

# COMPETITION AND COMPETITIVENESS UNDER THE CIRCUMSTANCES OF GLOBALIZATION

**Laurentiu Constantin Dragomir**

Faculty of Economics and Business Administration  
University of Craiova, Romania  
e-mail: dragomirlaur@yahoo.com

**Luminita Lucia Vochita**

Faculty of Economics and Business Administration  
University of Craiova, Romania  
e-mail: luminitade@yahoo.com

## **Abstract**

*This paper deals with issues concerning competition and competitiveness in the context of economic globalization. If for a certain period of time the international specialization of countries has been oriented by the theory of comparative advantage based on the existence of some abundant natural resources, today the success and the specialization of national economies primarily depend on the degree of firms' competitiveness on the domestic and international market, on the assimilation of the technical progress and less on the existence of natural resources.*

*Under these circumstances, a new concept emerged - the one of the competitive advantage, representing a microeconomic vision based on four essential elements: the firm, the competition, the favourable economic environment and the adequate economic policies.*

*Apart from national markets that isolate and fragment out-put maintaining at a low level the competition and firm's profit, globalization creates the opportunity of increase in scale economies. The increase of the competition capacities first involves the development and implementation of some strategies that envisage the gain of a competitive advantage from the assembly of concurrent in a certain field of activity.*

*Under the circumstances when the transition from the industrial era to the information society, especially dominated de computers' industry, telecommunication and media, success depends on the chosen strategy, on the use of performing policies in the field of quality ensuring, marketing and human resources.*

**Keywords:** competitiveness, competition, knowledge-based-economy, productivity

## **1. Introduction**

Presently, the evolution of the small scale and medium size enterprises is marked out by the characteristic processes of the world economy, as it follows: *the globalization of the economic processes, and the expansion based on knowledge.* After the Second World War, the globalization of the economy represents one of the forces that have changed the world. So, in the last 50 years, the international trade grew considerably, the mobility of the financial capital increased especially in the last 30 years. The main causes of this phenomenon were on one hand the acceleration of the technical progress which drew upon itself the significant reduction in the costs of communication

and transport, and on the other hand, raising the barriers which restricted the international trade and investments.

## **2. The Effects of the Globalization on the Competitiveness of the Company**

The processes which accompany the globalization created an operating context of the companies which is different from the traditional one. If in the traditional economies the local companies were "defended" by the technologic evolution, in the frame of the world economy the companies are directly exposed to the competitors both on the local market and on the international market. In order to survive or to develop, these companies have to be competitive. As a consequence, the problem of competitiveness becomes an essential problem of the enterprises.

The competitiveness is a complex process, which was disputed by economists all around the world. Being connected with the notion of competition, it expresses at a general level the ability of the persons, firms, economies, regions to be in the local and international competition and to obtain economic advantages from this (and not only).

R. Carbaugh, professor at Washington University thinks that it is easy to define competitiveness at the level of the firm. A company is competitive, in his opinion, if it produces goods or services of a high quality or at a lower price than its internal or external competitors. (Carbaugh, 1995, p.26)

But from the point of view of a nation, competitiveness can be defined in various ways. All these way of approaching and classifications have a common denominator - which expresses the capacity and ability of the respective country to effectively use the opportunities from the international market. The global competitiveness represents the capacity of a country, to create, produce and market, under the circumstances of the free market and fair competition, goods and services either of a high quality or at an inferior price compared with the goods and services provided by other countries.

The offer of goods and services having a high quality is a problem which is clearly connected with competitiveness. The capacity of a country to obtain higher prices for the goods marketed on the global market represents a more attractive objective and consequently a more powerful challenge of competitiveness, than the sale at low prices.

In his works, L. Thurow also shows that the sources which are traditionally considered responsible for the achievement of a competitive statute of the economy were cancelled by the outstanding progress of the technology from the last years, these things allowing the countries without important natural resources to be competitive (as for example Japan). L. Thurow considers that the absence of the natural resources can become an advantage, because these countries will be stimulated to innovate more and faster to keep the pace with endowed countries. Moreover, the belonging of the companies to a wealthy economy, does not represent any more an essential factor, because the financial flows became very mobile and financial investment can come from everywhere as long as the idea is very interesting for the investors. (Thurow, 1992, p.45)

M. Porter shows in his paper "The Competitive Advantage of Nations", that the effort to evaluate a nation's competitiveness has to take into account the standard of living, because one cannot talk about a competitive nation without thinking that the population of that country should have a high living standard. The definition of the competitiveness as a part of the market, at a global level, which covers the exports of a country brings a limited and unproductive approach, because it does not take into account the capacity of the economy to create the welfare of the nation. The national industrial policies which try to expand the exports by maintaining the salaries at a low level or by the devaluation of the national currency do not lead to the improvement of the living standard, even if the exports grow, and therefore M.Porter thinks that this economy is not competitive. On the contrary, the competitiveness is based on the national productivity which is the only one which can help to the growth of the exports by increasing or maintaining a high living standard. (Porter, 1990, p. 47)

One can distinguish at least two main ways of approaching the concept of competitiveness:

- A first approach concerns the competitiveness as a matter of relative, static or dynamic efficiency. This can be quantified on the basis of the level of competitiveness (the level of productivity, the growth of competitiveness, and so on).
- A second approach considers competitiveness as a reflection of the performances in the international trade (performances measured in the form of the part of the export markets, or under the form of the import penetration).

There are many other definitions of competitiveness. As for example OECD defines it as it follows: the capacity of the firms, sectors, regions, states or supranational organisms which are in an international competition, to generate a high level of incomes and placement for the labour force on a sustainable basis. (OECD, 1996, p.6)

This definition clearly points out the determining impact of the competitiveness on a nation, on the level of the income and implicitly on the living standard from the respective country.

This approach of the competitiveness from the perspective of the effects it generates for the welfare of the nation and not only for the conditioning factors is also taken over by the European Union. Starting with 1994, when the Resolution of the Industry Council was the starting point for the elaboration of the Report on the EU Competitiveness, the competitiveness is seen as the process which leads to the maintenance of the growing national living standards, under the circumstances of the lowest level of unemployment. (CE, SEC 2003, 1299, p.6)

From the political economy classics point of view, the manifestation of the offer and demand based on the free initiative generated by the private property, neglects the time and place factors. The fact that the economic equilibrium is assured only by the system and mechanism of the markets, makes the economic agents to be passive, these having the absolute advantage (A.Smith) or the relative one (D.Ricardo). According to the Austrian economist Peter Schifko, competition coexists with monopolistic elements, so it has many forms, because it

does not manifest only through the prices, but also through the production, the quality of the product, the sales policy and competition; it is not perfect but it is dynamic and effective. (Schifko, 1989, p.210)

This view regarding the competitiveness is considered to be the basis of the competitive advantage concept. In order to define the competitive advantage and the measures which have to be taken for a country (economy), two characteristics of competitiveness will be rendered valuable: the multifactor character and the process character at the interference between internal and external environment, between the productivity of using the available production factors in the respective economy and the efficiency with which the commercial relations take place between the countries.

The preoccupations of the European or American economists, regarding the competitiveness of the national economies are neither unique nor new. Mihail Manoilescu was interested in these matters more than half a century ago.

M. Manoilescu replied to the principle of the comparative costs and advantages formulated by D.Ricardo by the so-called "law for the concentration of the national economy in the direction of the maximum productivity", by encouraging the industrial activities which are characterized by a superior productivity compared to the agricultural one. M Manoilescu, a well known Romanian economist, was concerned with the small open economies which under the circumstances of the global economy liberalization could become dependent on the big open economies. From the point of view of this problem, it is very important to mention the appreciations he made concerning the parallelism between industry and agriculture and especially those concerning the unity between the trade advantages and the production advantages. (Manoilescu, 1986, p.73)

### **3. The Policy for Competitiveness - Lisbon Agenda**

The problems of the European Union's competitiveness are not very recent. But in the first years from the Treaty of Rome, the concerns with the national industries were let on the nations. In the 70s together with the launch of an industrial policy, competitiveness was included in this industrial policy. The main orientation was that of supporting some sectors - as for example siderurgy, naval constructions - in order to maintain them in tough conditions caused by petrol crises, but also to maintain the working places. In the last two decades, the industrial policy of the European Union was reoriented from sectors and enterprises to a business and competition environment.

In this context the interest of the EU to increase the competitiveness was clearly expressed at the beginning of the '90s, especially as a consequence of the evaluations on the EU economy place in the global context.

Why is competitiveness important? The answer lies in the content of the notion which is complex but it also depends on many factors and it essentially means certain productivity-the only source of welfare.

Recognizing the gaps in the field of competitiveness with regard to USA needed the creation and launch of a new strategy in this field,

which took place together with the European Council from Lisbon, March 2000. The launched objective was to become "the most competitive and dynamic knowledge-based economy", up to 2010 which should be capable of sustainable economic growth, with more and better working places, with social cohesion. Analysing the content of the Lisbon objectives, one can notice their orientation on three pillars of competitiveness:

- a) The technical conditions of strengthening the competitive position of EU: could not be others than those referring to what it matters today in the aspect of competitiveness, research -innovation, communication-information;
- b) The economic conditions: the macroeconomic stability, which was already gained, had to facilitate some positive effects on the economic growth, by removing some barriers for the liberalization in the internal market, especially by creating an environment open to competition, by a greater liberalization of services and generally a better development of the integrated financial services; a better business environment for enterprises, which means a better judicial environment and less birocra-tism;
- c) The social component, having an aspect which concerns the labour force (economic growth and working places), preparing the labour force for the conditions of a knowledge-based economy, but also the modernization of the social security system. One can understand the intention to bring some changes in the European social security system related also to economic and demographic changes and the limits of the budget.

The main findings resulted from the periodic evaluations on competitiveness, as they appear in the reports of the European Commission on competitiveness but also in the Reports of some independent organisation (for example World Economic Forum), refer to the degree of accomplishing the established Lisbon objectives (the 8 objectives), but also the EU situation in comparison with USA. The sources of information for these evaluations are EU statistic data concerning the macro- and microeconomic environment and some comparative evaluations concerning the hierarchy of some countries. These things are done by the World Economic Forum which uses two synthetic indices: the *Growth Competitiveness Index*, applied in the last Report for 116 countries, and a *Business Competitiveness Index* which sums up the results of the empiric researches on the investors' opinions related to the business environment. (Porter, 2004, p.36)

The most important findings related to the EU situation, resulted from many evaluations are as it follows:

- None of the EU countries reached the maximum score for the competitiveness indices. The order, according to the medium score is: The three Nordic countries (Finland, Denmark, Sweden) are in top; in the middle zone there are the United Kingdom, the Netherlands, Germany, Luxemburg, France, Austria, Belgium, Ireland; the lowest level is in the southern countries (Spain, Italy, Portugal); the EU not only that did not reach what it proposed in the competitiveness field, but it is also not a homogeneous space in what the levels of performance in each state are concerned. This suggests that, the policy at the EU level can face only the common aspects, the states having to identify the specific measures for the def
- The comparison between EU and USA on the basis of the same criteria, clearly show that, the score of the EU is under that of USA. USA achieved the highest score, rising above the three Nordic countries, regarding the innovation (EU spends only 1,9% from GDP for research

and development, in comparison with the minimum of 3% which was approved by the European Council from Barcelona and the 3% which are spent by USA) and the quality of the business environment, which explains lower the level of competitiveness of EU compared to that of the USA (the GDP/inhabitant stands for 70% from that from USA). The fields in which USA gets ahead of EU are social security, the environment and sustainable development, communications.

The results are not modified compared to those from the last two years, which shows that the EU progress in this field was less visible. Among the causes, as it results from several presentations of the European Commission officials, are the maintaining of some barriers in the internal market of the EU, the fact that the reaction of the business environment to the introduction of the Euro was weaker than expected, the lack of high qualified labour force, the subfinancing of the universities but also the weak contacts these had with the business environment, and the low entrepreneurial culture.

The indices of the EU economy which express the evolution which is not sufficiently positive or even negative are: the rate of relaunching the economic growth which is moderate, only 2,5% (the result was positively influenced by the inclusion of the newcomers, while the "old continent" registered a very low rate, which shows that the enlargement is really an opportunity for EU); the budgetary deficit above 3% from GDP stipulated in the Maastricht Treaty, in more than 1/3 from the number of the EU members; the high unemployment rate, although the productivity was in decline, which implies the fact that Europe has not sufficient business opportunities and/or that it is difficult to start a new business, and on the other hand, the social security system is too protective and that the labour market is not sufficiently flexible to absorb the unemployment. In other words, the costs of the EU social security system is extremely high and affects the competitiveness of the companies being in competition with American companies which have the advantage under this aspect. EU is disadvantaged against its competitors and the participation rate of the labour force which in 2002 had only 68.2% in the Euro zone compared to 76.4% in USA, which shows the need of reform for the European pension system, according to the demographic changes, the process of population ageing, but also the growth of the medium life duration.

As a consequence, the question regarding the measure in which the European model is sustainable, or the fact that the process of European economic growth was based more on imitation, than on innovation and that a serious reform of the market's components, especially the labour market and the educational system is fully justified. This, and more if the model of economic growth will fundamentally change in the next 20 years in the sense that the classic manufacturing industry will not be so important any more and the knowledge-based services and industries will grow. Such a development supposes the growth of the educational level. From here on, the EU orientation is summed up as it follows: Europe has to strengthen the three pole of the knowledge triangle: education, research, innovation. The role of the universities is essential in all these three instances. To invest more and better in the modernization and the quality of the universities means to invest directly in the future of Europe and the future of the Europeans.

In these conditions, relaunching the Lisbon objectives aims at the consolidation of those fields which are in the initial Lisbon project, in order to increase the chances of economic growth and to create new working places: the enlargement and consolidation of the internal market; the improvement of the European and national legislation; a better infrastructure and research and development investments; the facilitation of the innovation and the ICT sector, plus using the resources so that they could support the sustainable development; increasing the degree of the labour force occupation and again the idea of modernizing the social security system; increasing the degree to adapt to the business environment and the labour market.

What is new in the relaunched Lisbon project refers to the insistence on a new way of government, a better division of the commitments and responsibilities between the EU level and the member states for each objective. In this way each state has to achieve a higher implication in attaining the general objective of increasing the productivity and competitiveness. The EU Commission elaborated more initiatives at a common level; some of them became programmes with the purpose of promoting the idea of some public-private partnerships, which should support the technologic progress, innovation in order to increase the productivity and the competitiveness.

In this sense, there are some initiatives that have to be mentioned:

- **EUREKA** - an initiative dating from 1985, being a Franco-German project - but nowadays it comprises 34 countries and it is meant to promote innovative projects in the field of manufacturing industry, by a public financing partnership (30%) and a private one (70%). EUREKA is a network of research and development projects which is market-oriented. In fact, EUREKA promoted the idea of creating some competitiveness clusters, especially by developing new technologies in the IT, energy and biotechnology field.
- **European Technology Platform and Joint Technology Initiatives** - In order to facilitate the Lisbon objective and to increase the financing given for research purposes, according to what was settled at the European Council from Barcelona, from 3% from GDP from which 2/3 should be private contribution. The European Commission elaborated a proposal which introduces the concept JTI (Joint Technology Initiatives) - as a new way of creating public-private partnerships at a European level. The European Technologic Platforms are meant to indicate the research to the most important technologic objectives which are to be financially supported by both FP7 and also according to the rules of the state aid but also by private support. The result has to be the creation of a clusters network which should value the research potential and the European resources.
- **The presence of the clusters in some countries** - Porter's ideas concerning the competitiveness and the promotion by clusters were taken over immediately, the most active regions being Catalonia - Spain, Lombardy-Italy, Rhone Alpes - France, Yorkshire - Great Britain. France, for example promoted the idea of some new poles of growth which with the granted support for the development of the infrastructure attracted investments which should contribute to the economic growth. France adopted more decisions related to the strategy of industrial policy, which should concentrate on the main competitiveness factors. The policy of sustaining the competitiveness clusters took place in this context. The sums announced for this initiative will raise up to 3 billion Euro for the years 2006-2008 and other sums will be added which will come

from the EU structural funds and FP6 /FP7 for research, finances from Eureka, plus sums from the public-private partnership (intervention credits from the ministry, support from the public research-innovation agencies).

The idea of organization on clusters also came into the Eastern Europe, after the year 2000. This situation is differently presented from a country to another -from Slovenia- the first country in this area which integrated this concept in a industrial pro-active sustaining policy of the SMI and giving some important financial resources for the improvement of the innovation, up to Poland, in which some clusters were suddenly set up, especially in the high-tech sectors, but where cluster concept did not become an instrument of industrial policy. Although Hungary is not the most spectacular case for the development of the clusters, it deserves some attention for the launch of a new economic policy entitled "Smart Hungary", with the intention of using the university research institutes cluster from Budapest in order to strengthen the relations with the most dynamic companies.

In the case of Romania, one has to mention the presence of a single cluster in the specialized literature that is the production of medium quality shoes, by the presence of an important number of Italian companies in the Timisoara region. The same cluster is mentioned as an example of enlargement of an already existing cluster in Montebelluna, Veneto (Italy). The profile of the economic sectors will come out from this downwards-upwards development and will not be an object of a traditional policy, which is impossible to be promoted in the actual conditions or which could fail from the start.

#### **4. The Analysis of the Competitiveness Policy at the level of the EU**

If we agree or not with the paradigm of the competitive advantage, it is obvious that it dominates the way of action and perception at a communitarian level from the beginning of the `90s. The conceptual fundamentals of the EU competition policy seem to be inspired both from the Porter`s theory of the competitive advantage, but also from some influences from the specialized literature.

Competitiveness remains a controversial concept, defined for companies but a concept that is applied for many geographical areas. In the acceptance of the European Union, competitiveness means productivity and a comparative advantage on an international level. Productivity comprises the intrinsic elements of the comparative advantage, but it also includes a wide range of factors. In a communitarian vision "competitiveness is determined by the growth of productivity."

In his discourse from 1993 from Copenhagen, Jacques Delors presented his vision on competitiveness which was closer to the classic vision: the international trade is a game with a null sum and the EU is not in a tough competition with other states and regions. Some authors (as for example Krugman) interpreted differently such declarations as a political capitulation to the enormous difficulty of the reform "of the European social model". So, the presentation of the economic problems of the EU member states as a direct result of the external competition should only be a diversion, taking into account the fact that the real problems were sensible from a political point of view.



After the first half of the past decade, the communitarian discourse on competitiveness seems to come to another level and a document of the European Commission from 1996 mentioned that the European Economy had to overcome the deficiencies which affected its performance, and more exactly the slow rate of growth for the productivity of the factors, the insufficient adaptation of the economic structures to the realities of the new markets and technologies and respectively the usage under the optimal parameters of the labour force.

Lately, the European Commission notice the fact that the recent decrease of the rate of productivity is synonym with a deterioration of the competitiveness. The High Level Group presided by Wim Kok, which issued the critical report on the implementing stage of the Lisbon Strategy from 2004 and expressed the same point of view: in order for Europe to improve the living standard, one has to accelerate the process of creation of new working places and the rate of productivity growth. The European Commissioner for competition transmitted the same message: competitiveness represents the capacity of the European firms to deliver for reasonable prices, goods and services which other persons, firms or nations wish to buy.

The main analysis and strategy documents related to competitiveness are elaborated, for the European Commission, by the main consultancy and business companies. Even these studies lead to the idea of overlapping the concepts of competitiveness and competitiveness.

A better usage of the work of the employees (productivity) and the implication of more people in the economic activities are to be found in the initiatives from the EU competitiveness policy. The productivity of the work is determined by the intensity of the capital (the quantity of capital per worker), the abilities of the workers (education, continuous preparation) and the total productivity (efficiency - a better management, innovation: new methods, technologies, processes). A better usage of the available labour force can be attained by increasing the degree of occupation of the labour force, the degree of participation to labour (age of retirement) and the number of worked hours (flexibility of the working schedule). The Lisbon strategy only translates in better understandable terms for the national electorate the two determining factors of the prosperity: more working places (the growth of the degree of occupation of the labour force) and better working places (superior productivity).

The results of the above-mentioned statistic parallel are in concordance with the theory of the competitive advantage: a high social performance (translated in the high standard of the education and health system, in creating equal conditions for the development of the individual capacities) should lead to a superior economic performance.

All these aspects have to be analyzed taking into account the defining elements of the competition. A more open economy, with a strong internal and external competition, helps to expand the best practices and improves the efficiency. This encourages also the development of new products and processes. The competition on an external and internal level is an impulse for the efficiency of the new technologies and innovations, which in their turn determine the growth of the productivity. In spite of these, the contribution of the competitiveness to the economic performance cannot be easily measured,

as in the case of some other factors as the work, the capital or the technology. Because the competition is a complex and dynamic process, a single measure can only lead to a good image of the competition environment. A factor which influences the dimension of the competition on a market is the relative degree of opening of an economy. Besides the fact that this opening determines the growth of the competition, it also means giving some technologic transfer facilities, supporting the best practices and promoting the access to knowledge-based sources on a global level. The variables which were used to evaluate the opening degree are the intensity of the export, the penetration of the imports, the level of the customs taxes and the foreign investments.

These ideas are legitimate and justified from an economic point of view. But to put them into practice is not an easy job. It is important to be underlined the limited character of the effects of growth of occupation of the labour force on a long term. There is a physical limit of this thing: the quantity of the labour force and time are limited resources which cannot be used more than 100%. As a consequence, although this critical objective it is not a very competitive one.

The idea that a main determinant of the European prosperity is the competition with the USA and Asia still remain surprisingly and inexplicably present inside EU. Recent documents give a significant space to this subject which can be considered a persuasive exercise of the public which is not educated in the economic sciences. Only the theory of the competitive advantage could possibly justify such an approach.

## **5. Conclusions**

Concluding, the objective of creating new working places should not stand for the state intervention in the direction of supporting some economic sectors. It seems that this is also the consensus for the EU.

An extremely discussed element of the competitiveness policy is that of the relation with the European social model. In most of the times, the difference of economic performance between USA and EU is rationalized by the supposed differences in what the compromises between the economic and social objectives are concerned. Without taking part in this debate, we choose to contest this way of thinking: apparently there is no such compromise. The economic prosperity seems to be correlated with the human development index.

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Name and Surname: **Laurentiu Constantin Dragomir**

Didactical Degree: Lecturer PhD.

Citizenship: Romanian

Work Place: Economic Theory Department, Faculty of Economics and Business Administration, University of Craiova, Romania

Address: str. A.I.Cuza, no. 13, Craiova, Romania

phone: +40.251.411.317

e-mail: dragomirlaur@yahoo.com

Name and Surname: **Luminita Lucia Vochita**

Didactical Degree: Lecturer PhD.

Citizenship: Romanian

Work Place: Economic Theory Department, Faculty of Economics and Business Administration, University of Craiova, Romania

Address: str. A.I.Cuza, no. 13, Craiova, Romania

phone: +40.251.411.317

e-mail: luminitade@yahoo.com