

## DCFTA Implementation: Opportunities and Challenges for Ukrainian Entrepreneurs

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### Abstract

*The paper deals with the analysis of Ukrainian entrepreneurs readiness for implementation of Deep and Comprehensive Free Trade Area (DCFTA). The authors analyzed the ongoing condition for running business in Ukraine, and results were in favor negative industrial business tendencies combined with macroeconomic instability. Moreover, the military confrontation in the East of Ukraine has had negative consequences for the social, moral and economic situation in the country. Authors have estimated the chances and goals of Ukrainian entrepreneurs to be achieved using the DCFTA. Thus, the effect of DCFTA implementation could provide 6 % of the additional GDP in the medium term. The share of export to EU in total Ukrainian export of goods and services has increased from 26.7 % in 2013 to 32.8 % in 2015. The entrepreneurs of agriculture sector and textile industry are expected to receive the most positive effect of DCFTA implementation. Thus, the export of the cereal crops has increased by 3 % in 2015 compare with 2013. In addition, the export of Electrical machinery and equipment also has increased by 3% in 2015 comparing to 2013. Moreover, DCFTA implementation allowed opening new boundaries and opportunities for entrepreneurs in IT sector. At the same time, the machine building industry is expected to be very sensitive to the DCFTA implementation due the low competitiveness.*

*Keywords:* DCFTA, entrepreneur, European Union, integration, running business.

### 1. Introduction

The ongoing situation in Ukraine can be characterized as not stable, and within such conditions it very difficult to work and develop business sector. A lot of problems in economic, political, social spheres restrain its development. From the other side Ukraine has already started the European Union (EU) integration process, and the first steps have been done by Ukraine. Thus, starting the first of January, 2016 the economic part of Associated Agreement had started its operation and domestic entrepreneurs have already felt the first benefits and barriers.

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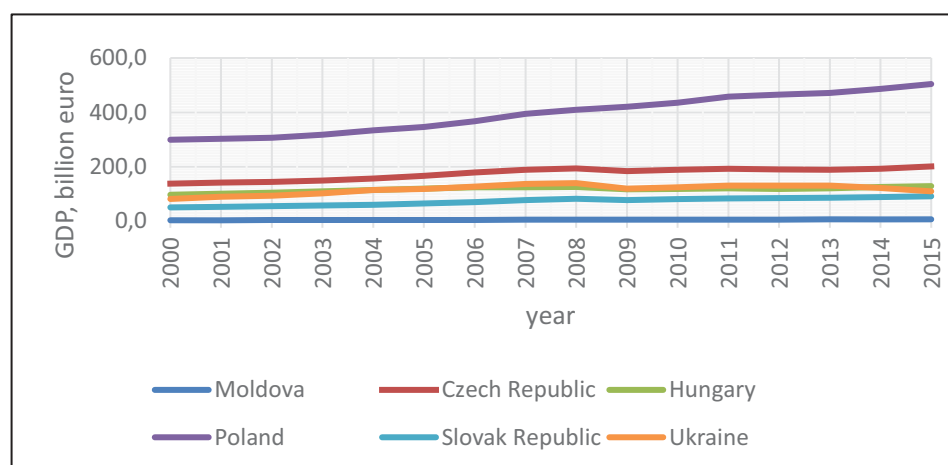
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The main purpose of this article is to analyze the new conditions of business running which were created by EU integration processes. Moreover, the systematization of opportunities and challenges for Ukrainian business sector and development of recommendations are important part of research.

## 2. Main part

The results of GDP dynamics in Ukraine before the EU integration process and after first major steps are shown in (figure 1).

**Figure 1. Dynamic of GDP in Ukrainian, Moldova and Vysegrad Group (2000-2015), bln euro**



*Source:* Data from database: World Development Indicators

It is clearly seen that GDP was decreasing during 2014-2015. Official statistics states that GDP declining in 2014 in comparison to 2013 was about 7% in the decline was 9% in 2015 in comparison to 2014. The above-mentioned results are usually explained by military confrontation at the East of Ukraine and process of reorientation from Russian market to EU market. On the other side, according to Ukrainian Statistics the GDP of second quarter of 2016 is about 18.9 billion euro, which is higher than in the second quarter of 2015 by 18.9%. If we analyze the dynamics of GDP in Visegrad group countries (Czech Republic, Hungary, Poland, Slovak Republic) we can see that the GDP after EU integration (2004) has been increasing compare to 2000. The same results we can see in Moldova. That is why we may predict that GDP will increase in the medium or long run perspective.

**Table 1. Comparison dynamic of GDP in Ukrainian, Moldova and Vysegrad Group; (compare to 2000), %**

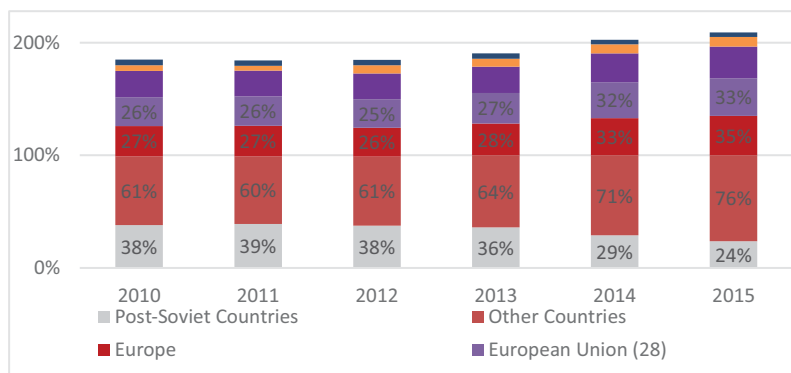
Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Moldova	6%	14%	22%	31%	41%	48%	52%	64%	54%	65%	76%	74%	91%	100%	99%
Czech Republic	3%	5%	9%	14%	21%	30%	37%	40%	34%	37%	39%	38%	37%	40%	46%
Hungary	4%	9%	13%	18%	23%	28%	29%	30%	21%	22%	24%	22%	24%	29%	33%
Poland	1%	3%	6%	12%	16%	23%	32%	37%	41%	46%	53%	55%	57%	63%	68%
Slovak Republic	3%	8%	14%	20%	27%	38%	53%	62%	53%	61%	65%	68%	70%	75%	81%
Ukraine	9%	15%	26%	41%	45%	55%	68%	71%	46%	52%	60%	60%	60%	50%	35%

Colour means the period after EU integration

*Source:* Data from database: World Development Indicators, 10.04.2016

From the January 1, 2016 the DCFTA has been come into power and this also can make the positive influence on economic situation in Ukraine. The main DCFTA goals are to boost trade in goods and services between the EU and Ukraine by gradually cutting tariffs and bringing Ukraine's rules in a line with the EU's in certain industrial sectors and agricultural products (Countries and regions, 2016). According to the official statistics, the export of products and services to Post-Soviet countries has decreased by 40% in 2015 from 2014. Moreover, the share of export goods and services to Post-Soviet countries has been decreasing from the 2013 year. Thus, in comparison to 2013 there was decreasing in 2014 about 7%, in 2015 it was 12%. From the other side the share of the export to EU has been increasing from year to year. Thus, compare to 2013 the increasing in 2014 was 5%, in 2015 was 7% (figure 2).

**Figure 2. Share of export by country in total Ukrainian export products and services; (2010-2015), %**



*Source:* Data from database: State Statistics Service of Ukraine

The results of import dynamics to Ukraine has showed that the import from Post-Soviet countries is also slowly decreasing, and import from EU is increasing from year

to year. The main Ukrainian exports are raw materials (iron, steel, mining products, agricultural products), chemical products and machinery. Unfortunately, the export of products has decreased in 2015 by 7,0%. Most of export reductions were brought by falling of mineral fuels, lubricants and related materials selling. It is necessary to underline that the import of food, drinks, tobacco and live animals has increased. In addition to that the import of animal, vegetable oils, fats and waxes had already increased in 2015 by 3.9% in comparison to 2014 (table 2). All of these testify that the entrepreneurs in the agriculture sector can receive the most positive effect of DCFTA implementation. Thus, the export of the cereal crops has increased by 3 % in 2015 comparing to 2013. Also, the export of electrical machinery and equipment also has increased by 3% in 2015 comparing to 2013.

The results revealing the structure Ukrainian import to EU were not heavily changed (table 2).

**Table 2. Ukrainian exports to EU**

Indicators, million euro	Import to EU from Ukraine			Share in total		
	2014	2015	Changing	2014	2015	Changing
<b>Total - all products</b>	13 733	12 766	-7,0%	100%	100%	
<b>Manufactured goods classified chiefly by material</b>	3847	3505	-8,9%	19%	27%	8%
<b>Crude materials, inedible, except fuels</b>	2604	2388	-8,3%	19%	19%	0%
<b>Food and live animals</b>	2495	2592	3,9%	18%	20%	2%
<b>Machinery and transport equipment</b>	1417	1412	-0,4%	7%	11%	4%
<b>Mineral fuels, lubricants and related materials</b>	1005	519	-48,4%	7%	4%	-3%
<b>Miscellaneous manufactured articles</b>	630	652	3,5%	4%	5%	1%
<b>Animal and vegetable oils, fats and waxes</b>	616	622	1,0%	4%	5%	1%
<b>Chemicals and related prod, n.e.s</b>	551	505	-8,3%	4%	4%	0%
<b>Other</b>	516	511	-1,0%	0%	4%	4%
<b>Commodities and transactions n.c.e.</b>	33	31	-6,1%	0%	0%	0%
<b>Beverages and tobacco</b>	19	29	52,6%	0%	0%	0%

Source: Eurostat

The main Ukrainian export to EU do include small portion of machinery and transport equipment, chemicals, and manufactured goods (Countries and regions, 2016). On the contrary, the share of Manufactured goods classified chiefly by material was 27% which was higher by 8% in comparison to 2014.

It seen from table 3 that the import volume of Miscellaneous manufactured articles didn't change – 22%. Increasing per 1% was by the following indicators: Chemicals and related prod, n.e.s, Crude materials, inedible, except fuels, Miscellaneous manufactured articles.

The trading balance between Ukraine and EU is presented on the figure 3. According to the results after the starting the EU integration process the difference of the trading balance has started to change to the positive side. If in 2012 the balance was €-10.01 billion, in 2013 was €-11.31 billion, so in 2014 was €-4.47 billion and in €-2.54 billion.

Of course, it is connected to the decreasing of trading volume with EU, but from the other side the reduction of trading balance is consequences of opening boundaries to EU market for Ukrainian entrepreneurs.

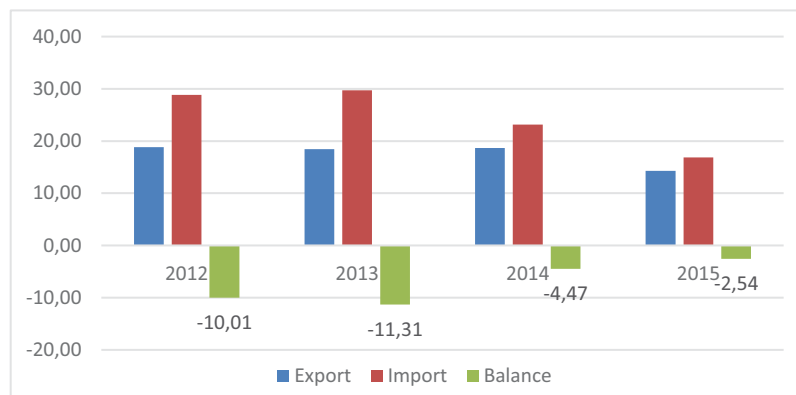
**Table 3. Ukrainian import from EU**

Indicators	Export, million euro		Share in total, %	
	2014	2015	2014	2015
<b>Total - all products</b>	16 986	13 924	100%	100%
<b>Manufactured goods classified chiefly by material</b>	4923	4248	29%	31%
<b>Miscellaneous manufactured articles</b>	3676	3105	22%	22%
<b>Chemicals and related prod, n.e.s</b>	2599	2174	15%	16%
<b>Mineral fuels, lubricants and related materials</b>	1870	1308	11%	9%
<b>Machinery and transport equipment</b>	1677	1300	10%	9%
<b>Food and live animals</b>	1309	972	8%	7%
<b>Crude materials, inedible, except fuels</b>	417	403	2%	3%
<b>Other</b>	191	117	1%	1%
<b>Beverages and tobacco</b>	187	176	1%	1%
<b>Commodities and transactions n.c.e.</b>	83	83	0.5%	1%
<b>Animal and vegetable oils, fats and waxes</b>	54	38	0.3%	0.3%

Source: Eurostat

The EU is a large investor in Ukraine. EU investors held investments worth around €30 bn in Ukraine in 2015. It was 76.2% of total sum of investments in Ukraine. In 2015 through EU the largest investors were Cyprus (27%), the Netherlands (13%) and Germany (12%). Moreover, in 2015 year the structure of the main investors didn't change.

**Figure 3. Dynamic in trade of goods between Ukraine and EU; (2012-2015), bln euro**



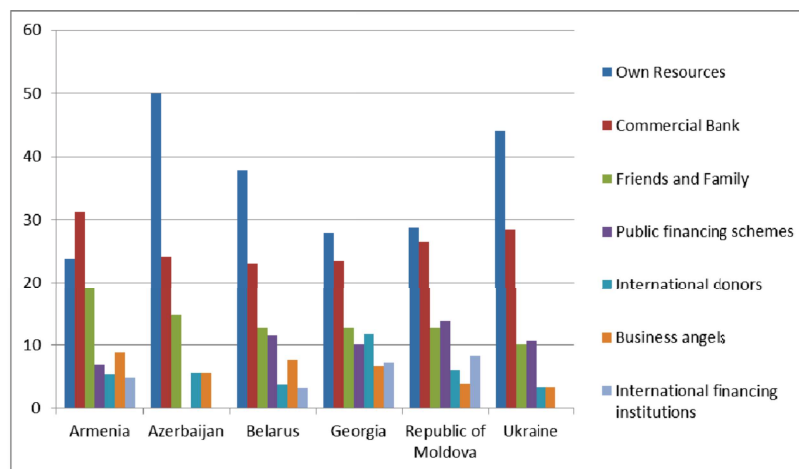
Source: Data from database: State Statistics Service of Ukraine

Unfortunately, the process of EU integration and market reorientation were not properly forecasted. In this case, Ukrainian entrepreneurs could not feel fast benefits from integration process and DCFTA implementation. In general, Ukraine has already harmonised a lot of its norms and standards in industrial and agricultural products and the last should stimulate better integration with the EU market. In addition, Ukraine has already aligned a lot of its legislation to the EU's in trade-related areas such as:

- competition;
- public procurement;
- customs and trade facilitation;
- protection of intellectual property rights;
- trade-related energy aspects, including investment, transit and transport (Countries and regions, 2016).

It should be underlined that the share of Ukrainian GDP generated by the entrepreneurs is increasing from year to year, but it is the less share of GDP compare with EU. Furthermore, according to the EU investigation (EU support to SMEs) the developing of Ukrainian business sector is kept down by the lack of financing, inadequate legal and regulatory framework; lack of knowledge base/business skills; limited access to markets (local and international). Moreover, the main resources of running business in Ukraine are own resources, then commercial bank and friends or family. The share of business angels and international donors are the smallest (figure 4).

**Figure 4. Primary financing resources for SMEs**



Source: East Invest Survey 2012

According to the Summary Report of EU Support to the Private Sector in the context of Association Agreements/DCFTAs the main constraints which limited the development of Ukrainian entrepreneur' sector are as following:

1. Cost of finance.
2. Availability of finance (willingness to lend).
3. Political instability.
4. Corruption

5. Tax rates (EU Support to the Private, 2015).

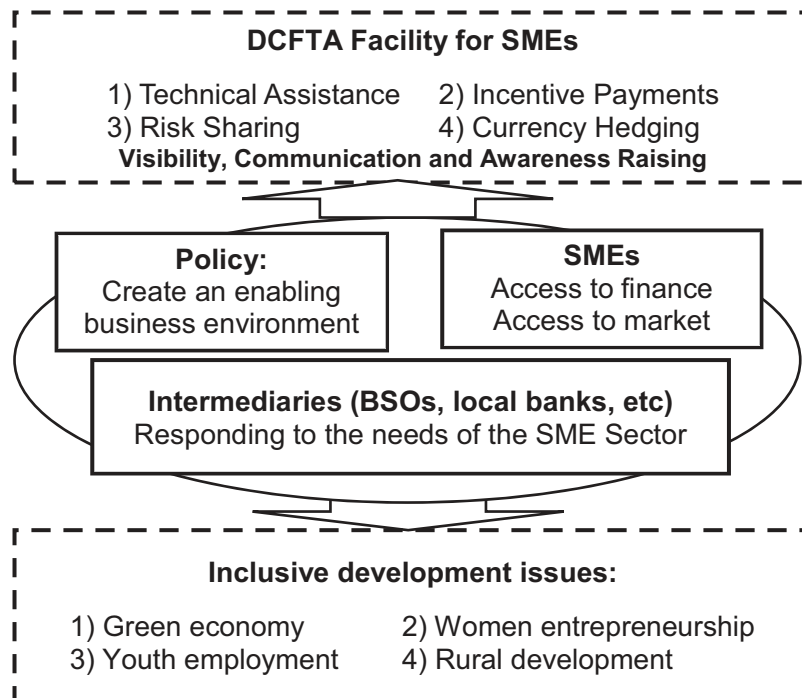
The DCFTA implementation is called not to remove the market boundaries only, however the new mutual opportunities for EU and Ukraine should arise. As a result Ukrainian Small and Medium sized Enterprises (SMEs) have got opportunity to receive funding from the EU's SME Flagship Initiative. The main objectives of this Initiative for Ukraine are:

1. Help SMEs to seize new trade opportunities with the EU and within the region which have been opened up thanks to the DCFTA;
2. Improve access to finance for SMEs to make the necessary investments to comply with the provisions of the DCFTA;
3. Allow SMEs to take advantage of the increased inflow of foreign direct investment triggered by the DCFTA;
4. Enable SMEs to comply with new sanitary, phytosanitary, technical and quality standards, as well as with environmental protection measures, thereby benefiting local customers and boosting exports to the EU and beyond.

The working mechanism of EU's SME Flagship Initiative combine and harmonize three main

directions (policy, intermediaries and SMEs) with purpose to solve the inclusive development issues and to provide Visibility, Communication and Awareness Raising are presented at the figure 5.

**Figure 5. The structure of intervention the EU's SME Flagship Initiative**



Source: Created by authors on the Eastern partnership, 2015

According to the main policy of EU's SME Flagship Initiative, the DCFTA Facility for SMEs will receive approximately € 200 million of grants from the EU budget, which are expected to unlock at least € 2 billion of new investments by SMEs in the three countries (Ukraine, Moldova and Georgia), largely coming from new EFI loans supported by the Facility.

Such investments will transform the business fundamentals. The local banking sector, business services to SMEs, trade and quality infrastructure, and the overall business climate will highly benefit from the Facility, creating hereby a virtuous cycle of growth and contributing to significant job creation (Eastern partnership, 2015).

Thus, first of all the import and export duties and tariff quotas will be eliminated. From one side it means new opportunities for exports into the EU and enlarging the quality and range of products. At the same time, it is the threats for local entrepreneurs which are not ready to work in international market according to the EU standards. As a consequence, it will be stimulating the local entrepreneurs to become competitive or loose the business. The following consequence is reducing tariff and, most importantly, non-tariff barriers to entering the EU market, which is currently the largest regional market and one of the two largest trade partners of Ukraine (EU-Ukraine, 2015). The improving and adaptation of legislation according to EU standards allow creating the favourable domestic business climate. The increasing of compliance costs with "social" standards stipulates improvement of labour conditions, increases salary to enlarge the work opportunities in EU. In addition DCFTA is considered to be one of engines to stimulate sustainable development. That is why the requirements for main polluters will be stretched (Kubatko O., Pimonenko T., 2015).

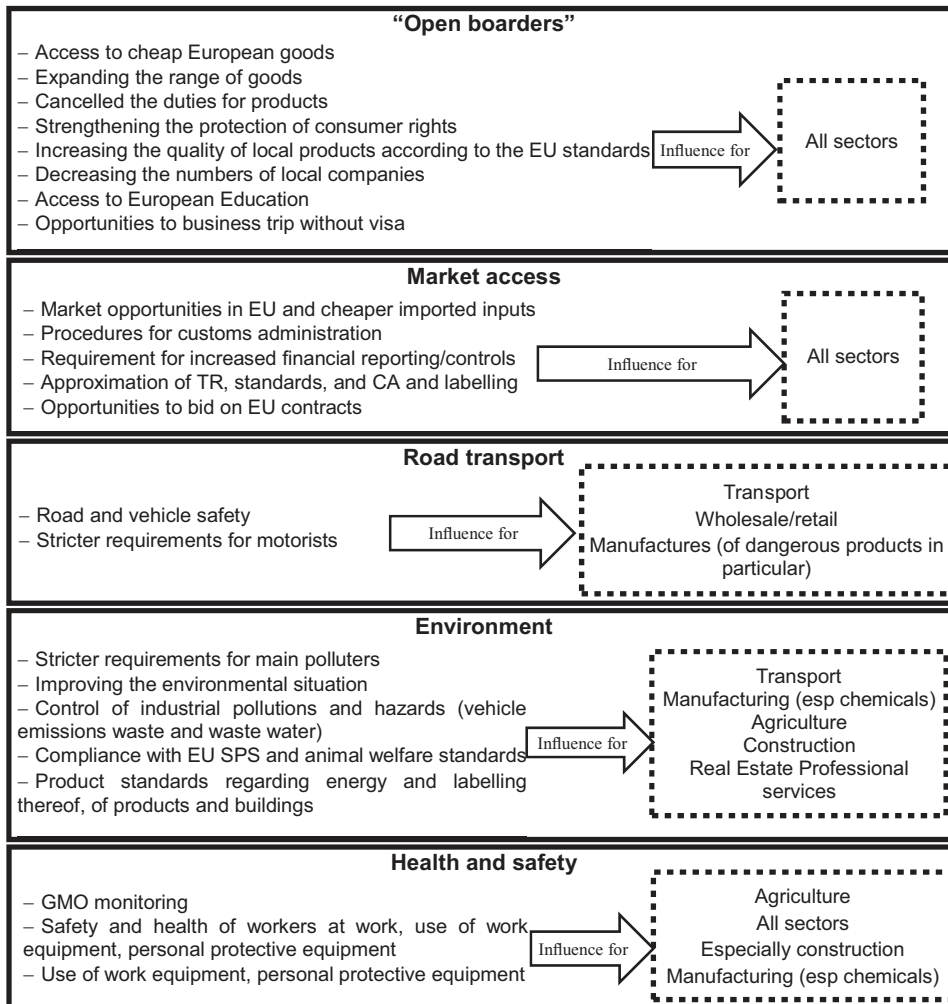
Taking into account the current situation in Ukraine the perspectives of DCFTA implementation for Ukrainian entrepreneur's sector can be improved by the following activities:

- 1) to decrease the gaps in the Ukrainian legislation in comparison to EU. At the same time Ukrainian entrepreneurs should quickly adopt to new conditions. That is why they should continuously improve their knowledge;
- 2) to create the national mechanisms for cooperation and participation in international markets. Ukrainian entrepreneurs must participate and be represented at international level.
- 3) to create and implement new procedures and systems needed for customs officers in issuing certificates of origin and for MEDT on administration of TRQs. And also, Ukrainian entrepreneurs should learn how to work in such requirements;
- 4) to create new independent non-governmental body responsible for standardization and transfer of the functions of the Secretariat of 30 technical committees on standardization. In this direction, Ukrainian entrepreneurs must prepare for the certification process;
- 5) to adopt and harmonize the customs administration procedures including risk assessment, post clearance controls and company audit methods according to the EU requirements.
- 6) to learn how to write grants and project to receive the financing support from EU sources;
- 7) to create administrative system for air and water quality monitoring. In such directions Ukrainian entrepreneurs should change their thinking from mainly



economics results, to the environmental problems and future generation challenges. They must be ready to spend money for innovative green technologies.

**Figure 6. Systematizing the perspectives of DCFTA implementation for Ukrainian entrepreneur's sector**



*Source:* Compiled by the authors on the basis of the literature sources (Eastern partnership, 2015), (Kubatko O., Pimonenko T., 2015)

### Conclusion:

In order to receive economic benefits for domestic entrepreneurs from DCFTA implementation it is needed to perform several major changes and adaptations. First

new (innovative) mechanisms and approaches have to be implemented to stimulate entrepreneurs' competitiveness in solving urgent economic and social issues. Moreover, these mechanisms should be harmonized and provide the implementation of the best European practice.

It is expected that Ukrainian entrepreneurs could provide up to 6 % of the additional GDP in the medium term using the DCFTA opportunities. Among the main challenges of DCFTA implementation are modernization of Ukrainian machine building and other technological industries to be competitive on the EU market. In any case, closer links with EU companies would decrease the number of local companies. The research statistics states that portion of manufactured goods classified chiefly as material in the Ukrainian export to EU is growing from year to year, the last is a serious challenge for Ukraine, since it means the deterioration of technological potential of domestic producers.

Among the main opportunities of DCFTA implementation is SMEs development through EU institutions and funds, which could be good since the share of Ukrainian GDP generated by the entrepreneurs is increasing from year to year. In addition, entrepreneurs of agriculture sector are receiving vivid positive effect of DCFTA implementation.

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Угода про асоціацію між Україною, з однієї сторони, та

Європейським Союзом, Європейським співтовариством з атомної енергії і їхніми державами-членами, з іншої сторони

## **Pear to Pear in Social Economy through Social Technologies, some Perspectives on this New Challenge in the Eastern Europe**

Răzvan ȘERBU\*

### **Abstract**

*The economic environment is now in a difficult situation and it is looking for way to overrun this low. There are more and more examples that this time people find a solution thru sharing economy. We will present here the potential and some barriers for the eastern part of Europe, for Romania.*

*We will present here also some cultural lag that influence and will influence a more and more the economic system and will show some aspects that happens in socio-economic world due to the changes in technology and especially because those changes are happening more quickly than other changes creating some gaps. So, this period of time between the appearance of the new social technologies and the whole process of implementation of its forces will have a great impact within the economy. There will be highlighted some dissimilarities about the limitation and advantage that the share economy through social technologies will have into the rural compare to urban area.*

*Keywords:* Pear to pear economy, Social economy, Social technologies, Education

### **1. Introduction**

Simultaneously with the most recent world economy crises we can notice a dynamic grow of peer to peer sharing economy. After each world economic crises, the economies are looking for solution to overcome the moment. This time people are tinkering with a new kind of economy, a share economy, with minor precedents in modern world. While these initiatives were not saw so often in the past, there is a large potential for the future, and their dynamic is extraordinary, they represent a bottom-up effort to address the economic crisis and build a better economy for the world. In this paper, we will focus especially on that impact in Romania and will extended to Eastern part of Europe and Europe.

We will present here also some cultural lag that influence and will influence a more and more the economic system and will show some aspects that happens in socio-economic world due to the changes in technology and especially because those changes are happening more quickly than other changes creating some gaps. So, this period of time between the appearance of the new social technologies and the whole process of implementation of its forces will have a great impact within the economy.

We will also highlight some dissimilarities about the limitation and advantage that this share economy through social technologies will have into the rural compare to

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urban area of the studied zone.

## 2. Experimental, Results and Discussion

I think that an important aspect of our life is about connections. Connections are important, they create a lot of opportunities, and a lot of great ideas. The economy is now more connected than ever. But this time we will discuss about another new revolution in technology and especially in sharing economy.

The technology can distance us or can bring us together. We think that connections and sharing can be very positive for social life and for economy. In the past the discrepancy between consumption, waste and scarcity was huge. In this sense the sharing economy can bring some brilliant solutions.

Taking in consideration the trends and the dynamic of the number of the devices connected to the Internet this will climb more than 60 billion in the next 5 years. So this place will be more attractive for those who want to capitalize this huge opportunity

Unfortunately, the Romanian environment is still different than the rest of Europe. Romania was name once the granary of Europe, but there have been many years when we import wheat. Agriculture has a significant role in Romania. In all the years after the revolution there has been no fruitful state strategy to re-launch the agriculture, and more and more obstacle from the European Union. We have to mention also that there have been also some program of the European Union that help in a way the developed of agriculture but the biggest problem that face was subsidy from the state in the agricultural and forestry sectors. However, the sector requires further development. Romania has the highest proportion of rural population in the EU (45%), the highest incidence of rural poverty (over 70%), and one of the largest gaps in living and social standards between rural and urban areas.

Under the Europe 2020 strategy, Romania has committed to reduce the population at risk of poverty by 580,000 persons and to achieve an employment rate of 70 percent by 2020. By 2013, only a third of the poverty target had been achieved. One in five Romanians is income poor, and a large share of income poverty is persistent, in that three-quarters of the poor have been poor for at least three years.

One-third of the population is severely deprived materially in the sense of not being able to afford items considered to be desirable or even necessary to lead an adequate life. Decreases in the poverty rate pre-2010 reversed in 2010–13, resulting in a marginal decline in poverty of less than 1 percent between 2008 and 2013 as shown in the statistical data collected from world bank (worldbank stat.2016). We have to take this into consideration when discussing about digital economy in rural area.

The rural European area that we refer here is a treasurable resource for Europe and for the world also. This resource is not just the land and the nature that is situated in this area but also the population of rural region, their experience, skills, abilities, culture and diversity of this space.

The progress cannot be fully realized without paying a special attention to development. There is a strongly need especially in the Eastern Europe and in the rural area to diminished poverty, lake of hope, despair and social exclusion.

Science and technology have a great potential to bring economic grow, but in order to be effective and to bring sustainable grow it's a strongly need to educate population in that way. Rural people face many challenges that are different from place to place and from time to time. This time the biggest challenge that is in front of us is a fundamental one and that why it needs special attention from the authority and

institution that can help to diminish the cultural gap.

The people trust will bypass the government, the central banks or other powers, and this is the beautiful of social media and internet and so people can bypass the traditional institution and create this sharing economy.

The changes in technology and material culture come more rapidly than changes in non-material culture. The time interval between the appearance of a new trait (material culture) and the completion of the adaptation it forces (non-material culture) is known as 'cultural lag'. (Puja M., 2015)

In Romania this problem is very often felt because of the grate rate of rural population, and the leak of education for middle age person and week interest from the government in changing this.

Another interesting problem we identifying in this paper is the differences of percent in category of household consumption expenditures, and we will highlight some discrepancy that can be source for the gap in-between economy of United State, Europe on one side and eastern Europe on the other side.

**Table 2. Example of the construction of one table**

<b>CATEGORY</b>	<b>United State (%)</b>	<b>European Union (%)</b>	<b>Romania (%)</b>
Housing, water, electricity, gas and fuels	20.20	21.90	17.20
Transport	17.60	13.60	6.20
Food and non-alcoholic beverages	15.30	20.30	40.00
Health	5.70	3.40	6.40
Communications	1.60	2.70	4.80
Recreation and culture	14.70	9.40	4.50
Restaurants and hotels	7.60	9.00	1.40
Furnishings, household equipment	3.60	6.20	4.00
Clothing and footwear	3.80	5.10	5.30
Alcoholic beverages, tobacco	5.30	3.50	7.70
Education	2.90	1.20	0.50
Miscleanous	1.70	3.70	2.00

*Source:* <http://data.worldbank.org/indicator/NE.CON.PRVT> si Institutul National De Statistica [www.insse.ro](http://www.insse.ro)

After sowing some data in Table 1, we will show also some graphics to better highlight the issue and to understand the problem.

We can notice so obvious in Figure 1 that Romanians spend for food almost half of their income, and in this case there will be less money left for the rest, and we include here especially education, recreation and culture, transport, etc. That's one of the reason that the rate of penetration for technology in Romania is not as expected. The positive thing is that the price of technologies became more accessible and the young generation

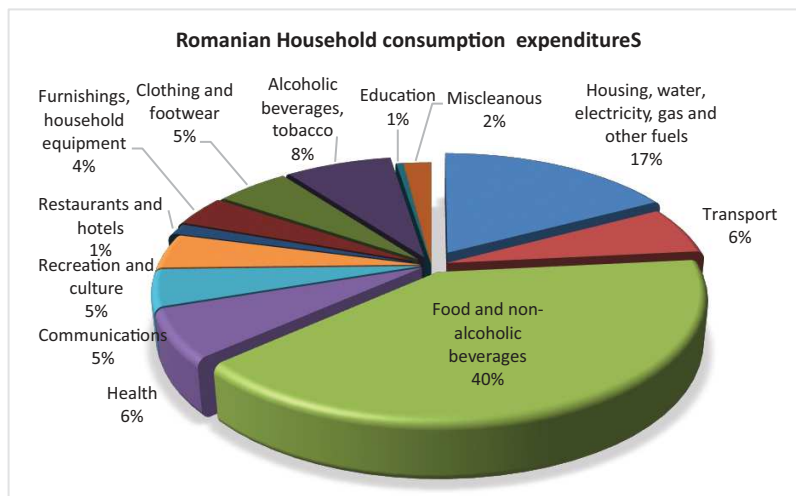
is using like natural. Still remain the old population and the rural area that will delay the advantages that can be brought by the share economy through social technologies.

If we will see things beyond the sectors that are traditional we will discover a huge potential that Digital Market can bring in the picture, and if the population will be aware of this potential definitely those can take this advantage and develop social economy. A population that is well informed can use this digital environment to fulfill their objectives through expand the customer segment throw direct sales in the Digital Market. If they will no longer need an intermediary, the social business can grow faster and can bring more satisfaction to those that are involved.

Allowing for the digitalization of services, the adoption of sharing economy models and the development of networks of producers, providers, users and workers, the DSM has the potential to improve access to information, develop online transactions, reduce trading and challenges operating costs, dematerialize consumption and improve the ways in which social economy actors operate. So they can become associate in businesses, main actors, not just users or services providers, or workers. Being more involved the business people will more motivated and the business has more chances to succeed. If we are looking at the good practice examples we will find Airbnb or Uber, and others but we have to see even the other side of the coin, because all this examples are very important competitors for the new starters in social entrepreneurship, in this peer to peer economy.

As the author of the study “Optimuty Advisors Social economy” said: However, social economy actors face challenges on the level of competition from dominant digital-based service providers (e.g. Uber and Airbnb) in terms of public awareness, allocation of work, as well as wage levels. Whereas appropriately developed, the interlinks between digital technologies and the social economy could help balance creative freedom and social protection objectives and therefore contribute to fully unleashing the growth potential of the new sharing economy. (LIGER Q. et al 2016)

**Figure 1. Romanian household consumption expenditure in 2015**



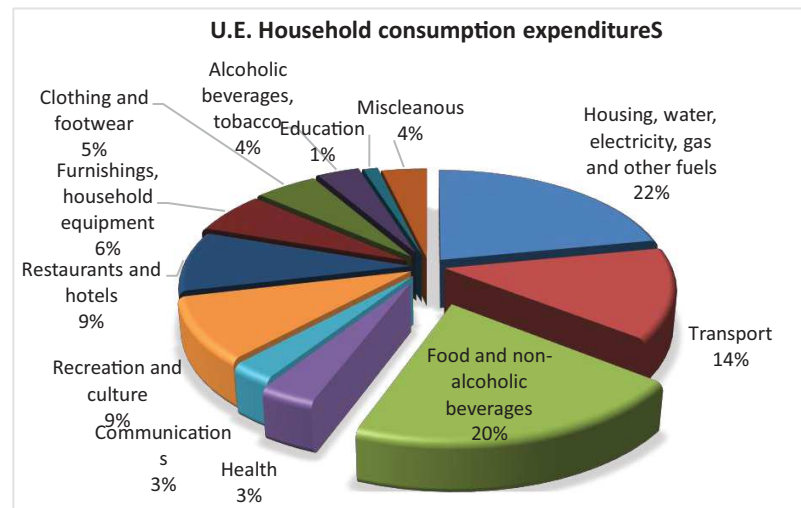
Source: Source: INS Figures do not sum to 100% due to rounding

Now if we take a look again at table 1, we can show in a graphic how the Romanians spend their income in comparison with the average European family and Americans family. So we highlight in Figure 1 some percent that can explain why Romanian are at the end of ranking when discussing the electronic commerce or developing social economy through social media technology, etc.

As we can see the percent from expenditures that a family spend in education is strongly connected with the development of economy, of social economy and peer to peer economy and a lot more. The dynamic of numbers from Romania, to average Europe and America reveal ones more the fact that if your spending has to go in an important percentage for food then you will have less for the other and this means less for education. If the Romanian government would have a good strategy to encourage education then the economy would benefit and the population would be more satisfied.

Unfortunately none of the strategy worked so far, if there were any, so we still have in Romania one out of four households that have the toilet situated in the backyard inside the house when the European average is under 3%. And in spite of all of this, the percent of the internet penetration is 62% in Romania. This is a first step but if this is not enough if there will be no increase in the percentage of education in total spending. So this is a must prove by all the country that succeed.

**Figure 2. U.S. Fig 2 E.U. Household consumption expenditures in 2015**



Source: Eurostat Figures do not sum to 100% due to rounding [<http://www.eea.europa.eu/data-and-maps/indicators/trends-in-share-of-expenditure/assessment>]

The digitalization allow institution but also people to be much close using virtual platforms. This is a privilege and an opportunity. The people can come together being more creative innovative and creating a bigger market. For those into the rural area is more helpful because it can cancel the geographical distance between them. So they can take this advantage to recreate here on the platform that pear to pear economy. There are a lot of platform and now more and more are coming out trying to bring people together and businesses together. Some problem still remain. For example after studying the area



“Marginimea Sibiului” I notice and people from that community recognize that they prefer the real market where they can meet with other people where they can see other and be seen by others. This is just one problem and those problems of mentality are the most resistant to change.

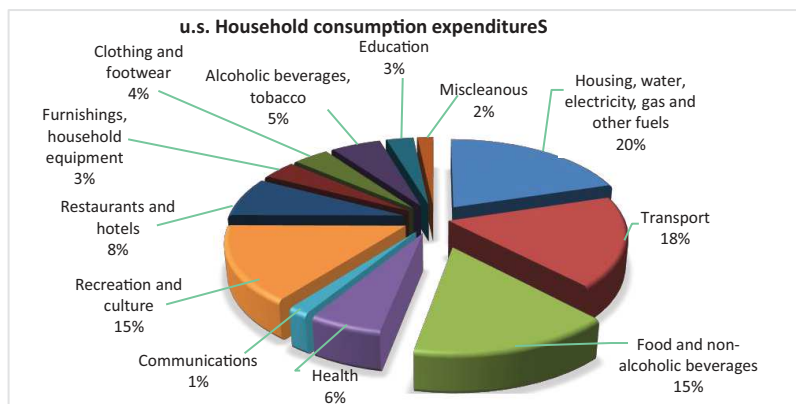
Rural communities are famous for using technology in novel ways. When the telephone first came to rural America in the early 20th century, communities adapted the rural custom of “visiting” to it. Although a system of rings signaled an individual home on a party line, other people would invariably join in or just eavesdrop. It was common enough that speakers would often adjust their conversations for large audiences. The practice so irritated Bell Telephone that the company instructed rural customers to behave more like its urban ones. In the end, however, Bell recognized a business opportunity and created a telephone specifically designed to support the rural custom (Atwood, 1984; Kline, 2000);

Only humans can successfully deal with other humans and, more than ever, the high level work is being done in teams. In truth, this new era we are embarking on will not be solely human driven or machine driven, but a collaboration between humans and machines. Consider that when a freestyle chess tournament that included both humans and machines was organized, the winner was not a chess master or a supercomputer, but two amateurs running three simple programs in parallel. And that's why the new economy really is a social economy. The future belongs not to the strongest or the smartest, but those who can collaborate—with humans and machines—most effectively. (Greg Sattel, 2011)

### Conclusion:

The challenges for the selling process are increasing in the same direction with the level of consumer information. The differences between rural and urban in Romania we have to admit that they are still significant. On one way it is easier to sell to consumer that are not so well informed about the market but an honest seller should prefer an informed customer.

**Figure 3. U.S. Household consumption expenditures 2015**



Source: <http://data.worldbank.org/indicator/NE.CON.PRVT.CD> Figures do not sum to 100% due to rounding

There are a lot of villages that have internet connection and computer rooms, but there are just a few if none person who use them, because they do not have the wish or the education to do that and I am referring now especially to the old population in rural area but even those that are between ages are difficult to convince to use the new technologies. The opportunities are quite large in the rural area and this can be seen in the growing number of rural deliveries.

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## Emotional Intelligence: the Future of Europe (an Union)

Vaibhav P. BIRWATKAR\*

### Abstract

*Within a year two populations of Europe – one in the south, the other in the north – have voted against the European Union (EU) and its policy. They did this out of entirely different motives and with different aims. Whereas on 5 July 2015 the Greek OXI was directed against the austerity dictates of the Troika and the degradation of Greece to the state of a semi-colonial country, the British Brexit above all was characterized by the fear of foreigners and the desire to escape from the freedom of movement in the EU. The crisis highlighted the economic interdependence of the EU, while also underscoring the lack of political integration necessary to provide a coordinated fiscal and monetary response. This paper offers a fresh perspective on how trust has been deteriorating considerably during the recent crisis in European countries which are the most affected by the ongoing economic downturn, mostly in the periphery. Consecutively, EU needs to respond to public apathy and anger with emotional intelligence and offer solutions that feel relevant to people today.*

**Keywords:** European Union, emotional intelligence, trust, conscious reasoning, democracy

### 1. EU and economic performance

There are various reasons to study political knowledge and knowledge about the EU in particular (Dekker and Portengen, 2000; Rijkhoff and Dekker, 2009). Knowledge relates to 'the truth', i.e. what has been or can be proven to be 'true'. Particularly the difference between knowledge and beliefs is important. Knowledge is also to be distinguished from opinions, attitudes, emotions, values, behavioral intentions, and behavior (Krosnick and Brannon, 1993). The EU decision-making process is a complex phenomenon, particularly on matters involving political sensitivity and risk rests with 28 national governments, each one engaged in an open and transparent manner through communication, consultation, and collaboration in favor of its citizens and economy.

The creation of the Eurozone in 1999 was a major turning point as it became the largest economic entity in the world, which now connects 19 nations into a single currency zone watched over by the European Central Bank but leaves budget and tax policy in the hands of each country, an arrangement that some economists and political scientists believe was doomed from the start. The economic crisis of 2008 and the

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ensuing European debt crisis is a personalized, problematic, and promising issue which has changed the character of the Eurozone. The insecure fiscal policies on spending, the effects of last financial crisis and the domestic banking crisis, inefficient institutional setting, and loss in competitiveness have brought some of the biggest Eurozone countries into a stage of recession.

Countries in the Southern Europe, including Greece, Spain, Italy, and Portugal, have been suffering through years of unreasonably high unemployment due in part to ECB policies. Eurostat estimates that 23.296 million men and women in the EU28, of whom 17.756 million in the euro area, were unemployed in June 2015. Among the Member States, the lowest unemployment rates were recorded in Germany (4.7 percent) and the Czech Republic (4.9 percent), and the highest in Greece (25.6 percent in April 2015) and Spain (22.5 percent). The largest decreases were registered in Lithuania (8.2 percent from 11 percent), Spain (22.5 percent from 24.7 percent) and Ireland (9.8 percent from 11.7 percent). The increases were registered in Belgium (8.6 percent from 8.4 percent), France (10.3 percent from 10.1 percent), Romania (7.1 percent from 6.8 percent), Austria (6 percent from 5.6 percent) and Finland (9.4 percent from 8.6 percent). The EU isn't going to have a shared language any time soon, so workers may never move around the EU for employment.

It has become practically unsurprising and anticlimactic that the current crisis, in all of its shapes and colors, has been having a wide variety of effects with diverse intensities on many issues such as the economic situation, unemployment, public finances, inflation, taxation, pensions, education, immigration, energy, environment, and conceptual frameworks such as democratic deficit, parliamentary/government legitimacy, legitimacy crisis and trust. In particular, with respect to the latter ones, it is reasonable to assert that any European citizen would agree that the crisis has had different, generally negative effects on national economies, European and national politics, society, trust, democracy and institutions.

## **2. How the citizen experiences EU democracy today**

To ordinary citizens, EU institutions appear distant, elitist, and difficult to understand. European Commission report (2013) says the number of Europeans who tend not to trust national governments is 72% and national parliaments 69%. One of the main reasons is that the political parties that have the majority in the parliament and thus "govern" a state introduce unpopular laws in periods of economic recession and stagnation, reducing trust and legitimacy and increasing the democratic deficit. All these decreasing indicators have certainly been amplified by the economic crisis. For instance, austerity measures in Greece such as a 10% cut in salaried bonuses and a recruitment freeze in the "narrow public sector", increase of VAT (from 19% to 21%) and of taxes on fuel, cigarettes and alcohol along with some modifications of income taxes; some cuts in expenditures (including in public investment) and central government operating costs. Other measures like retirement age was raised from 60 to 65, penalties introduced for early retirement, pension payments were to be suspended for pensioners who were still employed and more similar ones have certainly had a remarkable negative impact on the Greek citizens (also on the citizens of other EU states that adopted similar measures, for instance Spain, Portugal, Italy and Ireland) and their trust, on democratic representation, democratic deficit, legitimacy, future perspectives and employment.

Political trust at the individual includes two main categories of independent variables: Political distance and performance evaluations. The increasing political distance between government and citizens leads to a decline in trust. Distance is primarily measured as policy distance on the salient issues of the day as developed in the classic article by Miller (1974), but may also include measures of ideological distance or distance by party through the division of voters who vote for winning parties and those who are on the losing side (Miller and Listhaug 1990, 1998, Anderson and Guillory 1997, Anderson et al. 2005).

People vote and act irrationally and do not judge the legitimacy of political outcomes based on how much they participate; it's just empirically wrong as political science. They don't like institutions that are highly participatory, and generally they hate parliaments (even national ones), and elected politicians they hate even more, generally speaking, compared to judges and other things. Clearly, then, trust in politicians appears to be at a low point in the EU. A reason behind this is that citizens seem not be symmetrically well-informed by the EU institutions, their national ones, the media and thus, it appears that each citizen, if willing, has to inform oneself and get involved if he wants to make a contribution. Moreover, national politics take over the EU affairs, while citizens often hear about some issue or new European law approved that may have an influence on their lives.

Identity is still primarily national, and so is political legitimacy. Only 46% of Europeans feel attached to the EU, whereas 52% feel no such connection; by contrast, only 9% identify themselves primarily as European, whereas 87% give their nationality as their primary identification. For Europeans who want to regain control of their national destiny, there might still be hope that national leaders can help, so they protest outside the national parliament. Hence to restore its legitimacy, the EU needs to respond to public avoidance, apathy and anger with emotional intelligence. People must feel represented by their politicians in both their statements and their actions, and representative Electoral Systems and Political Ethics are key players of this side of political trust.

### **3. Being, Brain and Behavior**

Applied brain research shows that our brains reach decisions before we actually are conscious of those decisions. Our conscious reasoning does not control our behavior so we rely on our gut instincts to determine our beliefs. Principally we use our reasoning to defend those beliefs. Hence our intuition dominated our reasoning. So what does this imply about our strongly held political views? Are they based on conscious reasoning or is our reasoning merely the way we defend political positions based on our gut instincts? The fact that political discussions between people with opposing views often descend into angry shouting matches suggests that it comes from the gut.

As in most areas of human interaction it requires emotional intelligence to overcome these emotional outbursts. When we feel that our emotional based position is threatened or under attack our body is literally flooded with adrenalin and cortisol, and we move into a kind of fight or flight reaction. We stop listening and begin vigorously to defend our position and this is not limited to face-to-face situations. We have all felt anger when listening to an opposing view on TV or reading what we deem an adversarial opinion piece or editorial. Typically the receiving part of our brains just shut down. Because we generally find these experiences unpleasant most of us tend to avoid them.

Rather we seek our others including TV, print media, and websites that are in tune with our views. From one perspective this is good; we find it soothing to hear and read opinions that are aligned with our own. But this is "groupthink," which merely reinforces our gut feelings. Corporations and communities, universities and unions, faiths and nations have collapsed because groupthink shielded them from external threats.

Hence, the people and politicians should step back from the confrontation, breathe easily to begin to lower their cortisol levels, and then to begin to think about the challenges with less emotional ideology and with a lot more focus on common sense solutions. Emotions are either a by-product of trust decisions or a benefit arising from shared and observed social norms between truster and trustee. Expectations are the basis for any type of behavioral response in a dyadic relationship. Expectation as it relates to trust has generally been studied as a function of the truster's beliefs that trust will be "reciprocated" by the trustee and will be, if not beneficial, then at least not harmful. The logical extension of defining expectancy as the backbone of trust is that people give trust first and foremost because they wish to survive, i.e., because they are afraid, thereby artificially delineating the emotional motivation behind, as well as the affective experiences around, trust.

#### **4. Emotional Intelligence for EU Democracy**

The recession the European Union continues to be confronted with, has led to a dramatic effect on young people. In fact, around 20% of Europe's youth labour force is currently unemployed. What is more surprising is that the recession affected high-skilled youths just as the low-skilled. Causes that have led to continuous growth in youth unemployment have been linked to the general lack of key competences in young people, especially in attributes related to emotional intelligence: self-awareness, self-management, social awareness and social skills.

Emotional intelligence is the ability to identify, use, understand and manage emotions in positive ways that will help individuals relieve stress, communicate more effectively, empathize with others, overcome challenges and resolve conflicts. Emotional intelligence does influence a number of different aspects of one's daily routine and can greatly affect the way one behaves and interacts with others around him.

Studies confirm that emotional abilities are related to stress tolerance, teamwork, group decision making, leadership potential and overall work performance. The crisis of confidence is deepest in the countries hardest hit by the economic crisis, which means that corruption is very strong in Southern Europe, the countries that are hit by the financial crisis. Hence, interventions on both more local and more global level require the emotional intelligence leadership attributes and awareness of soft skills and hidden factors that create major effect on the ways a country is led and contributes to the EU community. Learning of how to be more aware is the directing process of both top-down and bottom-up members of a group, community, or even nation in order to create and achieve something that none of the members could do alone. Due to the creative nature of group or a nation's achievement, leadership as a phenomenon which arises from the individual is no longer valid in absolute terms. For example, a leader should merge the opposites such as control and autonomy, diverse the organizational structures and sociocultural contexts, even direct change through crises. Such an approach build upon the dynamics of emotional intelligence skills like teamwork and conflict resolution targeting at members or citizens good health and happiness also requires the

provision of appropriate instructions and tools to enhance interpersonal trust, empathy, and collaboration.

Any shared vision needs a structure, to be direct in its own meaning also feasible to be implemented into the chosen cultural context. Such shared visions also require common ground and norms so to create a shared identity and common purpose for shared reality so to clarify, modify and evolve shared activities. Empathy is a crucial interpersonal skill for such leading direction to come from the people and not from top down enforcement. An emotionally intelligent leader can sense the people's flow as a current into the chrono-spatial context, identify the clichés leaders and respond accordingly promoting –or not– active engagement and participation of the whole into the current. Such affective factors of empathy, trust and sense of belonging can be initiated into a small group or critical mass so to be expanded and imitated by the majority. Hence, EU can add value in many ways for individuals and compensates for the shortcomings of national governments. It needs to improve its democratic engagement in ways that are emotionally intelligent to be felt positively by ordinary citizens.

The Maltese Government has identified the promotion of healthier lifestyles and the sustainability of work practices to ensure healthier and longer working lives, as key priorities for projects to be implemented under the European Social Fund (ESF). In this respect, EU funds will be made available to ensure that the highest degree of health and safety is promoted across different stakeholders with the aim to foster employability and wellbeing of the workers. Indeed, one of the overall objectives of Priority Axis 2 in the draft Operational Programme II for the period 2014-2020, financed by ESF, will be to focus on preventive measures to ensure that individuals are equipped with the necessary knowledge and information to make better life choices.

At the place of work, emotional intelligence matters just as much as intellectual ability. A high level of emotional intelligence helps individuals to build strong ties, achieve career goals and ultimately succeed at the place of work. Individuals who do have high emotional intelligence are able to recognize their own emotional state and the emotional states of others. If EU institutions are to regain trust and relevance, they need to articulate emotional intelligence skills and aggregate them into popular will. Emotional intelligence is all about individual life realities, better online participation, social policies which are the only solution to European democracy. EU should finally realize how to communicate the EU policies by finding the right target groups and adapt its political communication to them. To get more legitimate inputs, EU should have more focus groups and more online communication, then every perspective could be heard and every point of view would become part of a more intelligent and more democratic policy-making.

Finally, emotional intelligence is also about social policies that matter for the lives of those sidelined in the current European society. If Europe wouldn't just be about the bad market and would also be about the redistribution of wealth and Europe-wide unemployment benefits, then everyone would know why it's good to participate in European democracy.

One thing is certain: The days when the preeminence of IQ as the standard of excellence is over, at least in the business world. Companies worldwide routinely look through the lens of emotional intelligence in managing their business. The question is whether EU will adapt. Surely, it can try to understand the stories and personal perspectives of 500 million EU citizens, each of them with their own dreams, hopes, personal stories, plans and fears.

**Conclusion:**

Europeans should improve what they have, not reject the EU completely because it is flawed. The debate between those for and those against the EU is based on false dichotomies: either the EU deserves uncritical support, or it is hopeless and doomed. Neither is true. The EU has many flaws and needs reform. But to attempt a major institutional overhaul of the EU now, on the tail end of a huge internal crisis and while facing major external challenges, would be unwise. Instead, step-by-step improvements should pave the way to building public support gradually by changing how citizens experience the EU.

The EU's greatest weakness is the constant ebbing of public support, so any remedies need to be emotionally intelligent – they need to be felt positively by ordinary citizens in their daily lives. Individuals need to see the EU adding value by compensating for the shortcomings of their national governments. The greatest value of European integration is that it helps national governments move beyond short-term mind-sets, vested interests, and disjointed policies. For the average voter, that means the EU tackles long-term problems like combating climate change, overcoming special interests through fair application of regulations, and countering security threats.

The utilitarian case for the EU is strong. Now it needs to be put in emotionally intelligent terms that are relevant to the Europeans.

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## The Other Side of the Coin: Can Turkey "Get" West by Oil?

Bestenigar KARA\*, Alexandru GRIBINCEA\*\*, Lilia SHARGU\*\*\*

### Abstract

*This study shortly brings forward the oil situation of the world and Turkey's current role in this picture. Within this frame subjects of article have been searched in depth as follows: the current oil status of the world in terms of proven reserves, production, consumption and trade, insufficient use of renewables as against oil, main reasons changing the balances in global oil market. The topic of article is and has always been a current issue. Oil has always come to the forefront taking into account for example oil crises throughout history, the global developments together with new technologies or growing population together with increasing energy demand alongside of its wide range of use in different sectors from textile to transportation. On this basis the aim of article was to reveal how in fact developed but oil poor regions are relied on oil rich but developing regions and Turkey's importance as a transit country within the context of supply for oil poor regions.*

*Keywords:* Alternatives, Middle East, Oil, Russia, Saudi Arabia, Turkey, US, West.

### 1. Introduction

"A drop of oil is more valuable than a drop of blood", said British artist, writer, non-academic historian, officer, statesman and former Prime Minister of the United Kingdom H.E. Sir Winston Leonard Spencer-Churchill. When examined the world history notably 1970s, 1990s and 2000s' energy crises after his death arising from oil or wars focused on energy, this statement reminds us how Churchill was right and was forward looking in fact.

Against to ongoing development of the world together with continuing improvement of technology, growth trends of energy demand and its consumption are likely to remain. In this context oil also as an energy item has a large share in total energy consumption because it is used widely in numerous sectors notably from textile or manufacturing to transportation with a broad consumption network. Accordingly it's so crucial and vital also in economic sense and when depletion for example comes to the agenda, world can get into a panic as it was before.

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However various methods have been developed through high technologies by economically developed countries to extract oil unconventionally towards storage or trade and obviously to have a substantial power in the world under current "hard" conditions which may also be seen as one of the main reasons of today's low oil prices.

Still there is a visible conventional oil consumption in the world where Turkey comes into play. By being a natural bridge between Europe and Asia or between the West and the East and having a neighbourhood where exist 72% of proven oil reserves of the world Turkey plays a crucial role as a transit country or energy-hub on oil supply from oil rich east to oil poor West.

## 2. The research

***The methodology of research.*** Literature research, historical method, comparison method and statistical method have been used for the study.

***Literature research.*** Literature research has been done as the first stage for subject determination and content creation. Within this frame several articles, news, reports, statistics and web-sites of public authorities related to given article have been read and used through internet access.

***Historical method.*** Historical method has been used only to reveal the changes and developments of Turkey's energy strategies. Within this frame Turkey has been aiming to change the advantages of its geographical location into opportunity instead of undertaking the expenditures of neighbouring regions arising from economic and political instabilities as it was before. Accordingly Turkey has started to built its fundamental axis of energy policies through the aim of "being an energy hub" in the recent period. In this context Turkey has 4 pipelines 2 of which are internationally known: Baku-Tbilisi-Ceyhan (BTC) Pipeline, which is the main component of East-West Energy Corridor known i.e. as the Silk Road of the 21st Century has been operating since 2005. The second one is Kirkuk-Yumurtalik Crude Oil Pipeline (KY) carrying Iraqi oil to Turkey and has been operating since 1977. On the other hand Samsun-Ceyhan Pipeline Project has been in question since 2000s which was planned to be an alternative route for Russian and Kazakhstani oil.

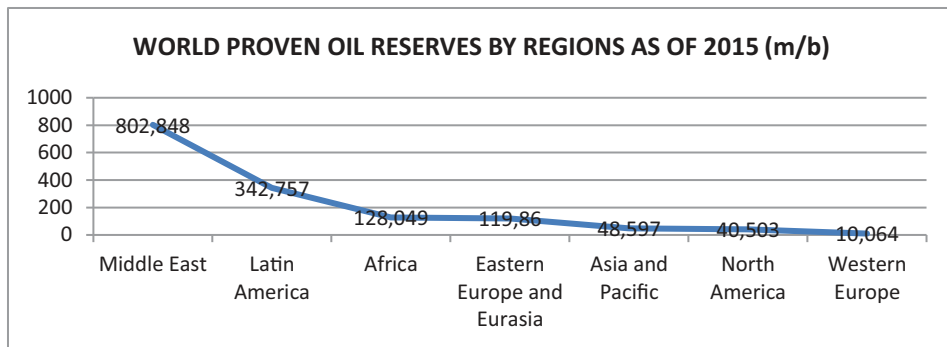
***Comparison method.*** This method has been used to reveal the differences between oil rich and oil poor regions as well as changes in oil prices. Within this frame the largest share of proven oil reserves are held by the Middle East, while the smallest share of it are held by Western Europe however Asia&Pacific and North America are dramatically lacking in oil despite all these three regions have developed technologically and economically. US and China are leading countries in terms of oil production, consumption, refinery, and importation contrary to exportation unlike Russia and Saudi Arabia on a country basis. On the other hand total renewable energy share in global final energy consumption is more than twice in comparison with oil's share in global final energy consumption. With regards to prices brent oil's price is about 48 \$ per barrel currently which was 115 \$ on June of 2014. Besides it's necessary to state as a comparison that internationally known pipelines of Turkey have a combined capacity of 2.7 million barrels per day which is for example more than three times greather than UK's daily production known as one of the oil rich states of Western Europe and almost two times more than Norway's when they operate in full capacity.

***Statistical method.*** Finally statistical method has been used to create figures

from numbers and to account value changes and variables.

**Current oil status.** Considering global developments in parallel with new technological improvements, energy demand and energy consumption of the world states increase day by day. Within this frame oil as one of the main items of energy sources is a very important energy input in terms of current economies. One of the main reasons is its large share in the world's total energy consumption. The most important reason why oil is densely used is its broad consumption network. In other words it is used extensively from electricity production to transportation at the present time.

**Figure 1. Proven oil reserves of the World by 2015**



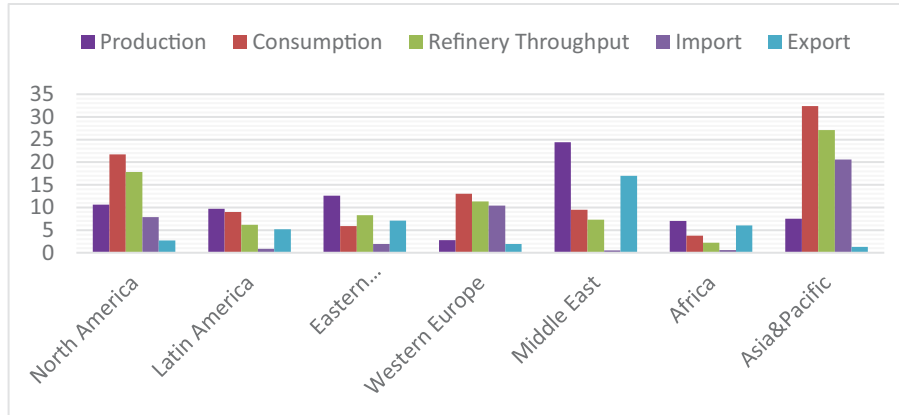
Source: OPEC Annual Statistical Bulletin, 2016.

Oil takes part at fossil sources within the classification of energy resources because its formation takes too many years. Number of the world's proven oil reserves are almost 1.5 trillion barrels by 2015, 54% of which is held by the Middle East while per 3% are held by both North America and Asia-Pacific and 1% is owned by Western Europe.

As to states, Venezuela with 300 BB (Billion barrels) takes place on the top in terms of rich oil sources. Then Saudi Arabia with 266.6 BB, Iran with 158.4 BB, Iraq with 142.5 BB, Kuwait with 101.5 BB, UAE with 978 MMbbls (Million barrels), Russia with 80 MMbbls, Libya with 48.3 MMbbls, Nigeria with 37 MMbbls and US with 36.8 MMbbls follow Venezuela. All these countries except for US are members of Organization of the Petroleum Exporting Countries (OPEC), however Russia has observer status in OPEC and US attends each annual OPEC Summit [8;22].

When Figure 1 is examined, we can see that North America, Asia-Pacific and Western Europe are dramatically lacking in oil, however all these regions are generally considered as developed in terms of economy and technology. Even if their technologies are sufficiently able to drill and refine oil, they have insufficient sources together with their growing demand and consumption showing how they are dependent on other oil rich regions.

**Figure 2. Oil production, consumption, refinery throughput, import and export of the World by 2015 (MMBD- Million barrels per day)**



*Source:* OPEC Annual Statistical Bulletin, 2016; BP Statistical Review of World Energy, 2016.

When Figure 2 is taken into account, it's seen that notably Asia&Pacific and North America together with Western Europe are consuming oil more than they are producing and exporting, even if they have large-scaled refinery capacity for further manufacturing of petroleum products. When we go into detail, impacts of industrially and technologically advanced countries on this status are pretty obvious. On the other hand we shouldn't forget about oil's wide range of use. So distribution of utilization especially in countries having large population shouldn't be overlooked. Within this frame both United States and China come to the forefront. Daily oil consumption of US is 19.3 MMBbbls/d while China's is 11.9 MMBbbls/d [2;9]. Then India, Japan, Saudi Arabia and Russia follow them respectively. On the other hand US and China again come to the forefront in terms of refinery throughput. While US's daily refinery throughput is 16.1 MMBbbls/d, China's is 10.6 MMBbbls/d. Russia is behind them with 5.7 MMBbbls, while India and Japan follow respectively Russia [8; 36]. But numbers are changing as to the production. Saudi Arabia with 10.192.6 MB/d (Thousand barrels) of daily oil production takes place on the top while Russia with 10.111.7 MB/d of daily production is ranked as the second with a small difference. Then US with 9.4 MMBbbls/d, China with 4.2 MMBbbls/d, Iraq with 3.5 MMBbbls/d and Iran with 3.1 MMBbbls/d follow them [8; 28]. With regard to import US is the biggest oil consumer of the World with 7.3 MMBbbls/d while China is the second with 6.7 MMBbbls/d. India with 3.9 MMBbbls/d, Japan with 3.3 MMBbbls/d, South Korea with 2.7 MMBbbls/d and Germany with 1.8 MMBbbls/d follow both those countries [8;61]. Finally in terms of export generally OPEC countries are leading notably Saudi Arabia. In this context Saudi Arabia ranks first with 7.1 MMBbbls/d, Russia takes the second place with 4.8 MMBbbls of oil export per day and Iran ranks 3rd with 3 MMBbbls/d. UAE with 2.4 MMBbbls/d, Nigeria with 2.1 MMBbbls/d and Venezuela with 1.9 MMBbbls/d follow those three countries [8;52]. As is generally understood from numbers, US and China are leading countries in terms of oil production, consumption, refinery, and importation

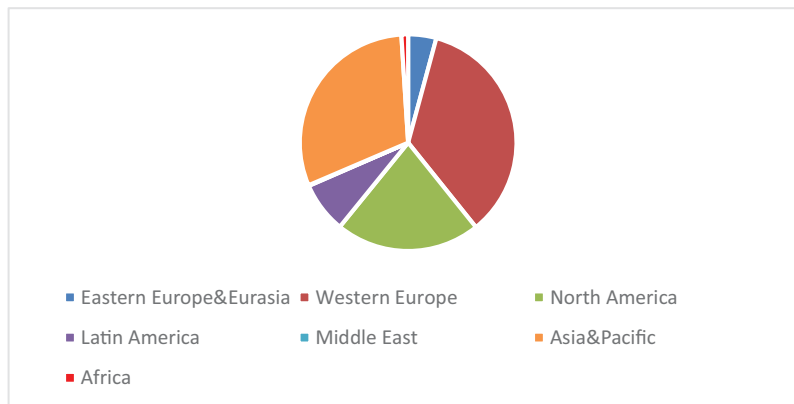
contrary to exportation. That means oil had by them is likely to be kept within their borders so it can be preserved against to a possible threat of oil depletion or it can serve their population and technology and it can be exported as manufactured petroleum products. For example 90% of US's transportation is dependent on oil. Russia and Saudi Arabia contrary to those countries are active in all fields thanks to their endowed sources.

**Oil against alternatives.** Proven oil reserves of the world are almost 1.5 trillion barrels as mentioned above, however oil consumption of the world is 95 MMbbls/d, which is a significant figure. Even if oil depletion was in question in 2000s that triggered Oil Crisis, concerns in this aspect are lower to some extent through developed technologies helping to discover new reserves and new drilling methods and tendency to alternative energy sources.

As is known to all wind, geothermal, solar, biomass and waste were included in the scope of alternative energy sources. Today total renewable power capacity of the world is 785 GW while total renewable energy share in global final energy consumption is 19.2%. However oil's share in global final energy consumption is 39.9% which is more than two times comparing with renewables. This situation shows that oil is still widely used in the world that makes it dependent on this energy item even if it is prone to increase the capacity and use of renewables.

Overall picture of renewable energy consumption by regions as well as by countries is almost same with oil consumption excluding little nuances (See Figure 3). Within this frame Western Europe has the highest share with 35%. Then Asia&Pacific follows it with 30,4% and North America with 21.6% respectively. Despite Middle East has been tending to use of renewables notably solar energy, it has the smallest share in this picture with 0,1% meaning that Middle East is still likely to use its rich oil reserves to provide energy for inhabitants.

**Figure 3. Share of renewables consumption by regions in 2015**



Source: BP Statistical Review of World Energy, 2016.

If it is focused on countries' alternative energy consumption, US with 71.7 Mtoe and China with 62.2 Mtoe take first two places respectively in rating and Germany with

40 Mtoe follows them. Then UK with 17.4 Mtoe, Brazil with 16.3 Mtoe, India with 15.5 Mtoe, Spain with 15.4 Mtoe, Italy with 14.7 Mtoe, Japan with 14.5 Mtoe and France with 7.9 Mtoe accompany those countries [2;38].

So, overall picture of consumption is showing us that notably Western and Asia&Pacific states including US which are economically and technologically developed are leading and benefitting from renewables' advantages and 60% of top ten renewable consuming states are consisting of Western states.

**Table 1. Top 10 oil and renewable consuming countries in 2015**

No.	Oil Consumption Ranking	Renewable Consumption Ranking
1	US	US
2	China	China
3	India	Germany
4	Japan	UK
5	Saudi Arabia	Brazil
6	Russia	India
7	Brazil	Spain
8	South Korea	Italy
9	Germany	Japan
10	Iran	France

*Source:* BP Statistical Review of World Energy, 2016.

New oil technologies threaten global oil market. On the other hand emergence of new extracting and processing techniques through developing technology has become a current issue especially in recent years in relation to oil. Within this frame unconventional oil sources commonly known as shale oil, oil sand and tight oil come into prominence. It has been estimated that current world resources of shale oil are about 4.8 billion. This is almost 4 times more than above stated crude oil reserves while economically recoverable oil shale sources are much lower. In this context about 77% of shale oil reserves are held by US. Then Brazil and Russia respectively follow US. Russia's total shale oil reserves are estimated at 43.41 Bln t (Billion tonnes). Israel with the reserves of 79 BB and Jordan with 28 BB come to the forefront in the Middle East in this sense contrary to their limited proven oil reserves: While 15 million barrels are held by Israel, a million barrels are held by Jordan according to the US. Energy Information Administration (EIA). With regard to tight oil US, Russia and China respectively have the largest resources. Contrary to that Russia together with Kazakhstan have lesser sources while Saudi Arabia, Venezuela and Canada have larger resources of oil sands in the world.

Conventional oil drilling and unconventional oil extracting are different techniques and methods as is known to all. This process in terms of unconventional oil sources requires to further developed technology as well as investment. Today only few countries have been concentrated and specialized on this field notably US, Canada, Brazil China, Germany, Israel, Russia and UK. Thereby even if rest of the world are

wealthy in this context, they aren't technologically and financially able to extract oil through this method.

In this manner countries having and extracting these sources are adding much more oil to their reserves, which also effects oil market. Canada is one of the most visible cases. Canada's oil sands are the 3rd largest known reserves in the world after Saudi Arabia and Venezuela. 97% of Canadian oil reserves underlie the oil sands. In this context Canada's proven crude oil reserves are 4.118 BB as of 2015 which reached up to 172 BB with contribution of new extraction methods of oil sands. This is providing Canada to be ranked as the 3rd after Venezuela and Saudi Arabia in terms of oil richness in the world.

One of the most important balance changes in oil market is obviously oil prices. Within this frame US's major oil exporter status has recently turned into net producer due to new extracting technologies. Its biggest competitor China devaluated in terms of currency and demonstrated us economic slow down from 7.3% to 6.9% of GDP in 2015. And global oversupply led global increase of oil stocking. But one of the most important reasons arising from US's unconventional use is US-Saudi competitiveness. Saudi Arabia has been lowering prices to destroy its competitors. With regards to prices brent oil's price is 51USD for per barrel currently which was 115 USD on June of 2014 of which average is forecasted to be around 52 USD for 2016 [1]. Due to such changes OPEC and Russia have decided to cut oil output (about 1.2 million barrels per day) during the recent OPEC Summit held on November 30, 2016. Accordingly in the face of all those factors, unconventional oil extracting and processing become meaningless in economic sense to a certain extend because of its high costs. That's why returning to conventional oil at this point may be more economic for states which may reincrease demand in parallel with prices at global oil market when their stocks are ending. On the other hand OPEC's cut may lead non-OPEC countries to get bigger share from global oil market by producing and exporting their crude oil sources contrary to OPEC members. US comes to forefront in this context.

***Turkey's irreplaceable role as a hub on oil supply.*** Another serious element can't be overlooked in this context is obviously energy supply which provides energy items such as oil to demanding states. Within this frame oil can be transported via pipelines, highways, seaways, railways and rarely via airways. The way that oil will be exported is determined by proximity and cost.

In this context tankers and pipelines are the most commonly used oil transportation methods. Pipeline is the cheapest and the most efficient way to transport oil after its construction which is also one of the most important development elements of a state. With regards to tankers, 55% of global oil transportation is provided by tankers while more than 50% of tanker traffic is formed by oil transportation.

On one hand, airway transportation isn't preferred so much due to its high cost on the other hand railways to a certain extend are used however they are still limited considering their global routes. Contrary to this road transportation is preferred due to its flexibility however it's not used as much as pipelines and tankers.

Besides all these to provide efficient and sustainable energy supply including oil is depending on stability and security of the routes. Within this frame possible political, economic and social instabilities emerging in Middle East, Eastern Europe and Africa where oil rich countries are located and exporting oil to the rest of the world especially to Americas and to Western Europe can threaten oil supply. Ongoing conflicts and their

impacts are currently one of the most important concern areas of the world.

Another important point at energy supply is geographical location. Being an easily accessible destination point is an advantage. This can contribute a country on being an energy hub that helps a country to come to the forefront and to have a voice at global arena alongside of being economically stronger.

Here Turkey comes into play. Turkey is a unique Eurasian country covering 3% of European and 97% of Asian continents. In terms of energy notably oil it neighbours with oil rich countries especially with Middle East, Asia and Caucasus that are forming 72.7% of the world's proven oil reserves. Accordingly, it naturally creates a bridge between oil exporting and oil demanding countries, which makes Turkey irreplaceable in this context and which notably oil poor Western Europe and US to a certain extent are relied on.

Turkey's energy demand together with its growing economy has been increasing day by day. It has been one of the fastest countries within OECD states in terms of increase in each field of energy demand over the last decade. According to the forecasts Turkey's that tendency will continue in the medium and long term.

As a result of rapidly growing energy demand Turkey's energy importation notably its natural gas and oil imports are increasing. While 25% of total energy demand of Turkey is met by local sources, the rest of it including oil is imported. However 35% of natural gas, 28.5% of coal, 27% of oil, 7% of hydro and 2.5% of other renewables meet Turkey's primary energy demand as of 2014.

Turkey has a significant potential in terms of renewable energy sources which ranks as the 7th in the world with geothermal potential. But when percentage of used renewables are considered, Turkey's ongoing weakness is still can be seen in comparison with other oil poor countries that are using densely renewables.

With regards to energy import Turkey unfortunately has a similar fate with Western Europe notably at natural gas. Turkey imported 99% of natural gas and 48% of which was used at electricity production and more than 50% was supplied by Russia in 2015. But oil is more promising for Turkey however significant amount was imported as well. Within this frame 89% of crude oil was imported while 11% was produced in Turkey of which proven oil reserves are 300 million barrels [11]. Turkey's oil supply is generally provided by middle eastern countries notably 45.6% from Iraq, 22.4% from Iran and 12.4% from Russia which formed top 3 oil importers of Turkey in 2015 [7].

**Table 2. Turkey's major oil and natural gas suppliers**

Ranking	Major Oil Suppliers		Major Natural Gas Suppliers	
	1	Iraq	45.6%	Russia
2	Iran	22.4%	Iran	12.7%
3	Russia	12.4%	Azerbaijan	12.7%
4	Saudi Arabia	9.6%	Algeria	8.1%
5	Columbia	3.5%	Nigeria	2.6%

Source: EMRA (Republic of Turkey, Energy Market Regulatory Authority), 2015.



This recent period when Turkey has been capturing high economic growth rates it has entered into a serious transition period to meet its energy demand. Turkey is aiming to change the advantages of its geographical location into opportunity instead of undertaking the expenditures of neighbouring regions arising from economic and political instabilities as it was before. Within this direction Turkey has started to build its fundamental axis of energy policies through the aim of "being an energy hub". In this context signatures were put to important projects and cooperations with Russia, Azerbaijan, Iran with whom Turkey has ongoing energy trade, and with Iraq, Turkmenistan and Eastern Mediterranean countries which want to transfer their energy sources to foreign markets [4;7].

Growing economies, increasing population as well as developing technology are the facts underlying energy demand growth of the world. According to EIA total energy demand is currently more than 549 quadrillion Btu (British thermal units) which is equivalent to 93.3 BB of crude oil approximately, which is expected to reach up to almost 107 BB in 2020 and 138.5 BB in 2040. Share of oil demand is extremely big on this picture considering the world's oil demand amounted approximately 93 MMBbls per day getting almost a share of 10%.

Against such huge amounts of demand oil transportation comes to the agenda. In this context above mentioned pipelines and tankers come to the forefront worldwide, which is similar for oil as well. Taking Turkey's unique location into account at this situation, its role in the sense of being a transit country on Eurasian axis and being an energy hub on this route increases and becomes serious. Turkey is also aware of this situation and gains favour when examined its operating pipelines and ongoing pipeline projects.

Turkey has 4 different operating pipelines at the present time. Two of them are internationally known. One of them is called as Baku-Tbilisi-Ceyhan (BTC) Pipeline, which is the main component of East-West Energy Corridor known i.e. as the Silk Road of the 21st Century (See Map 1). It's length is 1.768 km of which 249 km is located in Georgia, 443 km is located in Azerbaijani and the longest part with 1.076 km is located in Turkey. This pipeline brings Caspian crude oil from Azerbaijani and Kazakhstan (Kazakhstan's oil is shipped to Baku across the Caspian Sea) to Ceyhan terminal on the south-eastern Mediterranean coast of Turkey via Georgia. In this manner Caspian crude oil is distributed to the Western markets by tankers. BTC is the second longest pipeline of the world with the capacity of 1 MMBD of oil which is almost equivalent to 1.5% of the world's daily supply. BTC has been operating since 2005 when the first oil was pumped [3;2]. 262 MB of oil was carried by 361 tankers alone in 2015 however as of 20 January 2016 approximately 2.3 BB of oil has been delivered to the world markets by 3128 tankers.

Turkey's second operating pipeline is Kirkuk-Yumurtalık Crude Oil Pipeline (KY) which has two different lines. The first line's length is 986 km while the second line's long is 890 km. It starts from Kirkuk and surrounding oilfields and reaches to the Mediterranean Sea to Yumurtalik county in Adana closed to Ceyhan terminal (See Map 1). Approximately 500-600 MB/d of Iraqi oil had been carried through this pipeline since 2014 until 17 February 2016, when it has been suspended within the frame of temporary security measures due to commonly known conflict with PKK. Besides 192.4 MB of oil was carried through this pipeline alone in 2015 [6].

It's necessary to remind that those two internationally known pipelines have a combined capacity of 2.7 million barrels per day which is for example more than three times greater than UK's daily production known as one of the oil rich states of Western Europe and almost two times more than Norway's when they operate in full capacity.

On the other hand there are 2 different operating domestic pipelines. One of them is Ceyhan-Kırıkkale Pipeline which has 448 km of length. It has been operating since 1986 with a capacity of 7.2 MTPA (Million tonne per annum). Almost 30 MB of oil was carried through this pipeline in 2015. Another domestic pipeline is Batman-Dortyol Crude Oil Pipeline. It is the first crude oil pipeline of Turkey and has been operating since 1967. Its capacity is 4.5 MTPA through which 13.1 MB of oil was carried in 2015 [9].

There has been another pipeline project in question in Turkey since 2000s known as Samsun-Ceyhan Pipeline (SCP). It is a crude oil pipeline starting from the Black Sea and reaching to the Mediterranean Sea (See Figure 4). It has been planned to be an alternative route for Russian and Kazakhstani oil to facilitate sea traffic in the Bosphorus and the Dardannels. Its destination point will also be existing Ceyhan terminal. Its length will be 550 kilometres of which capacity will be 1.5 MB/d. Cost of the project will be around 2 billion US\$ [10].

**Figure 4. Routes of Internationally Known BTC, KY and SCP**



Source: European Dialogue, 2006

Turkey's value as a maritime oil route is another issue that is necessary to be touched on. As we stated above Turkey has a unique geopolitical location linking Europe to Asia and has a gate status opening from Asia to Europe together with its straits. Accordingly it comes into prominence again as a crucial oil route that remakes it an energy hub when we combine its straits and oil transportation by tankers alongside of oil pipelines.

As is known to all Turkey has 2 straits: the Bosphorus and Dardanells. Notably Russian and Caspian crude oil are transported via these straits from the Black Sea to the Mediterranean Sea i.e. to the global oil market particularly to the Western markets. According to US government statistics about 2.9 million barrels per day of crude oil and petroleum products were carried by tankers through Turkish straits in 2013. This amount was equal to 51% of the 56.5 million barrels per day of world maritime oil trade while it created 3.2% of the 90.1 million barrels a day of world supplies. Within this frame Turkish straits became as the sixth biggest chokepoint in the world [5].

Besides it's necessary to remind that 80% of Europe's crude oil is supplied by regions such as Russia, Libya, Azerbaijan, Kazakhstan or Nigeria, however Russia has 30% of share alone in this picture. Considering these suppliers and location of Turkey we can understand Turkey's importance more clearly.

In brief, with 300 million barrels of proven crude oil reserves and 89% of oil import Turkey proves that it cannot have a voice as an oil rich country in the eyes of Western countries, however thanks to its geographical location it can be a very crucial energy hub as well as a strategic partner for Western countries. Accordingly, a possible problem within Turkish borders arising from especially national security might affect directly the supply security which could enter into the concern area of Western states. The coup attempt on July 15, 2016 could be counted as a good example to this situation that can remind the world's energy-dependent countries the geopolitical importance of Turkey.

Since then state of emergency has been in effect in Turkey which also has triggered the suspension of negotiations between Turkey and EU on membership accession. But there are various valid reasons that EU is relied on Turkey and Turkey is dependent on EU. Firstly there is an ongoing Customs Union Agreement between Turkey and EU through which bilateral trade reached up to 142 billion US\$ in 2015. Within this frame today EU is the largest trade partner of Turkey, while Turkey is the 5th largest partner of EU. With regards to energy Turkey is a considerable important transit country in at EU's both oil and natural gas imports i.e supplies. Besides as we all know EU is highly dependent on Russia's oil and natural gas and seeking for alternatives such as supply from the Caspian Sea region where Turkey is entering into play as an energy hub. Accordingly we can understand that despite they have "roller coaster" relations they cannot easily break the connections.

### **3. Conclusion**

Despite North America, Western Europe and Asia&Pacific regions are economically and technologically developed, they are densely dependent on export of crude oil from Eastern Europe and Middle East and Africa where 93% of crude oil reserves are held by. Accordingly North America with some countries have started to implement new oil extracting techniques towards its underground resources related to oil which have changed balances at oil market by dropping oil prices and have resulted with OPEC's oil output cut. While stocks are ending together with this cut, prices in long-term could increase. However this cut may lead non-OPEC countries to get bigger share from global oil market by producing and export their crude oil sources contrary to OPEC members.

On the other hand again North America, Asia&Pacific and Western Europe are

densely using alternatives against oil, however Western Europe is at the forefront. 60% of top 10 renewable consuming states were Western European countries in 2015.

When examined oil status on a country base, US and China are leading countries in terms of oil production, consumption, refinery and import contrary to export. That could be a national energy strategy as they may desire to keep oil in their borders so it can be preserved against to a possible oil depletion threat or it can serve their population and technology and can be exported as manufactured petroleum products. Russia and Saudi Arabia contrary to them are active in all fields thanks to their endowed sources.

Considering alternatives' and oil's places in the world we can see a huge difference. Total renewable energy's share in global final energy consumption is 19.2% while oil's is 39.9%. This shows us that alternatives don't have a broad consumption network as much as oil has and the world is still dependent on oil.

As is known to all oil poor countries need supply to meet their oil demand. Proper routes, instability, geography and security come to the forefront. Even if Turkey almost shares the same fate with West by importing 89% of crude oil, it plays a crucial role as a transit country and an energy-hub on oil supply from oil rich east to oil poor West by being a natural bridge between Europe and Asia and having a neighbourhood where exist 72% of the world's proven oil reserves, which also makes it irreplaceable and makes it different and unique among other Western countries. In this context about 2.9 million barrels per day of crude oil and petroleum products were delivered to the global market via Turkey. Accordingly if West manages close and good political, economic and socio-cultural relations with Turkey it will be beneficial for both sides.

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## **Information and Analytical Support of Decision-Making Procedures in Strategic Corporate Reengineering**

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### **Abstract**

*The results of testing of the instrumental method of multi-agent situational analysis to decision-making of socio-economic development of the region are presented in the paper. Instrumental method includes the technique of multi-agent situational analysis, instrumental and methodical complex, as well as guidelines and usage scenarios to assess and predict the results of socio-economic development of the regions. As a result, the groups of similar regions are identified, the main factors affecting their growth are revealed and recommendations of development are made.*

*Keywords:* regional development, multi-agent approach, situational analysis, gross regional product, instrumental method.

Administrative processes are characterized by a large number of emergency situations, which require to make prompt responsible decisions, the outcome of which will shape the future state of an object or system. The problems which must be solved by managers in these conditions, as a rule, are multicriteria and bad formalized. These problems have exceptional and not recurring characteristics and are connected to the consideration of a number of alternatives. Such problems have many new elements for decision-making person (DMP): a selection object, or a situation in which the choice is made, or requirements for the justification of the selection, or the consequences of a wrong choice, etc. These features of the decision-making process requires the creation and using of special automated tools – systems of information and analytical support of decision-making procedures (IA DSS). IA DSS are used for justification of social and economic decisions and implementation of actions aimed to improving the efficiency of economic entities.

The generalization of methods of development of automates systems applied to the problems of creation and development of IA DSS based on the A.N. Morozevich concept of PIR-requirements [1] is made in this work. As a result the approach of the sharing description of agreed requirements of the customer, manufacturer and designer

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(the concept of the three P), based on prototyping, modeling and the phased implementation of components and subsystems IA DSS by tools of modern information technology (MMP-methodology) is developed. Moreover the number of IA DSS and automated workplaces (AWP) which ensured the increase of efficiency and quality of decisions by improving their performance are developed based on the offered concept.

A set of methods and techniques for support of effective strategic management and investment decisions [2-3] was developed and complemented by the automation methods of routine and creative operations of interactively building of models of multi-criteria selection of the best alternative from a given set of alternatives (objects, strategies), measured by a number of criteria (indicators efficiency, quality). The application of these results allowed significantly reduce the time of creating models (to carry out interactive modeling and forecasting), to reduce the requirements of the qualification of any rank's members in the field of information technology and simulation, to allow possibility of direct personal involvement of the first persons of organizations to the procedure, to make the procedure more "transparent" and the results more reasonable and understandable.

The methodology for assessing the efficiency and quality of IA DSS was developed for the first time. This methodology is based on the analysis of the satisfaction's degree of requirements of different target groups of experts. Moreover the guidelines for the implementation of IA DSS to the projects of strategic corporate reengineering (SCR) and regional future development. These recommendations allows to plan and to realize the technical and organizational processes of the implementation of IA DSS to reengineering objectives and to make an informed choice of IA DSS needed for improving of the effectiveness of these projects results.

The mathematical and software support of a number of IA DSS was developed. It is complied with international analogues by the main functional characteristics and superior them by some other parameters (ease of development, used mathematical software and others.). The meta-technology of construction of techniques of the analysis and rating of economic objects was offered. The results of research can be used in science for creating tools and methods of decision-making support based on the ratings of the different objects and subjects of economic activity.

The description of the system for decision-making of the management of regional socio-economic development is presented below.

Management of any socio-economic system assumes activities for achieving its objectives, taking into account available resources (labor, time, information, materials, etc.) and restrictions.

Regional Management is the management of the regional development, providing welfare and improvement of living conditions by improving social and economic relations, innovation development and competitiveness of the regional economy. The same time, the region is a component of the state and by this regard its purpose of management is to reduce the existing regional disparities and ensuring the national economic growth and national competitiveness.

The system of regional governance in the Republic of Belarus includes two management structures: local government and self-government. Given the fact that the proposed methods and approaches can be also used in other countries, hereinafter referred for these organizational management structures the term "regional government" and "regional management" will be used synonymously.

The development of regional government in the Republic of Belarus is characterized by:

- expanding of the powers and responsibilities of local government and self-government;
- increasing of using of information-analytical systems and automated data processing;
- information technology development and implementation of e-government.

The given trends allow to conclude the feasibility of the formation of the concept of regional e-government as a modern approach to regional governance. It characterizes by using a barrier-free inter-departmental and inter-regional contacts; preparation of solutions involving decision-support systems, using a single database; the predominant use of electronic services in the implementation of administrative procedures; transparency of the activities of the regional administration; direct interaction with the people and organizations in the region, the citizens' participation in the processes of regional management, etc. It requires new methods and approaches of regional management. That's why this article presents the results of analysis of the regional socio-economic development of Belarus by multi-agent situational analysis and recommendations of improvement of regional management.

The increase of interest to local regional analyzes can be proof by a lot of research on this topic. L. Servillo and others [4] explores territorial attractiveness for migration and its impact to the socio-economic development. J. Mawson [5] presents the UK experience in local governance. B. Blazevic and A. Jelusic [6] developed a model of regional economic and tourism development. All of the researchers confirm that local regional development as a system consists of complex and multidiscipline problems and needs special methods for evaluation.

One of the mistakes of regional governance in post-soviet countries ([7]) is strategy's development based on allocable budget without taking into account territorial potential. It means that the first step in strategy's development should be analysis of current position and tendencies of economic growth. The level of socio-economic development is the result of previous economic growth and the factor of ensuing development.

The inquiries of the information society's development are still important in Belarus. Many researches are devoted to the assessment of the status of information society not only at the level of the state as a whole, but also at the level of regions. More attention to these issues is given in different researches because the spatial factors have large influence to the economic development of regions. There's not only one interest to carry out the rating and compare evaluation of the level of the information society's development. It's also important to assess its impact to the economy's functioning.

The analysis of the development of information and communication sector in the local administrative-territorial units of Belarus showed the lack of the necessary methodology and statistical data in the public domain and the lack of uniform requirements for the structure of administration sites and segmentation of website users and their tasks. Assessment of quantitative regional executive committees sites demonstrates their low demand by the visitors. This analysis also shows that there is insufficient methodical support of assessment of readiness for regional e-government in our country. The development of information and communication sector in the regions is uneven.



The results of the comparative analysis of the information and instrumental support of decision-making process of regional government shows the need of specialized tools that enable to assess the competitive advantages of the areas, to consider its for strategies' development and to facilitate access to statistical information.

An effective management tool on regional level is a situational analysis. By this way decision-making is a result of detailed analysis of the current situation, identifying of the main factors of its development, studying the dynamics of indicators of the risk prediction. Application of the theory of multi-agent systems to development of decision support tools and the use of intelligent agents increases the validity of decisions through the application of mathematical methods and reduce the emotional component in the evaluation.

The multi-agent situation analysis is a technique of decision-making that consists in the decomposition of analysis's process into a set of interrelated procedures, implemented by a system of successively interacting agents on the basis of constant monitoring based on predefined objectives, given the limitations of the current state, the impact of current internal and external factors, the possible risks and prediction of the situation, and aimed to the identification and evaluation of possible changes in the activity of the object and search for effective scenario of the current situation.

An important component of the situation analysis process in terms of the information society's development is a situational center. The necessity of creation and using of situational centers for the management of regional development is confirmed by the expansion of distant control and holding of regions' videoconferences. But the functioning systems in our country are not situational centers and systematic work on their development is not held at the proper level.

One of the main tasks of a support system of decision-making based on multi-agent situation analysis for the regional management is to support strategic decision-making in the management of socio-economic development of regions, and its functions are:

- 1) structuring of the data of regional socio-economic development;
- 2) lead-up of a strategic development decisions at the high regional level, taking into account the specificity of local areas and counties;
- 3) decision-making at the local level by comparing the situation with other regions in the current and prior periods;
- 4) working-out of scenarios of socio-economic development on the basis of simulation, including the development of propositions for solving existing problems with the assessment of possible implications of the variations of management decisions;
- 5) choice of variant of development based on rating of developed scenarios.

These functions create the possible scenarios of the system, which will be used by managers and specialists of regional governance at various levels, external users (for example, organisations and individuals, investors, non-governmental organizations, the scientific community and others.). The necessity of providing distance access to the system can be solved by transforming of regional governance's sites to the multi-functional informational portals.

Multiagent situational analysis of the socio-economic development of Grodno Region was held on the data of 2008-2014 and of Belarus's data in 2014. The annual

values of 28 indicators characterizing the level of social and economic development were collected for the study from open statistical sources.

Most of countries have a multitier system of regions. And the facilities of evaluating of high regional development are always much bigger than at local level. There're more statistical data and indexes value at high level. Some of important criteria of economic development (like gross regional product) are not calculating in local level.

The Gross Indicators of Regional Development (GIRD) have been calculated according to the author's method. GIRD is analog of the Gross Regional Product and can be calculated for high regions and for local districts (counties). It indicates the level of socio-economic development of the region. The components of this indicator are the value of retail sales and the cost of paid services for the population (as a characteristic of household expenditures), investment in fixed assets, the value of the regional budget (estimated at the level of public expenditure in the region) and the sum of net exports of goods and services. The results of these calculations are given in the table 1.

**Table1. The results of calculation of GIRD for Grodno region, 2008-2014**

County	GIRD value, bln rub						
	2008	2009	2010	2011	2012	2013	2014
Grodno city	4438,75	4669,83	5045,03	10751,95	19951,16	24699,90	27670,59
Berestovitsa	258,89	215,63	237,80	445,57	737,60	901,72	1060,75
Volkovysk	856,52	851,91	972,16	2437,89	3470,86	4273,62	4686,14
Voronovo	290,35	265,67	292,18	531,60	996,97	1222,84	1258,79
Grodno	780,67	786,12	857,69	1162,53	2419,18	2979,12	3180,93
Dyatlovo	295,69	276,01	295,35	464,43	936,47	1250,55	1407,01
Zelva	172,02	165,06	179,71	330,44	642,70	665,93	763,83
Ivje	253,46	236,04	256,96	414,87	802,65	1136,40	1961,86
Korelichi	253,75	267,76	282,08	348,17	684,89	812,91	1057,84
Lida	1310,80	1389,18	1797,59	3496,84	7517,03	9016,70	9579,11
Mosty	381,23	358,96	393,17	716,56	1383,98	2283,10	2126,36
Novogrudok	536,25	492,27	564,45	1008,76	1746,54	2352,37	2691,39
Ostrovets	258,91	360,24	417,27	710,03	2326,81	3210,12	2968,79
Oshmiany	209,58	250,69	547,58	821,80	1383,27	1765,16	2334,46
Svisloch	182,25	202,58	194,09	355,94	639,89	683,62	1020,65
Slonim	732,44	705,44	831,88	1452,98	2735,70	3339,95	3697,87
Smorgon	628,50	530,98	601,63	1045,95	3040,82	3440,08	3632,34
Schuchin	456,13	490,80	515,70	797,43	1900,52	2244,41	2070,83

*Source:* Own calculations

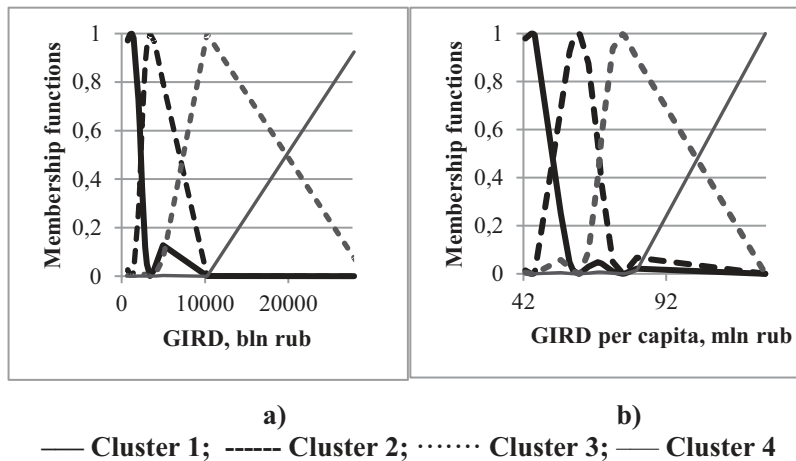
The GIRD value of Grodno region is more than the sum of counties' GIRD by the value of common region expenses (culture, education and so on). Undistributed between counties part of the GIRD is 10 to 12%.

Most of regions make a minor contribution to the creation of GIRD. The greatest contribution is made by city Grodno (34.37%), Lida District (11.61%) and Volkovysk, Grodno, Slonim and Smorgon districts (average part is 5.13%). This result is predictable as these areas are the most developed industrial centers of the region.

The fuzzy clusters were used for selecting groups of regions that are similar in socio-economic development's level. This approach allows building the rating, but also seeing the potential of the region because a momentary transition from one cluster to another is not possible.

The Membership functions obtained by the results of one-dimensional fuzzy clustering based on GIRD and GIRD per capita are presented below. The whole set of counties could be divided into 4 fuzzy cluster. Grodno city stands out in a separate cluster because it has an ultra-high capacity and level of development by gross indicator. All other counties are divided into clusters of high, medium and low level.

**Figure 1. Membership functions of Grodno region, 2014**



Most of cases belong to the clusters with low and medium level of development. And more than half of all cases entire related to the cluster of low level of development. The mathematical representation of the membership functions (for GIRD) is follows:

$$F_1(x) = \begin{cases} 1, x \in (0; 360) \\ -0,0031x + 2,117, x \in (360; 680) \\ 0, x \in (680; \infty) \end{cases} \quad F_3(x) = \begin{cases} 0, x \in (0; 887) \\ 0,0013x - 1,1531, x \in (887; 1650) \\ -0,00034x + 1,5612, x \in (1650; 4590) \\ 0, x \in (4590; \infty) \end{cases}$$

$$F_2(x) = \begin{cases} 0, x \in (0; 360) \\ 0,0028x - 1,002, x \in (360; 715) \\ 1, x \in (715; 840) \\ -0,0014x + 2,177, x \in (840; 1600) \\ 0, x \in (1600; \infty) \end{cases} \quad \dots \quad F_4(x) = \begin{cases} 0, x \in (0; 2300) \\ 0,00042x - 0,95231, x \in (2300; 4650) \\ 1, x \in (4650; \infty) \end{cases}$$

It's possible to calculate the value of membership functions using these formula in the future based on predict GIRD (including forecasting different scenarios), adjusted on price growth rate.

Assessment and analysis of the level of socio-economic development of all

counties of Belarus in 2014 revealed that the cluster of the highest development in each region (except Minsk) is represented by one object - the regional center.

It was found that the main factor which enables the county moves from one cluster to another (of higher level of development) is investments. In this regard, the assessment of the investment climate of counties was held by technique [8]. The components of investment climate are investment potential, investment risk and investment activity.

The ratio of the investment potential and the amount of investment shows that high developed counties used its potential almost completely. Weaknesses counties have low investment activity. Investment risks of medium and low levels' counties are significant.

The analysis of the relationship between the rates of investments grows and the values of investment allowed to determine the strategic position of regions on the investment market. It's possible to divide all regions into 4 groups by strategic position. First group includes the most successful and perspective counties which get large share of investments and have high rates of investment's growth. In Belarus this group is empty. Second group characterizes by large amounts of investments but low rates of its growth. This group includes most of the cities of regional subordination which traditionally attract investors. Third group includes counties which have the sharp jump in investment. Only Gorodok and Glubokoe counties of Vitebsk region showed high rates of investment growth. But these investment's jumps were not associated with the execution of major investment projects, but with low values of investments in the previous period.

Most of counties do not implement an active investment policy and do not carry out breakthrough projects, contributing to significant economic growth.

The correlation and factor analysis led to the conclusion that the main factors of economic development of counties are the number of employed in the economy and the value of investments in real capital.

These factors are the basis of modeling of economic indicators on production functions. As a result of the simulation of regional development of Grodno region the production functions presented in the formulas were received:

$$GIRD_{2008} = 12,38 \cdot L^{0,7445} \cdot K^{0,2814}$$

$$GIRD_{2009} = 9,3 \cdot L^{0,6996} \cdot K^{0,3663}$$

$$GIRD_{2010} = 12,45 \cdot L^{0,6867} \cdot K^{0,3543}$$

$$GIRD_{2011} = 19,14 \cdot L^{0,846} \cdot K^{0,2504}$$

$$GIRD_{2012} = 17,49 \cdot L^{0,7602} \cdot K^{0,3806}$$

$$GIRD_{2013} = 17,27 \cdot L^{0,7811} \cdot K^{0,3844}$$

$$GIRD_{2014} = 52,05 \cdot L^{0,8248} \cdot K^{0,2222}$$

The prediction and retrospective analysis of regional development can be held according to the simulation results.

The increase of the value of free factor from 2009 shows the improvement of exist and introduction of new technologies into production.

The coefficients of elasticity  $\alpha$  (degree under L) and  $\beta$  (degree at K) show that the

payment for labor greatly exceeds the payments for investments in fixed assets. Thus, the development of the Belarusian economy remains largely labor-intensive.

The role of capital and investments increased in long-term prediction. It can be explained by the effect of delay of investments influence on real capital.

Investments lead to economic growth in short and long terms. But as the value of investments in most cases is determined by the population size, the significant impulses to the economic development do not occur.

As a result of the analysis of the system of regional government in the Republic of Belarus, information support of decision-making at the level of local counties, some problems of regional management were identified. The problem is insufficiently high motivation to increase competitiveness; weak influence of non-state and public organizations to improvement of the procedures of collection, analysis and processing of statistical information; insufficiently wide use of decision support systems' tools and others.

Solving of the identified problems will enhance the independence of the regions, the expansion of responsibility areas of leadership and extension group of people affecting to the preparation and accepting of management decisions.

The following set of measures may be offered for solving the problems:

- 1) the specialized tools aimed to the preparation and support of management decision-making should be introduced into practice of regional government;
- 2) the mechanism of interaction of third-party users of information (trade unions, business, academic community, civil society organizations and others) with statistical agencies and regional government for additional information, suggestions, presenting the results of evaluation and analysis, etc. should be developed;
- 3) the mechanism of operational cooperation of businesses and individuals, associations and alliances with regional governments aimed to the emerging challenges (problems) of the regional socio-economic development should be determined.

The implementation of the proposed activities do not require significant funding and allows to improve the quality of governance at the local level.

## Conclusion

The instrumental method of multi-agent situational analysis in decision-making processes of regional development, including the theoretical and methodological positions, instrumental and methodical system and guidelines for its use for the evaluation and prediction of the results of socio-economic development of the administrative counties was developed.

The technique of assessment of impact of county into result of socio-economic development of the high region was defined.

The analysis of the development and investment position of counties of the Grodno region and of the Republic of Belarus was made.

Most of counties of Grodno region bring a minor contribution (less than 4%) into result of socio-economic development of the region, the contribution of city Grodno is more than 30% of the total GIRD.

The functioning of the economy of Grodno region remains predominantly labor-

intensive and the result of socio-economic development is determined mainly by demographic factors.

The fuzzy clusters characterized by similar level of socio-economic development of local counties were made, the dynamics of objects in clusters and analysis of investment activity showed the impact on the development of the regional economy.

Theoretical and practical results are implemented in 14 enterprises and organizations of various forms of ownership, including foreign and multinational organizations. Their implementation has allowed to increase the effectiveness of management decisions, which ultimately led to the improvement of the financial condition of the organization, increasing of the profitability of their activities, and in some cases allowed to find out a way of the crisis situation.

The results are original, correspond to the current level of science's development in given subject area, implemented into practice. They are widely used in the educational process and can be considered as evidence of the formation of a new scientific field. The complex of results can be considered as theoretical generalization and decision a major scientific problem of creating modeling methodology and design agency of IADSS.

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## Multinational Corporation as a Regional Economic Security Network

Aliona DANILIUC\*

### Abstract

*This paper is about multinational enterprises and regional security economic, summarizes and synthesizes different strands of literature, to present conclusions on the potential role of multinational enterprises in regional economic security in the EU, Ukraine, Moldova. The circumstances under which 'developmental' MNE subsidiaries may emerge in host regions are reviewed and possible routes to cluster formation and the generation of dynamic comparative advantage are explored. Policy issues are discussed, emphasizing the importance of investment in infrastructure, education and other public goods.*

*Keywords:* transnational corporations, expansion, innovation, economic impact, increase economic benefits.

With the increasing internationalization of the production, scientific-technical and investment level, this represents a hallmark of the current stage of globalization of the world economy. These processes accelerate international exchange of high technologies due to the expansion of cooperation and investment ties in the field of research and development (R&D) and focus on the production of high-tech products.

Driving forces for improving science-intensive industries act the transnational corporations. Further isolation of Ukraine's economy from participation in Transnationalization process leads to significant losses. To assess the real commitment of the Ukrainian economy inclusion in globalization processes must be taken into account the ability and the entire national economic system to withstand external threats from transnational corporations. Uncontrolled activities of TNCs can create conditions for transition economies to the loss of economic sovereignty, as the financial and technological capabilities of individual TNCs exceed the capacity of some developing countries.

A wide range of threats in the field of high-tech sectors of the economy transnationalization determine the relevance of thorough research and development of methodological approaches regarding prejudice and neutralize the negative consequences of TNCs on the level of development of high-tech sector of the economy, the formation of an optimal system of state regulation of their behavior, considering the economic and innovative potential of the Ukrainian economy.

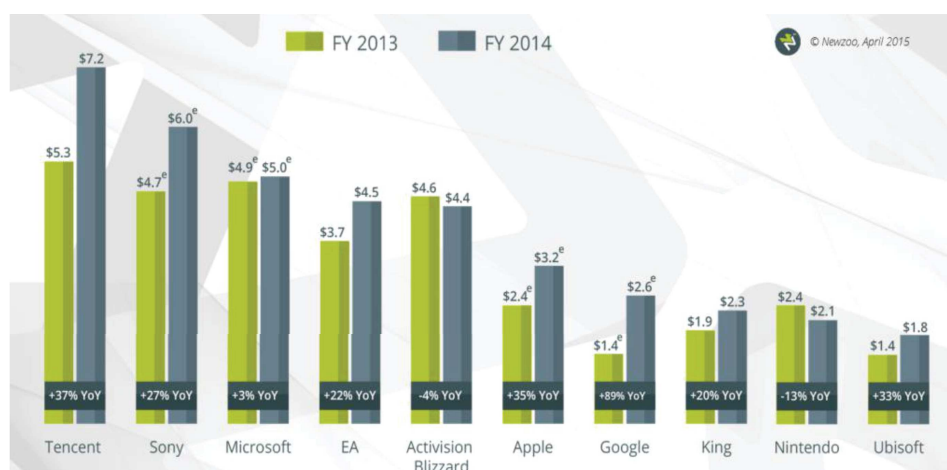
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Study of the processes of trans-nationalization of the economy and the impact of these processes on the economic development of countries in recent years has received increasing attention. Such foreign scientists as K. Bartlett, R. Vernon, H. Perlmutter, M. Porter, F. Ruth; Russian scientists Belorusev A., I. Gerchikova, A. Movsesian, I. Brewers, S. Pashin, Tsvetkov, A. Grishchenko, V. Macedonia, V. Novitsky, Y. Pakhomov et al. reflected in their fundamental works this issues. [4].

The purpose of this article is to assess the impact of TNCs on the level of development of high-tech sector of the Ukrainian economy. It is well known that in today's world economic system the innovations provide a much higher rate of return, than simply attracting additional resources. It is estimated that the rate of profit of 17 most successful innovations in the United States in the early 2000s averaged more than 50%; at the same time, the average rate of profit on all investments in American business over the past 30 years is only 16% [1; 2].

**Figure 1. Public Companies top by Game Revenues**



Source: statistics [5]

Therefore, it is an innovative activity of the country that largely determines its level of competitiveness in the world economy. At the beginning of the 1990s the proportion of funds spent on R&D of the largest 400 TNCs accounted about 23% of the world's deductions and by 2004 it reached 30-32%. The share of TNCs in world production of innovation is much higher than their share in the financing of research and it estimates around 40-50% of the worldwide [5].

The definition of threats to the economic security of the state in the context of the activities of TNCs reveals the following negative consequences for the economic development of Ukraine's economy [3]:

Monopolization of certain areas of the Ukrainian economy, as evidenced by: the excessive presence of foreign TNCs in the oil and gas sector of Ukraine (2 Russian companies - TNC-BP and Lukoil controls more than 85% of the Ukrainian oil refining, as well as the lion's share of the wholesale and retail markets of petroleum products), the



monopoly position of TNC in nonferrous metallurgy (TNCs "Russian Aluminum" and "Sual-holding" control 2 powerful steel mills of "Nikolayev Alumina Plant" and JSC "Zaporozhye aluminum plant"); conquest of foreign TNCs Ukrainian market of communication and telecommunication services (AFK "System", "Alfa Group" and "Telenor" have divided between them the market of mobile communications);

Predominant direction of TNC investment in production with outdated technological order and low-technology field of economics;

Significant "flood" of profits of foreign affiliates of TNCs to finance domestic investment process (the proportion of repatriated profits of TNCs in overall profits from PII in 2012 was about 98%, foreign investors reinvested only 3,890,000 US dollars);

Failure to comply with the terms of contracts of purchase and sale of shares by foreign TNCs investment obligations (unfulfilled obligations of Canadian "Shipping Technology Limited" with regarding to payments to the Pension Fund, repayment of loans; ignoring TNC "Mittal Steel" requirements of the environmental standards in the company of "Krivorozhstal" and etc.);

Enthusiasm for the most advanced and promising segments of the country's industrial production, its research structures to intercept priority and transfer of the know-how obtained abroad;

Investing Ukrainian TNC funds in low-technology sector, which does not contribute to the innovative development of Ukraine (domestic corporations do not seek to gain a competitive advantage in the high-tech sector, competitiveness is based mainly on raw material orientation and relatively cheap production factors, and transnational activity is limited to the purchase of foreign low-technology assets and minimum costs for the modernization of controlled enterprises).

International production continued to expand in 2013, rising by 9 per cent in sales, 8 per cent in assets, 6 per cent in value added, 5 per cent in employment, and 3 per cent in exports (table 2). TNCs from developing and transition economies expanded their overseas operations faster than their developed country counterparts, but at roughly the same rate of their domestic operations, thus maintaining – overall – a stable internationalization index. Cash holdings by the top 5,000 TNCs remained high in 2013, accounting for more than 11 per cent of their total assets. Cash holdings (including short-term investments) by developed-country TNCs were estimated at \$3.5 trillion, while TNCs from developing and transition economies held \$1.0 trillion. Developing-country TNCs have held their cash-to-assets ratios relatively constant over the last five years, at about 12 per cent. In contrast, the cash-to-assets ratios of developed-country TNCs increased in recent years, from an average of 9 per cent before the financial crisis to more than 11 per cent in 2013. This increase implies that, at the end of 2013, developed-country TNCs held \$670 billion more cash than they would have before – a significant brake on investment (Table 1).

**Table 1. Selected indicators of FDI and international production, 2015 and selected years, value at current prices (\$bn)**

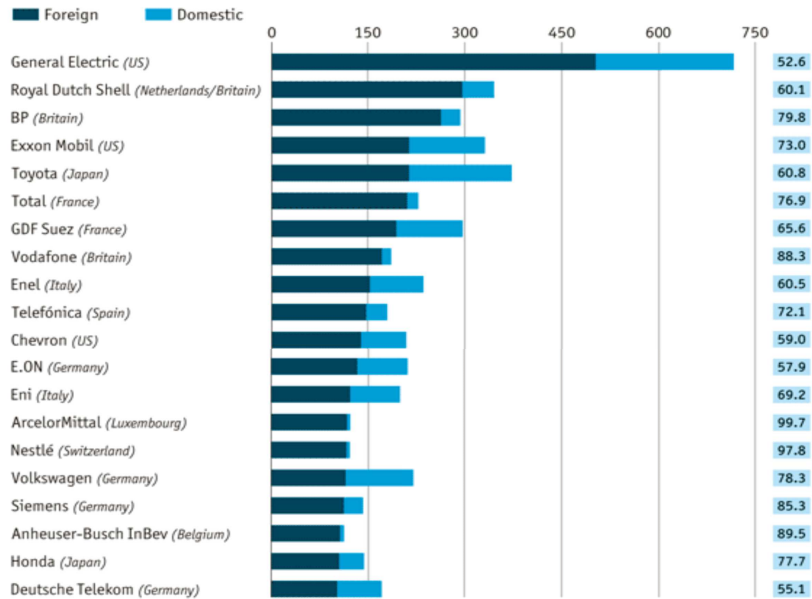
<i>Item</i>	<i>1990</i>	<i>2005-2007 pre-crisis average</i>	<i>2011</i>	<i>2013</i>	<i>2015</i>
FDI inflows	208	1493	1700	1330	1452
FDI outflows	241	1532	1712	1347	1411
FDI inward stock	2078	14790	21117	23304	25464
Income on inward FDI	2088	15884	21913	23916	26313
Income on outward FDI	79	1072	1603	1581	1748
Cross-border M&As	111	780	556	332	349
Sales of foreign affiliates	4723	21469	28516	31532	34508
Value added (product) of foreign affiliates	881	4878	6262	7089	7492
Total assets of foreign affiliates	3893	42179	83754	89568	96625
Exports of foreign affiliates	1498	5012	7463	7532	7721
Employment by foreign affiliates (thousands)	20625	53306	63416	67155	70726

*Source:* statistics [5]

Sovereign wealth funds (SWFs) continue to expand in terms of assets, geographical spread and target industries. Assets under management of SWFs approach \$6.4 trillion and are invested worldwide, including in sub-Saharan African countries. Oil-producing countries in sub-Saharan Africa have themselves recently created SWFs to manage oil proceeds. Compared to the size of their assets, the level of FDI by SWFs is still small, corresponding to less than 2 per cent of assets under management, and limited to a few major SWFs. In 2013, SWF FDI flows were worth \$6.7 billion with cumulative stock reaching \$130 billion.

The number of State-owned TNCs (SO-TNCs) is relatively small, but the number of their foreign affiliates and the scale of their foreign assets are significant. According to UNCTAD's estimates, there are at least 550 SO-TNCs – from both developed and developing countries – with more than 15,000 foreign affiliates and estimated foreign assets of over \$2 trillion. Some are among the largest TNCs in the world. FDI by State-owned TNCs is estimated to have reached more than \$160 billion in 2013, a slight increase after four consecutive years of decline. At that level, although their number constitutes less than 1 per cent of the universe of TNCs, they account for over 11 per cent of global FDI flows.

**Figure 2. Biggest Transnational Companies, 2015, (\$bn, foreign sales as a % of total)**



Source: statistics [5]

## Conclusions

Thus, the host country has a different set of effective tools for monitoring the activities of TNCs in the economy. In the presence of well thought-out program of cooperation with transnational corporations, it is possible to minimize the negative impact of their activities and maximize the benefits that bring additional financial flows for the state and the associated qualitative changes in the national industry. The key idea of improving the competitiveness of Ukraine's economy is in the transition to an innovative type of economic development through the formation of a post-industrial economy through the development of the economy. This approach involves concentrating efforts on developing and implementing a radically new products and technologies, which are no analogues in the world.

International investment rule-making in the 21st century is a dynamic process that has resulted in an increasingly complex IIA universe. An equally dynamic process of dispute settlement, with a growing number of cases, and sometimes conflicting or unanticipated arbitral decisions, adds an additional layer of complexity. As a result, the IIA universe is under pressure from capacity and content challenges.

Among the most pressing challenges for IIA negotiators are to strengthen the development dimension of the international investment policy regime; to ensure sufficient policy space for host countries by balancing public and private interests; to address deficiencies in the ISDS system; and to resolve issues stemming from the increasing complexity of the international investment policy regime, all of which with a

view to achieving sustainable development objectives.

There are significant benefits associated with multilateral consensus-building on investment policies. UNCTAD advocates an inclusive, transparent and structured debate on key issues, to which the IPFSD and the Investment-policy-hub can provide a foundation. Through proper staging and sequencing, multilateral consensus-building can move from loose to closer forms of international cooperation, yielding practical outcomes along the way

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## The impact of M&As on the Romanian Banking System – an Event Study Approach

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### Abstract

*The study aims to identify the relationship between the merger announcement, the stock prices and the market efficiency. Given the limited data, the analysis has been applied to only one financial institution which merged recently, Banca Transilvania. The results have shown that in the window period, abnormal returns have been identified as the news of the mergers was linked to the press. It can be concluded that the market reaction was positive not till after the official announcement was made. Overall, the acquisitions can be considered as a value added determinant, creating wealth.*

*Keywords:* Bank mergers, event study analysis, market efficiency, stock prices

### 1. Introduction

Under the impact of globalization, financial deregulation and technological progress, the banking system has suffered significant transformation. In order to increase their market share, the banks have been in a continuing process of consolidation and privatization. In the last years it can be seen a merger and an acquisition trend. More and more financial institutions are willingly, or not in a process of restructuration. There are many reasons why the managers are taking into consideration the possibility of a merger: economies of scale, financial stability, maximization of shareholders' winnings, products more effective and differenced, higher market share, minimizing the risk, etc.

Over the years, the value involved in the mergers and acquisitions process has risen significantly. The results these restructuring operations have on the national economy are still unclear. We have to consider many factors like the structure of the banking system and its functionality, the country's development, the economic environment and last but not least the financial stability at micro and macro level. The study will analyse the influence of a merger announcement to the stock prices fluctuations of the bidder bank. In this way, we will determine the market efficiency using an event study metrics approach. The analyses will be applied to the listed banks which have merged with another financial institution in the last years. Taking into consideration that a small percentage of the existing banks are listed, the study will focus on the merger between Banca Transilvania and Volksbank.

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Almost 90% of the banking segment is owned by foreign capital, the largest financial groups' holdings being registered in Austria, France and Greece. Given the fact that last year Banca Transilvania returned in the category of the banks with foreign shareholders, the Romanian share capital banks are representing only 10% of the system. Regarding the Romanian M&A banking segment, it's still an on-going process. In the last few years there have been some movements, the banking segment becoming more effective, improving the systems functionality and stability, the products and the services. However, the analysts are not so optimistic in respect of the M&A activity, at least in the next three years, the banks focusing more on cost reduction and profit maximization.

## 2. Literature review

Over the last decade, the M&A segment have received a great deal of attention. Given the fact that the number and the volume of the transactions involved in these kinds of operations have grown significantly, many authors have focused their studies on this area. Even if the majority of the articles are analysing the UK and USA mergers, lately more and more researchers are trying to cover the European countries. Regarding the Romania literature the studies are limited, the majority of them focusing on the structure or latest trends of the M&A market. This is one of the main reasons why this study is needed, so we can create an overview of the banking M&A segment functionality and efficiency.

Our study will determine the impact of merger announcement on the stock prices and the profitability of the new created entity. The majority of the papers are using two methods: the stock market and the accounting approach. We will focus on the first one, trying to see whether will result a financial gain or loss following the merger. If the stock market has a high level of efficiency, a merger announcement or any other important event will reflect some abnormal returns for the companies involved. (Dickerson et. al, 1997) Basically, the impact of an event will determine some market reactions which can be measured by the stock returns in the window estimation period. One of the oldest articles in this field uses an event study approach to see the overall performance of the biggest 19 mega mergers, the findings indicating negative abnormal returns for the bidder banks and positive abnormal returns for the target banks. (Siems, 1996) A possible explanation could be the management involvement in order to increase its own winnings rather than shareholders'. If the USA studies concluded that no market value is created after a merger or acquisition, in 2000 Cybo-Ottone and Murgia have discovered the contrary. Using an event study metrics on 54 mergers from thirteen European countries, they showed that there is a significant positive increase in the stock market value, especially in the event window.

When it comes to forced M&A, the findings shows that the economic value is destroyed, the bidder banks gaining at the expense of the acquired ones. Chong (2006) concludes that the total value resulting after a forced merger or acquisition is strongly negative.

The latest researches that use the event study methodology have proved that on the acquisition day the banks have presented cumulative abnormal returns; in some cases the stock prices of the acquiring banks have grown but on long term, the performance hasn't improve significantly. (Dilshad, 2013) There are researches where

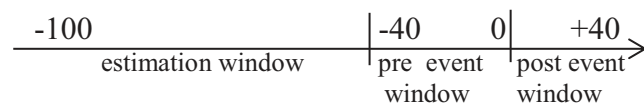
the acquisition disclosure had a mixed impact on the returns, for some banks the returns being significant negative, for other banks positive or none. (Kumar, 2011) For all the studies we have to consider that there may be other factors which can influence the stock prices and the success of a merger like the economic environment, the financial stability of the involved banks, the development of the economy, the characteristics of the market, etc.

### 3. Data, sample and method of analysis

The event study approach is considered a very common and widely used method to investigate the effects of an event. It is well known that unexpected events can change the stock prices trend. However, it is difficult to anticipate the timing and the magnitude of these changes.

The event study approach has been used by many researchers based on its minimum data required and its easiness. Still, the method has its shortcomings: if the event day is not identified correctly, the authors could be analysing the wrong pattern of abnormal returns; the panel data could be influenced by other events which occurred in the same period of time; the values of the normal returns in the absence of the event are difficult to determine. Even so, if in the past years this kind of analysis was used on stock prices lately, the researchers have extended its applicability on the stock trading volume or return volatility.

In order to see whether a merger announcement has influenced the stock prices of the bidder bank, some steps need to be followed. First of all, we have to establish the event – in our case, the acquisition announcement, and the period of time in question. This step is quite difficult because it is hard to determine when the information has been leaked to the press. Various published reports, interviews and press releases have been used so the date of the announcement could be precise. The pre event window includes 40 days before, the post event window 40 days after the announcement date and the estimation window 100 days.



For the purpose of the study, the announcement day is day 0, when the acquisition is made public and the information reaches the market. If this particular day is not established accordingly, the abnormal returns can be observed before or after it. We've chosen the announcement date and not the effective merger date as day 0 because in the conditions of an efficient market, the stock prices are very sensitive at any kind of information, especially an important event like the merger of the bank. The determination of the event window is a very important step, given the fact that the abnormal returns are measured for that period. If the event window is too short, we might not ascertain the announcements effects. On the other hand, if the event window is too long the findings might be diluted. In our study we kept the date of the merger in the event window as well, just to be sure we will observe any spikes in the stock prices or the abnormal returns. Taking all these factors into consideration, the event window has been established to 81 days.

As the estimation window is used to determine the parameters of the market model, it has been set to 100 days. In Table 1 it can be seen the date of announcement, the date of the actual merger and the type of the acquisition. The merger was not forced or facilitated, being driven by the market.

In theory, the merger announcement should influence both of the acquirer and the target bank. The reaction can be positive or negative, depending the management and shareholders behaviour. In our study, we analysed the reaction of the bidder bank, as only this is listed on the Bucharest Stock Exchange. For a better understanding of the context it should be noted that the Romanian banking system is a well-capitalized one, with a good level of solvency and liquidity, stable and effective. There are 40 credit institutions of which only three are listed. From these three, one has merged recently and another one had some attempts but neither finalised though.

**Table 1. The selected mergers in the sample**

Bidder bank	Target bank	Date of the announcement (day 0)	Date of the merger	Type of merger
Banca Transilvania	Volksbank	16.10.2014	10.12.2014	Market driven
Banca Comerciala Carpatica	Nextebank	07.05.2015	18.06.2015	Market driven

Source: own computations

#### ***The merger of Banca Transilvania with Volksbank***

Banca Transilvania was founded in 1994, becoming a very powerful and appreciated financial institution, being the third after their assets size with more than 55 million euro profits. At the beginning of October 2014, rumours appeared, according to which the institution was ready to expand and grow by making some mergers proposals. A few days later, Horia Ciorcila, the president of the BT Board, makes the official statement of the acquisition of the Volksbank. There are three main reasons why they've chosen this particular bank: is a great opportunity for them to raise and consolidate, the acquired bank has over 180.000 clients and a large portfolio of retail loans and last but not least the business model is similar. After many financial consultants and analysts, this was a very bold decision, given the fact that Volksbank had 2 billion euro of loans in Swiss francs. This was the biggest merger from Romania as the banks were on the third and ninth places in top ten financial institutions. It is expected that the full integration of Volksbank will be completed in March 2016. After the merger, Banca Transilvania is on the second place after Banca Comerciala Romana with a market share of 13%.

#### **The merger of Banca Comerciala Carpatica with Nextebank**

Banca Carpatica is a financial institution with a majority Romanian share capital, founded in 1999. The bank is known for its economic and funding problems,



The National Bank giving them significant financial support in the last years. The bank had two attempts to merge with Nextebank. The first one was rejected in December 2014 due to some law issues of the main shareholder. The second one was scheduled for June 2015, the binding offer being five shares of Banca Comerciala Carpatica for four shares of Nextebank. The banks' assets are very close, 223.6 billion ron BCC and 229.5 billion ron Nextebank. Unfortunately, the shareholders of BCC have rejected the proposal, accepting instead a capital reduction of 65%, the equivalent of 204 million ron. Moreover, there is another merger proposal from an American investment fund, J.C. Flowers. As it can be seen, Banca Comerciala Carpatica is trying very hard to solve their financial problems, without being necessary a merger.

Given the fact that the merger was not finalised on 18.06.2015 like it was scheduled, the banks were rejected from our sample data. However, on the 16th of July, the shareholders have recommenced the negotiations regarding a possible merger but no conclusion has been reached so far.

The daily prices have been collected from the Bucharest Stock Exchange website. Besides the banks' closing stock prices, we took into consideration the daily returns of the BET index. This is the first index that Bucharest Stock Exchange has developed which tracks the first ten most traded companies. In this way, the analysis will take the macroeconomic changes into account as well. The Romanian markets are not 100% efficient so it's important to have a benchmark. Moreover, in the index composition can be found the stock prices of Banca Transilvania as well.

After the daily data has been collected, the third step in the event study analysis is to estimate the parameters based on the estimation window and to measure the abnormal returns based on the event window. In order to measure the abnormal returns, for each stock price  $i$ , the market model is as follows:

$$AR_{it} = R_{it} - \hat{\alpha}_i - \hat{\beta}_i R_{mt} \quad (1.1)$$

$AR_{it} \rightarrow$  is the abnormal returns for the stock price  $i$ , at time  $t$   
 $R_{it} \rightarrow$  is the actual returns of the stock price  $i$ , at time  $t$   
 $\hat{\alpha}_i \rightarrow$  is the ordinary least square of the intercept  
 $\hat{\beta}_i \rightarrow$  is the ordinary least square of the slope of the coefficient  
 $R_{mt} \rightarrow$  is the market return at time  $t$

For the calculation of the daily returns it has been used the following formula:

$$R_{t+1} = \frac{P_{t+1} - P_t}{P_t} \quad (1.2)$$

$R_{t+1} \rightarrow$  is the daily returns  
 $P_t \rightarrow$  is the closing price of the day before  
 $P_{t+1} \rightarrow$  is the closing price of the current day

The daily returns have been calculated for Banca Transilvania and Bet index as well. After the daily and the abnormal returns have been calculated, the value of the cumulative abnormal returns needs to be established. This has been calculated by adding the previous abnormal returns each day.

$$CAR_t = \sum_{\tau=1}^t AR_{\tau} \quad (1.3)$$

$CAR_t \rightarrow$  is the cumulative abnormal returns

$AR_t \rightarrow$  is the abnormal return

In the end, we realized a t-Test in order to see whether the abnormal returns values are different from zero. In this respect we issued two hypotheses:

$H_0$  : The merger announcement had no implications over the stock prices. The merger did not influence the market.

$$[\alpha (CAR)] / [\beta (CAR)] = 0$$

$H_1$  : The merger announcement had some implications over the stock prices. The merger can influence the market.

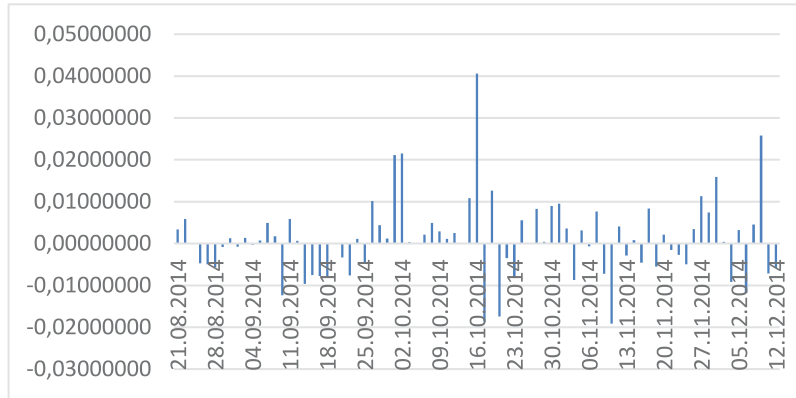
$$[\alpha (CAR)] / [\beta (CAR)] \neq 0$$

Based on the results, we can state whether the merger announcement has influenced in a positive or negative way the stock prices. Even if the analysis has been applied to only one merger, the findings can be generalised. Moreover, beside the event study approach it can be made a financial ratio analysis. In this way, the situation is approached from different perspectives, creating an overview to the whole process and its efficiency.

#### 4. Empirical results

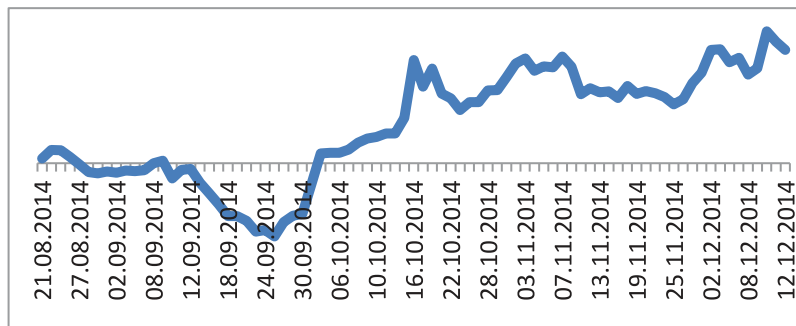
A merger or an acquisition announcement is a very important piece of information which may influence the market actors' behaviour, the stock prices could fluctuate during this period. If the market reaction is positive, the resulted abnormal returns should be greater than zero. The tricky part is to determine the day when the news has been leaked to the press. For this paper purposes, day zero has been chosen on the 16th of October, approximately a month and a half before the bidder offer has been signed. In the first graph, it can be observed the trend of the abnormal returns within the event window.

On October 16, the value of the abnormal return has reached 0.04062028, with more than 26% from the previous day. In the 40-day event window, the average of the stock prices has decreased from 1.7564 ron/share to 1.7366 ron/share which means that the market reaction was not positive to the public rumours. Moreover, after the official announcement day, the abnormal returns from the following period were negative. At three days after the official announcement, the abnormal returns have been positive, meaning that the market needed time to absorb the news.

**Figure 1. The abnormal returns within pre and post event window**

*Source:* own computations

The cumulative abnormal returns are all positive after the announcement day, moreover on the 10th of December, when the bidder offer was accepted, the value of the CAR reaches 0.0925. This upward trend implies that the merger between Banca Transilvania and Volksbank had a significant impact on the market. Even if until the official announcement the stock prices decreased, after the offer was accepted by Volksbank, the prices began to rise. We took the investigation further and made an analysis of the average AR, CAR and stock prices on a 20 days event from the official announcement day.

**Figure 2. The CAR value within pre and post event window**

*Source:* own computations

As it can be seen in Table 2, the merger had a positive effect on the banks stock prices, the market reaction being optimistic. The findings show that when a merger or an acquisition is to be made, there are some movements on the market. Even if the fluctuations can be seen a few weeks before the official announcement as a result of the leaked information, the event brings value to the market. In Romania, due to a complicated legislations process, the information regarding a merger or acquisition is often leaked to the press before the official announcement and implementation. This

may be a little confusing for the investors and the market itself but overall it gives them time to assimilate the information and to predict the next actions.

**Table 2. The sample data on a 20 days event window**

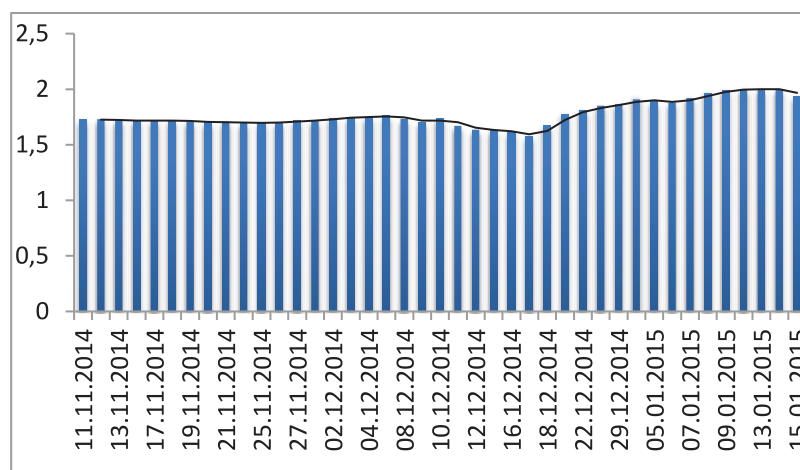
	Average of the AR	Average of the CAR	Average of the stock prices
Pre event window (-20 days)	-0.00004703	0.05671982	1.7200 ron
Post event window (+20 days)	0.00609450	0.15632402	1.8289 ron

Source: own computations

In the third graph we illustrated the fluctuations of the stock market prices. These have started to grow only after the official announcement day, meaning that the market react significantly only when the rumours have been confirmed. The maximum price has been identified after seventeen days, reaching 2 lei/share. Compared to the 10th of December, the prices have increase with almost 10% meaning the merger had brought value to the market and influenced in a positive way the shareholders of the bidder bank.

In order to validate the hypothesis, a t-test has been made. The results concluded that the abnormal returns and the cumulative abnormal returns are statistically significant, as the value of the t-test is differed than zero. In this way, the  $H_0$  hypothesis has not been validated, the second one being accepted -  $H_1$  : the merger announcement had some implications over the stock prices; the merger could influence the market. Furthermore, the CAR values are statistically significant (>5%) for the post-event window of the official announcement day. The stock market prices have increase with approximately 10%.

**Figure 3. The stock prices within pre and post 20 days event window**



Source: own computations

Overall, the analysis has confirmed our beliefs, a merger announcement being significant for the fluctuations of the stock prices of the bidder bank. Given the Romanian market conditions, the merger is leaked to the press long before the event itself. However, the market reactions can be observed especially after the official confirmation.

## **5. Conclusion**

The role of the M&A segment has become a very important one. Despite the fact that on the Romanian market this is still in progress, in the foreseeable future the analysts expect slowly movements on the financial sectors. The main objective of this paper was to establish whether on the Romanian markets a merger announcement can influence the stock prices of the involved banks in a positive way. Taking into consideration the percentage of the listed banks - only 7%, the analyses focused on the merger of Banca Transilvania with Volksbank. Over and above, only the acquiring bank is listed so the implications of the announcement on the target bank have not been analysed.

Even if the indications of our study are a mix of positive and negative influences over the shareholders wealth, we can state that overall a merger or an acquisition could bring value to the market. There are many factors that need to be considered in the process, although. The economic environment, the financial stability, the positions and particularities of the implicated companies, all of these can influence the stock prices as well.

Abnormal returns have been identified when the news was leaked to the press. However, the CAR value has increased only before this has been confirmed by the implicated banks. When it comes to stock prices, the findings are similar as the average from the 40 days pre event window is greater than the average from the 40 days post event window.

As well as the European researchers, the results show that overall it can be seen an increase of the stock prices, but only after the official announcement as the market reaction to the rumours has been negative. We can state that the merger announcement has brought additional winnings to the shareholders of Banca Transilvania.

Regarding the limitations issues, these can be considered future studies directions. Even if the analysis has been conducted on a single merger, the results can be generalised for the whole system. Furthermore, the paper is a first attempt on this field, no other studies of this kind being conducted on the Romanian banking system.

## **ACKNOWLEDGEMENT**

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## **Impact of Online Shopping on the Purchase Behaviour of Consumers in Chennai City**

A.VARADARAJ\*, D.CHARUMATHI\*\*

### **Abstract**

*Online shopping or e-shopping is a form of electronic commerce which allows consumers to directly buy goods or services from a seller over the Internet using a web browser. The proliferation of online group buying websites is changing marketing strategies and buyers' habits without doubt. The study focuses on the impact of online shopping on the purchase behaviour of consumers in Chennai city. Questionnaire was used to collect the primary data. The sample size of the study was 150 and the sample design adopted was convenience sampling. This paper tried to find out the impact of online market towards purchase behaviour of consumers and gives suggestions to improve the same.*

**Keywords:** Online shopping, consumers, E-Marketing, Internet Marketing, Purchase Behaviour.

### **1.Introduction**

During the last quarter of the 20th century internet technology is been used frequently in daily lives which has influenced all parts of our lives in a short time. The change in technological area all over the world has changed the concept of information and communication. The use of internet for commercial purposes gave rise to the existence of the electronic commerce (e-commerce) phenomenon. With the implementation of these information and communication technologies by commercial institutions in order to support business activities, electronic business concept was developed.

Online shopping or e-shopping is a form of electronic commerce which allows consumers to directly buy goods or services from a seller over the internet using a web browser. Alternative names are: e-web-store, e-shop, e-store, internet shop, web-shop, web-store, online store, online storefront and virtual store. Mobile commerce (or m-commerce) describes purchasing from an online retailer's mobile optimized online site or app. English entrepreneur Michael Aldrich invented online shopping in 1979. His system connected a modified domestic TV to a real-time transaction processing computer via a domestic telephone line.

A consumer may be motivated to purchase towards online shopping. Motives are certain kinds of causes, the internal factors that arouse and direct a person's behavior

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(McNeil and Rubin, 1977). Motive can be seen as a driver that arouses stimulus generation and guides people to act. Value in this context is expressed as a trade-off between perceived product quality and price (Rao and Monroe, 1989). Consumers may go through a purchase behaviour process intentionally or incidentally in a conscious or subconscious process of evaluation towards benefits of buying versus involved costs. Motives and values will lead to a conscious buying process.

### **Objectives:**

1. To study the factors influencing online shopping behaviour of consumers.
2. To analyse customers satisfaction towards online shopping.
3. To suggest measure to improve impact of online market towards purchase intention of consumers.

### **Review of literature:**

*Sajeewan Rao and Mokhalles Mohd.Mehdi (2010)* identifies eight important factors in online shopping, such as accessibility of information, reliability of information, availability of information, searchability factor, convenient facility, security concern, trust concern, quality factor. It was further emphasized that online transaction should be secure, reliable and trusted in order to attract and maintain existing internet users.

*Yulihhasri, Md. Aminul Islam and Ku Amir Ku Daud (2011)* identifies that among all the proposed students differences factors, compatibility and usefulness have been found as the most significant to influence students' attitude for shopping on Internet and attitude, normative-beliefs have been found as the most significant to influence students' intention for shopping on internet.

*Sajjad Nazir, Arsalan Tayyab, Aziz Sajid, Haroon ur Rashid, Irum Javed (2012)* say that when a consumers make purchases online to buy something, he or she is affected by assorted factors. The main influencing factors have been identified as, price, confidence, security, convenience, time, after sale service and discounted deals. The price factor exists because the prices are often lower through online shopping as compared with physical purchases in the market. Buy online can be of great benefit to the consumer in terms of convenience, saving time and money.

*Balamurugan, Sathish and Sathyanarayanan (2013)* identified that most of respondents are satisfied with online shopping. Only few of respondents are not satisfied with the online shopping. The reason being, the delivery delay and defective products shipped etc. The online retailers should make sure that they deliver products with quality at the promised time, which will ultimately increase the customer satisfaction.

*Preeti Khitoliya (2014)* conducted research Paper on “Customers Attitude and perception towards online shopping” research results unveiled that 47% respondent shop online frequently followed by 30% who shop online seldom and 23% respondent had never tried it which suggests that online shopping is relatively less popular in India. Male and female respondent had shown similar trend in online shopping behaviour. Majority of the respondent in all age group shop online for convenience followed by wide variety and discount deal and least under peer influence. This clarified that respondents' prime motive for online shopping is convenience and wide variety. Observation of the figures revealed that disclosure of personal credit card and debit card



information is the biggest concern in online shopping and the second most concern is that troubles the respondents is the misrepresentations on web by the e-tailer. Many respondents found that the quality, size and the colour of the product differ from what they claim to possess and displayed on website.

*Hemani Malhotra and Manjit Kaur Chauhan (2015)* say that online buying experiences, product perception, safety of payment and customer service have significant effects on the attitude towards online purchases through online shopping.

#### **Research methodology:**

The Researcher used Descriptive Research Design in this research. Primary Data's were collected using questionnaire and Secondary data's were collected from journals, books and websites. The collected data were edited, coded, classified and tabulated for analysis. The sampling technique used by the researcher is convenience sampling. Sample size taken for the study is 50.

#### **Data analysis & interpretations:**

<b>CONVENIENCE FACTOR</b>	<b>MEAN</b>	<b>STD. DEVIATION</b>
I get on-time delivery by shopping on-line	3.62	1.084
Detail information is available while shopping online	3.61	1.017
I can buy the products anytime 24 hours a day while shopping online	3.25	1.255
It is easy to choose and make comparison with other products while shopping online.	2.85	1.411

*Source:* Own calculations

Inference: From the table 1, it is inferred that with regard to convenience and comfort major factor is on-time delivery in online shopping with a mean value of 3.62 followed by availability of detailed information with a mean value of 3.61, shopping anytime with a mean value of 3.25 and easiness in choice and comparison with a mean value of 2.85.

**Table 2. Web Design factor in online shopping**

<b>WEB DESIGN FACTOR</b>	<b>MEAN</b>	<b>STD. DEVIATION</b>
The website design helps me in searching the products easily	3.67	1.100
While shopping online, I prefer to purchase from a website that provides safety and ease of navigation and order	3.55	0.927

The website layout helps me in searching and selecting the right product while shopping online	3.29	1.141
I believe that familiarity with the website before making actual purchase reduce the risk of shopping online	3.01	1.332
I prefer to buy from website that provides me with quality of information	3.25	1.296

Source: Own calculations

Inference: From the table 2, it is inferred that the most important factor in web design factor in online shopping is it helps in searching the products easily with a mean value of 3.67 followed by safe and ease of navigation websites with a mean value of 3.55. Other subsequent factors are helps in searching and selecting right product with a mean value of 3.29, quality of information available in web design with a mean value of 3.25 and familiarity of website with a mean value of 3.01.

**Table 3. Time saving factor in online shopping**

TIME SAVING FACTOR	MEAN	STD. DEVIATION
Online shopping takes less time to purchase	3.45	1.275
Online shopping doesn't waste time	3.25	1.012
I feel that it takes less time in evaluating and selecting a product while shopping online	3.24	1.218

Source: Own calculations

Inference: From the table 3 it is inferred that less time taken to shop is the main factor in time saving factor in online shopping factor with a mean value of 3.45. Other factors include no waste of time in purchasing with a mean value of 3.25 and involves less time in evaluating and selecting a product in online shopping with a mean value of 3.24.

**Table 4. Security factor in online shopping**

SECURITY FACTOR	MEAN	STD. DEVIATION
I feel safe and secure while shopping online	3.24	1.265
Online shopping protects my security	3.32	1.178
I like to shop online from a trustworthy website	3.20	1.375

Source: Own calculations

Inference: It is inferred that consumers feel that their online shopping is secured with a mean value of 3.32 followed by it is safe and secure in online shopping with a mean value of 3.24 and consumers shop online from a trustworthy website with a mean value of 3.20.

**Table 5. Correlation between Education Qualification and Satisfaction towards delivery of product on time**

		Educational Qualification	Delivery of Product on time
Educational Qualification	Pearson Correlation	1	-.467**
	Sig. (2-tailed)		.000
	N	125	125
Delivery of Product on time	Pearson Correlation	-.467**	1
	Sig. (2-tailed)	.000	
	N	125	125

\*\* . Correlation is significant at the 0.01 level (2-tailed).

*Source:* Own calculations

Inference: From the above table it is inferred that educational qualification and satisfaction towards delivery of product on time is negatively correlated. It implies that there exists an inverse relationship between educational qualification and satisfaction towards delivery of product on time.

**Table 6: Correlation between Education Qualification and Satisfaction towards reasonable price of the product**

		Educational Qualification	Price of the Product is reasonable
Educational Qualification	Pearson Correlation	1	-.322**
	Sig. (2-tailed)		.000
	N	125	125
Price of the Product is reasonable	Pearson Correlation	-.322**	1
	Sig. (2-tailed)	.000	
	N	125	125

\*\* . Correlation is significant at the 0.01 level (2-tailed).

*Inference:* From the table6, it is inferred that educational qualification and satisfaction towards price is negatively correlated. It implies that there exist an inverse relationship between educational qualification and satisfaction towards price of the product.

**Table 7: Correlation between Education Qualification and Satisfaction towards quality of products as per the web information**

		Educational Qualification	Quality of Product is as per the web information
Educational Qualification	Pearson Correlation	1	-.580**
	Sig. (2-tailed)		.000
	N	125	125
Quality of Product is as per the web information	Pearson Correlation	-.580**	1
	Sig. (2-tailed)	.000	
	N	125	125

\*\* . Correlation is significant at the 0.01 level (2-tailed).

*Inference:* From the table 7, it is inferred that educational qualification and satisfaction towards quality of products is as per web information is negatively correlated. It implies that there exist an inverse relationship between educational qualification and satisfaction towards quality of products is as per web information.

#### **Findings:**

- With regard to convenience and comfort major factor is on-time delivery in online shopping with a mean value of 3.62.
- The most important factor in web design factor in online shopping is it helps in searching the products easily with a mean value of 3.67.
- Less time taken to shop is the main factor in time saving factor in online shopping factor with a mean value of 3.45
- Consumers feel that their online shopping is secured with a mean value of 3.32
- There is an inverse relationship between educational qualification and satisfaction towards delivery of product on time.
- There is an inverse relationship between educational qualification and satisfaction towards price of the product.
- There is an inverse relationship between educational qualification and satisfaction towards quality of products is as per web information.

#### **Discussions and implications:**

Online retailing is a phenomenon that is growing worldwide. Despite this, lack of studies in the area makes it difficult for managers to come up with informed decisions on strategies to pursue in their efforts aimed at ensuring that their businesses succeed. Findings in this study contribute to understanding the concept of online shopping and the influence it has on customers' attitude towards purchase behaviour. The findings can help managers better understand how customers evaluate online shopping quality and how they are performing on different dimensions to identify possible areas that need improvement. As such the platform provides managers with an opportunity to create

first impressions that may convey service quality of online shopping to customers. Just as managers spend time, effort and often finances in designing the interiors of their physical stores, online managers need to appreciate the importance of good interior design even for their online stores. The website in this case represents the interior of the online store. Managers need to ensure that they provide customers with adequate information that can enable them engage in online buying without the need to get in contact with store' personnel.

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## **A Survey on the Effects of Advertising of Unhealthy Food on the Decision of Students**

Olga CERNELEV\*, Ovidiu TAFUNI\*\*

### **Abstract**

*The purpose of the research was to assess the effects of advertising of unhealthy food products on student's decision and eating behavior. In the present research participated 272 students aged between 18-29 years from the State University of Medicine and Pharmacy "Nicolae Testemitanu" from the Republic of Moldova. Unfortunately, the findings showed that promotional policy of companies in the food sector have escalated and can influence food product purchase behavior among students.*

*Keywords:* advertising, unhealthy food, student, decision

### **1.Introduction**

"All marketing decisions are based on assumptions and knowledge of consumer behavior."

Hawkins and Mothersbaugh, 2007

In recent years, the marketing strategies of companies in the food sector have escalated. Promotional policy of these companies rely on attracting new customers, keeping existing consumers, forming an overview of positive attitude and strengthen product quality and safety. As a result, population, especially youth is now the target of intense and specialized food marketing and advertising efforts. This is a major concern worldwide as the majority of these products are for foods that are high in calories, fat, sugar and/or sodium such as carbonated soft drinks, sugary breakfast cereals, salty snacks and baked goods, etc. [1-6]

Multiple techniques and channels are used to reach youth, beginning when they are toddlers, to foster brand-building and influence food product purchase behavior. Food marketing is changing very quickly due to the growth of digital technology. The media is a major source of information and misinformation on eating habits and nutritional sources. According to Fetting, population is regularly bombarded by messages about unhealthy food products in all forms of media such as television, radio, newspapers, etc. [7] While television is still the primary format for food advertising, today the food industry also markets aggressively via the Internet, through cell phones and text messages, in video and computer games and even in schools. Many of the

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messages revolve around food manufacturers marketing their products in the hope that the public will buy them. The manufacturers use very clever techniques such as claims and jingles about food's special properties. The researches in the field support the existence of links between exposure to advertisements for foods high in fat, salt and sugar and subsequent eating choices that can generate the appearance and development of non-communicable diseases (cardiovascular diseases, obesity, diabetes, etc.).

Advertisement plays an important role. It has been argued that for the fast moving consumer goods, advertisement plays an important role as it helps to develop the brand and a positive consumer perception. According to Jefkins advertising is a practical affair which differs from marketing as marketing drives products and services to the customers while advertising drives customers to the product or services. Advertising is a type of promotion of goods or services for public and its goal is drawing attention of people and showing favourable light to them. Moreover, in this competitive era, brand influences the sales as well it helps a company to develop its marketing strategy by continuously evolving in brands. It also allows marketers to make insights in own brand as compare to rivals. Therefore it needs to be accessed by implementing brand as well as investing in brand besides product development. Practicing brand awareness is not only limited to maximizing sales by volumes but it involves a company to uphold its mission statement. The pressure of advertisement is growing every day. A significant amount of money is spent on advertising campaigns bringing to the companies multi-billion profits. According to data presented in the report of Federal Trade Commission in 2012, food companies spent a lot of money for advertising unhealthy food products among youth sector. The findings of the present research reveal that the companies producing unhealthy food and sugar sweetened beverages use different types of sources of information and promotion to attract more consumers, especially youth. So, in 2009, about 48 food industry companies have spent 1.79 billion dollars on marketing to the youth sector. About \$ 1 billion was spent on children aged 2-11 years old and about \$ 1 billion was spent for teenagers aged between 12-17 years old. For advertising of unhealthy food among adult sector were spent 9.65 billion. Therefore, the expenditures directed to those between the ages of 2 and 17 represented 18.5% of all consumer-directed marketing expenditures for those products. [1, 4, 8]

Studies in the field have shown that messages conveyed by food advertisements are rarely consistent with healthy eating messages. Content analysis of food advertisements conducted in the USA, Australia, New Zealand, Britain and Turkey has consistently shown that children are exposed to large quantities of food products which are high in salt, fat and sugar. The studies have found that fast food and sweetened breakfast cereals were the most heavily advertised products. Advertisements for healthy foods such as fruit and vegetables were either absent or rare. When food advertisements were compared with healthy eating guidelines from their respective countries, it was found that these advertisements contradicted healthy eating messages and consequently gave children an inaccurate impression of what foods were 'good' to eat. In Asia, the level of food advertising varied from 25 to 75% of total food advertisements screened during children's programmes. The level of food advertising was lowest in South Korea (25%) and highest in Pakistan and Philippines (50-75%). [9-16] International data suggested that health authorities believe that the accumulation of unhealthy messages communicated to children through food advertising is a leading cause of unhealthy consumption. [17] According to Federal Commission, every day,



children view, on average, 15 television food advertisements and an overwhelming 98% of these ads promote food items that are high in fat, sugar and salt. [18] So, Harrison and Marske revealed that snacking at non-meal times occurred in 58% of food ads during children's programming as the most common product advantages included fun, happiness and being "cool". [19] The literature review highlighted that food advertising leads to greater preferences and purchase of the food products advertised. The messages presented in television food advertising have the power to act as real-world primes and lead to corresponding eating behaviors. [20] Some international results of a study discovered that advertisements shown during peak viewing hours of children and adult differ heavily, in terms of food advertisements; it is more in case of children as compared to adults. On the other hand, the amount and type of food provided by parents and even older siblings to young children has been shown to be the most significant influence on the development of food preferences and eating patterns in early childhood. So, if parents usually purchase and consume so-called snack foods and junk foods, then such foods will be readily available to children in their homes. Messages contained in advertising content might reinforce young children preferences to consume foods that already are available in their home. The repeated exposure of the commercials may create a strong desire for the advertised products, as compared to competitive products. [21-24] Ferguson, Munoz and Medrano found that exposure to commercials for unhealthy products increased desire for those products relative to commercials for healthier products, even from the same company. [26] Another study also found similar results, with effects particularly pronounced among children who were higher habitual TV viewers. The results of the research done by Halford, Gillespie, Brown, Pontin, and Dovey in 2004 found that obese children may be particularly attuned to food cues in commercials and susceptible to their effects. Advertisers may also deliberately use manipulative strategies to influence the behavior of children such as using cartoon characters. So, data of a study have indicated that the use of popular cartoon characters can increase demand for food products, although this can work for both healthy and unhealthy food items. [27]

It is important to make a correct decision about the choice of medium by which advertisement can be done. Mass media, social network and public experiences are important things while selecting advertising strategy. Companies need not only to produce good quality products, but also to inform consumers about their benefits, as well as to achieve clear positioning of their products in the minds of the consumers. According to international studies, advertisement of unhealthy food and sugar sweetened beverages is an imperative in a modern business world, the strategy to keep the company profitable and to make maximum consumers. The views are different and vary according to ages, the level of education, the level of income of consumers, etc. For example, people from United Kingdom are more connected with books and magazines while in Pakistan, people are more connected with television. Although food marketers spent 19.5% less on youth-directed television in 2009, television remained the predominant medium to reach youth, accounting for 35% of total youth-directed marketing expenditures. Marketers spent \$375 million to reach children via television and \$364 million to reach teens. Quick service restaurants and breakfast cereals accounted for 68% of the child television expenditures. Quick service restaurants accounted for nearly 36% or \$130 million of the teen television expenditures. The results showed that food marketers spent \$695 million on traditional measured media

(television, radio, and print) directed to youth. Also, the food companies spent 50% more to reach youth using new media (online, mobile, etc.). All these data show that advertisement is a "product of the first necessity" for any enterprise aimed at a commercial success. [8]

## Methods

The present research was carried out from february – march 2016 among medical students from the State University of Medicine and Pharmacy “Nicolae Testemitanu” from the Republic of Moldova. The sample was chosen on the basis of convenience or availability of students at the time of the semester. In the present research participated 272 students (145 females and 127 males). The inclusion criteria were comprised of being aged between 18-29 years old, being a student from the State University of Medicine and Pharmacy “Nicolae Testemitanu” and consent to participate in the study. The only exclusion criterion was lack of desire to continue cooperation with the study. All the participants gave written informed consent for participation. The research efforts included a participant questionnaire survey that has been used in this study as a tool to assess the influence of the advertising messages for promotion of unhealthy food and sugar sweetened beverages on consumer's decision among the students. It was applied the "Questionnaire on the impact of the levels of physical activity and nutrition on the development of obesity in the population" registered at AGEPI, OS series nr.5267 from 25.01.2016. The questionnaire consists from 2 parts. The 1st part included general information (sex, age, marital status, etc.) and the 2nd part consisted from 6 statements related to determine the role of advertising messages for unhealthy food on students decision. In order to achieve the goal and objectives in the present research were used such methods as: sociological, descriptive, analytical and mathematical.

## Results:

The obtained results showed that 39.31 % of women and 35.43 % of men prefer to get information about the food products with high amount of salt, sugar and fat and also about sugar sweetened beverages from family members and friends. According the data, 35.17 % of women and 33.07% of men stay informed from the advertising messages posted through mass-media sources and social network (TV, radio, internet, etc.). The other respondents (25.51% of women and 31.49% of men) prefer to get information from commercial channels by reading the product label or discussing with a consultant (Table 1).

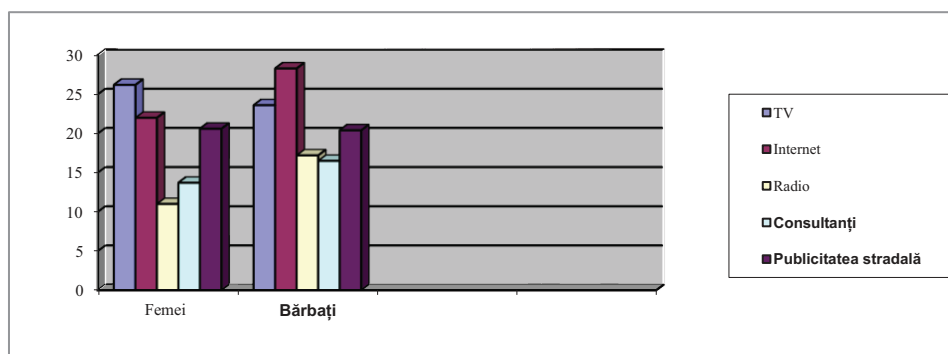
**Table 1. Top of preferred sources of information about unhealthy food among students**

No.	Sources of information
1	Own sources (family members, friends)
2	Mass-media sources and social network (Tv, radio, internet)
3	Commercial sources (nutritional labels, consultants, etc.)

*Source:* Designed by the authors

The majority of women (26.2%) think that unhealthy food and sugar sweetened beverages are mostly promoted on TV channels in comparison with 23.62 % of men. About 22.06 % of women think that on the 2nd place of promotion is situated the Internet while 28.3 of men think that Internet is on the 1st place. About 20.6% of women and 20.4 % of men declared that an important source for promotion of unhealthy food and sugar sweetened beverages used by companies is the outdoor advertising (billboard, light box, etc.). Also, 11.03% of men and 17.24 % of women think that one of the most important channels for promotion of unhealthy food is radio. It is important to mention that only 13.79 % of women and 16.53% of men stated that unhealthy food is promoted by consultants from the market using different strategies such as: contests, gifts, discounts, etc. (Figure 1).

**Figure 1. Overview of the sources for promotion of unhealthy food among the students**



*Source:* Designed by the authors

Also, the findings showed that the companies producing unhealthy food and sugar sweetened beverages use other channels for promotion of their products. So, 31.03 % of women and 39.37 % of men stated that they received advertising messages on their phone, email or by post. The research discovered that the advertising message contains information that is important for the students. Firstly, it is important to mention that the majority of the students (36.5 % of women and 44.8% of men) are interested in information about the unhealthy product (the name, brand, country of origin, etc.). Also, 24.13% of women and 31.49 % of men, pay attention to advertising about exhibitions where they can taste the food. The students stated to be interested in the discounts offered by the companies producing or selling the food with high amount of sugar, salt and fat. According their responses, 21.25% of men and 22.75 % of women are interested in the information about the discounts. Also, 15.17 % of women and 16.53 % of men are curious about the gifts, contests, etc. (Table 2).

**Table 2. Top of the most interesting information coming from advertising messages about unhealthy food**

No.	Information
1	About the food product (name, brand, country of origin, etc.)
2	About the food exhibitions
3	About the discounts
4	About the contests, gifts offered by food company

*Source:* Designed by the authors

The results of the research showed that there are different reactions to advertising of unhealthy food and sugar sweetened beverages. The majority of the students: 36.55% of women and 48.03 % of men are indifferent to advertising of food with high amount of sugar, salt and fats. About 31.03 % of women and 37 % of men are interested and curious about the unhealthy products that are promoted. The most interesting fact is that 32.42 % of women and 14.96% of men declared that the advertising message creates cravings and increases their appetite.

The advertising message about unhealthy food and sugar sweetened beverages can influence the decision of consumption among the students. About 54.48% of women and 59.05% of men stated that they didn't buy any unhealthy food or sugar sweetened beverages after watching or hearing the advertising message while 45.51 % of women and 40.94% of men declared that they have bought and consumed these food products.

## Discussions

The aim of this study was to assess the influence of the advertising messages about unhealthy food and sugar sweetened beverages on student's decision.

As observed in table 1, the majority of students prefer to get information about unhealthy food and sugar sweetened beverages from their family members or friends. This fact shows that both genders get the most information from the sources they trust. Also, it was established that students are trusting advertisers of unhealthy food and sugar sweetened beverages as about 1/3 of respondents prefer to get information from mass-media and commercial sources.

According the results of the present research, the most popular ways for promotion of unhealthy food and sugar sweetened beverages are TV and Internet. The less popular sources for promotion are considered to be the radio among men and market consultants among women.

It is important to mention that 1/3 of students declared that the companies use and other methods for promotion of unhealthy food and sugar sweetened beverages such as advertising messages on their phone, email or post.

The findings showed that the majority of students are interested, first of all, in advertising messages that give information about unhealthy food such as name, brand, country of origin, etc. Also, some of the students (about 1/4 of men and 1/3 of women) pay attention to advertising about exhibitions where they can taste unhealthy food or sugar sweetened beverages. About 1/5 of respondents are interested about the discounts

they can get from buying the products. Some of the students prefer to get information about the gifts offered by food companies. All these facts show that food companies use different marketing strategies to attract more consumers.

The majority of the students feel indifferent while watching or hearing advertising messages for unhealthy food or sugar sweetened beverages but it is interesting to find out that about 1/3 of women want to eat unhealthy foods that are advertised as their appetite increases.

The results of the study showed that almost ½ of students have bought and consumed unhealthy food and sugar sweetened beverages after watching or hearing advertising messages about them. These data show that marketing strategies influence student's decision about buying and consuming unhealthy food or sugar sweetened beverages. Also, it demonstrates that advertising messages can influence the food choices and even eating behavior among students.

### **Conclusions**

1. International studies revealed a relationship between advertising of unhealthy food and appearance of non-communicable diseases related to nutrition among children and youth as the consequence of their irrational decision.
2. The results of the study showed that the most of companies prefer to reach youth by the advertisement on TV and Internet and using other channels for promotion of unhealthy food products such as mobile, email or post.
3. Some of the respondents declared to be interested in consuming unhealthy food products because of the discounts, prizes and other marketing strategies used by companies.
4. 1/3 of women stated that the advertising messages of unhealthy food products and sugar-sweetened beverages increase their appetite for these.
5. Almost one half of youth declared that they have bought and consumed the products after watching or hearing the advertising messages.

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## Is the Perspective of a Closer French Policy toward Russian a Threat for Eastern European Countries?

Karim BELGACEM\*

### Abstract

*The current world is not moving as all specialists predicted. Brexit, Trump, everyone was wrong. This paper will have two targets: describing the French policy toward Russia, making a perspective on the future policy, whatever the new French presidency in 2017, François Hollande will transmit the key to his successor with new election. He refused to compete for a second mandate. It is good to remind that Hollande was involving in the Ukrainian affairs and had managed with Germany the Minsk I and II agreements. He also had suspended Mistral ships selling and approving sanctions against Russia. How will be the future with François Fillon, Marine Le Pen or other? The analysis will be focusing on the future relationships toward Russia and Eastern European Countries.*

*Keywords:* French policy, Russia, Eastern European Countries, perspective, François Fillon, relationships.

### Introduction

2016 has seen many surprised and unexpected events: Brexit, Donald Trump elections. All institutes had been mistaken about prediction and the feeling of populism, nationalism and insiders is not an exaggeration but reality. Inside France, current President François Hollande will not bring a new mandate. He is victim of his unpopularity, the economic crisis, his own miss of leaderships and absence of vision inside France and Europe. During his mandate, he had much more reaction than action. On the right side, Nicolas Sarkozy had also failed but about primary election of “les Republicains”. It had seen victory of his ex-Prime Minister François Fillon.

Marine Le Pen is still powerful and represents a threat for France and also Europe. She will try to play with all the fears of migration, European policy and the populism contagion which happened in Poland or Hungary. But with A program based on the restauration of a strong stage with French and catholic identity, François Fillon is able to catch Marine Le Pen electors.

François Fillon never put a shadow on his national and foreign policy. From French point of view, he is a liberal, has closer idea from Margaret Thatcher's policy and the motivation to transform France and making reform.. During his prime minister mandate, he had good relationships with Vladimir Putin and since this date, he always

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complains and militates against economical sanction to Russia in consequence of Crime annexing.

Eastern European countries and especially Poland and Baltics countries have fears of Russia threat. If western European countries could think about a certain paranoia, the communism period and the recent Russian aggression with Ukraine and violation area of NATO countries as France and Baltic countries, all these fact proved that the big Russia is “playing” with fire and the fact than European Union is divided about its own policy and action toward Russia.

What should be and would be the future French policy toward Russian and Eastern European countries? Would it be a great opportunity for France to restore its influence inside Europe? Is it the time for France to understand more Eastern European countries behavior and maintaining Russia as a real partnership who could be more containing? Or is it time for France to understand more the globalization phenomena and the fact that the world has changed?

## **1. The view of Eastern European from France**

### **a) The doubts and opposition of Mitterrand.**

In 1963, Robert Schuman, one of the E.E.C founder had say “we must build Europe in the interest of people's freedom ... but also to welcome eastern Europe people who would ask adhesion and moral support”. In 2004, his declaration became reality. Countries from Baltic, Poland or Hungary took part of European Union. But it is honest to say they were no enthusiasm feeling inside France. It didn't realize that globalization was also inside the E.U. and the fears of this movement will now take place. France took conscience that its leadership with Germany could be contested. M. Schroder and specially M. Merkel know much better this area than French.

The typology of French diplomacy toward the openness to Eastern Europe was to underline the threat of this event much more than the opportunities it could do. During the nineties, France had this cliché to slow down enlargement to post-communist countries. This bad behavior is currently in action and handicap seriously France for building a real trusting relationship.

In 1988 and before the communism's collapse, French President François Mitterrand had visited countries as Bulgaria, Tchecoslovaquia for convincing them to trust Gorbatchov reform and perestroika policy. But Mitterrand, despite his cleverness and his history sense, didn't feel the wind of change in Hungary, Poland and the raising of democracy in Eastern Europe. In fact, he was more concentrate about his relationship with Western Germany and Kohl presidency. Moreover, the new USSR policy of glasnost and perestroika from Gorbachev was enough for canalizing all this area and preparing a transition. But for France, this transition didn't mean communism collapse or unification of Germany. About this last point, Mitterrand was both septic and afraid about a new big Germany.

During this time, the French diplomacy was not active with opposition leaders in Eastern Europe countries. As usual, the French arrogance and fears was working on. For France, enlargement to the East could mean the end of the future common market in Europe and its own meaning. So status quo would be a good agreement. That is why Mitterrand and his advisers proposed to the new tchecoslovaquia president, Vaclav Havel I 1990 a new confederation project which will manage the field of Transport,

energy and environment.

This one would be open to USSR for straitening its acreage in Europe and would exclude USA. But in 1991, after the Praha confederation, the project had failed and proves the misunderstanding of France toward Eastern Europe. The reason is easy to guess: Eastern Europe countries all had this target to become as soon as possible member of E.U. Why France should propose a substitute in state of a real future equal to equal in a same organization? The motivation was principally to get closer to the occidental world. One of the other reasons of this failure was the association of USSR inside this.

It is important to notify the influence and the role of American diplomacy in this frailer. United State was involving in the cold war and has more military capacities than France. Other big detail: United States encouraged and supported more Eastern European countries for liberty, capitalism way of life and the perspective of a future adhesion inside NATO. About this last point, this famous anecdote and promise to USSR from Georges Bush and Francois Mitterrand than NATO will never be extended to Baltic countries and Poland...

At the Copenhagen summit of 1993 and in opposition of Helmut Kohl position who was in favor of these potential new adhesions, Mitterrand declared that the adhesion is a hope but there are many steps and problems to resolve...He also insisted on the economical field and said that these countries would see in the future invasion of companies and production from western Europe. All French journalists knows that Mitterrand was not an economist and this argument showed to Eastern European countries that France doesn't want enlargement from this miss of economical view.

#### **b) The Jacques Chirac mandate : a capitalistic and strategic vision**

In 1995, Jacques Chirac became new President. On the French foreign policy, he assumed the role of Charles De Gaulle's son. One of his first decisions was to make new nuclear test to confirm the place of France in the world, which provoked scandals and indignation from many states.

Chirac was in favor of new adhesion for eastern European countries. His policy was to point his opposition of his predecessor on this subject and also to satisfied French company for this new opening market. The same year, Germany and Austria were more in advance about business and partnerships than France, which is logical in regard of what we explained above. France realized at this time its delay in comparison on the activism of Helmut Kohl in this process of enlargement to the east. Kohl was the first to declare how favorable he was to a polish adhesion in European Union near 2000. As a sport competition, Chirac declared his wish about Czech, Poland and Hungary future adhesion.

But we can't ignore the nature and geography. France is an occidental and Mediterranean country with its influence zone in Africa. Despite all the good intention, its own interest in Eastern Europe is not natural but just reaction without any kind of realistic vision (if we except business). The debate of enlargement doesn't interesting French media and society. After the "no" to French referendum in 2005 about European constitution, the population showed how they distrust European system and its own fears of enlargement, globalization and social dumping from Poland and Romania. We can remind this polemic about the polish plumber and the Bolkeinstein direct about European workers.

But the Chirac's vision of Europe was also to reinsert France in the European Game with a "De Gaulle" posture. His vision was an independent policy from the United States. That could explain his opposition of a military intervention in Iraq on 2003, even if France was right about lies and wrong allegation of chemical weapon and Al Qaida link with Saddam Hussein. Poland and Hungary were bringing military troops to support American and British operations in Iraq. The contract agreement and sales of Boeing between United States and these countries made Chirac angry and a little diplomatic crisis. Instead of Airbus, these new European countries had bought American plane. He declared that they had lost an occasion to be silent. This decision straight the French feeling of carefulness against this new European area.

If we stay longer on the Polish case, the new nationalist government didn't improve the relationship with France. The disagreement about migration's management phenomena and recently the cancelation of fifty helicopter's sales confirm the atlantist view of Poland. This last made warning about Russian threat and asked for a NATO mobilization and strengthening.

To sum up France position, Eastern European countries have a pro American policy and sympathy. They considered Europe as a market and an opportunity to have subvention, to install Western Europe factories with low salary. But with all these wrong or true cliché, France lost opportunities. During the last decade, Poland grew up its own influence inside European Union and can introduce more atlantists and pro NATO opinions. But we will not accuse Poland and put all fault on it. It is also the duty of France to understand more the Polish context. The weight of history is still in Polish mind and we cannot ignore the Russian threat which disturb and provoke fears in Eastern Europe.

## **2. A new European vision including Russia is in the interest of France, Europe, Ukraine, Georgia, Moldova**

### **a) The French politic context**

In 2017, France will have a new President. As usual, all slogans are on the way of "now it is time to change!". It is time to change for France and for many reasons. France forgot to observe that the globalization is a reality for everyone and it is a waste of time to deny it. Globalization, euroseptism, the euro currency are easy guiltees for France. There is currently nostalgia about the "glorious thirty years" between 1945 and 1975. France was powerful with Charles De Gaulle, but had at this time a real European and foreign policy. This one was conducting on the "independence of France" from United States and Nato. De Gaulle had made visit to China and USSR, made nuclear test and no matter what the American will think or say.

Today France has much more an atlantist policy closer to Nato and United States. Even if the general French feeling toward United States is the fears of their arrogance, their domination in the world and all their policies mistakes like Iraq war in 2003. They put American responsible of all this trouble and the birth of ISIS is one of these consequences. But in the same time, French people appreciate Coca-Cola, American movies or series, their culture. France has two paradoxes: they refuse to change themselves and accepting globalization just because it is France and they want to keep all their advantages and staying in a closing area. But the other one is that French are one of the most pessimistic populations in the world, more than Afghan or Irakian

people!

About the new French policy; candidates like Marine Le Pen or François Fillon want and assume their pro-Russian position. Fillon is the favorite candidate and winner for 2017. The socialist part is like a ghost without credible leaders. For Fillon, we must talk and collaborate with Russia and Putin. He assumes and recognizes that Russia is a great nation and the usefulness to collaborate deeper with it. When he was Sarkozy's Prime Minister between 2007 and 2012, Fillon had seen Poutin and already believed that he's a key and a solution about Iran, Syria and Irak issues. But Fillon knows his own limit. For example, he doesn't want to recognize the Crimee annexation. But about the Ukrainian conflict, his position is not clear. Just some word like "we have to find a solution" or "Ukraine must find the way of democracy and fight against corruption". Unfortunately for Ukraine, France and other European countries doesn't have real solution for Ukraine as this Eastern Europe partnership without future adhesion perspective.

#### **b) What about Eastern Europe?**

Let's be honest: For France, Eastern Europe is still like a mystery and a unknowing part. It is exaggerated of course: the phenomena of "Francophonie" is present in Romania and Moldova. France has a good image about its history, culture, and gastronomy. The history with the French monarchy, Napoleon Bonaparte is unfortunately the past. Excepting the past and all the cliché, the French policy is not involving with Eastern Europe like Germany for instance.

Eastern Europe countries could means for France poor countries with low salaries. Even it is not the case; there is a kind of fear toward social dumping and migration. When we talk about Eastern Europe, we mean much more Russian. The country size and influence is not a surprise for this reasoning. All the interest with investment, gas agreement and Russian lobby could explain why Russia is the perfect

About the Eastern Partnership's agreement is an opportunity for countries like Ukraine, Georgia, and Moldova to get closer to European Union without adhesion perspective. German Chancellor Angela Merkel had declared that "the partnership is not one an instrument for the extension but for the link with the European Union. You should not arouse false expectations. We need to be frank with them. "It was actually important to clarify things in advance. But it is obviously necessary to go much more far. And France has to play its driving role and assert its difference.

François Fillon seems to go deeper with a Russian collaboration. It is also the feeling of French population. The American domination around the world makes French unsatisfied.

The future French President has to put more psychology with Mister Vladimir Putin. He works in the balance of « hard power » and "soft power "which showed Europe lately was only consolidating his ambitions and least rough attitudes. Europe has to pursue the way of soft power but with more ambition and firmness. France thus has to show this way.

During 1980s, Mikhail Gorbatchev had expressed his wish of a «European Town Hall ", expression which could resume Charles de Gaulle's policy. The previous attempts of Russia integration within political and security Europe failed. Europe would have to lose everything in the fact that Russia moves its pivot towards Asia and creates "big Asia ". It is nobody's interest if Russia becomes isolated. This scenario

could destabilize more Ukraine or Georgia. The surrounding countries must be aware of their interdependence.

France has to introduce a big changing in the ideology of the relations Europe-Russia or French-Russian. For both of them, it has to join pragmatism and the research for the common interests. The valuation of the numerous convergences points would allow taking out of paradigm "looser-looser" who favors China and the United States, to the detriment of Russia and the European Union.

Unfortunately, if we want to be realistic and not too much optimistic, Eastern Europe is not French priority. France has two important partners in Europe: Germany and Russia. The French influence is more present in Africa and North Africa. The next French President has to be smart and realistic: Donald Trump wants to get closer to Russia? Let's do the same but in a very honest and pragmatic way. But France has also to take care of Eastern Europe and to reassure countries about the threat and fear. In a general sentence, we have to take care to our friends and getting closer to our enemies. France has to get closer to Russia for managing the Ukrainian crises and the Polish-Baltic fear. France is the founder country of European Union and it is its duty to assume this role.

If France wants to stay a big and influent country inside Europe, it must be more credible also toward Germany. There is currently a serious credibility problem of France with the economic reforms to do, the respect of promises about deficit and debts. The future President will have all these challenges: creating a new French-German couple, getting closer to Eastern Europe and managing Russia and Putin Ambition. Russia appears as a problem today but it is also the solution France often distinguished itself in the world by its independent diplomacy. its brave positions during the Iraq War in 2003 by threatening to use her veto against an American resolution, its Arab and African policy and its influence now have to serve for a new collaboration with Russia. Russia is the solution not only for Europe but this new space out Europe-Russia will allow protecting Europe of the current conflicts in the Middle East and all which is in touch with the international terrorism. The Eastern Partnership can only win in this way.

## Conclusion

The future will tell us if France has taken a new and realistic way for Eastern Europe relationships. 2016 had seen many surprising and unexpected events. The next months would be crucial for France and its place inside Europe and the world.

Eastern Europe countries are worried. Worried about Russian threat and provocations, about Russian aggression inside Ukrainian neighborhood, worried about Russian provocation in Baltics countries. Putin knows how divided is Europe because this Europe is weak.

A Stronger Europe means a new French-German couple, a stronger Europe means maybe a new Weimar triangle including the "new Poland", which represents the new voice of a new Europe. It is currently impossible to ignore and close our door to Russia. Europe has the duty to invite Russia for dialogue and maintain the cold war is over. United State is an allied but not a master who will conduct European policy.

This is how France would manage its new policy. For this, it must accept globalization, making reform to be more credible and just opening its eyes: Europe has changed and France has to show to the rest of Europe that it will be change.

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