be able to discuss about the maximization of the working performance of these people and consequently the maximization of the social welfare. When the match is achieved, the refugees are notified by the application and that is when we pass to the phase 2 of our application's potential. The refugee that has been selected to move to a specific region of a

receiving country, selects the name of the country in our application and then a huge amount of information separated into useful categories appears. The extraordinary is that via our application, the refugees can immediately start learning the language of the receiving country or even get informed of the voluntary institutions that offer language courses. Other categories such as history, culture, customs, food, special discounts, entertainment, important information for the country and many others are included. The detailed description of what the application includes is going to follow to a next chapter. Our smartphone application, exploits the power of the information systems and the internet and suggests a new way of dealing with the refugee crisis. The vast majority of the refugees are acquainted with technology, and we should take a great advantage of that fact. Our smartphone application collects data, both from the positions that are offered and the immigrants, proceeds to the best possible matching of the above data and then helps the people integrate as soon as possible to their new home.

Critics might say that there are not sufficient working positions inside Europe even for its people. At this point comes our theoretical background which is referring to the principle of solidarity for the members of Europe, the EU-Turkey treaty regarding the identification of the legal immigrants, and the theorems of Solow and Kremer about the benefits of integrating these people. Europe and the countries that want to participate in the programme need to invest to these people in order to deal with the situation in the most appropriate way. An answer to critics could be that if we do not try to offer a solution to the refugee crisis, this whole situation might transform to something really negative for our world. For instance, the levels of the illegal migration might increase without a similar precedent and anarchy might prevail. As we-the economists- say, uncertainty is a very serious impediment for the stability and growth of our economies. It is better to know the fluctuation of the possible outcome, rather than anything at all. We believe that the efforts to control this crisis and the cost of implementing the suitable policies is by far lower from the cost of just watching at what this crisis might transform to. As a result, governments need to act in perfect collaboration and our smartphone application can be the tool that is missing in these difficult times.

#### **4.1 The first phase of our application's function**

There are two important phases regarding the function of our application. The first phase covers a time period of 30 days after the arrival of the refugees at the hotspots of each country. The second phase of our application's function will accompany the refugees until the very exciting moment of their complete integration into the receiving country's population. In this chapter, a detailed description of the first phase is going to follow. The refugees arriving at the hotspots are requested from the local authorities to download the application on their smartphones in order to follow a specific process (The minority that is not acquainted with technology will be guided by the teams that are liable for the management of the refugee flows). After this very early step, every person will be asked to state his/her basic personal information. Name/ Surname/ Age/ Religion/ Family status and the reason of immigrating are the first information that have to be put into the application's system. At this point, the identification's short phase will follow. A significant clue that has to be denoted is that the data processing system of the application will be in close collaboration with the Turkish information systems. Here, the EU-Turkey treaty plays a key role, as the information that are sent from the Turkish authorities have to be accurate and real in order to be compatible with the data that each person states. We use Turkey as the main entrance of the refugee flows because the official statistics show that the majority of the refugee flows passes through Turkey to immigrate. That is why the EU-Turkey is so important for our application's implementation and we consider it as a background. Turkey will ensure the fact that the immigrants arriving at the European hot spots are legal and have completed the required papers in order to migrate.

Having taken the above for granted, the refugees will wait until the identification of their information in order to move forward with the procedure. The application will let them know when is the time to state some more detailed data about themselves. For instance, each person will have to state the level of the foreign languages that he/she knows, their working experience until that time, the desired field of work out of some specific options, their hobbies and the adjectives that characterize them better via an 1-10 scale with again some specific options. This step is going to be like a keywords curriculum vitae which is going to be put in the data processing system. After the final submit of the above information, the application generates a

personalized graphic that shows the employment and life prospects of each refugee. Then is the time of accepting or denying the results that have come up. Once the graphic is accepted, the refugees can move forward with the procedure. If the results do not represent suitably the characteristics of the person, the process has to be repeated with the help of the refugees' management team this time. When the personalized graphic is accepted, the system is headed to a time period of analyzing the data.

In the meantime, the refugees need to stay at the hotspots for the maximum period of the 30 days. This time period is considered sufficient so that the system analyzes the data and proceeds the best possible matching of the working positions. Every basic need is covered by the funds that are raised annually for the alleviation of the situation. The EU, the USA, Russia and many other countries offer a specific budget out of their GDP in order to help these people. In these 30 days, the role of the NGO is also significant. Beyond the basic needs, there is the need of entertainment especially for the young ages. The NGOs are officially registered in the App and in this way the governmental funds are not being wasted to organizations that want to exploit the situation and make money. The official information is being promoted via the app and that is how we offer a solution to the problem of misinformation. These initial 30 days at the hotspots are the time before the beginning of a new life.

The data processing system uses the keywords that have been inserted for each and every occasion and concludes to a matching between the people and the working positions throughout the world. The use of the keywords is going to maximize the possibility that the refugees are going to be happy and highly efficient at the place that they will be directed to. When the final matching is ready, the refugees are going to be notified by the application in order to step forward to the beginning of a new life. The refugees that have been matched with specific working positions are now going to choose the name of the country on the application platform and sign in as people that are in the process of integrating into this country. Then, a huge amount of information-separated into different categories- is going to be revealed regarding the receiving country. The time has come to move to the phase 2 of the application's function.

#### **4.2 The second phase after the official matching**

As it has been already mentioned, the refugees- after the matching phase- choose the country that they will be directed to on the smartphone application and sign in with an account. This registration will help the system recognize if the distribution is going well. At that point, the application will present some very useful categories with lots of information. For instance, there is a category that refers to the e-learning of the national language of each country. This category includes every detail from how to start a basic course to many advanced exercises for listening, writing and reading. There is an opportunity of e-learning the national language no matter what the level of the student is. This part of the app is one of the most crucial elements for the quickest possible integration of the immigrants and for that reason, it is going to be created in collaboration with official institutions and universities. The learning of a language can be achieved via this application. Consequently, a lot of funds can be directed to other fields that need to be improved. A second category aims to collect all the information that are required for the accommodation and asylum proceedings. This category will be under the supervision of the Office for Migration and Refugees of each country. The communication between the Office and the refugees can also be achieved via the app. In this way, no inaccuracies or delays of the legal proceedings will take place. The application informs the refugee for the process that he/she has to follow. The bureaucracy of these proceedings will be significantly reduced, as long as the systems that support our app are in close collaboration with the European Security Authorities and Europol. This second category alerts the immigrants with every legal step that they have to take in order to be recognized as citizens of the country that they have been directed to. The power of the world wide web can reduce the delays that take place in such legal proceedings. A third category has to do with the life in the specific country. From daily practical tips to the rules of living in the receiving country. This category is a guide for the first months so that the refugees can adopt to the reality of the receiving country. It includes information and advices that every incomer should read. A fourth category has to do with the culture, the history and the values of the refugee's new home. Again it is a must for the best possible integration into the local community. An other category refers to the discounts and the special benefits that the refugees have, until they can stand again in their feet and contribute to the social welfare.

In this category, the refugees can come across with the shops that collaborate with the government and explore the services that they can use with a discount. Finally, without referring to the category of the voluntarism which is going to be analyzed in a next chapter, a very exciting category is the one that directs the users to a social network where the refugees will be able to exchange ideas, talk about their country or even organize events so as to make sure that their civilization and their customs will not get lost through the passage of time. This category-social network is an online platform- only for those who have already been signed in as refugees. This function of our app is very important so as we can show to these people a little respect for the difficulties that they are passing through as a nation. The application, after the official matching with the working positions, is going to work as a local friend that answers to questions and shows the way to a normal life again. A useful e-tool that is going to reduce bureaucracy and increase the velocity of the refugees integration into the receiving countries' workforce.

#### **4.3 The importance of Voluntarism in this process**

We completely recognize the importance and the necessity of the cooperation between the state, the NGOs, the Institutions and every other volunteer; in managing and dealing with the crucial situation that stands in front of us. Many decisive steps have been made in the right direction, but there are yet a lot that should be implemented in order to tackle the situation efficiently. In countries like Germany (f.e) the deep cooperation between the state and all the other organizations, achieved to alleviate the problem that all the immigrants are facing after their arrival in any country. At this point we would like to point out that our app can be used as an operation center, in which all the NGOs and voluntary teams need to enroll so as a better management can be achieved. In this way the funds that are directed to the NGOs will not be wasted in teams that pretend to be voluntary but in reality aim to attract the governmental funds. A data basis with the official information about the NGOs and the voluntary teams is going to help controlling the direction of the funds more efficiently.

According to Olaf Kleist, a migration researcher at the German University of Osnabrück and Britain's Oxford University, there are four points that need to be part of an integration plan. Those four steps are: housing construction, education, work and civil society. Our

application, in collaboration with the NGOs, the governments and the voluntaries will manage to cover the specific steps that need to be done. The importance of voluntarism, although, seems to be very significant in the process of welcoming these people to their new homes. Let us suppose that the official results of the matching have been announced and a specific number of immigrants are going to be established in Montpellier, France. Our app can be used as a communication key, as at that time, a message is going to be send to all the NGOs and volunteers that have previously registered to our app's system. This message includes information about the number of these people, the general basic needs of them and the exact time of their arrival. This communication key between the incomers and the NGOs will benefit both the immigrants and the NGOs, as the situation can be tackled with less delays and better organization. Furthermore, the immigrants that are heading to Montpellier will be aware that there are some organizations which will help them after their arrival and at whom they could ask for help. Knowing that there is a well organized plan for the welcoming to a new home, is something that the refugees are going to appreciate. In this way, they will be pretty collaborative with the rest of the legal process, and that should be our goal too.

Voluntarism is a value which has been proved to be able to alleviate crucial and hard situations since many years ago. This smartphone application is a tool which can be facilitate both volunteers and the people that are in need of help. Better management can improve the function of voluntarism and lead to even greater results.

#### **4.4 The assimilation period into the local workforce**

In order to achieve the macroeconomics benefits from immigration, there has to be a quick assimilation into the native labor force. Our app is directing towards this path. The steps that need to be followed until the integration phase are clear. As soon as the matching is achieved, the refugees start e-learning the national language. They get relocated to specific places throughout the world and then the period of assimilation into the labor force starts. We consider that for the first 6 months, the financial obligations of the refugees for the services being offered, will be limited. This six-month-period functions as a transition stage to the new normal life. The costs of living are semi-funded by the international budget for the confrontation of the refugee crisis. The rest of the living costs are



covered by the refugees' wages while they continue to learn by doing their new working obligations. We think that a six-month period is enough so that these people can adapt to the new circumstances and start offering to the social welfare again. This transition is not going to be easy, but a well organized plan with the complement of our e-tool can significantly reduce the delays on the assimilation into the labor force. The first days, at the new working environment are not going to be pressing. But with the passage of the weeks, the expectations will gradually become higher so as the six-month-period can seem as a realistic goal for a satisfactory assimilation. A programme is going to be followed in order to avoid any delays and offer to these people the opportunity to feel like home again. The programme is not going to be easy, but it is a must in order to achieve the expected results. By referring to a programme, we mean all those actions that need to be taken, from the national language learning to the asylum proceedings and the assimilation into the labor force. A programme can help increase the velocity of the integration plan. Consequently, the refugees will need to make their best possible efforts in order to keep up with the programme. In this manner, the delays that are sensible to exist in such a procedure, are going to be limited to the best possible levels.

## **5. CONCLUSION**

The smartphone application H.O.W. that has been presented thoroughly, consists of a mega e-tool that can help alleviating the refugee crisis. The economists, often base on specific assumptions in order to move forward with their economic models. The results that come up from their analysis are also based on these assumptions. These assumptions, in many occasions, are not sufficiently realistic. But the results that the economists lead to, seem to be very significant for the economic theory. In this paper, we use as a theoretical basis the principle of solidarity between the European Union members, the EU-Turkey treaty and the theorems of Solow and Kremer in order to fortify the fact that our application is moving towards a realistic path. These core clues could also seem as some assumptions. If they function well, then, our smartphone application is totally moving on the right direction. Our model-application can be criticized as a very ambitious one. Given the fact, although, that there is no other organized plan regarding the whole integration process of the refugee

flows, it can be considered as an excellent first step towards the creation of an EU plan which can be proved very efficient in the confrontation of the refugee crisis. This application can be considered as the plan that has never been implemented. Of course, in order to function well, there has to be a great cooperation among the EU members, Turkey, the countries that want to participate in, the security authorities such as Europol and the refugees themselves. This cooperation is feasible as soon as the governments and the people understand the importance of implementing such a plan. As it has already been mentioned, uncertainty is a negative factor for the global economy. This plan will control the situation and reduce the uncertainty levels at a great extent.

This whole process that has been described above, is a huge venture that needs the collaboration of many people in order to function. It is an e-tool that is feasible to be created. As we are university students of Economics, we are not to have the knowledge of how a data basis and an information system works in detail. After discussions with Computer Scientists, it is clear that every function of our application is totally feasible to be created. Obviously, this plan needs time in order to be implemented with the least possible flaws. Goodwill is a basic value that needs to complement the implementation of our application. Once the previously discussed elements are granted, great results can be achieved.

Many scientists have pointed out that the refugee flows are an opportunity. There are many countries across the world facing the aging of their population and the lack of scientific skills. The Syrians are considered to be highly skilled people and can offer significantly in a country's economy. A characteristic example regarding the ageing of the population is Greece, where the Greek alternative minister of Interior and Administrative Reconstruction, Ioannis Mouzalas, has claimed that immigrants will help Greece not only to solve its demographic problem but also improve its public insurance system. The number of immigrants that has asked for asylum in the European Union is absorbable. We only have to examine the situation as chance for a better function of our economies and not as a threat. This very crucial moment is the suitable one to show the values that the European Union is constructed on. The situation can and needs to be dealt with decisive steps. Our application can guide the Union to this direction. The refugee crisis constitutes a worldwide problem.

Consequently, after the implementation of this plan in the region of Europe, there comes the phase of expanding our app to the whole world. It is an ambition that needs a lot of work and patience to become reality. The human nature needs to be respected and the principle of solidarity should prevail. Only then, will we be able to discuss about the above mentioned. After all, it's not just about economics. A French father was recently shown on TV. He travels 40 km after work every day to distribute food to migrants in Paris. His explanation: "I have to do this, otherwise I won't be able to talk to my kids later."

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**THE ECONOMIC RELATIONS OF EASTERN AND  
SOUTHERN EUROPEAN COUNTRIES: THE CASE OF  
TRADE BETWEEN GREECE AND THE EASTERN BALKANS**

In this paper a two-stage analysis is adopted in order to examine the economic relations between the eastern and southern European countries. Firstly, we explore the evolution of exports and imports within the balance of current trade, so that we can conclude for the degree in which these economies are open in the international markets. Secondly, we investigate the trade relations between Greece and the Eastern Balkan countries. The results of this study are essential for the policy makers who implement structural changes in the Greek - Balkan trade affairs as a tool of recovery for these economies.

**Keywords:** Balance of trade, economic relations, Eastern Balkans, Greece, European Countries.

## **1. INTRODUCTION**

During the last decade, South-Eastern Europe has been going through major transformations. The region has attained important progress in economic development, regional cooperation and integration in the global markets. However, the financial crisis which affected the western markets in the second half of 2007 made it clear that this region would face a major economic slump (Sanfey, 2010). As in other emerging market regions, financial markets in Southeastern Europe (CESEE) have been under pressure. The economic relations between these countries have retained a substantial degree of protection against imports of ‘sensitive’ products, notably agricultural products, textiles and clothing, and steel. Most of these countries have greatly improved their current account positions since 2007, but many still have a high stock of external debt and large refinancing needs. The transition in Southeastern Europe was slow; getting off the ground reforms were timid and implementation was fitful. The strong economic relations between SEE-10 countries

represent both evidence a challenge during times of crisis. In fact, the global financial crisis acted as an important external shock for this region, included international trade, foreign direct investments, remittances from migrant workers and monetary policy. However, it is noticeable that the contagion channels mattered differently for each country. All Balkan states today have open economies, most of which are in the upper-middle income range. At the beginning of their transformation process, all transition economies in Eastern Europe faced a dramatic decline both in exports and imports. Recent economic upheavals together with the opening of potential new markets have made it difficult for them to achieve a state of steady economic development. Greece, as a member of the European Union represented for the Balkan countries in transition an important Western partner who could support them in their transformation process towards a market economy. Therefore, economic cooperation and trade integration between Greece and the Balkan countries was mutually beneficial.

## **2. LITERATURE REVIEW**

Merima Balavac et al. (2016), investigates the role of trade openness, export diversification and institutions as potential predictors of output volatility in 25 transition economies for the period 1996–2010. The result suggest that diversification may not attenuate the output volatility effects of openness for transition countries already at medium or higher levels of diversification, but nonetheless may have this effect at lower levels of diversification. Merale Fetahi-Vehapi et al. (2015) analyze the effects of openness to trade on economic growth of South East European (SEE) countries. The empirical analysis of this study consists on 16-year panel data of 10 SEE countries over the period 1996 to 2012. The estimation results indicate that the positive effects of trade openness on economic growth are conditioned by the initial income per capita and other explanatory variables, otherwise there is not robust evidence between these two variables.

Kaimakoudi, E. et al. (2014) aims to investigate the export performance and competitiveness in fisheries sector among Balkan and Eastern European countries. Using Eurostat data, she examines the exports of fisheries for each country in the EU - 27. Bojnecet, Š. al (2009) investigates the level, composition, and differences in agro-food relative trade advantages/disadvantages for eight Central

European and Balkan countries on the European Union (EU) markets and their implications for food policy. Duration analysis shows that the EU enlargement has a negative impact on agro-food relative trade advantages for all eight analyzed countries. Estimations imply that the duration of agro-food relative trade advantages are the highest for Hungary and Poland, and for Bulgaria in differentiated product.

### 3. TRADE FACTS BETWEEN BALKANS COUNTRIES

The trade relations between Balkan countries during the transition period reflect the progress of their economies and their success on the adaptation to a new economic environment. To a large degree these relations are the result of the free-market policies that were implemented after 1989, but they also reflect the competitiveness or comparative advantage of these economies. Smaller countries have necessarily small regions with usually a low degree of regional interaction due to limited market size and limited variety in production bases. It is clear that for some small countries such as those in the Balkan peninsula, the development of efficient enterprises that would benefit from internal and external economies of scale, presupposes, on the one hand, open borders and, on the other, intense trade relations with neighboring countries, something which would in turn result in the development of their own production systems. For the production units that seek wider markets for their effective operation, neighboring countries offer the best mutual solution for two reasons. The first has to do with consumer preferences. It is well known that for a series of historical reasons, consumers in neighboring countries tend to have similar preferences. This fact facilitates the export activities of enterprises (and countries) in neighboring markets, since it requires less effort (and cost) to promote goods. The second reason is related to the reduced transport costs, which favors the cross-border trade. In other words, the basic idea of regional multipliers is that in a large geographical region with significant commercial interaction, each country benefits from the progress experienced by neighboring countries and at the same time contributes to this progress and to the overall development of the region.

Table 1: Exports between Balkan Countries (2015)

Exports	Alb	BiH	Bulg	FYROM	Mont	Roman	Rus	Serb
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Albania	-	0,22%	1,1%	2,0%	1,7%	0,34%	0,95%	1,8%
BiH	0,47%	-	0,93%	1,1%	2,6%	1,4%	1,1%	8,2%
Bulgaria	0,26%	0,20%	-	1,2%	0,046%	6,9%	2,3%	1,4%
FYROM	1,5%	2,0%	7,0%	-	0,69%	2,0%	1,1%	8,9%
Montenegro	3,9%	8,1%	1,5%	0,88%	-	0,15%	1,0%	13,0%
Romania	0,091%	0,28%	4,3%	0,4%	0,06%	-	4,1%	1,1%
Russia	0,022%	0,3%	1,9%	0,051%	0,012%	0,98%	-	0,8%
Serbia	0,9%	8,7	2,9%	4,2%	5,1%	5,0%	7,8%	-

*Source: Observatory Economic Complexity, IMF.*

The development of cross-border trade with neighboring (and peripheral) countries is the only means offered to them for balancing the effects of inter-industry trade. The cross-border trade expands the market for most regions, increases variety and allows for greater interaction, which usually generates greater multiplicative effects from a given amount of expenditure.

Table 2: Sum of percent exports of Balkan countries (2015)

	Balkans	Rest EU States
<b>Albania</b>	11,07%	88,93%
<b>BiH</b>	26,05%	73,95%
<b>Bulgaria</b>	18,65%	81,34%
<b>FYROM</b>	29,29%	70,71%
<b>Montenegro</b>	41,33%	58,67%
<b>Romania</b>	12,19%	87,80%
<b>Russia</b>	6,74%	93,25%
<b>Serbia</b>	39,2%	60,8%

*Source: Observatory Economic Complexity, IMF.*

Table 3: Total Value of Balkan Countries Exports in EU (2015).

Balkan Countries	TOTAL VALUE OF EXPORTS IN EU GENERAL (in Billions \$
<b>Albania</b>	1,88
<b>BiH</b>	5,36
<b>Bulgaria</b>	20,09
<b>FYROM</b>	5,03
<b>Montenegro</b>	5,21
<b>Romania</b>	54,1
<b>Russia</b>	258,0
<b>Serbia</b>	13,6

*Source: Observatory Economic Complexity, IMF*

In the present research we investigate the case of exports between Balkan countries as they are given by IMF and the Observatory Economic Complexity in 2015. It should be clarified that



Greece is not included in these tables because later in our research we are going to examine in particular the trade relations of Greece with Balkan countries. Our research examines the total trade (exports) of Balkans towards the EU member states. In the Table 1 we can see the export transitions between Balkans in percentages. In Table 2 the percentages of exports for each country are summed up to find in column 1 the total percentage of exports between Balkans and in column 2 we subtract each results from the 100% to find the percentage of exports towards the rest of EU member states. The aim is to conclude with a comparison of trade between the Balkans and the rest of European states.

Last but not least, in Table 3 we point out that the most significant trading partners in terms of Balkan countries' exports are Russia with a value of \$258bil., following by Romania with \$54,1bil., Bulgaria with \$20,09bil., and Serbia with \$13,6 bil.

An interesting feature of Balkan countries trade flows as shown in Table 2 is the comparatively low intra-regional flow of goods, compared in particular to their trade with European markets. Taking an unweighted average across countries in 2015, around 20 per cent of total imports and exports were traded within the region, whereas around 57 per cent accounted for inter-regional trade with the European Union (EU).

#### **4. ECONOMIC RELATIONS BETWEEN GREECE AND THE EASTERN BALKANS**

Greece's experience during its course towards the EU integration can be a paradigm for the transition of Balkan countries. Greece is a special case of European integration because it represents a unique set of characteristics: a peripheral country, situated in a turbulent region under continues threat because of Turkey with a different historic and political development and a Christian Orthodox religion and culture. Greece is having a big historic heritage of the Ancient Greece and being European is part of everyone in the country. Of course, this experience had not only negative, but positive aspects as well. The opening of markets had favorable effects on the quality and level of consumption, as European products are now available to the majority of the population. It also had positive effects on these Greek companies that were able to adjust soon enough to the new conditions, and secure a place in the European market. Finally, and

this is very important, the opening of markets and the process of integration were accompanied by significant support for the Greek economy. In the final analysis, however, and in spite of this support, the Greek economy recorded negative change for a whole series of economic indicators, such as the export deficit, industrial production, and the rate of development for the first 10-15 years after its entry. Indeed, for a substantive period it was the only country in the European South whose level of development was systematically below the average level of the EU and at the same time diverging. Although the quality of the economic policies that were followed in the 1980s has also been blamed for this negative change, alternative explanations have also been provided for this performance. The Greek economy is small compared with major euro zone economies, but it has significant links with some of the small Balkan economies. Possible channels of contagion from the real economy include trade, remittances and FDI flows within the region. The extent of trade activity between Greece and its Balkan neighbors was influenced by exogenous factors. Greece's association and eventual accession to the EU led naturally to some trade diversion, especially in agricultural products (Tsounis, 2002), while the economic difficulties experienced in the Balkan communist countries during the late-1970s and the 1980s – and the isolationist policies that were subsequently followed there – naturally diminished the demand for Greek exports (Christodoulakis and Petrakos, 1997). On the other hand, selectively, some sectors managed to increase their penetration to the Balkan markets, especially in cases where domestic production in Greece was dominated by foreign multinationals.

Interestingly, over this period, economic relations were predominantly being conducted in a non-spatial dimension, between the capitals of the states concerned: cross-border economic links and links between the traditional regional hubs and their hinterlands never recovered to any significant extent (Petrakos and Liargovas, 2003). A difference between Greece and the EU in their trade with the Balkan countries concerns the geographical distribution of trade. Bulgaria and most recently FYR Macedonia are Greece's most important export partners among the SEE countries. Turkey and Albania follow next. Thus, Bulgaria, FYROM, Turkey and Albania absorbed more than 78% of total Greek exports to the SEE countries. Bulgaria, Turkey and Romania are Greece's most important suppliers. Those three countries

supplied a share of around 81% of Greek imports. For the EU on the other hand, FYROM and Albania are not as important trading partners as in the case of Greece the most important destinations of EU exports are Turkey, Slovenia and Romania with a share of more than 76% in total EU exports to the SEE countries. These countries are also the most important suppliers for the EU as a whole. They supplied a share of around 80% of EU imports from the Balkan region. The above suggest that there is a clear dichotomy between Greece and the EU in their trade with the Balkans. Greece, as member of the European Union represents for Balkan countries in transition an important Western partner who can assist them in their transformation process to market based economies.

Table 4: Dependence on trade with Greece

Countries	Exports of Greece, % of GDP	Imports of Greece, % of GDP
Albania	1,2%	0,11%
BiH	0,33%	0,024%
Bulgaria	5,00%	2,9%
Croatia	0,38%	0,25%
FYROM	2,1%	0,35%
Montenegro	0,58%	0,071%
Romania	2,4%	1,4%
Russia	1,6%	9,3%
Serbia	0,83%	0,29

*Source: Observatory Economic Complexity*

During our research we observed that in international trade generally, Greece top export origins are Turkey (\$4.16B), Italy (\$3.08B), Germany (\$2.27B), Bulgaria (\$1.67B) and Cyprus (\$1.62B), and the top imports destinations are Germany (\$6.24B), Russia (\$5.66B), Italy (\$4.76B), Iraq (\$4.75B) and China (\$3.39B).

Especially in our research for the Greek - Balkan trade relations we observed that Bosnia and Herzegovina and Croatia, the trade investment and financial links with Greece are negligible. Barring a major impact of the Greek crisis on euro zone activity as a whole, the risk of any spillover effects for these two countries are very low. Trade relations with Greece are most important for Russia, FYROM, Bulgaria and Albania. However, given very low shares of goods exports in GDP for Albania and Montenegro, only in the cases of Bulgaria and FYROM do exports to Greece form a significant share

of GDP. But for those two countries, the impact through trade would shave at most a couple of decimal points off growth rates.

## **5. CONCLUSION**

As presented in this paper we can understand that the adjustment of the Balkan economies to the international environment after 1989 has been anything but satisfactory. Cumulative deficits, a distorted geographic distribution of trade, labor intensive export structures, and low (and declining) rates of development of intra-industry trade, constitute factors which imply a defensive type of adaptation, limited competitiveness and economic systems which are diverging as much from those of the EU as from those of the CE. In the space of less than twenty years, following a long period of undeveloped and constrained economic and policy links, a preliminary analysis showed that the current level of trade integration between Greece and the Balkan countries as well as EU and the Balkan countries is at relatively low levels. However, Greek exports to the Balkans outperform Greek imports from the Balkans. This is also true for the EU exports, but not to the same degree as in the case of Greek export. Greece experienced a significant transformation, abandoning its hostile and eventually developing an increasingly active, open and regionalist approach in this and in other domains of its external relations.

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## **MULTINATIONAL CORPORATIONS AND INCLUSIVE ECONOMY**

Rapid globalization of the world economy in the XXI century poses new challenges for humanity. Resources are depleting, the environment getting worse and worse, technology obsolesces. In these circumstances emerging new type of economy, known as the inclusive economy. One of the main actors who are involved in the development of this type of economy are multinational corporations.

**Keywords:** Inclusive economy, Multinational Corporation, ecology, sustainable development

Today, multinational corporations are among the most important actors in the economic arena. Actions of the largest and most powerful transnational corporations involve active interaction with the environment. Unfortunately, this interaction is negative. For example, due to the constant production and use of fossil fuels suffer atmosphere, the climate is changing and as we know climate changes are damaging ecosystems.

All the above features of the activities of transnational corporations, as well as continued environmental degradation, pose new challenges to the people who are associated in order to preserve the environment for future generations. One of the concepts that offers a program of action to improve the environment, is a program known as the "Green Economy". The aim of this study is to investigate and study the interaction of transnational corporations with the idea of a "green economy". The objects of study of the multinational corporations, as well as the concept of "inclusive economy".

The topic is relevant because today the debate about the environment and the activities of multinational corporations are conducted not only in academic circles, but also at the state level.

Moreover, the relevance of the topic chosen by the fact that this topic has been actively studied by European and American scholars such as: Miriam Kennet, David Runnalls, Shel Horowitz, Clive Spash.

The question of the activities of Multinational corporations and their activities due to the environment is quite old. As you know, back in the 1980s began to form the popular concept of sustainable development.

The UN Economic and Social Council (ECOSOC) asked the United Nations Centre on Transnational Corporations (UNCTC) to prepare a set of recommendations on 'large industrial enterprises, including transnational corporations' and their role in sustainable development. UNCTC had a good track record in this area. The Centre had prepared the first set of standards for sustainable development management, the Criteria for Sustainable Development Management, had undertaken research on the environmental policies and programmes of the world's largest firms, had drafted innovative proposals to increase the flow of environmentally sound technologies to developing countries on favourable terms, and had reviewed the state of international and domestic environment law affecting transnational corporations.

Sustainable development is a process for meeting human development goals while sustaining the ability of natural systems to continue to provide the natural resources and ecosystem services upon which the economy and society depends. Thus, the concept of a green economy is rooted in the idea of sustainable development. Let's now talk about the multinational corporations and how they relate to the concept of sustainable growth and green economy.

On the one hand, there are scientists and experts who argue that sustainable development and transnational corporations are not compatible with each other. For example, Stephen Viederman President the Jessie Smith Noyes Foundation in 1997 considered that the multinational corporations and sustainable development are incompatible due to the facts mentioned below:

- Corporations have no commitment to community or place. Though increasingly committed to repairing ecological damage they might inspire, assuming that is possible, corporations have no comparable commitment nor incentive to repair communities devastated by plant closings and downsizing, or by the

introduction of new technologies that destroy the base of an economy.

- Corporations have no commitment to future generations. The next quarter is the attention span of most managers and shareholders, rather than the next quarter century. Corporations have no commitment to democracy. They often confuse demography with democracy, creating "demographically correct" community panels answerable only to the company, while claiming a commitment to real dialogue. They discourage participation by stakeholders, both workers and communities, who are often labeled "vocal minorities."
- Corporations have no commitment to equity. They create and reinforce income disparities that are an anathema to sustainability. Witness the gap between executive salaries and worker salaries: in 1993 CEO pay was 149 times average worker pay, up from 41 times in 1980. And, on average, 230 times more toxic waste was emitted in neighborhoods near the plants of the fifty largest polluters than in the communities of the CEOs responsible for the waste.
- Corporations have no commitment to alleviating poverty. The economists tell us that poverty will disappear as a result of economic growth, but a quintupling of the world's economy post-World War II has been accompanied by greater rather than less poverty. Corporations seek to create greater wants, focusing on "excessities" more than necessities. Greater consumption among the already affluent is not a contribution to environmental or social sustainability.

However, this vision of the problem is already out of date. In our time, a large number of multinational corporations are guided by the values of sustainable development. Moreover, due to the growth of public and political sentiment, if multinational corporations do not follow the principles of sustainable development, they may be faced with mass protests of the people. Many of today's corporations, working in the field of information technology, such as Apple, Microsoft, and Google are interested in the creation and development of the alternative energy market. Also, these companies invest a lot of money in the creation of an electric car. Moreover, according to the annual report on the activities of the company and the environment, in



2015 Apple has 89% of its electricity company is received by solar panels. Moreover, the company has sponsored a project to finish the roofs of skyscrapers solar panels in the world first.

However, on the other side, there are such energy giants like Royal Dutch Shell, Exxon petroleum, General Electric and others. Do not rush to a bias towards a green economy. They are satisfied with the current situation in the economy. And they most likely will not follow the concept of "green economy" as long as possible. The confrontation of raised issues around the theme of ecological responsibility will continue for a good number of years. The battle for a definition of an acceptable international corporate behavior and the precision of standards for environmental disclosure will continue largely in the media, in legislative bodies, and in court systems. The results of this study suggest that, sooner or later, the big energy companies will have to change its vector in the direction of sustainable development. Due to this, the green economy will cease to be a dream and become a reality.

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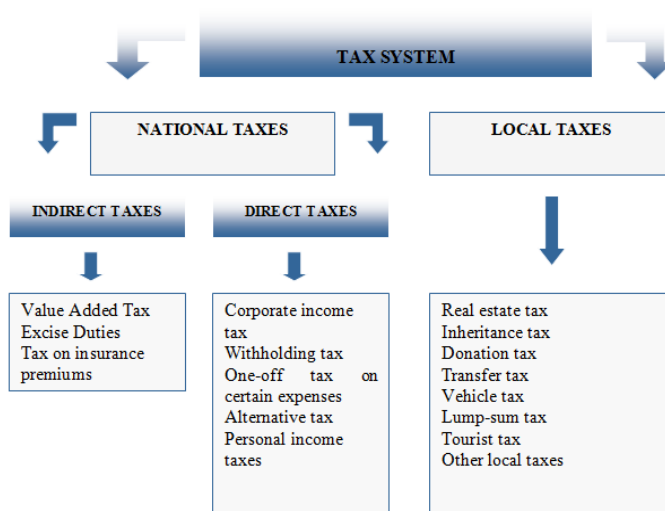
## ADVANTAGES AND DISADVANTAGES OF THE FLAT TAX SYSTEM - THE BULGARIAN CASE

This paper will serve to describe and analyze the flat tax system in Bulgaria, by focusing on its advantages and disadvantages, as well as on the current problems and prospects of the Bulgarian tax system. The aim of this work is to present an objective view on the current situation in Bulgaria, as well as to propose new ways to improve the business environment in the country by a more effective tax policy.

### 1. BULGARIA'S TAX SYSTEM

Taxes are a major instrument of the economic policy in Bulgaria. It is extremely important for attracting investors from other countries, for the growth of our economy and for employment.

Table1. Structure of Bulgarian tax system



Source: Ministry of Finance, <http://www.minfin.bg/en/page/774>

Effective tax policy promotes fiscal and macroeconomic stability and support foreign investments, while reducing unemployment and stimulating economic growth. Tax policy in

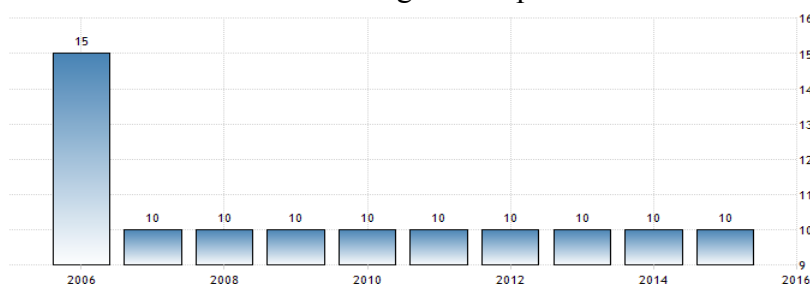
Bulgaria aims to decrease the tax frauds and tax evasions, as well as the elimination of ‘gray economy’. All that makes the tax policy an extremely important and contemporary topic. The tax system in Bulgaria is separated in two main types of taxes - national and local. The national taxes are classified in two main groups - direct and indirect:

“An indirect tax is a tax that increases the price of a good so that consumers are actually paying the tax by paying more for the products. An indirect tax is most often thought of as a tax that is shifted from one taxpayer to another, by way of an increase in the price of the good.”[2] Indirect taxes in Bulgaria are the VAT, the Excise duties and the Tax on insurance premiums.

“A direct tax is paid directly by an individual or organization to an imposing entity.”[2] The direct taxes are the Withholding tax, the One-off tax on certain expenses, the Alternative tax, the Personal income taxes, etc.

The Corporate income tax is also a direct tax which is collected from companies and its amount is based on the net income that they obtain while exercising their business activity, normally during one business year. The average of the Corporate tax rate in Bulgaria between 1995 - 2015 is 20.88 percent. For this period the highest percent of the tax rate is 40.20 in 1997 and the lowest in 2007 until now.

Table 2. Bulgaria Corporate tax rate



SOURCE: National Revenue Agency, Bulgaria  
<http://www.tradingeconomiscs.com>

This tax's revenues are very important income for the government in Bulgaria. On the next chart you can see more facts

about the Corporate tax, as well as the Social Security rate:

Table 3. Bulgarian Tax Rates

Bulgaria Taxes	Last	Previous	Highest	Lowest	Unit
Corporate Tax Rate	10.00	10.00	40.20	10.00	percent
<u>Personal Income Tax Rate</u>	10.00	10.00	50.00	10.00	percent
Sales Tax Rate	20.00	20.00	20.00	20.00	percent
Social Security Rate	31.00	31.40	43.60	29.70	percent
Social Security Rate For Companies	18.10	18.50	27.93	17.60	percent
Social Security Rate For Employees	12.90	12.90	16.80	12.10	percent

SOURCE: National Revenue Agency, Bulgaria  
<http://www.tradingeconomiscs.com>

## 2. TYPES OF TAXES IN BULGARIA

- Types of taxes depending on different classifications:
- Classified by the relation "Country - liable person" are :
  - **Direct** - in this type of tax the person who bears the burden of tax payment and tax payer match. Such taxes are: corporate tax , inheritance tax , income tax and others.
  - **Indirect** - When indirect taxes these two faces do not match. Such taxes are VAT, excise , etc .
- Classified by the direction of change in the average tax rate are:
  - **Proportional** - Also called "flat" tax. It is typical for it that the tax rate is the same for all taxpayers with different tax bases.
  - **Progressive** – When the size of the tax base grows, the tax rate increases.
  - **Regressive** - When the size of the tax base grows, the tax rate decreases.
- Classified by which budget the collected tax many goes to:
  - **National** - Divided into direct and indirect
  - **Local**

- Classified by the payer are:
  - **Tax for Individuals**
  - **Tax for Legal entities**
  - **Taxes and for individuals and for legal entities**
  - Classified by the object of taxation:
    - Personal Income Taxes
    - Value Added Tax
    - Withholding Tax
    - Corporation Tax
    - Licence Tax
    - Tax on Onerous Acquisition of Property
    - Tax on Properties Acquired by Donation
    - Tourist Tax
    - Inheritance Tax
    - Transport Vehicle Tax
    - Immovable Property Tax
    - Tax on Gambling Activity
    - Tax on The Public-Financed Enterprises' Income
    - Tax on Insurance Premiums
    - Tax on Vessels Operation Activity
    - Tax on Expenses

### **3. ADVANTAGES OF THE FLAT TAX RATE IN BULGARIA**

“The flat taxation generates a constant increase of revenues and encourages people to both work more and declare their incomes. There are many other systems that barely manage to survive and are sustained by the state –pension , insurance, public healthcare and education, judiciary and law enforcement, energy sector, etc. Several European countries apply an attractive corporate tax regime but tend to neglect the personal income tax aspect. Bulgaria outcompetes other EU member states by offering the best of both worlds and offers attractive opportunities for both companies and individuals. Bulgaria’s flat tax framework is undoubtedly exceptional from the EU perspective.”[7][8]

The flat tax provides more incentives for additional investment, savings, labor, entrepreneurship. Progressive or regressive

tax rates could be both seen as flawed, as they could discourage additional spending and investment: for example, the progressive tax rate would have a negative effect on the highest-income part of the population, such as entrepreneurs, big businesses and investors. On the other hand, the regressive tax rate affects the lower class of the population, because it consumes a large part of their already small income.

Last but not least - progressive taxation creates temporal injustice. If two people have the same income in life, but one of them gets the same salary throughout his life and the other has a lower salary at the beginning, which later on increases, the result is that the second will pay more taxes in his life. So intertemporal one of the basic principle of taxation is not observed - 'People with the same income should pay the same tax'.

The flat rate taxation is good because it's very simple and it is also fair, provides a cost benefit for the taxpayers, eliminates other taxes (basically, it taxes only earned income), employs a territorial taxation, promotes an economic growth and observes the basic principles of taxation.

In my opinion, the flat taxation is suitable for our country because it's easy to implement, it helps for the elimination of the 'grey sector' in our economy and also contributes to the economic growth. "But the main problem isn't that much whether we have flat taxation system or not, but whether it is 10, 15, 20 or a higher percent. We can't just keep our low taxes without having a particular strategy in mind." [4]

However, statistics show that "as a result of lower taxation rate, collected taxes have increased between 25% and 60% during the first five months of 2016. The total amount collected from taxes and insurance is 1.600 billion BGN. The largest increase is 75 percent and comes from profit tax", as reported by the director of the Administration of the NRA, Svetlana Paunova. [4][6]

#### **4. DISADVANTAGES OF THE FLAT TAX RATE IN BULGARIA**

- Flat taxes seem to work pretty well when an economy is growing - but not so well when it is stagnant or shrinking.
- First and maybe the most serious disadvantage of the flat rate

taxation in Bulgaria is that it penalizes low-income earners.

Most Bulgarian companies are small or medium in size and declare small income. The same holds true for most individuals – the average wage that Bulgarians work for is less than 600 BGN per month. However, they have to spend the same amount on the same necessities as those who earn, for example, 1 600 BGN. Therefore, the low-income earners end up spending most of their income on bills and taxes. In other words, the poor get poorer.

On the other side, with a flat rate tax, well-paid individuals are still well paid and they have the opportunity to either invest or save their money, in order to generate additional income in the future. Therefore, the wage gap between the low-income class and the high-income class increases progressively through the years.

For example: What is better - to earn 600 BGN and pay 60 BGN of them for taxation or to earn 6 000 BGN and pay 600 BGN? It is the same with firms. A small firm has to pay 6 000 BGN (from 60K BGN) for taxes and one big trade firm pays 60 000 BGN (from 600K). Early next year the small company can reinvest only 54 000 lv, while the second company could reinvest 540 000 BGN. With time, the big companies will continue to grow, while small ones will struggle and face more difficulties in developing their businesses. It is possible that those small companies will eventually get either bought by the bigger ones, or will go into liquidation. Therefore, a flat tax rate does not promote competitiveness, it makes it difficult to enter the market as a new company and discourages entrepreneurship.

However, Bulgaria is a particular case – the failure of the flat taxation rate is the outcome of many complex economic and political issues that the country is facing today. This creates a negative business environment, which causes investors to flee the country and export their earnings in other countries, which further aggravates the situation.

Table 4. Advantages and disadvantages of the flat tax rate

FLAT TAX RATE	
Advantages	Disadvantages
Simplicity	Penalizes the low-income segment
Eliminates double taxation [5]	Flatness of the tax schedule itself is not necessary for the positive effects of tax reform [5]

Flat tax systems are likely to increase labor supply and employment[5]	Flat tax systems are likely to lead to redistribution at the expense of the middle class[5]
Lower administrative and compliance costs [5]	Redistribution might cause political opposition[5]
Higher labor supply incentives due to lower marginal rates [5]	The wage gap between the low-income class and the high-income class increases progressively through the years
Generates a constant increase of revenues and encourages people to both work more and declare their incomes	
Observes the basic principles of taxation	
Promotes economic growth	

Source: <http://wol.iza.org/articles/flat-rate-tax-systems-and-their-effect-on-the-economy.pdf>

## **5. SINGLE NATIONAL STRATEGY FOR IMPROVING THE TAX COLLECTION, TACKLING THE SHADOW ECONOMY AND REDUCING THE COMPLIANCE COSTS 2015 - 2017**

“Based on the ‘Evaluation Report on the implementation of the Single National Strategy for improving the tax collection, tackling the shadow economy and reducing the compliance costs 2015 - 2017’ we can see that the tax policy by the Ministry of Finance in 2015 was focused on improving the tax system efficiency and the business environment in order to promote economic growth and employment. It also secured the necessary financial resource for implementation of the priority spending policies laid down in the annual program, which were linked to the approved budgetary framework with the 2015 State Budget of the Republic of Bulgaria Act. The main objectives included pursuing a policy for improving budget revenues and decreasing the shadow economy share. Other strategic objectives were formulated in the field of fighting tax fraud and tax evasion, as well as for reducing the administrative burden and costs for the business and the citizens.

### **5.1 Corporate taxes**

As of 31.12.2015, corporate tax revenues (including taxes on dividends, shares in a liquidation surplus and income of local and



foreign legal persons) amount to BGN 1 860,4 million, accounting for execution at 107,7 % against the updated 2015 annual plan. They increased by BGN 181,0 million (10,8 %) against 2014.

Cash receipts from corporate tax on non-financial enterprises (including not-for-profit organizations) and financial institutions amount to BGN 1 803,7 million, accounting for execution at 111,1 % against the updated estimates in the 2015 SBRBA. They are BGN 190,9 million (11,8 %) up on the previous year.

Receipts from tax on dividends, shares in a liquidation surplus and income of local and foreign legal persons for 2015 are BGN 56,7 million, accounting for execution at 54,9 % of the updated annual plan. They are by BGN 9,8 million (14,8 %) lower compared to the previous year.

## **5.2 Income taxes on natural persons**

Receipts from income taxes on natural persons (ITNP) to the Central Budget as of 31.12.2015 amount to BGN 2 719,1 million or 100,2 % execution of the updated annual plan. Those revenues are by BGN 135,7 higher compared to the previous year when they were BGN 2 583,4 million (96,7 % of the 2014 annual estimates). Receipts from taxes on employment, service and equivalent relationships account for the highest share of 81,7 %, followed by receipts from taxes on non-employment relationships with 10,3 %, the final tax on local and foreign natural persons and the tax on dividends and liquidation quotas of local and foreign natural persons with 6,1 %, whereas revenues from final tax on income from interest on deposits of natural persons account for the lowest share of 1,9 %.

In order to attain the objectives for reducing the compliance costs laid down in SNS 2015-2017, measures to facilitate the administrative regimes and procedures and the shorten the time for provision of services, expansion and improvement of the e-services offered, improvement of the information systems and enhancement of the official information exchange were implemented.” [1]

This is a part of the ‘Evaluation Report on the implementation of the Single National Strategy for improving the tax collection, tackling the shadow economy and reducing the compliance costs 2015 - 2017’ which shows the focused points of the Ministry of Finance’s tax policy. According to this report the situation in Bulgarian tax policy is getting better step by step, slowly and surely.

## 6. CONCLUSION

In conclusion, I think that the tax policy in Bulgaria is slowly improving. There will always be at least two different points of view about the subject and oftentimes what is good for one side will not necessarily be good for the other one – yet a Pareto efficient situation might be possible to achieve. The most important change, which would be beneficial for everyone – government, consumer and corporations – is continuing to reap the benefits from the flat tax rate system, while simultaneously developing further the system by increasing investment interest, minimizing the “grey economy” sector, combatting unemployment and paving the way to a rich and prosperous Bulgaria, where people don’t try to evade taxes because of necessity. The responsible institutions are trying to achieve those goals by the strategies mentioned earlier in this paper, but by looking at different countries, we can conclude that those who pay more in taxes have higher living standards in general. For example, in Russia the tax on personal income is only 13%, but the corporate tax is 20%, which is double the one in Bulgaria – the underlying principle is “give, so you can receive”. In Bulgaria, increasing the corporate tax will have a positive effect on the budget, because currently even a 5% increase would not hurt businesses and tax payers. 15% corporate flat tax is still considered as a low tax, yet in the Bulgarian case, an increase to 15% would represent an opportunity to create a better business environment, which would benefit the country’s budget, as it would increase the income from corporate tax by 50% from their current amount.

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## **DIGITAL BANKS**

The fundamental changes in the fields of technology in the past few years and more precisely the last decade influenced in catalytic degree the economy and had great consequences, obviously, and triggered changes in technology. All these changes were the stimulation for the creation of new needs and requirements that should have been satisfied for the smooth operation of the community. In order to correspond in these changes, banks had to adopt the new technology and the Internet, hoping that the guarantee of pioneering place in the sector of applications of new technological methods and Internet can ensure them one effective defence in the escalated changes as well as competitive advantage. That is the main reason why created the Online Banking and thus the Digital Banking.

Digital Banking actually is a bank working online-it is not obligate to have any buildings at its possession-where you can do all the action you used to do in a bank, for example take a loan, transfer money or invest money with one click.

Moreover, digital banking encloses the well known online banking. Online banking, also known as internet banking, e-banking or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website. The online banking system will typically connect to or be

part of the core banking system operated by a bank and is in contrast to branch banking which was the traditional way customers accessed banking services.

To access a financial institution's online banking facility, a customer with internet access would need to register with the institution for the service, and set up a password and other credentials for customer verification. The credentials for online banking is normally not the same as for telephone or mobile banking. Financial institutions now routinely allocate customers numbers, whether or not customers have indicated an intention to access their online banking facility.

Customer numbers are normally not the same as account numbers, because a number of customer accounts can be linked to the one customer number. Technically, the customer number can be linked to any account with the financial institution that the customer controls, though the financial institution may limit the range of accounts that may be accessed to, say, cheque, savings, loan, credit card and similar accounts. The customer visits the financial institution's secure website, and enters the online banking facility using the customer number and credentials previously set up. The types of financial transactions which a customer may transact through online banking are determined by the financial institution, but usually includes obtaining account balances, a list of the recent transactions, electronic bill payments and funds transfers between a customer's or another's accounts.

Most banks also enable a customer to download copies of bank statements, which can be printed at the customer's premises (some banks charge a fee for mailing hard copies of bank statements). Some banks also enable customers to download transactions directly into the customer's accounting software. The facility may also enable the customer to order a cheque book, statements, report loss of credit cards, stop payment on a cheque, advise change of address and other routine actions.

Today, many banks are internet-only institutions. These "virtual banks" have lower overhead costs than their brick-and-mortar counterparts. In the United States, many online banks are insured by the Federal Deposit Insurance Corporation (FDIC) and can offer the same level of protection for the customers' funds as traditional banks.

In the era of the digital revolution will dominate applications that enable Internet users, mobile phones and portable devices to ...

forget the cashier.

The steps that the Greek banks have made in this direction is important, but the penetration of e-banking in our country stands at 16%, while the average in the European Union is 50%. This shows that the benefits to the banks of the development in this field - with niches digital banking - will be enormous.

The primary objective of the banks are all customers have debit, while payments with plastic money have increased. Today, the percentage of clients who have debit does not exceed 70%, when in June last year was at 60%, with the increase due to the imposition of capital controls.

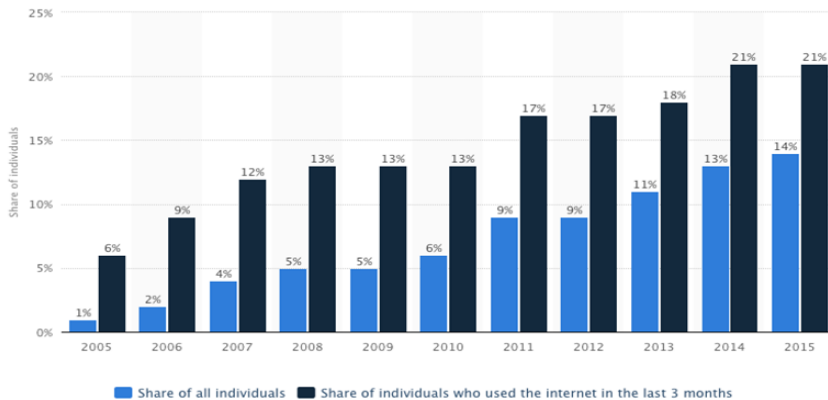
The aim of Piraeus Bank is to maintain informal reins in electronic-digital banking. The bank was a pioneer by launching the winbank 2000, which was the first online banking service in the domestic banking system.

Today, Piraeus Banks continues to adopt innovative applications and management focus is to increase investment in this piece as it is estimated that technology gives endless possibilities to improve the functioning and the numbers of the group and will give it a competitive advantage over the competition. In this context, projects of the group is to upgrade the bank through the greatest possible functionality digitization

Analog design has made in Eurobank. In this context, it created last summer new general digital banking management led by Mr. Sotiris Syrmakizis and view the digital transformation of the group. Management has undertaken the design and supervision of the actions that will facilitate the adoption of digital technology both at retail level and the wholesale banking level. In Eurobank estimate that the bank can take the lead in the field, digitizing operations across the spectrum of activities and offering even better customer service.

### Online banking penetration in Greece from 2005 to 2015

This statistic shows the online banking penetration in Greece from 2005 to 2015. In 2014, 13 percent of all individuals used the internet for online banking, but usage was higher among those who had used the internet within the last three months, at 21 percent.



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The Alpha Bank, for its part, moved a few months ago to the complete renewal of web services banking and mobile banking, focusing on modern design and the most friendly and easy navigation, while National Bank has electronic i-bank services offering the possibility conduct transactions through the Internet and mobile phones.

Concerning the Southeast Europe in online and digital banking consequently there has not made a great effort to evolve. Nevertheless, Bulgarian banks and insurance companies plan to increase spending on security technology, that is because cybercriminals are increasingly interested in Southeast European (SEE) countries and Bulgaria in particular, even if English-speaking countries, because of their common language, can be more attractive targets.

The first bank that has provided the "Internet banking" service is the American Bank of Albania in 2002. Obviously, with the new developments, the other banks have not remained behind. Raiffeisen Bank through MultiCash, provides the transfers service. Also, the National Bank and Credins Bank provide services online. The above facts talk about Internet banking in its beginnings, in Albania. Although in the Albanian market there are banks that have the support of the powerful foreign bank groups, this service is not yet developed. The main reason is the cost - benefit report. If there is no significant

number of clients that will use this service, the costs associated with the provision of the service, would bring loss to banks. On the other hand, if a certain service is not provided it is difficult to be determined the number of its potential users; the telecommunications infrastructure remains foremost, since its development brings positive effects in e-banking service as well. Obviously in the development of e-banking, the Bank of Albania plays a significant role, by adopting regulations which form the legal basis for this service. The existence of a solid legal basis over recent years has contributed significantly to the spread and development of e-banking. Given the progress of products of cards and credits, internet banking possibly will have an even more rapid development in the future in Albania. However, this will depend first and foremost on the security that banks will provide regarding this service and secondly, on the transparency with customers.

Moreover, According to last researches, a new institution was created by the early 00' and called FINTECH. Finetch, is an economic industry composed of companies that use technology to make financial services more efficient. Financial technology companies are generally startups trying to disintermediate incumbent financial systems and challenge traditional corporations that are less reliant on software. With fintechs you can take a loan online, you have access 'anywhere' , lower transaction costs and general cost reductions. For example a company called Transferwise is specialized to online remittances, developed and UK-based peer-to-peer money transfer service small result of their succeed is that they are in a position where they can provide a remittance according to the average cost of the exchange. Of course this is unique, as the banks earn money from the remittances abroad mainly because of the favorable to the client exchange rate. In the category of FinTech integrated companies developing solutions in areas such as electronic payments, electronic banking, secure transactions, money transfers, "social" credit rating, electronic wallets, electronic invoicing, payroll management, transaction clearing, alternative currencies, alternative and equity markets values, alternative platforms to raise capital, either from the online crowd or from private investors, alternative lending platforms between individuals and companies, alternative mortgage platforms, alternative security services and others.

In the field of FinTech they have turned the "look" and the Venture Capital and Private Equity investment funds, with funding

worldwide tripled in 2014, reaching 12.1 billion. Dollars from 4.05 billion. US \$ 2013 and below 2 billion. in 2010. in Europe, as important FinTech centers have emerged in the United Kingdom and Ireland (623 mil. USD. investment in 2014), Scandinavian countries (345 m.) and the Netherlands (306 million. dollars. the 2014).

In the most important FinTech startups include companies such as: Stripe (USA, 2010, hardware and software that enables traders and firms to receive and manage electronic payments, 280 million. Dollars. Investments), TransferWise (United Kingdom, 2010, transport money abroad by individuals and businesses without high bank charges of 90 million. dollars. investments), iZettle (United Kingdom, 2010, terminals and applications for acceptance and payment management business via mobile phones, 244 million. dollars. in investments), Gusto (former ZenPayroll, USA, 2011, management and payment of payroll in cloud, 136 million. dollars. investments), Square (USA, 2009, comprehensive financial management of a business, payment acceptance in the electronic and physical sales channel, record sales, warehouse management, etc., 591 mil. USD. investement, ipo in New York 2.9 billion. dollars capitalization), Coinbase (USA, 2012, one of the most popular digital wallets for transactions with Bitcoin, 107 mil. USD. investment), and others. The most active Venture Capital funds in the industry include the Accel Partners, Andreessen Horowitz, Greylock Partners, Kleiner Perkins Caufield & Byers, New Enterprise Associates and Sequoia Capital.

The prevalence of technology financial services (especially those of electronic payments and transactions) and their acceptance by consumers themselves and dealers have even led technological "giants" of Apple, Google, you of Samsung and Facebook to create their trials FinTech services that integrate their existing products.

Although many of the FinTech startups "out there" to "kill" the traditional financial institutions, however, banks do not see the innovations in the sector exclusively as a relationship between enemies and try to anticipate the changes that occur and integrate them, if not to the cause and to guide the same: banks like American Citi, American Express, Goldman Sachs, JP Morgan and European Santander, BBVA, Barclays, UBS and others have "embraced" the sector or investing directly in and acquiring FinTech startups or supporting business accelerators targeted at such companies or rapidly incorporating technological innovations created. Similar support and



promotional activities FinTech companies (in addition to the innovative technological solutions which develop themselves) "run" and the "giants" of bank MasterCard and Visa transactions.

In Greece, the "discovery" of FinTech and "debate" on this has started very recently (about the last two years), and returned much more dynamically after the summer and the problems created in the financial system by imposing capital controls.

Restrictions on personal commitments on corporate transactions and transfers and payments to abroad led many consumers and companies to make greater use of electronic transactions and payment methods, even to look at alternative currency Bitcoin a method of avoiding restrictions on capital movements or securing of a potential "haircut deposits."

In Greece, the FinTech industry is much more limited than the sizes described above.

The most important company in this sector is currently Viva, which is part of the Realize IT group of companies operating since 2000. It is known mainly by electronic reservation services for transport and entertainment tickets. Since 2014 is the only Greek company that has received authorization from the Eurosystem as Foundation Electronic Money Issue, which allows, under the supervision of the Bank of Greece to operate electronic banking services throughout the European Economic Area. After a significant investment (according to information of the newspaper "To Vima", approximately 6 mil. Euros) of investment companies launched the first major product: the Viva Wallet allows users to transfer money from their personal account and the "store" in a digital wallet, through which they can make payments to affiliated merchants or to settle their bills. At the same time, via a MasterCard can "synchronize" their digital wallet and plastic card payments in physical stores. The Viva has also launched its own range of POS terminals to receive payments by credit or debit card at the physical point of sale on the part of traders.

Besides Viva, we find few independent companies in the electronic financial and financial services.

Enough "crowding" is observed in the sector of electronic invoicing and accounting of a company management, where apart from more established companies such as Retail @ Link of Entersoft and myGalaxy products and Orbi of Singular Logic, we find, among

others, the startups Elorus ( a web application electronic invoicing through which freelancers and companies may issue not certified invoices and receipts, to accept electronic payments, to record receipts and monitor their liquidity), which has been financed with a capital "seeding" of EUR 50,000 by investment "angels" of StartTech Ventures, and Billit (an online accounting that allows the operator to issue sends and pays its invoices electronically, record the income and expenses and create aggregated reports on VAT and duties) .

Another sector that has generated enough activity in the Greek market are the online insurance services, primarily in the automotive sector and private health. One of the pioneers in the field is InsuranceMarket.gr (launched in 2010 as LiveInsurance.gr today has emerged as the largest online insurance intermediary and 'camera' Search and compare insurance plans in Greece, mainly in the automotive industry, with 100,000 customers at the end of 2015) the first quarter, while a significant size between insurance companies in the automotive industry has become the Hellas Direct (from 2012 provides exclusively via the internet services at the end of 2014 amounted to 25-30,000 clients and share capital in February 2015 amounted to 17 million. euro, after the participation of Third Point - through the Third Point Hellenic Recovery Fund, to nearly 6 million. dollars, according to estimates - and Endeavor Catalyst).

A final subsection of FinTech where there is a more increased activity in Greece is that of alternative markets securities and venture capital. Typical examples are respectively the ZuluTrade [created in 2007 by Leon Yohai and today headquartered in Piraeus, 120 employees and under regulatory supervision in Europe, USA and Asia, is an online forex platform "social" features, through which investors can develop their strategies (para) following the placements and the "performance" of other investors] and the Open Circle (equity investment platform through which companies post their business plans and the amount of funding seekers from verified by investors and the platform through which it has successfully completed an investment round in Pinnatta company).

In Greek reality FinTech there is a paradox in relation with developments abroad "driving force" for technological innovations in the financial sector are the banks themselves, despite new companies with innovative business models that can "disturb" a fairly sizable, cumbersome and bureaucratic sector.

Thus, the banks themselves in collaboration with mobile phone companies have brought mobile payments in Greece and after the advent of capital controls where most companies were interested in accepting payments through cards, launches new services for PoS devices. Besides own e- and m-banking services of banks and Viva, have developed other alternative electronic banking solutions, and even to carry small amounts of money between individuals (peer-to-peer), it seems that in Greece again the banks themselves will innovate first. A similar "push" in the area (although focusing more on promoting e-commerce and e-payments) and give to Greece Visa and MasterCard.

At this point creates the Greek "chance" for those who start first (first-movers) the development of services in the FinTech industry, as a number of factors may favor them:

The wider economic and tax environment in which operates Greece, which has to be corrected and promoted by the government itself one electronic methods of operation agenda.

Recognition by the very banks of the country of the potential offered by innovations in the sector, and more broadly of new business models and startups, which can lead to synergies with the very financial industry.

The high degree of bureaucracy and "dyskinesia" that characterizes the Greek banking procedures and the low rates of satisfaction of their customers, which creates a substantial "critical mass" of the first users (early adopters) for quality alternative services.

The gap and the lack of independent companies with substantial size or 'dominant player' characteristics which essentially creates an unexplored market for FinTech services.

On the other hand, negative factors for the success of the industry in the country can be (again, in reverse this time) in business and tax environment that makes it more favorable tax avoidance and evasion despite the use of electronic methods of transactions, observed low familiarity-use in everyday life and the physical world of electronic payment methods and transactions that after the relaxation of capital controls seems again subside, and the limited availability of domestic investment capital necessary to support the development of such services .

Recently, however, the Greek market has become a "target" for another international "player", and in 2014 was preceded by the

Finnish Holvi, which develops electronic banking solutions for small businesses and freelancers.

In a news went rather "in the small", the German company NUMBER26 from Germany included the Greece to the countries in which extended the provision of services.

The NUMBER26 has developed electronic banking services exclusively via a mobile phone. The services are aimed at consumers (not corporate accounts are available) and any user of the "mobile" this bank can open an account for free within 8 minutes (as the company) promises by sending relevant documents and completing the identification of video call with employee company. Then, after transfer money to his account, may make electronic payments without a fee or commission, and may even apply for the issuance of physical MasterCard card through which may make cash withdrawals from his account in NUMBER26, also without charge.

The company was founded in 2013 and cooperates with the German bank Wirecard Bank (a small bank that specializes in the creation and delivery of online banking products and is a member of the Wirecard Group group, which in 2014 recorded a turnover of EUR 601 million.). In 10 months of its establishment he had "catch" 80,000 customers in Germany and Austria, while this currently employs 70 workers. The NUMBER26 has received total funding of € 11.5 million. Euro Earlybird Ventures, Redalphine Ventures, Axel Springer Plug & Play and (in April) the Valar Ventures, one of the investment companies in which Peter Till participate, co-founder of PayPal and "legendary" investor in startups, since it was the first outside investor in Facebook in 2004, and has participated in rounds of investment companies such as LinkedIn, Yelp, Quora, Yammer, Palantir and TransferWise. Although this time the NUMBER26 only provides current accounts to customers consuming, the next projects is the creation of deposit, savings and investment products.

The NUMBER26 included Greece in the second "round" of countries where from December provides services in personal communication I had with company representatives asked what were the reasons that made them choose and Greece.

"The banking products in Greece is quite traditional, many of them quite expensive and use old technologies. These are the characteristics of the countries in which we are expanding, "they answered via e-mail, describing their own product as a modern,

unique and convenient banking experience.

With the restrictions are at the moment in force in the Greek banking system, a user of the service could be only 500 carries in the order bill each month to transact through NUMBER26 and that if it has not reached the highest approval of credit limit institution from which transfer the money. Asked about whether capital controls happened by them as an obstacle or an opportunity for the launch of an alternative bank "proposal", I answered that see capital controls as "an opportunity to enter a market that is completely disappointed by the banks and banking services "and they see an additional opportunity to the fact that" not too many who are willing to enter the (pp. Greek) buy now, so we can show us how easy it can be the mobile banking », and they spoke of a service based on transparency and trust.

I asked, finally, whether they have "mapped" the Greek electronic banking and local "players" with representatives of NUMBER26 respond that "the penetration of online banking in Greece are quite low, but the penetration of the mobile market is growing. With capital controls we have also seen an increase in the use of credit cards, a positive development for the international banking business models. Our hypothesis is that Greece will overtake online banking and you will go directly to the mobile banking ».

The entrance of NUMBER26 confirms the prospects can get in the FinTech industry in Greece, while the views of emphasizing moved my market 'virgin' executives.

It will be interesting to see the evolution of the market in 2016, the institutional framework will be created (but the "messages" from the government side so far is contradictory and ambiguous) and whether and Greek startup companies can create a "batch" respective services to be introduced in the domestic market and if possible we will extend abroad.

Last but not least the main problem is that 'How a model like this can work in Greek and in general in Southeast Europe given the limited liquidity and availability of funding? Prior to the financial crisis, interbank markets were among the most liquid in the financial sector. They play a key role in a bank's liquidity management and in showing the relationship of economic and funding liquidity in the transmission of monetary policy. As the financial crisis worsened in September 2008, the interbank market's liquidity dried up as banks

preferred to hoard cash instead of lending it out, even at short maturities. Central banks' massive injections of liquidity did little to restart interbank lending. The failure of the interbank market to redistribute liquidity became a key feature of the crisis. But not only the interbank market showed massive turbulences: simultaneously to the disruption of the interbank money market, funding cost of banks on both sides of the Atlantic, as Figure 2 exemplified shows, sprung to unprecedented highs.

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### **RUSSIA AND GREECE ECONOMIC RELATIONS: PROBLEMS AND PROSPECTS OF COOPERATION**

The paper considers different aspects of economic interaction between Greece and Russia in the conditions of the current geopolitical situation. The author draws attention to the main trends in the development of economic relations between these two countries, along with the prospects of future cooperation.

**Keywords:** International trade, international economic relations, world economy, the energy cooperation.

Greece takes a special place in the foreign policy of Russia as a country that has a similar culture and mentality as well as long friendly relations.

In Greek president's words, Russia has always been and will be a great power, it plays a fundamental role in the fate of the entire humanity. Speaking of the Russian-Greek relations, the Greek president said they had always been good. "History has shown that, despite the political situation, there have always been strong ties that unite our two peoples," he said. "There has always been mutual understanding between us in all fundamental issues, and this was confirmed during my recent visit to Moscow."

These two countries are linked by many events. They value the centuries-old traditions of friendship. Cooperation of Russia and Greece rests on a rock-solid base of common civilizational values, the Orthodox culture and a genuine mutual affection. A vivid example of how closely people's lives are intertwined is the story of Ioannis Kapodistrias, who was a Russian minister of foreign affairs in the 19th century and later became a head of the Greek state.

For analyzing situation nowadays the establishment of diplomatic relations between Greece and Russia in September 1828 should be considered as the starting point. They stopped after the October Revolution in 1917 and were recovered at March 8, 1924, and December 27, 1991 Greece recognized Russia to be a successor of the USSR.

There are more than 50 international contracts between Greece and Russia at the moment. Trade and economic relations are based on a number of agreements between Greece and the Soviet Union. Economic activity is controlled by bilateral commission on economic, industrial and technical cooperation established in 1997, the last session of which took place in September 2016 in Thessaloniki.

Economic relations between Greece and Russia are considered to be stable. There is a constant tendency towards growth, despite the fact that Greece doesn't take the first place in Russia's foreign trade. Today Russia is one of Greece's largest partners. This state of trade between the countries is successfully maintained in recent years despite the EU sanctions against the Russian Federation.

Greece imports from Russia oil products, fuel, manufactured goods and food products. Russia imports a variety of industrial products and raw materials for them, such as fur products, steel products, inorganic chemicals, and primary processed foods (fruits, vegetables, nuts) and beverages (juices, wine), tobacco.

Despite increasing trade balance and investment between Greece and Russia, the two sides "can not be satisfied with this," and believe that there are "plenty of opportunities for economic cooperation". Even in conditions of global instability of the world economy these two countries continue are striving to strengthen and enhance mutual cooperation. It can be proved by the fact that there was announced to be the opening for the cross years of Greece and Russia. The programs cover activities in the scientific, educational and humanitarian spheres, as well as tourism. In the framework of the Year

of Greece in Russia and Year of Russia in Greece, Pavlopoulos said the events that demonstrate the common culture of the two countries are especially important. "I mean the roots of our cultures that derive from one religion — Orthodox Christianity," he said noting that this religion "sends the signal of love for mankind across the world."

Today in Russia, according to the Department of Economic and Trade Affairs of the Embassy of the Hellenic Republic in Moscow, there are 128 joint Greek-Russian companies. In general, they've got a total return of 2,5 billion euro. The company employs about 17 thousands people [3].

According to the Greek experts, promotion of Greek companies to the Russian market hampered by factors such as the saturation of the Russian market, legislative and bureaucratic difficulties, lack of information about Russian companies-contractors, higher total value of Greek goods and others.

Russian companies in Greece operate mainly in the energy, military affairs, tourism, telecommunications, construction, banking, food and beverage products.

Russian companies in the Greek market also face many challenges among which can be mentioned numerous differences in the legal framework, the current Russian system of limits and quotas on imports of large volumes of goods, serious bureaucratic barriers.

However despite these difficulties there is an advantage of Russian companies in Greece. It is the fact that the Greek market is a market, consisting not of 11 million but 65 million consumers, as Greece gives access to the Balkan countries.

Expanding the network of Russian banks in Greece and Greek banks in Russia would considerably simplify the Russian-Greek transactions. In November 2007 Russian bank "Kedr" opened in Greece. At the same time Greek banks as Pireus Bank, Eurobank, Alfa Bank, Bank of Cyprus are dealing with the issue of entering the Russian market [4].

At the national level Joint Russian-Greek commission for economic, industrial and scientific-technical cooperation helps to strengthen relations in the economic sector since 1997.

Russian-Greek cooperation is developing in the framework of the Chambers of Commerce (CCI). The main partner organizations of the Russian CCI in Greece are the Union of Greek Chambers of Commerce, Chamber of Commerce of Athens, Piraeus Chamber of



Commerce and many others. Interaction with Greek partners also carried out in the framework of Eurochambres and the Business Council of the Black Sea Economic Cooperation (BSEC).

In the history of the development of Greek-Russian relations at the present time it is also necessary to take into account that Russia has the most advanced military-technical cooperation exactly with Greece, which is in the lead on military-technical indicators among the countries of the European Union and in spite of pressure from Brussels and Washington continues to buy Russian military equipment.

Greek policy in the field of arms and military equipment procurement is mainly determined by its membership in NATO. At the same time Greece has a number of problems in relations with the neighbouring states, which makes Athens a need to diversify the sources of military equipment. On the one hand, military-technical ties of Greece are traditionally oriented to the US and European countries such as Germany, France and the Netherlands. On the other hand, Greece is acquiring Russian weapons and military equipment, which are made under the NATO standards.

The basis of the Greek-Russian cooperation in this area was laid by signing in 1995. intergovernmental Agreement on cooperation in the military-technical sphere which was one of the first documents of the partnership between Russia and NATO member countries in the military-technical sphere.

The parties are actively and regularly are making official visits. Intergovernmental Russian-Greek commission on military-technical cooperation successfully operates since 1997, meetings are held twice a year alternately in the two capitals.

Russia is actively participating in international exhibitions of arms and military equipment «Defendory International», held in Piraeus and at the same time Greece is participating in the Russian exhibitions such as "MAX" [5].

«Rosoboron Service - Hellas» is currently developing a plan to expand the possibilities of cooperation. This company is involved in the internal national tenders. This is a huge sector, which includes almost all logistics service. Another area of work is the organization of an integrated post-warranty service for previously supplied military equipment of the Russian manufacture [4].

Greece and Russia hold joint military exercises. In December 2010 in Elefsina were held joint exercises of the Greek and Russian

commandoes. Greek experts receive training related to maintenance and repair of weapons in various military academies Russia on favorable terms.

Russia and Greece also cooperate closely in the field of energy. The main Greek-Russian projects in this area include the construction of the gas pipeline "South Stream", the project is planned on the territory of several European countries. 29<sup>th</sup> of April, 2008 the countries signed an intergovernmental agreement on cooperation in the establishment and operation of the pipeline on the territory of Greece, and on June 7th, 2010 the Russian "Gazprom" and the Greek DESFA formed a joint venture South Stream Greece S.A. In 2014 the project was suspended due to the controversy over the conflict in Ukraine and following sanctions against the Russian Federation. In December 2014 Russian President Putin said that Russia withdraws from the project because of the lack of building permits in the European Union. After that Russia has repeatedly received offers from the EU on the resumption of the project [5].

High-level talks between the two delegations emphasized energy cooperation and the involvement of Russian companies in a number of privatizations. The creation of the new Greek Privatisation Fund has multiplied potential for investments in real estate and transport — it has to be noted that the inauguration of the Trans Adriatic Pipeline (TAP) facilitates Gazprom's plan to further develop the South Gas Corridor.

Transferring gas from Azerbaijan through Turkey toward Greece, Italy and then to Central Europe is only one option that Russia can further explore. The re-ignition of the trilateral partnership along with Greece and Bulgaria, and the benefits in terms of exploiting the prospective infrastructure scheme and capacity in Northern Greece, are certainly motivating factors for Gazprom to build on a multi-network of gas supply crossing the Balkan region and Western Europe.

Timing also matters as Greece is entering a new stage after 1.5 years of negotiations on its bailout program. The release of the next tranche, the agreement on a roadmap to finally address debt relief issues and the strong intention of the Greek government to emphasize growth and investment projects in the coming period is something Moscow evaluates positively. Greece has also broadened its energy policy coalitions with Israel and Cyprus in the Eastern Mediterranean,

gaining significant leverage and recovering from a long period of non-involvement in regional affairs.

Greece is delicately re-shaping its positioning regionally, gaining confidence and foreseeing significant financial benefits, especially after introducing a new, investment-friendly growth bill into parliament. The first steps of cooperation with Russia were determined last year when Tsipras visited Moscow and a number of Greek officials and business representatives travelled to Moscow several times to explore reciprocal investment opportunities.

On the financial side, the Greek economy can take advantage of its open market for foreign non-EU investments and capitalize on the fact that the European Commission and the majority of member states have undertaken a critical stance against Russia's financial involvement in their domestic economies.

For the Greek government, the lifting of sanctions and reinstatement of Russia's position in the G8 is of paramount importance. A positive development on that front, with the European Commission assuming a more constructive approach, would also turn Greece into a top destination for Russian tourists.

On the geopolitical side, the deterioration of bilateral relations between Russia and Turkey and the fact that Greece is a low-risk area in terms of security challenges are considered as key incentives for deepening ties. In addition to that, Greece wants a strong ally and a global power on its side for the coming geopolitical shifts that will take place in the wider region, mainly regarding any negative shift in the refugee crisis and the ongoing turbulence in the Arab World.

Russia has ensured regular and reliable natural gas supplies to Greece for two decades. The existing contract with Greece was extended up to 2026 on favorable terms. Being aware of Greek leaders' intention to make the country a powerful energy hub in the Balkans, Russia has always included Greece in plans to enhance hydrocarbons supply to Central and Western Europe.

Russia could also help to streamline the Greek transport infrastructure. For example, the participation of Russian business entities in the forthcoming Greek tenders for the purchase of assets of railway companies and the Thessaloniki port facilities. Also on the agenda are a number of other projects that can considerably enhance the potential of bilateral cooperation.

Traveling is helping to harden the Greek-Russian economic.

Greece is a favorite place, where accumulates a large number of Russian tourists. The number of tourists coming from Russia is increasing every year: according to the Association of Greek tourism enterprises, in 1996 Greece was visited by 180 thousand Russian tourists, and in 2011 more than 739 thousand [1]. They relax on the beautiful beaches, get acquainted with the rich heritage of ancient Hellas and its legendary architectural monuments. Tourism makes a significant contribution to the economic development of Greece, as well as to broader direct people-to-people contacts and greater trust and friendship between the citizens.

In 2016 an increased demand for tours to Greece was recorded due to cancellation of Turkish and Egyptian directions. A total amount of 10,000 Russian tourists visited Greece in March, which is 523.6% of amount of the previous year. In the period from January to April 20,000 Russians visited Greece, it shows an increase of 135% compared to the previous year [6].

Despite the positive trends between Greece and Russia in the field of tourism, there are quite a few problems of a different nature. For example, the most significant obstacle for the Russians is the impossibility of extending the visa. If Greek tourist visa costs only a few tens of euro, its extension costs about 500 euros that for many Russian tourists is unacceptable.

Following the negotiations in Athens in May 2016 the country signed a package of documents, including a political declaration between Russia and Greece. Also there was adopted a memorandum of understanding on inter-regional cooperation between the Ministry of Economic Development of Russia and the Ministry of Foreign Affairs of Greece. In addition, there were signed the main documents on development in the field of agriculture of Russian-Greek relations. Parties also adopted a joint action program in the field of tourism between the Federal Tourism Agency of Russia and the Ministry of Economy, Development and Tourism of Greece for the period 2016-2018 [8].

Today, Russia and the EU have come to a crossroads where we need to answer the following question: How do we see the future of our relations and which way are we going to head? I am convinced we should proceed to establishing, in the vast space stretching between the Atlantic and Pacific oceans, a zone of economic and humanitarian cooperation based on the architecture of equal and indivisible security.

Harmonizing European and Eurasian integration processes would be an important step in this direction.

Summing it up, we can say that the development of economic cooperation between Russia and Greece today promote similar positions on a wide range of international problems and issues related to the development of the Black Sea and regulation of numerous disputes. Greek and Russian opinions about the issues of development of the Black Sea region (problems of diversification of energy resources, further dialogue in the sphere of military-technical cooperation, expanding economic contacts, environmental problems of the Black Sea and so on) are almost united. An important link between the two countries is rather considerable Greek diaspora in Russia.

Over the past two decades of economic and political relations between Greece and Russia have evolved mainly in a positive way. Greece and Russia are reliable partners with long-term nature of the relationship and a similar view of the majority of the world's problems and issues related to the development of the Black Sea region.

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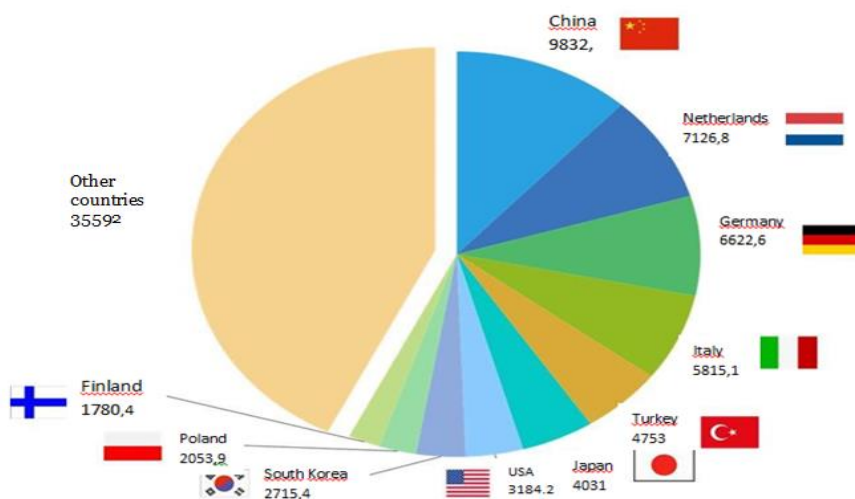
## **TRADE RELATIONS OF RUSSIA AND POLAND**

The article discusses the features of trade relations of Russia and Poland. The author analyzes basic problems of trade relations between the two countries, the situation in real time, as well as considering their future prospects.

**Keywords:** economic cooperation, Southeast Europe, trade relations, the world economy, The European Union.

### **1. INTRODUCTION**

Nowadays the most traditional and most developed form of international economic relations is international trade, which accounts for about 80 percent of all international economic relations. Today the international trade is the main form of the communication among different trade producing countries, resulting from the international division of labour.



*Fig.1 Structure of the foreign trade turnover of Russia with the foreign countries in January 2015*

Poland is a country with an extraordinary history and with its own characteristics. And the economic situation in Poland is not an exception, because this is not a big area on the territory of this country maintains its competitive advantage at a high level. Since ancient times, the trade relations between Russia and Poland were not interchangeable. But now due to restrictions by the European Union, Russia has to restrict trade with Poland, namely fruits and vegetables. It is necessary to develop trade relations between the two countries in and out of the crisis situation.

Poland takes the twelfth place among the countries in the world on commodity turnover volume with Russia. In January-November, 2015 commodity turnover of Russia with Poland made \$13 billion [1].

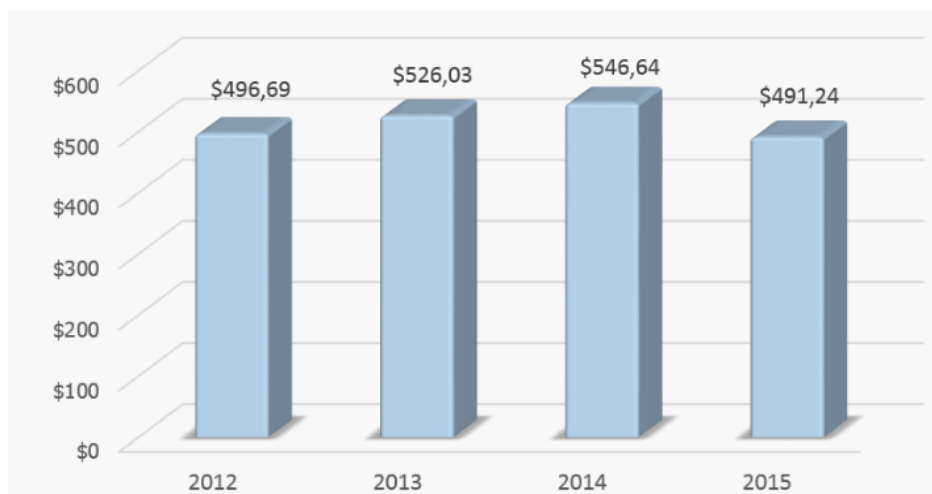
Besides, in the sphere of trade-economic relations there are such bilateral formats, such as Russian-Polish, the standing Committee on transport, Polish-Russian mixed Commission on fishery of the Russian-Polish Commission on interregional cooperation councils on cooperation between the Kaliningrad region and St. Petersburg with the provinces of Poland, Russian-Polish business Council, Polish-Russian chamber of Commerce.

## **2. ECONOMIC SITUATION IN POLAND**

Since 1990 Poland performs policy of liberalizing the economy and was the only country in the European Union, whose economics

escaped recession during the crisis 2008-2009. Membership in EU contributed economic growth, but GDP per capita in Poland is much below the average EU, and the unemployment rate is higher. Economic growth slowed down in 2013 and 2014 in particular due to economic difficulties in the Eurozone. Further growth of the economy can contribute to addressing existing deficiencies in infrastructure, business environment, judicial system, and changes to a rigid labour code and cumbersome tax system.

Dynamics of GDP growth in Poland is presented in Fig. 2. In the first quarter 2015 assessment IMF GDP of the country was \$491,2 billion dollars, which is 10.1% less than in 2014, when GDP was \$546,6 billion.



*Fig.2 Dynamics of Poland's GDP in 2012-2015, billion dollars*

In 2014 inflation in the country was 0,1%. The population of Poland in 2014 amounted to 38.5 million people. The unemployment rate in 2014 was 9.5%. According to the annual ranking of the World Bank “Doing Business” in 2014, Poland was on the 30th place in simpleness of doing business. In 2014 Poland was ranked 35th place out of 175 countries, according to the corruption perception index “Transparency International” (the annual ranking of the world's States, reflecting an assessment of the level of corruption perception of international analysts) [2].

### **3. ECONOMIC SITIATION IN RUSSIA**



In 1990-ies the economy of country suffered a deep recession, accompanied by a surge in inflation, a decline in investment, growing foreign debt and many other negative phenomena. During the decade were a series of economic reforms, including liberalization of prices and external trade, mass privatization. One outcome of the reforms was the transition of the economy from a planned to a market. Since 2000 year in Russian economy it was noted GDP growth. Crisis in 2008 influenced on the country's economy and led to higher unemployment. Since 2010 Russia took the 6th place among the countries in terms of GDP.

By volume of GDP for 2014 Russia took the 5<sup>th</sup> place in the world (3745 billion dollars). In the volume GDP (in nominal terms) – the 10<sup>th</sup> place in the world.

Table 1. GDP in 2014, billion dollars

<b>COUNTRY</b>	<b>GDP, 2014</b>
China	18,030,931,605,307
USA	17,419,000,000,000
India	7,393,075,780,537
Japan	4,630,941,366,907
Russia	3,745,156,800,194
Germany	3,689,840,387,614

Russian GDP in 2015 in nominal terms was 73 515 billion rubles. On the basis of the average value of the dollar in 2015 - 60,9, Russia's GDP in 2015 amounted to 1 206,69 billion dollars USA. On GDP (in nominal terms) per capita in 2014, Russia took 57th in the world [3].

#### **4. RUSSIAN-POLISH INTERNATIONAL TRADE IN 2015**

The main share of the Russian export to Poland in the first quarter 2015 fell on the following types of goods:

- Fuel mineral, oil and products of their distillation (79,7%)
- Products of inorganic chemistry; connections inorganic or organic precious metals, rare-earth metals, radioactive elements or isotopes (2,6%)

- Ferrous metals (2,5%)
- Fertilizers (2,4%)
- Rubber and products from them (2,0%)
- Aluminum and products from it (1,9%)
- Organic chemical compounds (1,6%)
- Remains and waste of the food industry; ready forages for animals (1,5%)
- Plastic and products from them (0,8%)
- Wood and products from it; charcoal (0,8%)
- Weight from wood or from other fibrous cellulose materials; the regenerated paper or a cardboard (waste paper and waste) (0,8%)

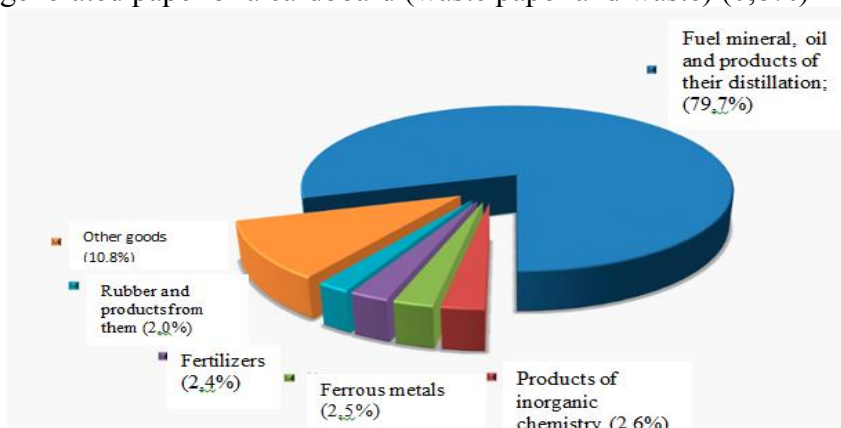


Fig.3 The structure of Russian export to Poland in 2015.

Compared to the same period of 2014, in the first quarter 2015 the volume of Russian export grew on: plastic and products from them (on 76,6%), aluminum (on 75,8%), weight from wood (on 18,6%), wood (on 18,2%). At the same time reduced the export of oil (on 55,4%), ferrous metals (on 43,2%), products of inorganic chemistry (on 29,2%).

The main goods which Poland delivered Russia in the first quarter 2015:

- Nuclear reactors, coppers, equipment and mechanical devices; their parts (16,9%)
- Electrical machines and equipment, their parts; the sound recording and sound-reproducing equipment, the equipment for record and reproduction of the television image and a sound, their part and

accessory (15,9%)

- Plastic and products from them (6,6%)
- Different finished products (4,5%)
- Paper and cardboard; products from paper stock, paper or a cardboard (4,5%)
- Furniture; sleeping gears, mattresses, cushions and similar stuffed accessories of furniture; the lamps and the lighting equipment; illuminated signs, light plates; combined building constructions (4,4%)
- Essential oils and resinoids; perfumery (4,4%)
- Means of land transport, except the railway or tram rolling stock, and their part and accessory (3,9%)
- Pharmaceutical production (3,8%)
- Products from ferrous metals (3,3%)
- Products of processing of vegetables, fruit, nuts or other parts of plants (2,5%)

Compared to the same period of 2014, in the first quarter 2015 reduced imports of all major categories of goods: means of land transport (on 63,1%), plastic and products from them (on 36,2%), furniture (on 34,5%) , pharmaceutical production (on 32,9%), products from ferrous metals (on 32,5%), products of processing of vegetables, fruit, nuts or other parts of plants (on 30,6%), electrical machines and equipment (on 25,1%) [4].

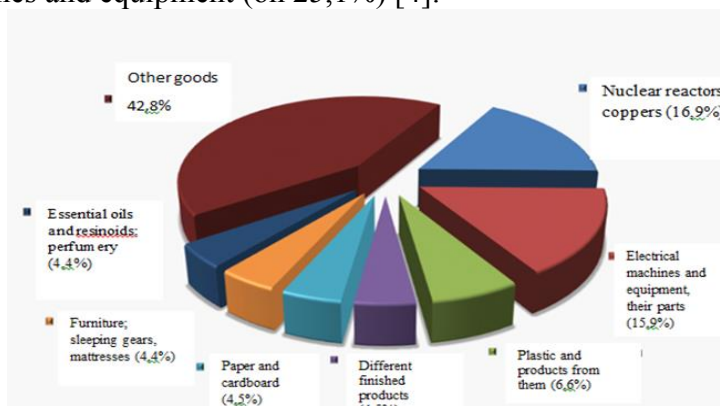


Fig.4 The structure of the Polish import to Russia.

## 5. SANCTIONS

Sanctions in connection with the accession of the Crimea to Russia and the conflict in the East of Ukraine are restrictive political

and economic measures imposed on Russia and a number of Russian and Ukrainian individuals and entities, which, in the opinion of international organizations and individual States involved in the destabilization of the situation in Ukraine and the response of Russia.

The initiator of introduction of sanctions for the purpose of international isolation of Russia became the US government, under the pressure of which, at the risk of incurring economic losses, the sanctions also joined the EU. Sanctions are also supported by state of the group of seven and some other countries that are partners of the United States and the EU.

Sanctions war caused enormous damage to the Russian economy and the economies of the European countries. Presidential assistant Andrei Belousov said that the total losses of Western countries on the introduction of Russian response sanctions amounted to 40 billion euros. The Finance Ministry estimates the damage directly from sanctions in the amount of 40 billion dollars. The result is a shortfall of inflows of Western capital, and 90-100 billion dollars [5].

In connection with these events in July 2014, Poland and Russia canceled all events for the "year of Poland in Russia", which was scheduled for 2015. After the start of the international crisis over Ukraine in 2014, Russian-Polish relations deteriorated again.

According to the Russian economist Sergei Guriev, the sanctions — «are not a catastrophic development of events, but rather a major blow to the Russian economy». At that time, according to the experts, the most negative consequences for Russia could be the restrictions imposed on the export to Russia of high technologies and the access of Russian banks to cheap credit resources. Also a consequence of sanctions and the embargo was Russia's desire to refocus on new markets, in particular their willingness to expand cooperation, said Turkey and Chile.

The negative consequences for the Russian economy:

- The drop in oil prices and decrease in quotations of the national currency.
- The need to increase Federal expenditures to support the industries that fall under the sanctions.
- Significant losses in the future for the budget in connection with the termination of contracts with foreign companies

(dismantling of the "South stream", refusal "BMW" from the plant construction on the territory of Russia, etc.).

- Decrease in purchasing power when prices rise on most goods (electronics, automobiles, food, etc.).



Fig.5 The volume of Russian export to Poland in 2014 and the first quarter of 2015, billion dollars

The positive trends in the Russian economy due to sanctions:

- Access to new markets of import and sale of products(Turkey, Chile)
- Trend of development of the agrarian sector of the country.
- Emphasis on the development of high technologies in the country.
- New export markets for domestic products(Asian countries)

Russian food embargo — prohibition of imports of "certain types" of agricultural products, raw materials and food, country of origin is the state, which imposed economic sanctions against Russian legal entities and individuals in 2014.

The negative consequences for the Polish economy:

- Poland's GDP in the first quarter on the assessment of the IMF 2015 amounted to 10.1% less than in 2014 (in the first quarter of 2015 the country's GDP was \$491,2 billion, in 2014 GDP was \$546,6 billion)
- Particular concern was expressed by the producers of apples; the country began a campaign with a call to increase the consumption of apples.
- Total losses for the Polish fruit and vegetable sector amounted

to about 500 million euros

- The positive trends in the Polish economy due to sanctions:
- Access to new markets of import and sale of products (Belarus, Serbia)
- Trend of development of the food industry
- In that way the impact of sanctions on the Russian economy and the embargo imposed in Poland in 2015 at a time brought not only negative consequences but also gave impetus to the prospects of economic development in both countries special economic zone (SEZ) [6].

## **6. TRADE RELATIONS BETWEEN RUSSIA AND POLAND IN 2016**

Polish-Russian consultations which took place on 22 January 2016 in Moscow, according to assessment diplomats, had "constructive character". It was decided to expand the scope of regional and economic cooperation and to renew the instruments of mutual dialogue.

For the last 2 years difficult Russian-Polish relations experienced a real political storm. After the events in Ukraine in 2014, relations with Warsaw every day was becoming colder and colder. Mutual accusations increased the military confrontation escalated, political and expert contacts reduced. Even regular diplomatic consultations at the level of Deputy heads of the foreign Ministry was about a year — it's the abnormal situation for the neighbour countries that are not at war.

New foreign Minister Witold Waszczykowski said about the changes in relations with Russia. «In the third month of the new government, we have decided that we need to start a conversation with our neighbour», — he said. The Deputy head of the Polish foreign Minister Marek Zulkowski, experienced diplomat, was sent to Moscow. After a four-hour meeting with his Russian counterpart Vladimir Titov, the parties managed to do the main thing — to prepare a catalogue of questions which unite us, and to isolate the separation problem.

An important milestone was the speech of the Minister of foreign Affairs of Russia at a press conference at the end of 2015. "Moscow supports the development of relations between Poland and

Russia", said Sergei Lavrov. He stressed: "Contacts between people should not suffer. Even if interstate relations creak for different reasons, we don't want miserable people." The foreign Minister reminded that they managed together to create a small border traffic in the Kaliningrad region and the Warmian-Masurian and Pomeranian voivodeships.

Also we can note that both sides acknowledged that the program is effective and we intend to continue double sided format "Poland - Russia 2014-2020". In fact, the area of cross-border cooperation has become the only successful format in terms of sanctions.

To sum up, it is necessary to move on to creating a line of joint ventures to transfer advanced Polish technology and the localization of industrial production in the Russian territory from simple operations of a trade exchange. The birth of the Eurasian Union provides an even greater range of opportunities for mutually beneficial cooperation of the Polish business and the EEU [7].

After the European Union extended 22 Jun 2015 sanctions against Russia by six months, on June 25 2015 the government decree the embargo was extended for a year, until August 6, 2016. The list of prohibited products is mostly unchanged. In connection with a declared import substitution, from the embargo fry and seeds for sowing were excluded, and the control over the import of lactose-free dairy products was tightened. According to the statement of Deputy Prime Minister Dvorkovich, such products will be imported only under special registration. This measure is related to the reported attempts of import under the guise of lactose-free products cheeses that have not actually been established.

In 2016, the Russian Government decided to weaken the mode of embargo, which has been in existence for almost two years. "In order to stimulate domestic production of baby food a government decree of May 27, 2016, provides for an exception to the embargo of raw materials intended for production of baby food", — was said in the Ministry of Alexander Tkachev.

"The negotiation of Ministers for foreign Affairs of Great Britain Boris Johnson and Poland Witold Waszczykowski was held in Warsaw on 4 September at the presidential Palace Belvedere. Warsaw and London in solidarity in the need to maintain sanctions against Russia to implement the Minsk agreements, said the Minister of

foreign Affairs of Poland Witold Waszczykowski after talks with his British counterpart Boris Johnson" [8].

7 September 2016 Poland called for cooperation with Russia and the development of economic cooperation on the General principles stated at the Economic forum in Krynica-Zdrój, the head of the political Committee of the Ministry of foreign Affairs of Poland, Jan Paris. Speaking about the bilateral relations of Russia and Poland, the foreign Ministry spokesman noted that, in his opinion, countries have many topics for conversation. "This is not a normal situation when neighbours don't talk. A joint business should not be the object of unilateral actions," he added.

According to him, Poland in foreign policy "uses a very clear basis — wants to build relations with other countries on the basis of respect for the neighbours, on the basis of symmetry, on the basis of non-interference in internal affairs." Jan Parys assured that Warsaw believes in the possibility of resolving all problems at goodwill. "We are in favor of cooperation with Russia without preconditions. We want to develop economic cooperation on a commercial basis, never intended to interfere in the internal politics of Russia and we expect the same from the Russian side," — said the representative of the Polish foreign Ministry [9].

## **7. WHY IS IT BENEFICIAL FOR RUSSIA TO DEVELOP TRADE RELATIONS WITH POLAND?**

Analysts tracking the dynamics in the Polish-Russian borderlands perspective consider the following areas of cooperation: construction work using Polish technology; components of automobile; the creation of chemical, ship repair clusters, the production of furniture and clothing, all kinds of tourism. Particularly attractive in the field of agriculture — Poland has well-developed modern methods of cooperative societies, cultivation and processing of food using intensive technologies. Today, when two-thirds of Russians are spending half of the family budget on food, the successful experience of the Polish farmers is very important to us. In conditions of low oil prices it is also useful to adopt the Polish recipe for overcoming the economic crisis. Poland was the only EU country which managed to avoid recession after the financial crisis of 2008. 50% of GDP and sustained growth of the economy of Poland secured a small business, that is, those enterprises which employ less than nine



people. Legislation was enacted to ease an administrative pressure and access to microcredits.

Poland is a former socialist country with the most outstanding achievements in the restructuring of the economy on market principles. If you divide the GDP of Poland, by sectors, in the first place would be the service sector 64,3%, then industry 31%, agriculture 4.5 per cent. By the level of economic development Poland is in the third ten European countries. In global markets it is known as a supplier of coal, ferrous and some nonferrous metals, textiles, agricultural products and food industry. Poland takes the first place in coal production and exports in Europe. It carries significant volumes of supply in Western European countries potatoes, meat, milk, vegetables and berry crops. In potato production Poland ranks first in the world [10].

## **8. CONCLUSION**

Foreign economic ties are an important factor of economic development in the context of dynamic ongoing processes of globalization of the world economy. After analyzing the changes in trade and economic relations of the Russian Federation and Poland, we can say that the imposition of economic sanctions and the food embargo has led to the deterioration of economic indicators in both countries, despite the positive trends in the economic development of countries. Therefore, in my opinion, it is necessary to recover continuously developing mutually beneficial economic and trade cooperation between the two countries, which will contribute to the successful solution of economic problems in the interests of improving the welfare of peoples. Because international relationships allow us to cooperate more closely in international economic and trade organizations in various regions of the world with the aim of ensuring more effective international division of labor and integration processes in the markets.

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## **MACROECONOMIC ANALYSIS OF THE DEVELOPMENT OF THE COUNTRIES OF SOUTHERN AND EASTERN EUROPE**

This paper aims to examine the macroeconomic situation in Southern and Eastern European countries. In the context of the recent financial crisis, the macroeconomic stability of most countries has been cast to shadow. The damage to the economy caused by high inflation, volatile exchange rates, increasing amount of debts and the unstable financial markets has heavily left its toll on the global market and has led to massive unemployment and increasing poverty. By 2010 however, almost all the countries started to recover and exhibit

economic growth and signaled that they managed to overcome the crisis. I will first offer a macroeconomic analysis of the situation after the crisis, in order to provide a quantitative picture of the extent to which the countries fared in the aftermath of the crisis.

**Keywords:** Macroeconomics, macroeconomic indicators, Gross Domestic Product, Domestic credit to private sector, Nonperforming Loan, Inflation, Deflation, Global Competitiveness Index, World Economic Forum.

## **1. BASIC MACROECONOMICS CONCEPTS**

Macroeconomics as a section of economic theory studies the economy as a whole at the aggregate level. Aggregation is a connection of separate parts of indicators in a single common indicator which is called unit. As a part of economics Macroeconomics deals with the major economic values and issues: the scope of the national economy and its structural components, the economic cycle, employment, inflation, economic growth, finances. In macroeconomics are considered such indicators as total cost to society, aggregate supply, the general price level, unemployment.

John Maynard Keynes is a founder of Macroeconomics. "General Theory of Employment, Interest and Money" (1936) is his work which made a genuine revolution in the views of scientists about the stability of the market system as a whole and the necessity of government intervention in the economy.

What are the macroeconomic indicators? Macroeconomic indicators are a summary indexes in production and consumption, income and expenses, activity, efficiency, welfare of the population, exports and imports, growth rates and others. Macroeconomic indicators reflect general trends in the economy and its current level. The national economy is a complex and all-encompassing institute providing viability of all its subjects. The viability of the national economy is determined by a number of macroeconomic indicators.

The main macroeconomic indicators are Quarterly Gross Domestic Product (GDP) Growth, Contributions to Real GDP Growth, Real Domestic Bank Credit to Private Sector, Changes in Domestic

Deposit-Loan Gaps and Private Savings-Investment Balances, Nonperforming Loan Ratios, Headline Inflation, Inflation Expectations, Net Capital and Financial Account Flows, Flows into Foreign Exchange-Traded and Mutual Funds Investing in Emerging Europe, Post-Crisis Private Sector Adjustment, Global Competitiveness Index etc.

Gross Domestic Product is a macroeconomic indicator which reflects market price of all final goods and services produced per year in all sectors of the economy within the State. It is the main indicators of economic activity in the country. GDP is calculated as the product of the average price of goods on the amount of goods. There are nominal and real GDP. Nominal GDP is the value of all final goods and services of that State expressed at current market prices. Real GDP is the value of all goods and services produced of that State in a given year taking into account the prices of the base year.

For the measurement of GDP using three methods:

- According to expenditure for the purchase of the total volume produced in a given year of production (end-use method);
- According to income received in the country of production in a given year (distribution method);
- By adding the value added in all branches of the national economy (method of value added).

**The end-use method.** In the calculation of gross national product for the costs added up the cost of all economic agents for the purchase of the final product, namely, consumption expenditure, investment, government purchases of goods and services trade balance.

**The distribution method.** In the calculation of gross national product by the distribution method GDP is defined as the sum of all primary, has not yet been a redistribution the incomes, which is gave households, businesses and government agencies. Primary, not redistribution incomes consist of wages, rent, interest and profit.

**The method of value added.** This method involves adding value at each stage of production of the product. The added value is the

value of output less the value of intermediate goods. In general, the amount of the value added of the economy must be equal to the market value of all final goods and services. Value added is the difference between the value of the products produced at the plant and the amount of money paid by other organizations for further processing and sales. The added value consists of five elements: wages, profits, interest received from the bank for a loan, depreciation and other costs associated with the production and sale of products (transport, communications).

Domestic credit to private sector by banks refers to financial resources provided to the private sector by other depository corporations (deposit taking corporations except central banks), such as through loans, purchases of nonequity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries these claims include credit to public enterprises [1].

A nonperforming loan (NPL) is the sum of borrowed money upon which the debtor has not made his scheduled payments for at least 90 days. A nonperforming loan is either in default or close to being in default.

Inflation is an increase in prices for goods and services. By level the inflation is divided into a creeping (moderate), galloping, hyperinflation. Moderate (or creeping) is called inflation when prices for the year from 5 to 20%; galloping is when prices are increasing for the year from 10% to 100% and from 20 to 200%; hyperinflation is when prices rise by 1 - 2% daily and annual rate of price growth exceeds 100%. In general the rate of inflation is the growth of the general price level. When there is inflation there is depreciation of money, it reduces the purchasing power of the population. High inflation often associated with rapidly growing economies where demand for goods and services is higher than production capacity.

The opposite process is deflation. It is a fall in the general price level (negative growth). On the one hand, when there is deflation the consumer from month to month pays less. But for the same reason

he is spending as much as possible delays in time - why take now if you can save by taking the same thing in half a year? If consumer demand falls then the proposal also falls, reduced trade and production. If reduced production and trade then profit companies decline, as a consequence to pay fewer taxes to the treasury and to pay fewer premiums. If there is fewer premiums then consumer earns less. Earns less - spends less. And so on.

The Global Competitiveness Index — a global research and its accompanying ranking of countries in terms of economic competitiveness in the world. For more than three decades, the World Economic Forum's annual Global Competitiveness Report has studied and benchmarked the many factors underpinning national competitiveness. From the onset, the goal has been to provide insight and stimulate discussion among all stakeholders about the best strategies and policies to help countries to overcome the obstacles to improving competitiveness. In the current economic context, this work is a critical reminder of the importance of sound structural economic fundamentals for sustained growth. Since 2005, the World Economic Forum has based its competitiveness analysis on the Global Competitiveness Index (GCI), a comprehensive tool that measures the microeconomic and macroeconomic foundations of national competitiveness [2].

The World Economic Forum defines competitiveness as the country's national power and its institutions to ensure stable economic growth, which would be stable in the medium term. Representatives of the World Economic Forum indicates that the competitiveness of national economies is determined by numerous and very diverse factors. Thus, the state of the economy negatively affected by poor management of public finances and high inflation and the positive effect can have the protection of intellectual property rights, the development of the judicial system and other measures. In addition to institutional factors may have critical education and training of the workforce, constant access to new knowledge and technologies. Factors determining the competitiveness of the economy have

different effects on the economic system of the world depending on the initial conditions and the current level of development. Obviously, that the very factors change over time.

The components are grouped into 12 pillars of competitiveness: Institutions, Infrastructure, Macroeconomic environment, Health and primary education, Higher education and training, Goods market efficiency, Labor market efficiency, Financial market development, Technological readiness, Market size, Business sophistication and Innovation.

## **2. ANALYSIS OF CURRENT ECONOMIC SITUATION IN THE COUNTRIES OF SOUTHERN AND EASTERN EUROPE**

### **2.1 Country Coverage and Codes**

**Central, Eastern, and Southeastern Europe (CESEE)** refers to Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovak Republic, Slovenia, Turkey, and Ukraine.

**Baltic countries (Baltics)** (shown in **light blue**): Estonia (EST), Latvia (LVA), Lithuania (LTU);

**Central and Eastern Europe (CEE)** (shown in **blue**): Czech Republic (CZE), Hungary (HUN), Poland (POL), Slovak Republic (SVK), Slovenia (SVN);

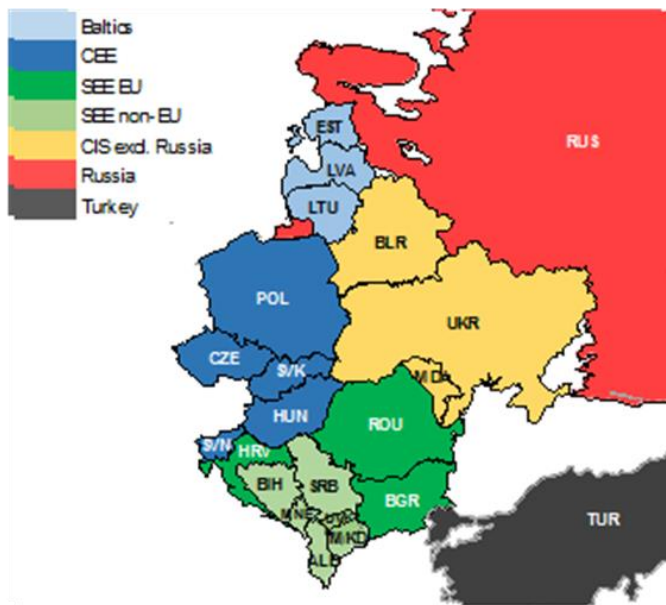
**Commonwealth of Independent States (CIS)** (shown in **yellow**): Belarus (BLR), Moldova (MDA), Russian Federation (RUS), also in **red** when shown separately, Ukraine (UKR);

**Southeastern European EU member states (SEE EU)** (shown in **green**): Bulgaria (BGR), Croatia (HRV), Romania (ROU);

**Southeastern European non-EU member states (SEE non-EU or Western Balkans)** (shown in **light green**): Albania (ALB), Bosnia and Herzegovina (BIH), Kosovo (UVK), FYR Macedonia (MKD), Montenegro (MNE), Serbia (SRB);

**Turkey (TUR)** is shown in **black**.

**Figure 1.** Central, Eastern, and Southeastern Europe (CESEE): Mapping of Country Groups.



The recovery in the countries of Central, Eastern, and Southeastern Europe accelerated in 2015 despite weakening global growth. Accommodative macroeconomic policies, improving financial intermediation, and rising real wages have been behind the region's mostly consumption-driven rebound, while private investment remained subdued. In the near-term, strong domestic demand is expected to continue supporting growth amid continued low or negative inflation. Despite the strong cyclical rebound, growth in Central, Eastern, and Southeastern Europe remains well below the precrisis level and the region is facing considerable challenges over the medium-term.

## 2.2 Recent Developments

In the first half of 2015, economic developments continued to differ widely across CESEE countries (**Figure 2.1**):

In Central and Eastern Europe (CEE) and Southeastern European EU members (SEE EU) the recovery, generally, proceeded at a solid pace. The main tailwinds were stronger domestic demand,



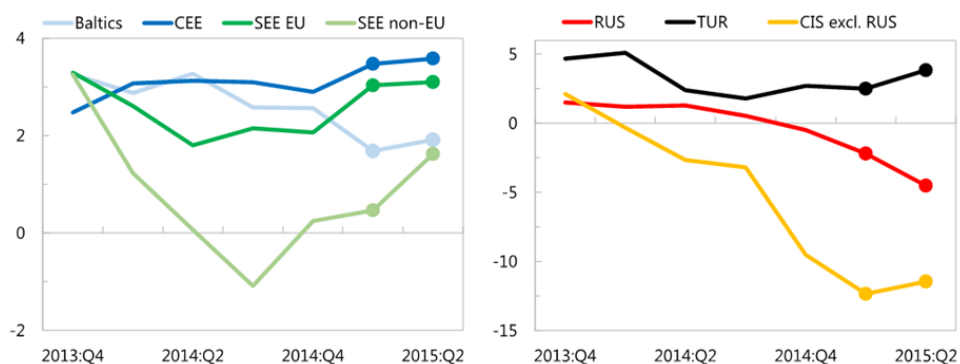
lower oil prices, improved euro area growth prospects following the launch of the ECB's quantitative easing (QE), and increased absorption of the EU Structural and Cohesion Funds (SCFs). Both CEE and SEE EU also benefited from improved competitiveness vis-à-vis the rest of the world, as their currencies weakened along with the euro.

Most SEE non-EU economies, except Serbia, also saw relatively strong growth. In contrast, Serbia is only gradually emerging from the recession caused by the devastating floods in 2014.

Growth in the Baltics has softened this year due to larger-than-expected spillovers from the recession in Russia and other CIS countries. • In Turkey, growth remained robust, in the face of downside risks to investor confidence stemming from political uncertainty and elevated corporate debt.

Russia and the rest of the CIS are in recession. The Russian economy contracted due to a combination of continued Western sanctions, low oil prices, and structural weaknesses. The recession deepened in Ukraine, reflecting declining activity in the eastern conflict zone and ongoing macroeconomic adjustment. Russia's recession has had a negative effect on activity in other CIS countries through the trade and remittances channels and via confidence effects on consumption and investment.

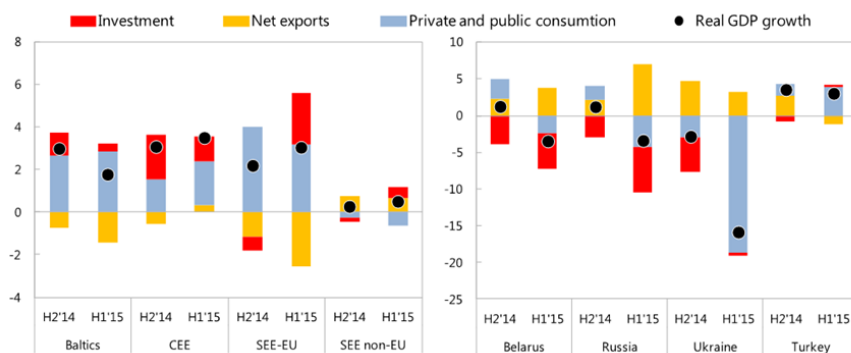
**Figure 2.1.CESEE: Quarterly GDP Growth (Percent, year over year)**



Sources: Haver Analytics; and IMF staff calculations Note: CESEE = Central, Eastern, and Southeastern Europe; CEE = Central and Eastern Europe; SEE = Southeastern Europe; CIS = Commonwealth of Independent States.

Domestic demand was generally robust outside the CIS, with investment growth supported by greater absorption of EU SCFs. Private consumption remained buoyant across CESEE EU countries and Turkey (Figure 2.2.), on the back of lower oil prices and favorable employment and income dynamics. Investment surged in SEE EU countries and remained a major growth factor in CEE EU, driven by the sharp acceleration in the absorption of SCFs before the pending deadline for use of budgeted amounts for 2007–13. In contrast, consumption and investment in the CIS declined in response to worsening terms of trade, tighter credit conditions (Figure 2.3), and strong inflationary pressures.

**Figure 2.2.**CESEE: Contributions to Real GDP Growth (Percent, year over year)

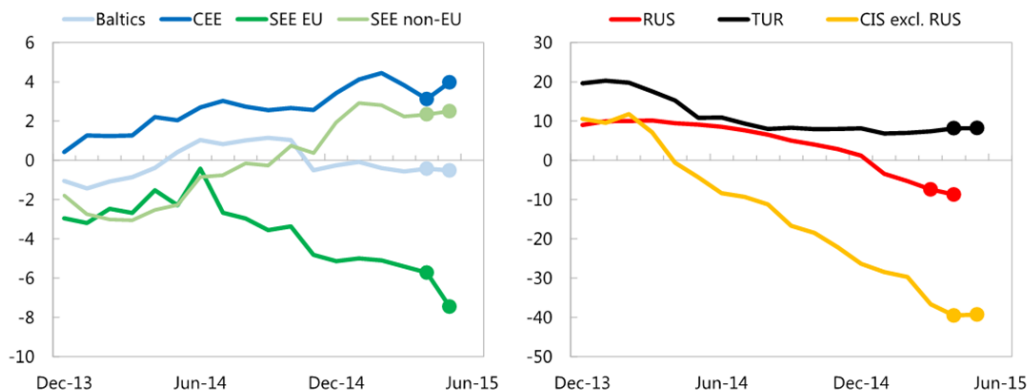


Sources: Haver Analytics; and IMF staff calculations Notes: CESEE = Central, Eastern, and Southeastern Europe; Semi-annual data constructed as the average of the respective quarterly data.

Crisis legacies — private sector debt overhangs and high nonperforming loans (NPLs) — continue to weigh on economic activity and credit growth in parts of the region. While many countries have made significant adjustment — as reflected in a notable improvement in the private sector net saving-investment balances and a decline of banking systems' loan-to-deposit ratios — the balance-sheet repair is not yet fully completed (Figure 2.4). The Spring 2015 REI (IMF, 2015) highlights the persistent debt overhang in several SEE and CIS economies (notably, in Bulgaria, Croatia, and Ukraine).

Non-financial corporations' debt-to equity ratios in Croatia, Latvia, Bulgaria, Romania, and Slovenia are still well above the euro area average. Reflecting weaknesses in private balance sheets and slow pace of distressed debt resolution, the aggregate NPL ratios remain persistently high, exceeding 10 percent in many SEE and CIS countries (Figure 2.5).

**Figure 2.3.** CESEE: Real Domestic Bank Credit to Private Sector (12-month growth rates net of foreign exchange valuation effects and CPI-deflated, percent)



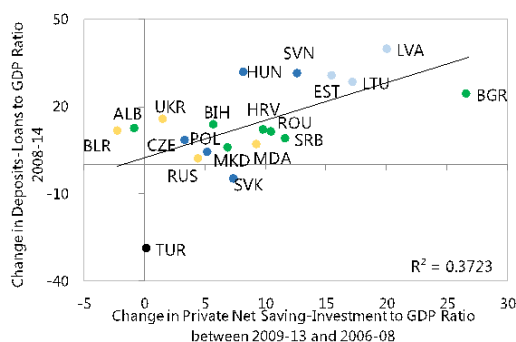
Source: EBRD, ECB, Haver Analytics, IMF International Financial Statistics, and IMF staff estimates. Notes: CESEE = Central, Eastern, and Southeastern Europe; CEE = Central and Eastern Europe; SEE = Southeastern Europe; CIS = Commonwealth of Independent States; CPI = Consumer Price Index.

Inflation trends remain divergent between CEE/SEE and CIS/Turkey. The prolonged disinflation across Europe reversed course in 2015:Q1, but the reflation has since stalled, as oil prices fell again (Figure 2.6). In contrast, inflation has remained high or accelerated further in Turkey and CIS countries, on the back of expansionary policies (Turkey) and capital outflow pressures that weakened domestic currencies.

Inflation expectations in SEE and CEE EU countries have stabilized at historically low levels (Figure 2.7). The recent fall in inflation expectations in SEE and CEE EU countries — for which comparable data are available — cannot be fully explained by their

normal response to falling oil prices. Thus far, this overshooting does not appear to have impacted real activity, but renewed disinflationary pressure would raise concerns of possible unanchoring of inflation expectations.

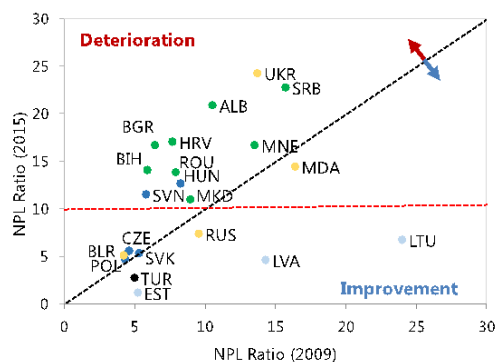
**Figure 2.4.CESEE:**  
Changes in Domestic Deposit-  
Loan Gaps and Private  
Savings-Investment Balances  
(Percent of GDP)



Source: Eurostat, Central Bank of Russia, Orbis, and Fund staff calculations. Note: Data are not consolidated within the corporate sector. Debt includes loans and securities. For Russia and Turkey, the ratios are calculated from firm-level data.

What explains the resilience of the CESEE financial markets? One reason is that trade links of the CESEE region with China are relatively small. In addition, the impact of China's rebalancing on commodity prices is a positive terms-of-trade shock for most CESEE countries, in contrast with emerging market commodity exporters (such as Brazil, Indonesia, and Russia). At the same time, most CEE

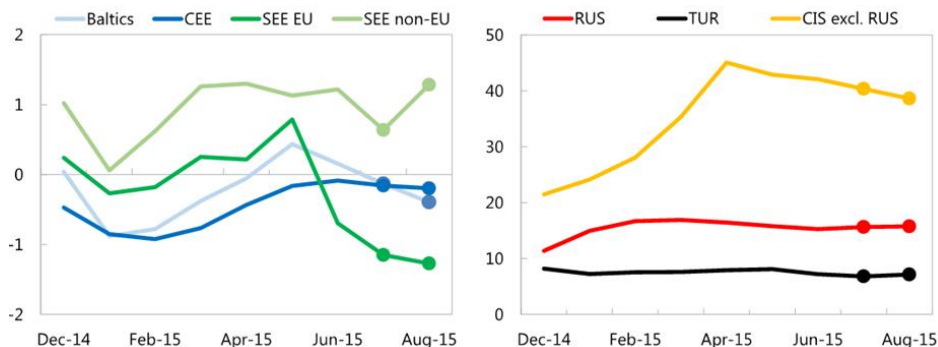
**Figure 2.5.CESEE:**  
Nonperforming Loan Ratios  
(Percent)



Sources: IMF FSI database. Note: NPL ratio is the ratio of gross nonperforming loans to total loans. The data for 2015 are either as of 2015:Q2 or the latest available.

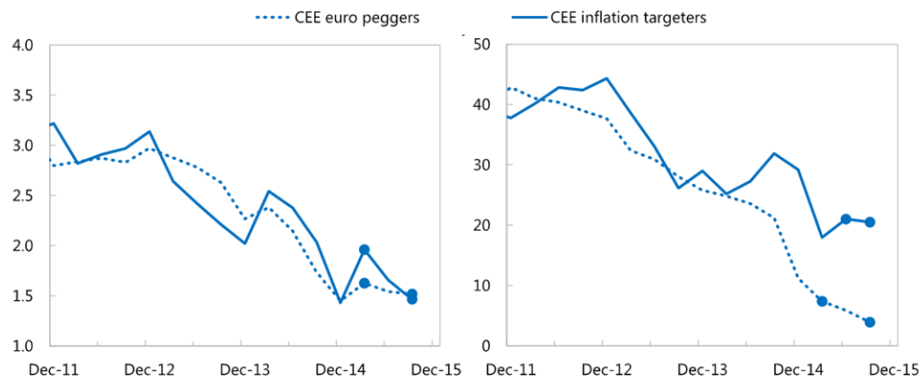
and SEE countries are in a different phase of the credit cycles compared with other emerging markets.

**Figure 2.6.CESEE: Headline Inflation (Percent, year over year)**



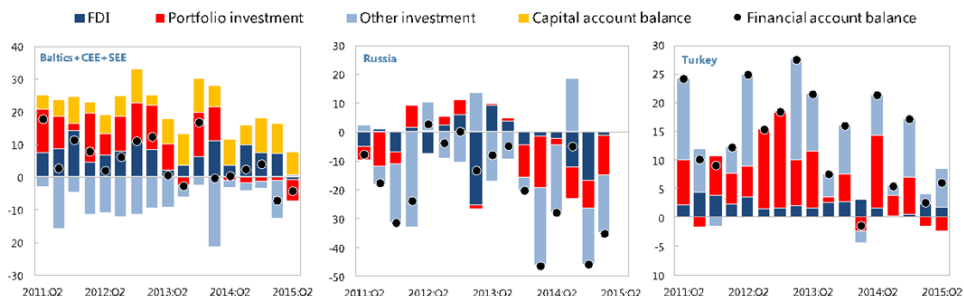
Sources: Haver Analytics; IMF, national authorities; and IMF staff calculations. Note: CIS = Commonwealth of Independent States.

**Figure 2.7.CEE and SEE EU: Inflation Expectations**  
Consensus forecasts of next year's inflation (Percent) Consumer expectations of average inflation over the next 12 months (Index)



Sources: European Commission and Consensus Economics Forecasts. Notes: Euro peggers – Bulgaria and Croatia; Inflation targeters - Czech Republic, Hungary, Poland, and Romania.

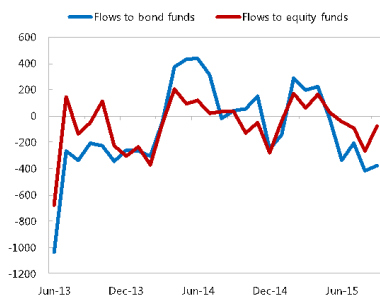
**Figure 2.8.CESEE: Net Capital and Financial Account Flows**  
(Billions of US dollars)



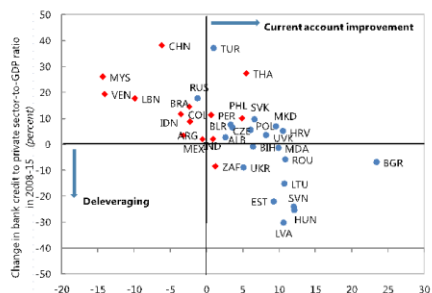
Sources: Haver Analytics and IMF staff calculations. Notes: Capital account, which mostly comprises of EU Structural and Cohesion Funds, is shown only in the first panel.

Many CEE and SEE countries have made notable progress in private sector deleveraging — via improvements in the private saving-investment balances — that has reduced their external vulnerabilities (Figure 2.9). This makes them more resilient to changes in international investor sentiment. That said, these countries are not immune to a more persistent rise in global risk aversion, which could result in sustained capital outflows, with a greater impact on countries with a larger share of foreign investors in their local markets (such as Poland and Hungary).

**Figure 2.9.Flows into Foreign Exchange-Traded and Mutual Funds Investing in Emerging Europe (Million U.S. dollars)**



**Figure 2.10.CESEE: Post-Crisis Private Sector Adjustment (Percent)**



Source: Haver Analytics, EPFR.

Source: WEO, IFS.

Six European countries are ranked among the top 10 most competitive economies, while at the same time, many countries in Southern and Central and Eastern Europe — such as Portugal, Italy, Bulgaria, Romania, and Greece — score relatively low. This wide-ranging performance highlights the persistence of a competitiveness divide in Europe between a highly competitive Northern Europe and a less competitive Southern and Eastern Europe. A more nuanced analysis of the results also reveals that a new divide seems to be emerging among those countries whose competitiveness is currently lagging. This new divide appears to be between those economies that are adopting and implementing the reforms necessary to become more competitive — these include countries such as Greece and Portugal that are now improving in the overall rankings — and some other economies, such as France and Italy, which are not recording much progress.

## **CONCLUSION**

Based on the analysis of macroeconomic indicators like Quarterly Gross Domestic Product (GDP) Growth, Contributions to Real GDP Growth, Real Domestic Bank Credit to Private Sector, Changes in Domestic Deposit-Loan Gaps and Private Savings-Investment Balances, Nonperforming Loan Ratios, Headline Inflation, Inflation Expectations, Net Capital and Financial Account Flows, Flows into Foreign Exchange-Traded and Mutual Funds Investing in Emerging Europe, Post-Crisis Private Sector Adjustment, Global Competitiveness Index it is reasonable to conclude that the Southern and Eastern European countries have mainly overcome the crisis, with growth starting to resume, albeit at much slower rates than before the crisis.

The Southern and Eastern European countries exhibit great growth potential, based on cost competitiveness and providing great access to their markets, while at the same time needing to improve their business environment and growth sustainability in order to attract more foreign investment.

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### **TENDENCIES OF THE DEVELOPMENT OF INTEGRATION PROCESSES AND THEIR IMPACT ON INTERNATIONAL TRADE**

The article study relationship between changing processes of regional economic integration and international trade of the participating countries. The world economy quantitative growth of integration groupings in the past decade comes to a qualitatively new stage, which can be described as the creation of trans-blocks or megaregional trade agreements. Their effect has a great importance for the development of international trade and for integrating countries.

**Keywords:** Regional economic integration, world economy, transatlantic integration processes, internationalization, regionalization, international economic cooperation

Modern realities of international economic relations prove the importance and inevitability of the integration processes that form the synergistic effects of interaction between the countries.

No member of the global economy can not efficiently build and implement economic development strategy without considering the priorities and rules of conduct of the main actors of the world economic activity. Thus, the study of the integration processes is becoming actual



at the moment, as well as factors that contribute to the intensification of these trends.

Accordingly, the aim of this research is the establishment of the relationship between changing processes of regional economic integration and international trade of the participating countries.

The subject aim predetermined the logic of the research, within the framework of which the following tasks will be solved:

- to examine the current state of the process of regional economic integration;
- to identify trends in the formation of a new generation of integration groups with trans regional spatial continuum;
- to form a methodical approach, reflecting the assessment of the direction of economic integration effect on international trade of integrating countries, including the Russian Federation.

Active growth of the world trade in the second half of the XX century contributed to the emergence of new trading infrastructure in different forms. At first occurred associations on the principles of regionalism (agreement on close cooperation of individual countries according to the type of free trade areas, customs unions, and so on). From 2008 to 2016 the number of trade agreements and free trade areas increased from 167 to 407. 31% - of them are agreements on services, 4% - customs unions, 57% - Free Trade Zones.

Currently, the largest regional trade agreements are, European Union, NAFTA, MERCOSUR and ASEAN. The share of regional supply in these trade agreements in total exports is 63%, 49%, 26% and 14%, respectively. [3]

Interaction within below mentioned trade agreements takes place on a more liberal basis, which generates three effects: "the creation of trade", "displacement of trade flows" and "the development of economy of scale". The share of regional supply in these trade agreements in total exports is 63%, 49%, 26% and 14%, respectively.

The first of these effects is due to the fact that the abolition of tariff barriers in mutual trade lowers the cost of goods sold within integration associations. As a result, demand switched from expensive domestic goods for cheaper goods of the country-partner. This contributes to the elimination of inefficient production, stimulates the growth of regional trade and consumption.

The second effect is related to the preservation of tariffs in trade with the rest of the world. It causes a reorientation of imports from third countries for products produced within the integrated entity.

Both these effects let you expand the scale of domestic production, based on the aggregate demand of the participating countries on the integration process, pushing manufacturers to reduce costs, thereby increasing their profits.

In essence, the formation regarding the regional economic groupings leads to subjection on the international division of labor and the expansion of the domestic market in each of the participating countries of such groupings.

The world economy quantitative growth of integration groupings in the past decade comes to a qualitatively new stage, which can be described as the creation of trans-blocks or megaregional trade agreements. Trans-regional integration - one of the new forms of co-competitive countries, such as the Trans-Pacific Partnership and the Trans-Atlantic Trade and Investment Partnership [4] with the initiative role of the United States, and a counterweight to them the creation of Regional Comprehensive Economic Partnership.

The potential of each of these possible formations is impressive. The success of any of the initiatives will inevitably lead to very significant changes in international trade rules that affect the interests and positions of Russia in it.

Macroeconomic Effects of Trans-Pacific Partnership, which includes 12 countries with a population of more than 1 billion people by 2030, will allow the increasing on volume of trade on 11%. Vietnam and Malaysia (10 and 8% of GDP, respectively) will receive the greatest benefit due to the reduction of tariff and non-tariff protection of large markets such as the USA, Canada and Australia. Among the countries overboard the Trans-Pacific Partnership, the greatest loss will be experienced in East and South-East of Asia: Thailand - 0.9% of GDP, South Korea - 0.3% of GDP. According to the World Bank, the effect on Russia's economy is zero. Among other countries and regions that have experienced losses from trade diversion effect, appear China (minus 0.2% of GDP), India and the European Union.

Trans-Pacific Partnership allows the US ahead of their main rival in the region - China. Creating the largest trading block in the world, including China and Russia, is equivalent to the creation of

economic dividing lines in the region, which depends largely on the growth of the world economy. [2] For China, the loss of their trade and economic positions in the Pacific region could have a negative impact on global economic growth. This negative impact on China and the global economy will take place not only on trade but also on the investment channels.

At the same time, China is promoting its own power - Regional Comprehensive Economic Partnership, which is attended by the ASEAN countries as well as Australia, China, India, Republic of Korea, New Zealand and Japan, trade with Russia which is characterized by dynamism. This partnership applies for the same region as the Trans-Pacific Partnership. Moreover, all the ASEAN countries, Japan and Australia have already announced that they will participate in this partnership.

Regarding trade of goods the Partnership designed to eliminate tariff barriers almost on all goods between the participating countries. Regarding trade of services is expected to eliminate the restrictions and discriminatory measures. Work on the creation of a favorable investment environment will involve the promotion, protection and facilitation of the investment.

Another ambitious transregional projects, initiated by China, is Economic Belt "Silk Road" - project of transport, energy and trade corridor between Asia and Europe. [1] The main essence of the proposal is to seek a mutual beneficial relationship in the long term. The economic zone Silk Road is fully consistent with the general global trends towards globalization and should stimulate the convergence within the countries of the Eurasian region.

Action Plan for the construction of the economic zone of the Silk Road includes, first of all, the construction of new highways and improving existing ones. The procedure of registration of the transport network will be implemented with the use of innovative technologies. In the future, as part of the path it will be a global network of high-speed highways. The construction of highways will encourage the development of infrastructure, logistics and related sectors of tourism and the emergence of numerous new jobs. All this will lead to diversification and to the denationalization of the economy and also it will be a prerequisite for the development of the regions.

To assess the opportunities of using the potential of participation in regional and trans regional integration groupings, there are various methods of evaluating dynamics of trade relations within the regional associations. In particular, a popular method performs an estimative on the dynamics of bilateral trade on the basis of an index of intensity of bilateral trade flows, which was proposed by J. A. Brown in 1949 and received the interpretation in subsequent works of Kojima K, and other researchers. Intensity Index is calculated as follows: (Formula 1)

$$I_{ij} = \frac{X_{ij}}{X_i} : \frac{M_j}{M_w - M_i} = \frac{X_{ij} * (M_w - M_i)}{X_i * M_j}$$

Where:

$I_{ij}$  - an index of intensity of bilateral trade flows of the country i to country j;

$X_i$  - total volume of exports of the country i;

$X_{ij}$  - exporting from country i to country j;

$M_j$  - the total import volume of the country j;

$M_i$  - the total volume of imports of the country i;

$M_w$  - the total volume of global imports.

The subject index allows to evaluation on the level of mutual trade between the countries of the integration associations in comparison with the total amount on their participation in world trade. The value of the Intensity Index of bilateral trade flows may be more or less than 1 (one). If its value is greater than one, which means that in the integration association has place the effect of the "rejection" of trade, which means the implementation of trade beyond of the integration association. If the value of Intensity Index is less than one, there is an effect of the "creation" of trade, which means the emergence of new trade relations between the participating countries of the regional integration.

In addition to the formula 1 may also be carried out the evaluation of the intensity of foreign trade within the integration union. To do this, the overall index of trade intensity has been calculated, which is defined by the formula 2:

$$RT = \frac{\frac{E+I}{E_t+I_t}}{\frac{E_w+I_w-(E_t+I_t)}}{E_t+I_t}$$

Where:

RT - Trade intensity index;

E - domestic export;

I - domestic import;

Et - total exports;

It - total imports;

Ew - World exports;

Iw - World imports.

So, we can conclude that in modern conditions, the economic integration, due to its inherent effects, transforms into a trans-regional formations. Their effect has a great importance for the development of international trade and for integrating countries, which requires its justification in the elaboration of methodological approaches, with considering the identification of the characteristics of integration groupings of the new generation.

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