THE ECONOMICAL SECURITY CONCEPT IN THE CONTEXT OF THE GLOBAL ECONOMIC CRISIS

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Abstract: *The analysis focuses on the dark realities of present, when the global economic body slipped down of the generalized imbalance. If the original was more a liquidity crisis and of the stock exchange, the effect of the current economic downturn has been felt in all areas and worldwide. The author is investigating the impact of crisis to the national economic security and particularly the case of Romania. For purposes of this paper, I considered relevant the analysis of economic security under the current crisis in terms of national economic competitiveness. The fall of the national economy has many serious effects, from the economic security of the individual and his family up to reducing the state economic security, from the vulnerabilities amplification political, economic, social and military rule, up to shock the architecture of security and regional and global stability.*

Keywords: *economic security, global economic crisis, competitiveness economic environment.*

1. THEORETICAL APPROACHES

To understand the economic security concept is required a prior analysis to the term of security. This, despite numerous discussions, remains nebulous, often used as a pretext, an excuse or justification for other political measures or strategic ones, more or less justified [1]. However, what we can say with certainty is that security is the common denominator of the major concerns that include for understanding and application, the state and social stability, political, economic, cultural and other indispensable both to the existence and development of state actors or union of any of them, and preservation of their fundamental values and positive promotion of their interests [2].

Blackwell dictionary of political science indicates that security is a concept used in discussions about foreign policy, but suitable also for statements regarding individuals or states. If during the Cold War there were limits to define the term security, charging it with particular military connotations, after the fall of the Iron Curtain and especially after 9/11, security is extended to the political, economic, societal and environmental.

The economic security is a complex and dynamic concept derived from many economic phenomenons, that occur both nationally and globally. For purposes of this paper I believe that the definition of relevant economic security aims to ensure the conditions for the full exercise of its law to dispose freely of external nature, in harmony with its own interests and aspirations [3], resource, finance and markets necessary to ensure an acceptable level of wealth and power of the state (Barry Buzan). To define the economic security of Romania requires to identify all the necessary conditions to be provided for the country's economic development and catching of development with the Western EU countries.

In the context of these approaches, it must operate at the conceptual distinction between *the economic security* and *the economic dimension of security*. If the first concept concerns the functioning of an economy and is equated with „safety tomorrow" in terms of prosperity, welfare, standard of living decent/adequate, economic independence, the second captures the operation of the social and political systems, the state, public institutions, and national organizations as part of international alliances and coalitions [4]. On the other hand, if economic security is a direct consequence of the economic power of the state, the economic dimension of security is relevant to the fact that without a strong modern economy , the safety and stability of the state or the international community can not really exist.

In terms of economic and financial crisis, the economic security is a key component of national security at least in terms of resources and ensuring a dynamic balance for other components of this system [5].

What in February 2007 seemed to be just a U.S. financial problem, a year later turned into a global economic crisis. Before the financial downturn, the international economy was already severely affected by rapidly increasing oil prices and increased market prices of consumer goods [6]. Even if the economic security is a concept with multiple meanings, the threats which it is subjected to throurgh the changes in the external economic environment are a certainty, especially in conditions of globalization, when economies overlap and become vulnerable to a global crisis.

Economic security is directly affected by *the competitive economy,* by the way it adapts to changes in the global economy. The competitiveness is defined as all institutions, policies and factors that determine the productivity of a country [7]. This level of productivity, in it's turn, determines their sustainable growth that can be achieved by an economy. In other words, the competitive economies lead to improved living standards of population and also determines the rates of return obtained by investing in an economy.

Therefore,the concept of competitiveness has both a static and one dynamic side: it determines the ability of the state to support its level of income, but investment returns in the economy, beeing one of the factors explaining the growth potential in the future.

2. THE WORLD CRISIS AND THE ECONOMIC SECURITY

In the context of confrontation with the largest global recession in the last decades, policy makers were confronted with new economic management challenges and adopted an active position. Thus, to avoid entry into financial system collapse, banks have been rescued or nationalized on an unprecedented scale. It is in contradiction with the modern capitalism principles and it has strengthen the private sector in expense of the state.

The current financial shock has led to slowing the global economic growth in an alarming rate: 6.3% reduction in the last quarter of 2008, compared with growth of 4% a year ago [8]. Financial bankruptcy expended rapidly over the world, based next near tricks with irregular loans, on the following cases: a flow of cheap money coming from emerging markets (especially China), financial regulation inconsistencies, distortions in government policies and an inappropriate oversight on these markets.

As a result, according to IMF estimates, the aggregate amount of losses to banks and other financial institutions, only in 2009, has exceeded 4 trillion, while only 1,1 trillion was designed to resolve the crisis. An analysis of the effects only to the U.S. [9] show that GDP for 2009 is lower compared to 2008 by 7%, cumulative for three years, the buildings fell by 33%, 22% of the amount of funds lost retirement, to which adds 1,2 trillion in deposits and investment losses. All these losses amount to colossal figure of 8,3 trillion USD.

Before analyzing the effects of the current crisis on economic security, I think it is good to know that this can be quantified. There are several concerns in this area, of which I mention: the International Labor Organization, which launched the methodology of calculating an index of economic security to the individual level or Sightline Institute in the U.S. that calculates an index based on their economic security unemployment, children powerty and the average income.

The economic security is directly influenced by economic competitiveness so, my analysis is designed starting from the Global Competitiveness Index (GCI), index that the World Economic Forum based its reports since 2005. This index captures the microeconomic and macroeconomic foundations of national competitiveness and has 12 pillars: institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market sophystication, technological readiness, market size, business sophistication and innovation.

The importance of a solid *institutional environment* has become even more apparent during the curent crisis, given the increasingly direct role played by the state in the economy of many contries. The degree of control by the state to private groups is greater, the public goods tend to be directed primarily to representatives of dominant groups and the state becomes increasingly weak. If anti-crisis strategy does not pose serious challenges for knowledge, serious problems may occur in practical application where there is lack of institutional capacity, mechanisms confusing or inexplicable bureaucratic delays.

Also, private institutions are an important element in creating prosperity. The ensurence of transparency in the private sector is essential for business, as indeed, the recent global economic crisis has highlighted the relevance of accounting and reporting standards for the prevention of fraud and mismanagement.

Infrastructure is the key to ensuring the effective functioning of the economy. In the crisis context it became more evident that lack of infrastructure is a brake in economic development. Infrastructure is, for any country, the backbone of the economy. It is an area in which the crisis can still be a positive factor on the long term, given the central role of infrastructure development in most national stimulus package.

Macroeconomic stability is important for business, but equally important is the fact that by itself it can increase the productivity of a nation.Maintaining macroeconomic stability is essential to prevent adverse effects associated with sudden fluctuations. Economic indicators fluctuations, a high interest rate monetary policy, an unstable exchange rate can be for investors as many signs of declining marginal productivity of capital [10]. The impact of the crisis on macroeconomic indicators is clear: they have changed over the past years and have generated or have reacted to economic contraction. For Romania, a country considered to be affected average by the crisis (Table 1), these indicators show the following:

<u>Unemployment</u> returned on an upward trend since the second half of 2008. Unemployment reached 6.3% in July 2009, a level that has not been confirmed from 2006. Most of those who remained unemployed in 2009 come from the private sector, more sensitive to shocks in the economy. The government planned to reduce the vast bureaucracy of the year 2010, the number of unemployed will probably exceed the threshold of 1 million.

Table 1 Romanian macroeconomic indicators

GDP (1^{st} half 2009/1^{st} half 2008)	-8.7%
Hoseholds consumption (1^{st} half 2009/1^{st} half 2008)	-15%
Gross fixed capital formation (1^{st} half 2009/1^{st} half 2008)	-25%
Industrial production (July 2009/July2008)	-6.9%
Current account deficit (July 2009/July2008)	-73.8%
Unemployment (August 2009)	6.6%
Budget deficit (8 months 2009)	-4.4%

<u>Inflation</u> has changed its upward trend at the same time with major reductions in spending population. Thus, the annualized inflation down by nearly 4 percent from the maximum recorded in summer 2008, reaching 4.7% at the end of 2009. Some banking analysts argue that this level is still slightly higher because of the monopolistic markets where consumers can not exercise sufficient pressure to determine the reduction rate of price increase.

<u>Industrial production</u> went into negative territory since the fall of 2008. The decline deepened in 2009 when there were significant monthly decline, in the context of the low demand which caused the companies to reduce the volume of manufactured goods. In the II quarter, Romania's industrial output dropped by over 8%, while in some European countries dropped by over 20%. Amid the decline of exports and domestic demand weak, some factories even produce at half of their capacity.

External debt of Romania's medium and long term exploded in 2009, reaching 57.2 billion EUR. Analysts argue that because the most debt is represented by the long term, the major risks in the economy are minor.

GDP, after in 2008 reached a record 126.4 billion EURO, up by 7% compared to 2007, declined by 7.1% in 2009. This is the first annual decline after 2000 (Fig. 1), during which nominal GDP of Romania increased by more than tripled.

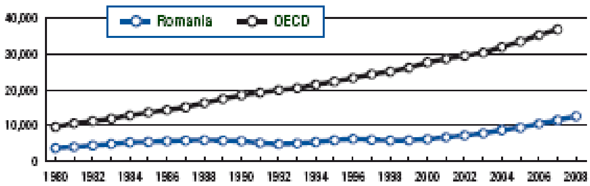

Fig. 1 GDP (PPP int'l $) per capita, 1980-2008

Decreased the exports, the industrial production and the foreign investment have put huge pressure on emerging countries in Eastern Europe, including Romania, which have seen no source that fueled the economies in the past.

Public debt reached in the midle of 2009 the value of 29.3 billion EURO, almost one quarter of GDP. With falling revenue from the state budget, the Government had to borrow from both local banks and from international lending institutions.

Net average wage has continued to grow and in early 2009 but at rates much lower than previous years. Thus, in June 2009 it was 1379 lei, by 8.3% above the same month in 2008. The wage growth has stopped speaking of a „freezing" of the wage income of the entire 2010 budget. The high pressures to reduce costs recorded also in the private sector.

Foreign direct investment in the Romanian market in 2009 saw a decline of almost 37% compared to 2008, year of the post-revolutionary maximum (over 9 billion EURO). Now, the investors are more alert regarding the risks of operations in emerging markets, especially in a time when funding is more difficult obtained than previously.

The exchange rate leu-euro has stabilized in the recent months around the threshold of 4.2 RON, after a galloping growth recorded in the late of 2008 and early months of 2009, when it exceeded the threshold of 4 lei/euro. The result of plummeting current account deficit has led most specialists estimate for 2010 has an oscillation rate between 4.0 and 4.5 RON/ EURO.

The exports of the Romanian companies have declined in the late of 2008, amid contractions developed economies of Western Europe. During January-June 2009 exports registered an average decline of almost 19% over the same period in 2008, while imports recorded an average contraction almost double.

Thus, the Romanian commercial deficit in the first 6 months of 2009 was 4.3 million EURO, 6.8 million EURO less than the same period of 2008.

Following of the output recession signals in the Western European economies, it is expected to demand a return of Romanian products since 2010 (Fig.2). A healthy population means a vigorous nation and a productive workforce, which is a prerequisite for sustainable economic development of a country.

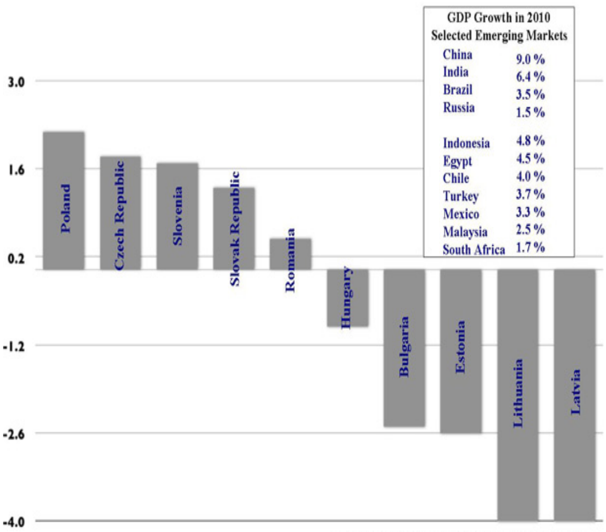

Fig. 2 GDP growth in 2010

The financial crisis is felt in *the health system*, which in most cases requires additional funds, otherwise the risk of inability to grant health care essentials is imminent. The only way to avoid such devolution is to maintain system health on the agenda of government priorities, investing and using health resources efficiently.

Basic education, the quality of higher education and training are crucial for economies that want to move the value chain beyond simple production process. The global financial crisis threatens to deprive millions of children in the poorest countries of education, with a secondary effect on future economic growth. Governments are forced to reduce expenditure on education, which might lead some parents to withdraw children from school. Thus, we witness the „creation of a lost generation with huge costs to society” [11].

In terms of *efficiency of the goods market*, because of the sharp fall in prices on commodity exchanges, the strategy followed by major exporters was to extend massive stocks, while reforming the industry.

The economic crisis brought on the *labor market* new supply and demand reformulations. If qualified staff felt the effects of the crisis by lowering offers and reduced wages, those with common jobs are faced with the need to retrain in order to keep their jobs or to find some work, in conditions that the unemployment is rising. Thus, in an International Labor Organization report shows that in 2009, global unemployment has reached 6.6%, meaning 212 million people unemployed.

Despite measures taken by governments, the number of unemployed will remain high in 2010. The young people under 35 were most affected. Between 2007 and 2009, 10.2 million people were forced to live from unemployment benefits. In Romania, the crisis has created a paradoxical situation: in terms of unemployment rates that exceeded 8% in January 2010, there are a number of sectors in which jobs are available for anyone but nobody applies to occupie them. The necessary staff training and workplace training for adoption workers' skills to the changing needs were the last priorities in the current economic context.

Those who regulate and supervise the *financial markets* should never underestimate systemic risks and have to be always on alert when it comes to financial stability. The accumulated losses of the global financial system following the credit crisis could amount to 2800 billion USD (after the Bank of England's estimate of 28.10.2008). The most severe financial crisis of the past 80 years has caused the global collapse of the stock exchanges, the bankruptcies of more banks emblematic of the modern market economy and adopt more extreme measures by countries to stabilize their economies or avoid collapse.

The current economic climate has led to a change in thinking about *technology* and its impact. In the context of „new normality” [13], innovation based on technology are the main leverage in order to create competitive advantage. The feature taxes for technology are becoming more limited, but what the state can do is to provide a fair competitive market.

The same phenomenon is found in *scientific research*. Drastic decrease in the budgets in this area affects not only the opportunity to conduct research projects by national or international competitions, but the long term, the loss of human resources in research. Basically, under-funding of research is a loss of national competitiveness of the economy that will persist for decades.

The markets were not immune to current financial shock and many were severely affected. For example, the situation on the main market in early October 2008 was presented in this way: The U.S. Dow indicator decreased by 25% in three months, the indicator of China's Shanghai Exchange fell by 30% at Brazil's BOVESPA, with 41% and Russia, RTSI, with 61%.

Not even the emerging markets have been avoided; they were badly affected due to reduction of export and flow of private capital. This effect was magnified by the phenomenon of „flight to quality” when investors withdrew their capital from risky markets. The countries are required more than ever to manage economic sovereignty from national competitiveness, increase of national wealth fund involvement in international economic relations and national economic security.

3. CONCLUSIONS

The main lesson that we gave the current recession is mainly related to reconsider the state's role in rescuing the financial system, in ensuring the sustainability of the system, integrity and transparency it.

Also, the risks during the crisis are changed and interventionist measures by governments are not always welcome, particularly because of the long-term effects. That can be gold-plating of the financial sector or lack of resources that have to be allocated to prevent other risks, such as those related to infrastructure.

However, this crisis could provide an opportunity for governments "transition countries" (as Romania) to regain credibility of their citizens by adopting measures such as the creation of macro and micro economic safe conditions for capital investment stranger, to continue the structural reforms that will be the basis for sustainable growth, focusing on fiscal and monetary policies, the imposition of rule of law, institutions of law and property rights protection.

Without doubt, any state is concerned about economic security. In crisis, economic security becomes more than a component of national security.

It is a direct consequence of the economic power of the state, both seriously affected by changes in external economic conditions and by a number of internal factors: the political system, lack of the economic competitiveness and the failures of the social protection system.

Paradoxically, should Romania is able to effectively manage EU funds under the anti-crisis plan, alongside with a program and a properly tailored crisis budget, flexible enough, it could get out of this crisis stronger, with a substantial increase in economic security.

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