What Others Manifest?

THE WORLD ECONOMY IN THE THEORETICAL TURBULENCE OF GLOBAL FINANCIAL CRISIS

Edited by
İhsan Günaydın and Hilmi Erdoğan Yayla

Gümüşhane
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FOREWORD

The *First International Conference on Critical Issues in Business and Economics* (ICIBE) was held in Gümüşhane, Turkiye on 5-6 November 2009. The purpose of this annual conference is to establish an academic forum for substantive dialogue among researchers to exchange their ideas and researches about critical aspects of business and economics.

2009's theme was "What Others Manifest?" and was focused on the issues that the world economy has been facing by Global Financial Crisis (GFC) since 2007. This book contains most of the papers presented at the conference and they cover various critical topics which focus on global financial crisis from the perspective of different cultures, countries and settings.

Many colleagues were engaged in making the 2009 conference a success. The greatest debt is to the authors. We also would like to thank to reviewers and faculty staff for their support and devoting time to make this event available.

İhsan Günaydın
Hilmi Erdoğan Yayla

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THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON REMITTANCING: IMPLICATIONS FOR DEVELOPING COUNTRIES

Abstract

Remittancing is increasingly seen as the bedrock of the diaspora's contribution and engagement with the home country. Remittancing is, however, vulnerable to the fortunes of migrants who are in turn susceptible to fluctuations in the economies in which they are based. These locations tend to be the more developed or industrialized nations in the world. Unfortunately, these are among the nations that have been most adversely and directly hit by the global financial crisis of 2007-2009. This discussion aims to assess the real and potential impact of this downturn at the macro and micro level. It investigates the impact of the GFC on remittancing and the implications for the increasing dependence on this source of development funds. It is proposed that the downturn has highlighted the risks of basing development on financial returns from the Diaspora and that a reliance on remittancing indicates the continuing inability of many countries to provide opportunities at home. Nonetheless, the performance of remittancing, compared to other economic indicators, does suggest that this is a resilient source of income which can be scaled up for long term household and national development. The chapter therefore, argues for more diversification in the way such funds and importantly, diaspora talents and resources are utilized. To this end, it calls for specific attention to the boundary-crossing capabilities of diasporas and involving this group more entrepreneurially in areas such as private diplomacy, marking one way in which developing countries can build resilience in the face of global economic and political uncertainty.

Keywords: Remittancing, Diaspora, Development.

1. Introduction

Diaspora studies have received much attention in recent times with research and debate focusing on migrants and the role that this group plays in development.[1] Added attention has come from the increasing contribution of diasporas to their home countries[2], with remittancing[3] forming the bedrock of this increased contribution. For this reason, the area of remittancing has become one of the focal points in diaspora studies with governments in the host and home countries[4], international agencies, among others, emphasising the value of this growing source of income in assisting some of the poorest countries in the world to cope economically.

Remittancing is, however, vulnerable to the fortunes of migrants whom are in turn susceptible to fluctuations in the economies in which they are based. These locations tend to be the more developed or industrialized nations in the world. Unfortunately, these are among the nations that have been most adversely and directly affected by the global financial crisis (GFC) of 2007-2009.

With this in mind, this chapter aims to examine the effect of the GFC on remittancing. It also aims to capture and investigate some of the issues which have been exposed by this crisis, particularly as it relates to remittancing and development. In so doing it assesses how countries can learn from this experience. This will be achieved through a case study of Jamaica, a small developing Caribbean island-state lying 90 miles south of Cuba and 581 miles south east of Miami.

Jamaica makes a good case given its long history with migration and growing dependence on remittances. The emphasis on Jamaica does not, therefore, negate the value of the findings for other developing countries and regions that depend on remittancing. Indeed, remittancing is a growing industry worth an estimated $443 billion with developing countries in regions such as Europe, Africa and Asia being some of the areas that benefit most from this industry. [5] Thus, the Jamaican case is arguably a microcosm of the global experience.[6]

The rest of the discussion will be organized as follows. Section 2 outlines the growth and emergence of the Jamaican diaspora and the trends in remittancing, which much reflects the broad tendencies in many other developing economies. The main discussion will be taken up in Section 3 which examines the effect of the GFC and the implications for remittancing as a source of development funding. An attempt is made throughout the discussion to relate the findings to the experiences of other countries in this and other sections of the paper. Recommendations are also offered for countries aiming to make the most from remittances at the family, community, national and international levels. Section 4 is comprised of a summary and conclusion.

2. Emergence and Growth of the Jamaican Diaspora

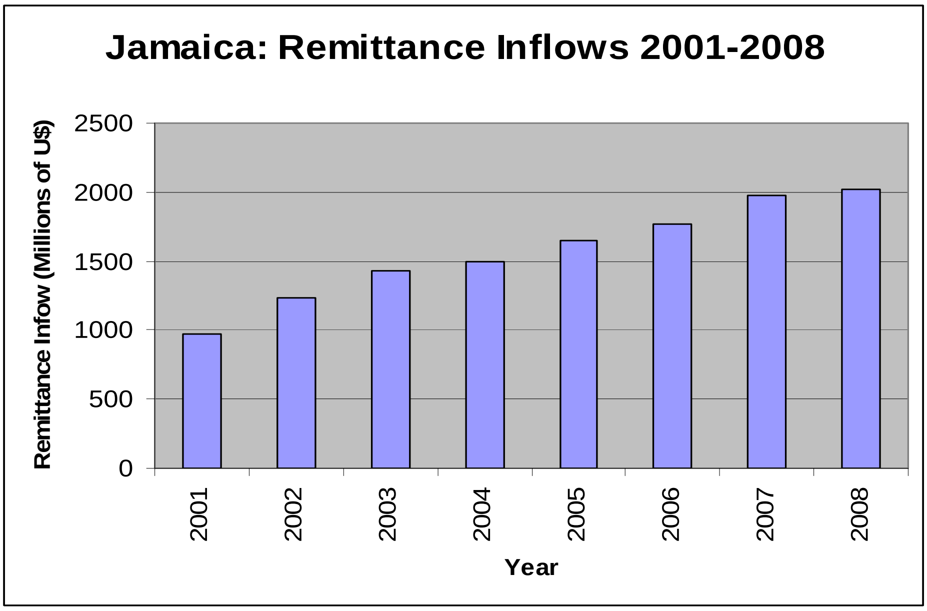
The world's migrant population has grown significantly over the years.[7] With this increase in size has come increased attention due to the steady growth in remittance figures globally. Added attention has also come from the diaspora who are demanding an increased voice and participation in home country affairs due to this form of economic contribution. The work of academics and multilateral institutions such as the United Nations, World Bank (WB) and International Monetary Fund (IMF) has also brought this group further into the spotlight.[8] The 'diaspora option' which involves the use of the diaspora as a developmental tool for the home country has, for instance, been encouraged by institutions such as the IMF and WB. Increased attention has also come from developing countries themselves, where national governments are increasingly seeking ways of engaging with their diaspora and leveraging diasporic resources for development. Among these states are the islands of the Caribbean and specifically, Jamaica, where the government has within the last decade sought to introduce various measures to attract the diaspora's attention (and money) and give them more role in national policy (Minto-Coy, forthcoming).

The diaspora option has been particularly salient in Jamaica given the historical relevance of migration in a country that has witnessed colonialism and slavery from the Fifteenth Century; forces which significantly influenced the development of modern capitalism and the international trade system. Immigration has since been replaced by emigration with an estimated 2.6 million Jamaicans living in countries such as the US, UK and Canada. Indeed, this is a significant number for an island with a local population of approximately 2.8 million existing on a land space of almost 4,111 square miles. The Caribbean as a whole has been said to have been, "more deeply and continuously affected by migration than any other region in the world" (Foner, 1998, p.47).[9] As such, the rationale for migration here corresponds with that for other countries where peoples migrate in search of better economic opportunities and livelihoods.

3. Recent Trends in Remittancing

As with the rest of the region and the world, the hallmark of the diaspora's contribution to Jamaica has been in the form of remittances which have over the years shown a steady increase, as illustrated in Figure 1.

Figure 1



Source: Minto (2009) and Bank of Jamaica (2009)

This increase has been welcomed, given the declining value of industries such as, bauxite and agriculture and the sustained fall off in Official Development Assistance (ODA).[10] Increasing pressures on the national budget and dwindling government capacity to provide opportunities and security for its citizens have also emphasized migration as a route to self-actualisation. In turn, this has elevated the place of remittance funds in social welfare provision and in enabling more sustainable livelihoods among local households and communities, the majority of which are among the island's poorest.

Remittancing has thus emerged as an important contributor to the Jamaican economy. Such a reality becomes even more obvious when remittancing is considered alongside a number of other economic indicators. Table 1 shows that remittances rival, and have more recently, overtaken tourism as the largest source of foreign exchange and far exceeds the level of Foreign Direct Investments (FDI) to the island. Table 2 highlights this information, further indicating that the value of remittances consistently stand at over 80% (from a low of 82.9% to a high of 97.4%) when placed against the value of exports over the four year period of 2004 to 2007. As reflected in the gap between exports and imports in both tables the level of remittancing can easily become a balance of payment issue; a critical concern for a country that in 2010 had the fourth highest level of debt in the world and where over half the annual budget goes towards debt financing.

Table 1: Value of Remittances Against Select Indicators (US$ Million) - 2004-2007

Indicator	2004	2005	2006	2007
Remittance	1465.8	1621.2	1769.4	1964.3
Tourist Expenditure	1437.9	1545.1	1870.1	1905.3
Exports	1601.6	1664.3	2133.6	2226.4
FDI	601.6	682.5	882.2	866.5
Imports	4098.6	4866.2	5801.4	6614.8
GDP	10111.4	611.1	663.8	733.2

Source: BOJ (2009)

Table 2: The Value of Remittances as a Percent of Other Select Economic Indicators (US$ Million) - 2004-2007

Indicator	2004	2005	2006	2007
GDP	14.5	14.6	14.8	15.3
Tourist Expenditure	101.9	104.9	94.6	103.1
Exports	91.5	97.4	82.9	88.2
FDI	243.7	237.5	200.6	226.7
Imports	35.8	33.3	30.5	29.7

Source: BOJ (2009)

Diasporic contribution in the form of remittances is therefore, an essential component of the Jamaican economy with the implication that any threat to this rising income source will be deemed a major problem for the country. Such a threat was to come in the form of the global financial crisis and aggravated by a number of other challenges during 2007-2009, including the housing crisis.

4. The Impact of the GFC on Remittancing

The cause of the crisis has been heavily debated and discussed (e.g. Read, 2009). However, these arguments are not the prerogative of this paper. Rather, the main purpose here is to examine the impact of the crisis on remittancing and following from this, the implications for economies with a high dependence on this funding source.

Remittancing is very vulnerable to the economic stability of migrants which is in turn vulnerable to economic shocks (Alexander, 2010, p.118). With the crisis having a particularly direct impact on countries such as the UK, Spain, US and other developed industrialized countries which host the majority of the world's migrant population, the decline in employment opportunities in these countries have meant migrants have been among some of the most affected by the crisis.

As job losses in the major receiving countries brought increased attention to migration controls, added pressure has also been placed on the existing migrant population who tend to be the last hired and first fired.[11] Furthermore, the variety of opportunities for sustaining incomes has also diminished. This is particularly the case for two of the countries which host the majority of the Jamaican diaspora – the US and UK and where immigration policies have placed increased pressures on migrants (IDB, 2009, p.1). These difficulties have also been compounded by the oil and food crises.

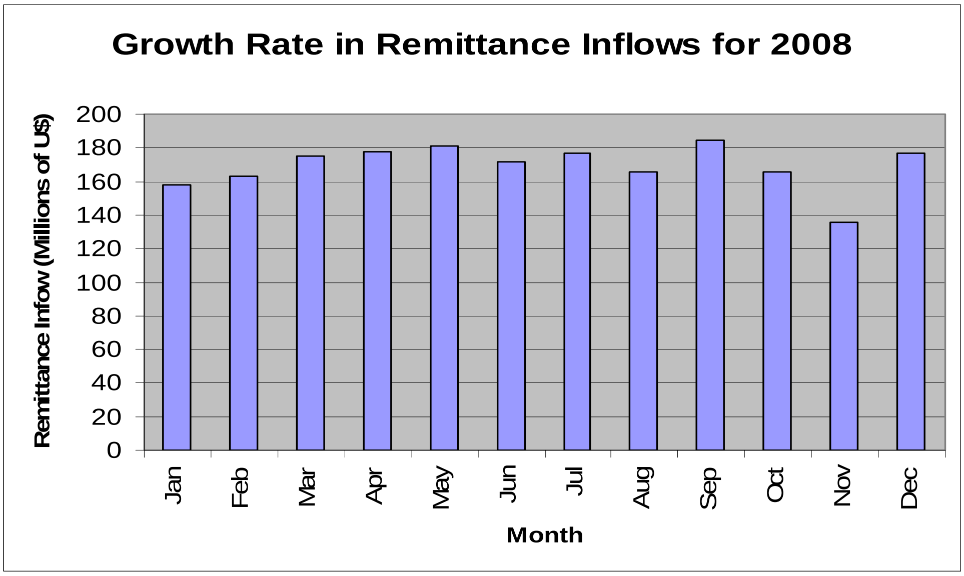
What has been the impact of the global financial crisis on remittancing? A cursory review of Figure 1 above would suggest that there has been no change to remittancing with successive growth being recorded over the eight year period covered in the figure. However, closer and more focused analysis suggests that this is not the case as there has been a reduction in the growth of remittances to the island, as shown in Table 3 and Figure 2 below (also Table 4 and Figure 3 further on).

Table 3: Remittances - Quarterly Growth Rates for Jamaica 2006-2008 (%)

	2006	2007	2008
Jan-Mar	3.6	7.8	11.8
Apr-Jun	7.6	10.00	11.0
Jul-Sep	7.4	11.8	4.3
Oct-Dec	9.9	13.9	-2.2

Source: Compiled from BOJ (2009)

Figure 2



Source: Compiled from BOJ (2009)

For the first time in Jamaica remittancing has declined in terms of its contribution to household income and this is the case across the rest of the Caribbean and Latin American region, having contributed 1.7% less in 2008 compared to the 2007 period (IDB 2009, p.1).[12] Indeed, though Figure 1 shows an increase in 2008 over 2007, there was a noticeable fall-off in growth when considered over the past seven or eight years. However, the fall-off was slow, becoming most obvious in the middle of 2008 (see figure 2).

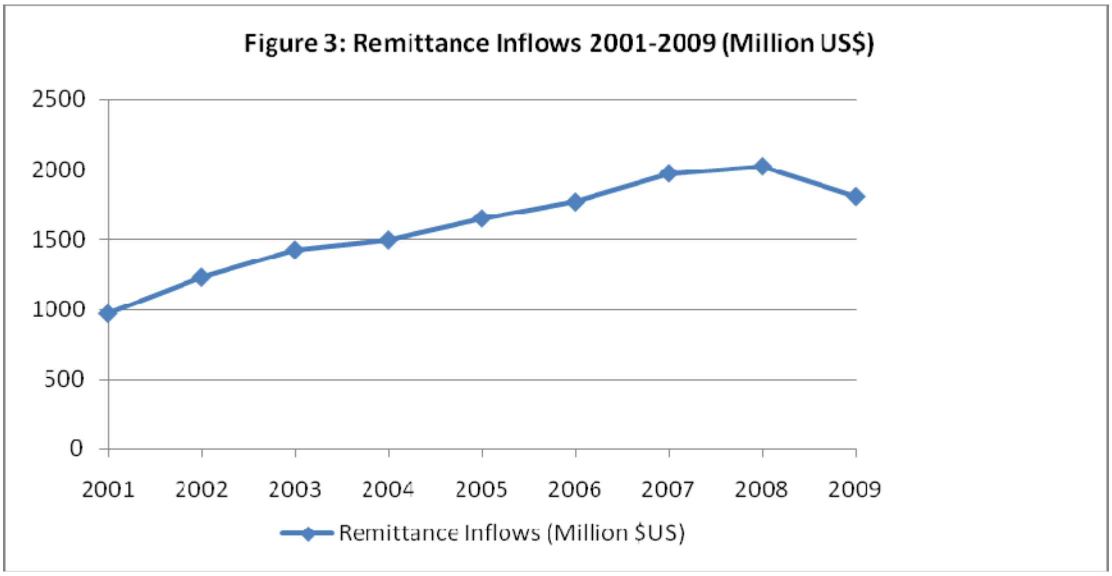
The decline continued into the 2009 period with inflows declining by US $140 million over the same period for 2008 (*Jamaica Gleaner* July 26, 2009). This was an average decline of 15% over the previous year (Maldonado, et al., 2009, p.3). Table 4 which compares growth between 2008 and 2009 depicts this decline. However, by the end of 2009 remittances had returned to positive growth though still not to levels witnessed in previous periods.

Comparatively, remittancing has not experienced as drastic a decline as other financial inflows. Interestingly too, even with the decline, it still accounted for approximately 15% of Jamaica's GDP for 2009 marking an increase over the 2008 figure of 14.4% (Meins, 2010). This is partly due to the poor performance of other areas of the Jamaican economy. Nonetheless, the 2009 figure represents the first annual negative growth on record (see Figure 3 below).

Table 4: Change in Remittances Inflows 2008-2009 (US$ Millions)

Month	2008	2009	% change
Jan	149.6	134.6	-10
Feb	162.3	132.3	-18.5
Mar	174.3	145.9	-16.3
Apr	177.4	141.7	-20.1
May	180.5	145.6	-19.3
June	171.2	153.8	-10.2
July	177.0	153.9	-13.1
Aug	165.9	152.1	-8.3
Sept	184.3	152.4	-17.3
Oct	166.0	155.9	-6.1
Nov	135.7	142.7	5.2
Dec	177.0	180.9	2.2

Source: Compiled from Bank of Jamaica (2010, p.8)



Source: Compiled from Minto (2009) and BOJ (2009)

The impact on the Jamaican economy has also been direct, particularly given that remittances represent a significant source of foreign exchange. The reduction has thus placed added burden on the country's ability to trade and secure important resources. As demonstrated earlier in Tables 1 and 2, overall remittance income constitutes a vital segment of total foreign exchange receipts (e.g. when placed alongside that from export earnings). Thus, the country experienced a shortfall of US$12.7 billion in foreign exchange earnings during January-May 2009 (Jamaica Gleaner 26, July 2009). While other fall-outs such as the retreat of a number of bauxite companies from the island had some bearing here, the decline can also be attributed to the fall-off in remittance receipts from the US & UK (Table 5) which together account for 76% to 85% of total receipts. Interestingly, there was an actual increase in remittancing from

Canada and the Cayman Islands. In the case of Canada, this can be explained by the fact that Canada was not affected by the crisis to the extent seen in the other host countries. Thus, supporting the claim that remittancing is vulnerable to the economic fortunes of the host country.

Table 5: Remittance by Source Country (US$MN)

	2003	2004	2005	2006	2007	2008	2009
US	761.6	820.8	924.1	994.4	1050.5	1092.9	977.2
UK	317.4	404.6	356.7	417.6	500.0	507.2	380.1
Canada	63.5	86.5	105.4	111.5	136.2	158.9	179.8
Cayman	63.5	102.6	154.0	155.7	152.2	144.1	97.3
Other	63.5	51.3	81.1	90.2	125.3	118.6	157.5
Total	1269.5	1465.8	1621.2	1769.4	1964.3	2021.6	1791.9

Source: Bank of Jamaica (2010, p.13)

Even as remittances returned to positive growth at the end of 2009 this is still likely to be slow given the remaining uncertainty in the job markets in developed countries (see e.g. Maldonado, Bajuk and Watson, 2009). The fall-out has also helped to underscore the already obvious structural weakness of the Jamaican economy which is unable to overcome its growth challenges and provide opportunities for its citizens. The government has responded to the crisis by turning to the IMF, which has in turn requested that the island adopt a number of austerity measures in order to address some of the longstanding issues relating to public sector spending, tax reform and debt restructuring.

5. Revelations from the Crisis: Implications for Remittancing and Development

The Crisis has revealed a number of important points related to diasporas and remittancing, and the growing dependence on this source of funds among governments in developing countries, including Jamaica. This section considers some these issues which summarily, relate to the resilience of remittancing, the risks in aligning the national future too closely to the fortunes of the diaspora, the need to continue the search for ways of advancing productivity and economic efficiency, and for diversification, both in the economy, as well as, in the use of remittance funds.

An obvious and major point that has emerged is that in the face of the many crises and economic difficulties, the diaspora has continued to remit. Sustained remittancing in spite of the GFC emphasises the resilience of the diaspora and remittancing. Continued remittancing also marks the level of importance of such funds to household subsistence, with these funds forming a significant mainstay of household incomes in Jamaica (see e.g. Dade, 2006, p.7). That is, remittances often go towards household subsistence, education, health, etc. Already the reduction in remittances suggests some reduction in the ability of these families to procure goods and services to the extent accustomed.

A closer look at the demographics of recipients and senders gives further insight into the diaspora's efforts to maintain remittancing despite the GFC. In Jamaica the educated and middle-class family members who migrate tend to remit less frequently than those who are less educated and originate from poorer communities. As such, recipients and senders tend to be poorer families, a similar situation for other countries. Therefore, where remittances are reduced the social and welfare costs to Jamaica and other receiving countries can be high with the possibility of such a decline fuelling attraction to crime and criminal activities. Where the main beneficiaries of remittancing are already the poorer groups the risk is that reductions witnessed may place even more burdens on these families, forcing them further into poverty. The level of dependence at the household level explains the sustained effort to maintain funding even as times get harder in the host country. Thus, dependence among households means that the diaspora will continue to remit funds even if at reduced levels, arguably making remittancing more sustainable vis-à-vis other funding sources.

Secondly, migrants tend to adopt creative strategies to cope in order to maintain and increase their contribution to families at home. Thus, in spite of an initial decline, remittancing picked up toward the end of 2009, again an interesting point given that job losses remained an issue in the US and UK. As noted earlier, these are the two countries from which the island consistently receives the majority of its remittances. Thus, according to an IDB report, the diaspora in Latin America and the Caribbean have sought to cope with the crisis by first cutting personal expenses (e.g. travel and telecommunications) and taking on additional jobs with reductions in remittancing being considered a last resort (Meins, 2009, p.5). Indeed, this may help to explain the fact that even as the diaspora has been faced by a number of crises since 2007, it is only towards the latter half of 2008 that remittancing experienced its first serious downturn.

A third and related point is that impact is not simply 'economic' but transcends this realm to other areas of life. While the crisis was clearly economic, there has also been a social impact, particularly, given the interdependence between these two spheres. Indeed, as pointed out by Alexander (2010, p.118) the GFC has affected this important income source for the world's poorest, making the crisis not only an economic but social issue, as well. As such, the decline in remittancing has added to the pressures on the state to provide opportunities and welfare services for its citizens. Further, where recipients are unable to consume local goods and services procured through remittance funds then local businesses (especially, small businesses) also suffer.

Fourthly, the crisis suggests that there is some risk in basing development and growth on remittances and in essence, aligning the future of the country so closely to the fortunes of its diaspora. More generally, it suggests the dangers to developing (and developed) economies of too much dependence on any single source of national income. This is even in spite of the resilience argument offered above. As demonstrated from the crisis, remittance funding is very much tied into the success of the economies of the large developed host countries. Therefore, even where there has been some level of resilience as suggested in the slow fall-off and ultimately, the return to growth, it is still the case that the reduction has been in those countries most affected by the crisis. For this reason remittance levels are largely related to the fortunes and woes of these economies. As the crisis eases, there is still some concern as to the extent to which the diaspora is willing or able to maintain remittance levels in the face of a sustained economic crisis. Therefore, where the Jamaican government plans its budget and development agenda based on projected remittancing and the receipt of foreign exchange, the country may find itself experiencing serious shortfalls where expectations are not realized.

The fifth major lesson is related to the last point made above. That is, that the GFC has underlined the importance of having more diverse sources of funding and economic diversification beyond Jamaica's dependence on remittancing and tourism, areas that are both susceptible to external economic shocks. Importantly, remittancing cannot erase the need for Jamaica and other countries to find ways of sustainably growing their economies. These would include efforts at increasing productivity, efficiency and fiscal discipline. The departure of citizens thus marks the continued failure of such governments to provide opportunities where skills and talents can be utilized at home.

At another level, the crisis also points to the need to diversify the ways in which remittance funds are being utilized. This may mean scaling up impact beyond household subsistence to help fund more entrepreneurial ventures or diversifying the ways in which they are used at the household level. Ultimately, this involves the creation of sustainable ventures with remittance funds providing the seed capital for viable business initiatives. As yet, the financial services market for remittance funds remains untapped in Jamaica and many other countries with many recipients lacking access to bank accounts; a condition which is similar for the rest of the Caribbean and Latin American Region (Meins, 2009, p.8).[13]

These points, therefore, resound beyond the shores of Jamaica and other countries given the share of remittancing in developing economies across the globe. As noted by Alexander (2010, p.118), around 80% of remittances come from high income countries, making the concern over the impact of remittances, not just a Jamaican issue but a global one. The increasing attention to this source of income as a form of development assistance, in the face of declining ODA and economic competitiveness (as seen in the Jamaican case) also exists as a concern for international development institutions and developed country donors.

6. Beyond Remittancing?

Finally, the GFC suggests the need for Jamaica and other recipient countries to consider diasporic 'contribution' through a more eclectic lens. That is, one which allows for attention beyond the sustained focus on remittancing to the other ways in which the diaspora can help to advance national goals and objectives. Key to this renewed emphasis is, as mentioned above, an expansion in the use of remittancing to lift families and communities out of poverty and into more sustainable livelihoods. For instance, Orozco and Welle have investigated the role of Hometown Associations (HTAs) in Latin America and the Caribbean, where remittances are pooled and ustilised for improvements in sectors, such as health and education in the communities from which the diaspora or migrants originated (2006).[14]

Included here would be opportunities for purchasing insurance, mortgages, and microcredit. There are some encouraging signs in this regard from both the government and business community. For instance, already financial institutions in Jamaica (e.g. Jamaica National Building Society) have branched out to open offices in those countries and cities populated by the diaspora. These have begun offering opportunities for the diaspora to make investments and purchase residential properties in Jamaica and secure funding from locally based institutions, etc. Such efforts have been accentuated by policy initiatives undertaken by national public investment bodies such as Jamaica Trade and Invest and various ministries and departments that have sought to inform the diaspora of the variety of ways in which they can contribute more directly to national growth and development. The biennial Jamaica Diaspora Conference remains one way in which the government is seeking to achieve this. The economy has also benefitted from the revenues brought in through these events, particularly, the travel and tourism industry.

However, going beyond remittancing also requires more emphasis on the skills, talents, networks and other non-monetary resources possessed by diasporas in ways that compliment and advance the impact of remittances. Again, this is not to deny the relevance of remittance funds at the household level and for the nation's present or future survival. This would mean accessing the diaspora's talents at home, even as they continue to reside abroad, as a key step in converting brain drain into brain gain. This is important in a country where as an estimated 45.2% of total migrants to the US from Jamaica actually had tertiary level education (Minto, 2009, p.12). Already, cases such as Ireland, India, China and Taiwan have been noted for the contribution of their diaspora networks and investments in development (e.g. Chang, 1992; Bielenberg, 2000; Fanning, 2000; Saxenian, 2001; Burnham, 2003; Commander, etc. 2003; Minto, 2009). In Jamaica, the diaspora's involvement can therefore, be heightened in a similar way and in others, including building and construction, education, finance, research and consultancy and ICT. There also remains a role for the diaspora in helping to maintain accountability and good governance at home. These can for instance, be achieved through policy transfer and the exchange of best practices, as informed by the countries in which they reside.

Going beyond remittancing also means considering the role of the diaspora in a new kind of diplomacy, particularly in moving toward the use of private diplomacy to shore-up the waning public diplomacy. This remains one tool or resource that is at the disposal of small states in global politics. This involves the use of the diaspora more actively in international relations as a lobbying and marketing force, thus helping to raise the profile of the home country in international affairs. The diaspora exists as a free source of influence with ties and contacts in the host country. These are also citizens with the right to vote or are elected officials who may be able to inform host country policy towards developing nations. Of course, this influence can be used for or against the home country and there remains some concern around the extent to which diaspora groups can (or are willing) to organize and become a lobbying force (see Minto-Coy, forthcoming and Minto, 2009 for a wider discussion). As effective boundary-crossers, the diaspora already knows the home country and may also be active at the community level both in the home and host lands. As such, diasporas offer the means through which governments can potentially access spheres of influence in the developed world.

It has been documented that the main destination countries for the Jamaican diaspora (and for many other English-speaking nations in the Caribbean) are those countries that have had some influence over policy choices in these states (e.g. Mintz, 1989; Newstead, 2005). However, Jamaica and the Caribbean are now facing a 'crisis of influence' which emerged with the end of the cold war and has increased as the U.S. has shifted emphasis and resources to its war on terror. This waning influence and relevance beyond that of a tourism centre has also emerged as the UK has shifted attention from the Caribbean. Further, the enlargement of the EU to include nation-states that have had no historical ties to Jamaica and the rest of the Commonwealth has seen old alliances and protections dissipate.[15]

As such, Jamaica and other remittance dependent states in the Caribbean and beyond must begin to explore more proactively a new brand of diplomacy. One which involves the mobilization and use of its large diaspora and other non-state actors as a marketing and lobbying force for governments and citizens in the developed (and developing) host lands. Such collaboration could be useful in informing developed country governments of conditions in the homeland. and particularly, in helping to inform decision makers of the effects of developed country policies on the island and the best way and form in which development assistance can be offered. Thus, even as Canada began negotiations for a renewed trade agreement with CARICOM[16] - of which Jamaica is a member - there remains a place for the diaspora in the successful conclusion of such negotiations. This is namely, in helping to lobby Canadians and their Government in arriving at sustainable terms for the Caribbean. Beyond this, there may potentially be some scope for considering the role of the diaspora and remittancing in meeting both home and host country obligations under such multilateral arrangements.

The benefit of such lobbying has already been evidenced in the UK, where diaspora groups (including Jamaicans) have been successful in lobbying the UK government to extend pension coverage to those who wish to return to Jamaica and Barbados. Even more recently, lobbying by the Diaspora and other interested parties (e.g. regional governments and travel agencies) also saw the UK government rethinking a decision to tax all travel to the Caribbean, a move which would have added pressure to an already weakening Jamaican (and Caribbean) tourism market. Suggested here is the value of private diplomacy which can be heightened for increased impact when combined with public diplomacy, as well as, the importance of different diaspora partnering for greater impact. Voice and leverage can, therefore, be secured where small and developing countries are able to partner with the diaspora in lobbying governments, non-governmental organizations and business leaders in the host and home countries.

7. Conclusion

Summarily, this chapter has sought to investigate the impact of the GFC on remittancing and to investigate the implications for the increasing dependence on this source of development funds. It has shown that in spite of the declines experienced since 2008 the picture is not one of total gloom. That is, while there have been worrying declines, the fact that remittancing remains a sustained source of income for Jamaica and many other developing countries, suggests the resilience of this source of income, certainly when compared to other contributors, such as tourism and FDIs. The chapter argues that this has been due to the dedication and sacrifice of a diaspora fully aware of the level of dependence on these funds. Remittancing, therefore, constitutes one way in which developing countries have attempted to find innovative ways of building resilience in the face of the vulnerabilities faced in a competitive and volatile global environment.

Nonetheless, there remain a number of concerns as it relates to the relationship and dependence on remittancing in the developing world. To this end, the chapter argued for more attention to the boundary-crossing function of the diaspora and going beyond remittancing to utilizing diaspora resources in international relations and in the economy and governance of the home country. It also argued for sustained search for ways to diversify economies beyond too high a dependence on any one source of income, as well as, the ways in which remittance funding has been utilized.

This discussion has taken place using the case of Jamaica as an example. However, as indicated throughout the chapter, these findings have far wider implications. This is particularly in light of the value of remittancing to economies around the world. Dependence on remittancing is therefore, set to continue but with greater innovation and creative lesson-drawing, efforts can be made to increase the relevance and long-term impact of such funds.

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Endnotes

1. See e.g. Palmer (1990), Mountford (1997), Thomas-Hope (1998), Fanning (2000), Bhorat, Meyer and Mlatsheni (2002), Docquier and Rapoport (2004), Lowell, Lindsay and Gerova (2004), Rosenzweig (2005), Thouez (2005), Ghosh (2006), Ionescu (2006), Page and Plaza (2006), Fajnzylber and López (2008), Minto (2009 and forthcoming).
2. In this paper the terms ‘home’ or source country will refer to the country of origin or birth for the diaspora. Host or receiving country will in turn refer to the adopted country, which in most cases tend to be the larger more developed country.
3. Remittancing is used here to refer to the practice by diasporas and migrants of transferring money from the host to home country.
4. See note 2.
5. See WB (2008).
6. Though, of course, variances may exist in areas such as the specific value of national GDP currently accounted for by remittances or the size of the diaspora vis-à-vis the local population.
7. For instance, Docquier and Marfouk estimate that the population moved from 154 to 175 million 1990-2000 (in López-Córdova and Olmeda, 2006). The latest estimates from the International Organisation for Migration is 214 million. See http://www.iom.int/jahia/Jahia/about-migration/facts-and-figures/lang/en (Last accessed: March 17, 2010).
8. See note 1.
9. The main push factor for emigration has been economic with others such as security being other rationales.

10. For instance, remittancing represented over 4,000% of ODA for 2005 (Minto, 2009, p.13).
11. Unemployment in the US in January 2009 stood at 8.1% with the housing market shedding all jobs gained during the housing boom of 2003-2006, an area that employed many immigrants (IDB, 2009, p.7).
12. Other factors, including the declining value of the US dollar may also play some role in this decline.
13. This is around 30-50% (Meins, 2009, p.8).
14. The authors also sound some warnings and concerns around this issue. See Orozco and Walle (2006) for further details.
15. For example, loss of preferential trade access in markets such as Bananas and sugar.
16. CARICOM or the Caribbean Community is the regional group of the English-speaking Caribbean (along with Cuba and Haiti).

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THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON GEORGIA'S INVESTMENT: THREAT OF SLOWING DOWN INVESTMENT FLOWS AFTER OSSETIA – GEORGIAN WAR

Abstract

The paper examines the transformation process of investment climate of the country during the transition period - "Rose Revolution" - to a democratic one. As a post-Soviet country, Georgia is undergoing significant economic, political, and social changes with remarkable impacts on all aspects of the life. Investment flows has significantly decreased after Georgia – Ossetian war thus causing poverty, unemployment and insecurity that become serious problems for the majority of Georgia's population. One of the major determinations of country's economic developments and well-being are the indicators of investment structure and volume. These indicators show attractiveness of economy for foreign investors and give clues for analyzing countries development process. The article focuses on effectiveness of Investment climate in Georgia after transition period and analysis results faced after global crisis on Georgia's investment. A good investment climate is an essential pillar of a country's strategy to stimulate economic growth, which in turn generates opportunities for poor people to have more productive jobs and higher income. Hypothesizing that long – term effect of foreign investment will result in increased employment and household income, poverty will be decreased and Georgian economy will be developed. Attracting Foreign Direct Investment (FDI) to Georgia after Rose Revolution and slowing it down after Ossetia – Georgian war in Georgia – a country with low national savings but rich natural resources and insufficient capabilities of establishing new capacities for boosting economic prosperity – is an issue of major importance nowadays. Article also explains and deals with the real market situation, the economic hardships, its disadvantages and discusses reasons for decreased investment process and gives recommendations how to attract foreign investors and in which particular fields to invest money.

Keywords: Foreign direct investment, Global crisis, Economic growth.

1. Introduction

Georgia is a developing country facing various problems in different areas, so foreign direct investment (FDI) inflow provides the opportunity and incentive for firms to invest productively, create jobs, expand and have a positive influence on the country's economy. The Black Sea is a region of vital interest to the foreign investor because Georgia is a country that has many opportunities (natural resources and agribusiness sectors, infrastructure development, telecommunications and energy) for attracting FDI. The Rose Revolution (November, 2003), which was not only a political revolution but also an economic one, opened a new chapter in the history of modern Georgia. Before 2003, Georgia's economic development suffered from a reputation for instability, violence, corruption, and unreliable supplies of energy, wealth of population was very low. The picture has significantly changed for the better. Since 2004, the Georgian government has undertaken institutional reforms including the restructuring and downsizing of government ministries, privatizing large state-owned entities, increasing the pay of public servants and prosecuting corruption, reducing the number and rates of taxes and improving tax and fiscal administration, streamlining licensing requirements, deregulating, simplifying customs and border formalities, and undertaking many other efforts to make it easier to do business in Georgia (U.S. Department of State, 2009). Due to these economic and financial reforms (including tax, customs, financial licensing and privatization) gained Georgia international interest as an attractive place to do business. The post-revolution government achieved a number of successes in areas such as dramatically increasing state budget revenues, fighting corruption, and setting up effective cooperative relationships with the international financial institutions but it made some mistakes, too, in building a democratic state in general and in its economic policy in particular. Its relationship with Russia and its excessive exposure to Russian investments is particularly troubling. The country's policies need to be fine-tuned in order to protect its democracy and promote further economic growth (Papava, 2006). Investment climate is the institutional, policy and regulatory environment in which firms operate – factors that influence the link from sowing to reaping and I can say that investment climate itself is the process from sowing to reaping because you will reap what you have sown.

One of the major determinants of a country's economic development and wellbeing are the indicators of investment structure and volume. One of the key factors in farther economic expansion of Georgia is the development of competitive economy with strong service sectors. This cannot be achieved without FDI. These indicators show attractiveness of economy for foreign investors and give clues for analyzing countries development process but low level of innovation, poor competitiveness; high levels of unemployment and emigration of qualified workforce are severe problems that our country is facing.

An attractive investment climate, including political stability, is necessary but not the only condition for motivating investors which are influenced by two factors: the availability of resources and the market. In terms of resource, Georgia is famous for its relatively cheap labour force (World Bank Group, 2009).

The aim of my research is to increase understanding of investment to enhance its benefits for Georgia to improve investment policy to attract and improve the Climate for Business and Investment and encourage investment resources for foreign and domestic investment for creating attractive environment for foreign and national investors in the region.

- To find out in what way investment can be increased in rapidly growing, developing, and economic countries, like Georgia and what tendencies of that are recognized in Georgia.
- To analyze FDI structure and impact on social welfare and economic growth.
- To identify major problem areas for investors.
- To elaborate suggestions on recommendations for Investment Policy Framework (IPF) improvements in order to increase country competitiveness for investment resources etc.

According to the Ministry of Economic Development of Georgia, specific advantages and interests in Georgia in 2009 are:

- ✓ Natural Resources
- ✓ Agriculture
- ✓ Industry
- ✓ Infrastructure
- ✓ Energy
- ✓ Tourism
- ✓ Telecommunications
- ✓ Transport and Logistics.

Since 2000 it was difficult and practically imposible to attract investors and funds to Georgia, due to the high political risk, local conflicts and instability, weak economy but after this period, inflow of investment started; it is easy to explain what are attractions of Georgia and caucasus region, first of all, suitable geograpical location, concentration of natural and energy resources, cheap and more or less educated workforce, since the soviet union; also tradition of production and manufacturing, all these were main factors attracted investors to Georgia; if we begin from the mid 90s, and look through the investment characters, main investments were mostly related to FDI to Azerbaijan's energy sector and the construction of an oil-gas pipelines linking the caspian sea with the Georgian black sea ports, so investments to Georgia mostly were caused due to its location as a transit country for energy transportation; later at the beginning 21st century energy projects continued, so as we see the main investment comes to pipelines and infrustructural project developments.

According to United Nations Conference on Trade and Development (UNCTAD) Foreign Direct Investment has the potential to generate employment, raise productivity, transfer skills and technology, enhance exports and contribute to long term economic development of the world's developing countries. More than ever, countries at all levels of development seek leverage FDI for development. FDI is the largest source of external finance for developing countries. To improve increase understanding investment related issues and enhance its benefits for developing countries it is necessary to analyse FDI trends and their impact on development, to improve investment policy and strengthen institutions that deal with FDI.

Investments always were and will be the motive lever of economic development of any country**.** In spite of the World Crisis, Georgia still remains in the centre of international geopolitical interests and as an attractive country for investments. In Georgia, as a result of the recent events, actually there are not enough domestic investing resources to update the old-fashioned fixed capital. Unfortunately, even today existing macroeconomic environment does not support to develop private sector. The Domestic market is overloaded with foreign, cheap, of low-quality and unhealthy products. It is practically impossible to sell the national output. According to the modern demands, introducing of new techniques and technology, gaining modern professional knowledge and providing more specialised human resources, opening new industrial enterprises by means of investment is becoming a key issue. Reconstruction of enterprises is inconceivable without foreign subsidiary resources. Without all of these factors it is unimaginable to produce national compatible product, also total social-economic development of the country is impossible. Investment is gaining step by step a deep economic meaning with both practical and theoretical point of view.

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The FDI inflow can also create many other benefits for recipient economies. For example, FDI can help generate domestic investment in matching funds, increase local market competition, create modern job opportunities, increase global market access for locally produced export commodities, facilitate transfer of managerial skills and technological knowledge from developed countries, etc. - all of which should ultimately contribute to economic growth in host countries. Finally, foreign direct investment has the potential to generate employment, raise productivity, transfer skills and technology, enhance exports and contribute to the long-term economic development of the world's developing countries. More than ever, countries at all levels of development seek to leverage FDI for development.

Despite the improvement of the investment climate in Georgia, after 2003, there still remain a number of persistent problems about defending property, financial transparency, stability, and outdated material – technical base, underdeveloped infrastructure and so on. The restructuring of industrial enterprises is being carried out weakly. It has completely neglected the openness of government purchases and the need to do this in competitive circumstances and etc. By considering these factors, in respect of effectiveness, FDI still do not have enough and corresponding impact on employment and social existence or well – being of society. That is quite serious thing, but all these are not caused due to the current political instability and war situation, because Georgia has these kinds of problems already for a long time. Much attention should be paid to these issues and they must by solved finally. In other case, it will be impossible to achieve improvement, increasing tendency and development of national economy, also to maintain the current tendency. In this situation: decreased number of investments in Georgia, acute deficit of international investment resources (which is created in the world after crises), poor FDI resources and mobilization problems (mistrust) raise a question for investment policies' next improvement and creating solid guarantees for the protection of investors.

Over the past three years 2005-09 the Georgian economy has been developing in a dynamic way with the real GDP annual growth rate exceeding 10 percent on average. The 2008 target was set at 9 percent. Georgia's economic growth was mainly driven by intensive private capital inflows (FDI, bank loans and portfolio investments) and increasing government spending. According to the official data, which is also confirmed by the IMF, these inflows increased by 4.6 times in 2004-07 and reached USD 2.3 billion (22.5 percent of GDP). The consolidated budget expenditure over the same period grew by 2.5 times and exceeded GEL 6 billion (35.8 percent of GDP). The invasion of Russian troops into Georgia in August 2008, however, changed the country's economic situation in essence.
We can list down key factors which attract foreign investors in Georgia:

Table 1. Key factors in Attracting Investment (FDI)

Factor	**What helps investment**	**Implications for policy**
Political stability	A stable business climate	Reduce conflict and corruption and impose rule of law and accountability.
International factors	Home country measures Investment agreements	Not under control of host country BITs and investment provisions in integration agreements at least contribute to a more predictable investment climate.
Economic fundamentals	Market size and Growth. Infrastructure and skills.	Macro policies conducive to growth and competitiveness. Provide appropriate and good quality infrastructure and skills.
Regulatory and administrative	Business friendly regulation	Cut red tape, e.g. facilitate trade by streamlining customs.
Investment promotion	Clustering EPZs	Consensus view is that specific policies are not as important as general investment policies, but when implemented and targeted well they can be useful. Employ an industrial policy which includes technology and skills.

Investment incentives	Fiscal and financial incentives	Target incentives well so that they fit in an overall development strategy. Offer a stable and a competitive corporate tax rate (but not zero). Target incentives to (new) investment in capital equipment.
Implementation issues	Clear and predictable rules are important	Implement policies consistently. Create sufficient capacity at an adequate government level to execute projects (Morrissey, O., 2006, p. 17).

Source: Dee and Gali, 2003

According to Table 1. Key factors in attracting FDI are: political stability, economic fundamentals, regulations, investment promotion and incentives and etc. The problems most developing countries face in respect of FDI are that the level is generally very low and typically highly concentrated in particular countries and/or sectors, with low levels of technology transfer and low linkages or spillovers for the rest of the economy. We can say the same about Georgia where regional integration and regulatory reforms associated with EPAs provide an opportunity for ACP countries to attract higher levels of more diversified FDI: larger markets, lower transactions costs associated with trade and investment, and generally a more favorable business environment. Furthermore, as EPAs will impose adjustment costs that require new resources for gaining sectors and/or to provide employment for released labor increased foreign investment will be needed (Milner et al., 2007).

As to about Policy for investment we can consider using the following recommendations: There are most commonly used *inducements of fiscal incentives* to attract foreign investors in the country, specifically:

- **Reduced *direct corporate taxation*** – General measures aimed at easing the corporate tax burden are used to attract foreign investors. These include reduced rates of corporate income tax, tax holidays and special tax-privileged zones.
- ***Incentives for capital formation* - These are policies for tying lower taxation to** corporate investment to encourage foreign enterprises to invest. Examples include investment allowances (deductions from taxable income based on some percentage of new investment) and investment tax credits or deductions against profits that are reinvested in the host country, and
- ***Reduced impediments to cross-border operation*** - Companies are attracted to locations where the fiscal system imposes minimal costs on the cross-border transfer of funds, goods and services and manpower. Some of the incentives offered are Withholding Tax, lower taxation of foreign trade (e.g. tariff exemptions) or of employees (Morrissey, 2006, p. 12).

In reviewing the Georgian economy, macroeconomic indicators are of great importance. To have a look to their change according years in quite interesting picture.

Table 2. Main Economic Indicators (2005 - 2009)

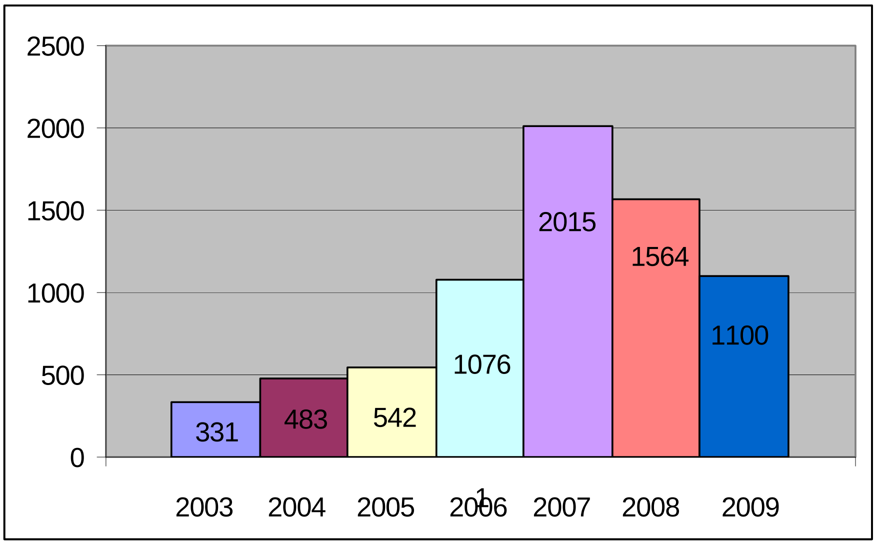
	2005	2006	2007	2008	2009
Real GDP Growth (%)	9.6	9.4	12.4	2.1	9
Foreign Trade Turnover (ml. USD)	3355.4	4670.4	6456.9	7555.8	2507.6
Export (ml. USD)	865.5	992.6	1240.2	1497.7	515.1
Import (ml. USD)	2490.0	3677.8	5216.7	6058.1	1992.5
Exports (growth, %)	34	14	32.5	21.5	- 35.3 reduce
Imports (growth, %)	34.8	47.8	41.8	16.2	- 37.7 reduce
Inflation Rate (%)	6.2	8.8	11.0	5.5	6.4
Foreign Direct Investments (ml. USD)	449.8	1 190	2 014.8	1 564	124.7
GDP (ml. USD)	6.145	7.849	10 175	12 797	2 301
GDP per capita (USD)	1 479	1 779	2 315	2 920	

Source: Ministry of foreign affairs of Georgia

The *GDP growth rate* in 2008 was 2.1 per cent (preliminary data). GDP in market prices amounted to 19 070 ml. GEL (12 797 ml. USD) and *GDP per capita* equaled to GEL 4 352 (2 920 USD) while by 2009 preliminary data GDP in market prices amounted to 3 846 ml GEL (2 301 ml. USD) and GDP per capita equaled to GEL 877 (525 USD). USD and *foreign trade turnover* amounted to 2507.6 ml. USD in 2009 (37.2% reduce in comparison with the last year. In 2008 the foreign trade turnover amounted to 7555.8 ml. USD (17.2% increase in comparison with the last year), where the export was 1497.7 ml. USD (21.5% increase) and import - 6058.1 ml. USD (16.2% increase). The negative trade balance of Georgia was equal to 4560.4 ml. USD. The ratio of import coverage by export was 24.7 %.), where the *export* was 515.1 ml. USD (35.3% reduce) and *import* - 1992.5 ml. USD (37.7 reduce). The negative trade balance of Georgia was equal to 1477.4 ml. USD (38.5% reduce). The ratio of import coverage by export was 25.8 %.

Real GDP growth rate has been forecast at 1% for 2009, down from an initial forecast of 2.5%. Net FDI forecast for 2009 was at US$1.1 bl., 8.4% of ‘09 GDP. *Inflation* has been declining since November 2008 (In 2008 the inflation rate was 5.5% (In 2007 the inflation rate in Georgia was 11.0%; in 2006 - 8, 8%, in 2005 - 6,2% and in 2004 - 7,5%) - annual period-average consumer price index (*CPI*) in March 2009 fell to 7.8% from 9% in February 2009 and 2.3 as the end of 2009, whereas the annual end-of-period CPI decreased to 1.6% from 2.1%. *Net FDI* forecast for 2009 was at US$1.1 bn, 8.4% of ‘09 GDP. Regardless of significant drop in exports and imports of goods and services, Georgian trade structure continues being diversified. Georgian trade structure continues being highly diversified (Georgian Economic Overview, 2009).

Figure 1. Net FDI Inflows (US $ ml.)



Source: Department of Statistics of Georgia

The amount of foreign direct investment in Georgia is changing according years: FDI inflows were too small in 2003, just 8.3% compare previous years, it made 331 ml USD in 2003, increased till 483 million USD in 2004, which is 9.4% more, 542 USD, which is 8.5% more in 2005, than 13.9% increase in 2006 and the largest investment in the Georgian economy and highest FDI inflow was in 2007 – 2015 USD, 19.8% more than in previous years. After this period investment decreased by 10.1% in 2008 and by 8.4% in 2009. Despite the decrease, the situation is better than the previous years.

The average monthly salaries and wages of hired employees grew in absolute terms across the economy in 2009 in line with the established trend. This time, the annual growth comprised as much as 56 percent. The monthly earnings of hired workers grew by 9.3 percent in 2009 compared to 2008.

The public sector salaries grew by 75.7 percent whilst those of the private sector grew by 42.9 percent in the first two quarters of 2008. Before 2005, it was the private sector salaries which grew more rapidly than those in the public sector. The trend was reversed in 2008 and 2009 with the growth of public sector salaries catching up with that of the private sector. In 2009, it was not only the growth rate of the private sector salaries that were much higher than that of the public sector but the salaries themselves appeared substantially higher than those in the private sector. If the earnings of the private sector hired employees were 16.1 percent higher as compared to those of the public sector in 2008, the salaries in the public sector were 5.9 percent higher than those in the private sector in 2008. In quarterly terms, the salaries in the public sector grew by 7.4 percent and by 11 percent in the private sector in Q2, 2008 as compared to the previous quarter. Whilst the salaries and wages in the private firms are regulated by the market and by definition are to reflect the inflation, those in the public sector are subject to budgetary decisions. The share of salaries and wages in the monthly household monetary income, which is usually the largest source of household income, was 35.5 percent and diminished as compared to the corresponding period of the previous year. It was smaller in the second quarter of the year than it was in the first. Remittances were the second largest income source with its share growing to 15.6 percent in total over the year. It failed, however, to retain its position in the second quarter of the year and moved down to the fourth position on the list of income sources with a substantial reduction from being very high in the first quarter. Debt or the use of savings and the sale of property came in the third position although the figures did reduce to 12.9 percent. In quarterly terms, it appeared second in importance and grew dramatically in the second quarter after having fallen to the fifth position and being reduced as a share in total household income in the first quarter.

Despite our previous achievements there are still serious problems till today about receiving a credit and instillation of business. According our research instillation of business was difficult, what was prolonging the existence of business, expenses and regulations of taxes. There are numerous aspects to take into account when analyzing the investment climate in Georgia. The World Bank called Georgia "the world's fastest growing economy" in 2007 and the 2008 report assigns Georgia the 18^{th} place in the list of the countries where doing business is the easiest. The World Bank recognized Georgia as the world's fastest reforming economy in its 2009 "Doing Business" report. Georgia ranks 15^{th} out of 181 countries of the world according to the ease of doing business in the "Doing Business 2009" report released by the World Bank. Georgia ranks higher than such countries as Belgium, Estonia, Germany, Austria, Latvia, France, Azerbaijan, Armenia, Turkey and others. In the new report Georgia improved its score in the following components of the index: starting a business, dealing with construction permits, registering property, getting credit, closing a business. Singapore ranks first and Congo is at the bottom of the "Doing Business 2009" rankings (http://www.investingeorgia.org/news/view/1438).

The greatest importance, when talking about FDI inflows in Georgia, pertains to the existing investment climate, which is the major determinant of the amount of FDI that flows into the country yearly and impact of FDI on well being of population.

If we will compare data's for 2008 and 2009, we can see that external trade has increased for all countries but

- Export turnover decreased from 795 544, 0 in 2008 till 515 104, 8 in 2009.
- Import turnover decreased from 3 196 654, 6 in 2008 till 1 992 525, 8 in 2009.

For a country to effectively compete in international markets and realize its comparative advantage, a number of basic macroeconomic and microeconomic conditions need to be in place.

- First, it requires a stable macroeconomic framework and a competitive exchange rate.
- Second, it should have a liberal trade regime and enjoy reasonably easy access to export markets.
- Third, it should have a favourable investment climate, including supporting trade services and institutions.
- Fourth, it should have efficient mechanisms for technology transfer and "learning" at the firm level.

Table 3. Major Trade Partners of Georgia by Turnover in 2009

Countries	Export		Import		External trade	
	1000 USD	**%**	**1000 USD**	**%**	**1000 USD**	**%**
Turkey	120 220,1	23,3	377 232,7	18.9	497 452,8	19,8
Azerbaijan	76 982,1	14,9	175 055,4	8,8	252 037,5	10,1
Ukraine	37 219,9	7.2	195 834,2	9,8	233 053,5	9,3
USA	18 897,5	3,7	133 211,3	6,7	152 108,8	6,1
Russia	10 288,4	2,0	139 828,3	7,0	150 116,7	6,0
Germany	8 622,6	1,7	135 670,7	6,8	144 293,4	5,8
Italy	11 628,8	2,3	65 263,4	3,3	76 892,2	3,1
Bulgaria	41 921,8	8,1	33 610,3	1,7	75 532,1	3,0
China	1 745,2	0,3	64 927,9	3,3	66 673,1	2,7
Armenia	36 118,5	7,0	21 107,1	1,1	57 225,6	2,3
Other countries	151 460,6	29,4	650 784,4	32,7	802 245,0	32,0
Total:	**515 104.8**	**100,0**	**1 992 525,8**	**100,0**	**2 507 630,5**	**100,0**

Source: Ministry of foreign affairs of Georgia

2. Foreign Trade Statistics

Let me begin my analysis with the comparision of our export basket before and after reforms. Let’s study what were top goods till 2004 and what are we exporting now. Table 4 shows the trend about export development in Georgia, from 2008 till 2009.

Table 4. Georgian main export commodities

Position name	January-June 2008		January-June 2009	
	1000 USD	%	1000USD	%
Total export:	**795 544,0**	**100,0**	**515 104,8**	**100,0**
Ferro-Alloys	141 657,0	17,8	66 584,1	12,9
Gold unwrought or in semi-manufactured forms, or in powder form	48 289,4	6,1	52 458,0	10,2
Motor cars	57 481,4	7,2	38 244,7	7,4
Ferrous waste and scrap	82 323,6	10,3	32 001,1	6,2
Copper ores and concentrates	73 467,8	9,2	31 342,8	6,1
Nitric fertilizers	60 059,9	7,5	28 440,2	5,5
Indentured ethyl alcohol, spirits, liqueurs and other spirituous beverages	23 048,5	2,9	27 791,6	5,4
Nuts and walnuts	12 373 9	1,6	26 216,9	5,1
Seed flour of oil plants	242,6	0,0	16 265,2	3,2
Mineral waters	17 314,3	2,2	13 201,2	2,6
Other goods	279 285,7	35,1	182 558,9	35,4

Source: Ministry of foreign affairs of Georgia

Here is the trend about import development in 2008 – 2009 years and Main import goods of Georgia looks as follows:

Table 5. Georgian main import commodities

Position name	January-June 2008		January-June 2009	
	1000 USD	%	1000 USD	%
Total import	**3 196 654,6**	**100,0**	**1 992 525,8**	**100,0**
Petroleum and petroleum oils	401 417,2	12,6	212 386,0	10,7
Motor cars	388 822,1	12,2	133 809,0	6,7
Petroleum gases and other gaseous hydrocarbons	106 217,0	3,3	83 349,9	4,2
Medicaments	92 892,8	2,9	82 467,5	4,1
Wheat	49 643,9	1,6	42 429,8	2,1
Cigarettes	27 411,7	0,9	24 378,1	1,1
Sunflower seed	98,2	0,0	21 378,1	1,1
Transmission apparatus for radio-telegraphy, radio-broadcasting or television	88 503,0	2,8	19 763,0	1,0
Machines and mechanical blocks of Special destination	31 672,6	1,0	18 297,5	0,9
Computing machines and their blocks	59 380,7	1,9	17 434,0	0,9
Other goods	1 950 595,4	61,0	1 336 444,1	67,1

Source: Ministry of foreign affairs of Georgia

It is very important to notice the main import and export production into the country and from the country: According the Ministry of Economic Development of Georgia the *main import products* are: Oil products -12.6%, Motor Cars – 7.6%, Petroleum Gases – 3.4%, medicaments – 3.1%, Radio – telephonic apparatus – 2.4%, wheat & meslin – 1.8% and flower – 1.2%. Accordingly main export production is: Ferroalloys – 17.8%, ferrous waste & scrap – 8.6%, copper – 7.9%, fertilizers – 7.0%, gold unwrought – 6.7%, cement – 5.9%, alcohol beverages – 3.9%, wine – 2.5%, mineral waters – 2.1% and nuts – 2.1%.

Given that the share of exports in goods in the trade turnover is much lower than that of imports, an additional higher rate of exports growth, as compared to imports will contribute to the improvement of the trade balance but will not cause any fundamental shifts. In January-May of 2009 foreign trade turnover was 2009, 1 ml. USD which is 37, 3 percent less than similar indicator of the last year.

- Export 408,3 ml. USD 32,9 % less
- Import-1600,9 ml. USD 38,3% less

3. Current Account Deficit

Over the past three years (2005-07), the current account deficit of Georgia has increased by 2.8 times and exceeded USD 2 billion (19.7 percent of GDP). This development was largely attributed to a sharp increase in imports which have more than doubled over the same period. The current account deficit was covered through private capital inflows, primarily FDIs. A pre-war balance of payments, therefore, revealed no gap.

We saw above that our economy experianced huge increase, same was observed in export potential, in dollar amounts now we are selling much more than before; it is good that export expressed in numbers reached 1.5 billion boarder, but it would be interesting to see do we have changes among top export goods, befor and after reforms;

We have reviewed some leading products, such as scrap metal waste, ferroally, Aircrafts, Water, Wine, Sugar and Petrolium; Now we will review rest of them, most stabile growth was experrianced by Mineral Fertilizers, export between years 2002 and 2009 increased almost ten times, it was 12 mln in 2002 and in 2009 reached 105 mln; the bigest consumers are EU countries like Italy; Another significant growth was experienced by Gold, mostly during these years we were supplying gold to Canada and UK; As far as our top export come on scrap metal, and consumer is Turkey, it is logical that 17% of our export comes on Turkey comparing 2004 we deepened our export to Azerbaijan, high contributor was cement, in 2008 13% of our total exports were directed to Azerbaijan; we also significantly increased our export to Bulgaria, mostly on behalf of Fertilizers; if looking on charts carefully you may discover that in 2008 the category others is more than 40 %, when it was just 32 % in 2004; it means that diversification of our exports increased by 10%, and it is quite good in order not to be depended on a single market, this strategy is risky as we saw with Russian case, after embargo our products trade potential slumped, and it was imposioble to find alternative markets immediately; Special agreements were achieved with EU about trade, which later contributed an increase of export; Copper ore and concentrates export increased to EU countries namely, Bulgaria, Finland and Germany;

So, external demand increase and internal structural reforms, contributed in export transparency, and of course growth, many companies were given chance to operate in Georgia freely;

Among the key features of ***Georgia's progressive trade policy*** are the following:
Low Import Tariffs: Import tariffs have been abolished on almost 90% of goods, and only three low rates remain (0%, 5% and 12%) instead of the previous 16. Georgia levies no import tariffs on machinery and equipment. The 12% and 5% import tariff rates are levied on certain types of agricultural products and construction materials. Tariffs are also applied to imports of alcoholic beverages and passenger vehicles.

- No quantitative restrictions (quotas) on imports or exports. There is free trade.
- Equal VAT on imported and local goods.
- Equal excise tax on most imported and local goods.

- Very limited number of export/import licenses and permits required: As of 2006, the number of permits for import and export was reduced from 14 to 8.

The statistics show that foreign direct investment inflows have been rising significantly in the recent years. Countries that make major contributions to the growth of FDI inflow level are the following: Netherlands, Virginia Islands, Denmark, Turkey, the US, Kazakhstan, Czech Republic, Russia, Cyprus, and the UK. The greatest part of foreign capital is invested in the energy sector, which is then followed by services, construction, manufacturing, and agriculture.

Georgia ranks quite low by the FDI potential index according to the UNCTAD, however its ranking goes fairly high in terms of FDI performance index, which means that Georgia is virtually attracting more FDI than it is expected. The econometric analysis shows positive and strong correlation between the increase of FDI inflows and economic growth in 1997-2009. This fact emphasizes the utmost importance of attracting more FDI to Georgia.

It is generally assumed that Georgia is becoming an attractive location for investments, based on the increased volume of investments over the last three years but situation has changed after Georgia – Ossetian war after which FDI has decreased in the country prior to instability conditions in the country: there was quite a considerable amount of FDI coming in recent years and even more due to the constructions of Baku-Supsa Pipeline and the Supsa Terminal (BP investments) but the amount of inflows dropped substantially in 2009, owing to the financial crisis, and the level of FDI has remained quite low until today, when it began to rise due to the changing environment in Georgia after the Rose Revolution.

In order to assess the potential for investment and the policy options for attracting more investment, it is important to understand the motives of companies that are investing in Georgia. In other words, one has to look at the micro-foundations of FDI flows, as total and aggregate figures are often misleading and lead to wrong policy prescriptions. For example, it is important to note that most of the investment since 2003 can be attributed to the exceptional influence of the construction of the BTC pipeline and, more recently, the construction of the gas pipeline (Schmidt, 2007, p. 2).

FDI from EU member countries in 2006 amounted to 407.1 ml. USD (that on 163.4 ml. USD increase a parameter of the last year). Despite a nominal growth, however, the EU share in total investments sharply dropped in both annual and quarterly terms. This can be explained by the fact that the South Caucasus (Shah-Deniz) gas pipeline entered the final phase of its construction. In 2007 FDIs from EU member countries amounted to 1132.7 ml. USD (increased by 725.6 ml. USD in comparison to 2006). In 2008 FDIs from EU member countries amounted to 476.6 ml. USD (decreased by 656.0 ml. USD in comparison to 2007). FDIs from EU member countries amounted to 81.6 ml. USD in 2009 (decreased by 98 ml. USD in comparison to same period 2008).

Table 6. Main Countries' Share in the Stock of FDI in 2009

Country	Volume (ml. USD)	% of total
U.A.E.	50.1	40.2
UK	24.8	19.9
Czech Republic	23.7	19.0
Turkey	21.1	16.9
Netherlands	19.3	15.3
Japan	12.3	9.9
Virgin Islands	9.9	7.9
Panama	9.1	7.3
Total	**124.7**	**100**

Source: Ministry of foreign affairs of Georgia.
http://www.mfa.gov.ge/index.php?lang_id=ENG&sec_id=76 (last visit: 15.09.09)

According to "Easy of Doing Business 2009" Report of The World Bank (WB) and International Finance Corporation (IFC) and also The Ministry of Economic Development of Georgia, in terms of the pace of economic reforms and ease of doing the World Bank ranks Georgia on 11th place in 2009, 15th place in 2008 up from 37th in 2007, 112th in 2006 and 134th in 2005.

According to the Ministry of Economic Development of Georgia, main investor countries in 2008 and 2009 were:

- United Arab Emirates – 273, 14 ml. USD
- Turkey – 165, 02 ml. USD
- Netherlands – 145, 72 ml. USD
- Virgin Islands – 144, 28 ml. USD
- USA – 116, 30 ml. USD
- UK – 111, 81 ml. USD

Investment inflow slowdown caused poverty in the country on micro level. Poverty continues to be one of the main sources of human misery and at the same time a serious obstacle for democratic development in Georgia. The great section of the population lives on the margin of, or below, the poverty line (People whose per capita income does not cover the cost of a minimum specified calorie intake within the family are considered below the poverty line (PL)). *Economic growth* is having strong influence upon reduction of poverty. However, inequality stays remarkably high. Poor living conditions, failing utilities and dirty environment are among most apparent signs of poverty. The reduction of poverty is impossible without serious improvement of the living conditions. The most worrying fact about poverty now is that not only is it so widespread but it appears to be on an increase. On this purpose I did *My Own Findings about Poverty:*

Background and Purpose: Transition is a dynamic historical process, imposing change on almost every element of society. Assessing the progress of Georgia during transition period is a complex undertaking in any area, including economics. Success in recovering output,

however, readily suggests itself as a useful unifying theme for economic assessment and the process is important for the welfare of the country. Based on quantitative analysis, this article based on which I did these findings identifies factors that have encouraged the expansion of output and points out several lessons for achieving consistent and sustainable economic growth. No such survey was done before to analyze the outputs resulted by hard life of Georgian family and our survey is done for this purpose.
Transition period implies:

- ✓ liberalizing economic activity, prices, and market operations, along with reallocating resources to their most efficient usage;
- ✓ developing indirect, market-oriented instruments for macroeconomic stabilization;
- ✓ achieving effective enterprise management and economic efficiency, usually through privatization;
- ✓ imposing hard budget constraints, which provides incentives to improve efficiency; and
- ✓ establishing an institutional and legal framework to secure property rights, the rule of law, and transparent market-entry regulations.

Method: We identified all major problems of Georgian family between 2000 and 2009 by conducting a survey of 300 respondents – 150 students from different universities of Tbilisi and 150 residents of Tbilisi - to find out what is the influence of market economy on Georgian family using a simple questionnaire.

Results: Survey results out of 300 respondents are like this:

- Average monthly income of the household with lowest income level in 2009 equals GEL 118, average monthly income of the richest household constitutes GEL 710.6, i.e. 6 times more (75% respondents' opinion).
- Distribution of the expenditures is not appropriate (70% of respondents' (300 respondents) opinion).
- Food expenses constitute the most portions of the household costs (85% of students' opinion and 95% of residents' opinion).
- Unemployment is a very important factor defining extreme poverty level (97% respondents' opinion).
- The risk of households to live below the poverty line is increasing according to the number of unemployed members in the family. Out of 40% of the households below poverty line no single member of the family is employed. Out of almost 45% of poor households, one working member of the family has to support two or more other family members including self on average (87% respondents' opinion).
- Official subsistence minimum is the amount of GEL 120 – 125 per month for an adult equivalent to the age of men with working capacity (73% respondents' opinion).
- Extreme poverty line – as of today GEL 50 – 55 per month for an adult with working capacity (66% respondents' opinion).
- 85% of teenagers and young population does not have any income and they live on parent's money; 15% of some students work after lectures late at night and help the family

(2006 year results). 35% of teenagers and young population does not have any income and they live on parent's money; 65% of some students work after and during lectures to help the family and sustain themselves (2009 year results).

- People who live in town are provided with goods and products they grow but they have low salaries (81% respondents' opinion).
- 80% of big families could not sustain family because of low family income: 50% of average family income is from 100 to 300 GEL; 55% of average family income is from 300 to 500 GEL; 5% of average family income is from 500 to 800 GEL - (82% respondents' opinion).
- Main sources of income is: working for government – 60%, commercial business – 30%, other – 10% (75% respondents' opinion).
- Wages have increased compare with previous years but family's monthly salary is not enough from month to month for all family expenses (92% respondents' opinion).
- 90% of family conflict arises because of poor economic conditions and 5% of husband's alcohol abuse (76% respondents' opinion).
- 40% of main economic problems effecting Georgian family is the poverty - 50% is unemployment (92% respondents' opinion).
- 80% is law salary and 80% - high taxes (85 % respondents' opinion).
- The wellbeing of Georgian family relies on economic development of the country (97% respondents' opinion).
- Unemployment rate is higher in villages than in towns (93% respondents' opinion).
- The percent of population living in poverty is high in Georgia (81% respondents' opinion).
- 80% of the population does not have insurance at all (87% respondents' opinion).
- The number of beggars and homeless people decreased but still exists in the country (83% respondents' opinion).
- The wages and salaries earned in the private and public sectors, income received from private farms, and income earned in small business are very low (80% respondents' opinion).
- The average size of the salary was 4-6 times less than the minimum value of a consumer's basket but this rate has increased comparing last years (95% respondents' opinion).
- Employment in public sectors has decreased, factories does not work, so in recent times employment in the private sector has kept expanding (76% respondents' opinion).
- 35% of the population of Georgia is engaged in the private sector of agriculture (63% respondents' opinion).
- Half the population lives below the poverty line (55% respondents' opinion).
- 20% of the economy is agriculture with 40% of the population employed in this sector (87% respondents' opinion).
- 10% of richest people still have well over 40% of incomes (86% respondents' opinion).
- 69% of the families with no member of working age have incomes below the minimum subsistence level (88% respondents' opinion).

The process of democratization and transition to the market economy in Georgia has in the first place brought changes and positive consequences. Georgian market economy and increased investment flow influenced in a good way on Georgian family but Georgia still needs economic development and reduction of poverty in the country, so the problems with special impact on the welfare of the country and its citizens, economic situation and poverty must be solved. We think that production factors can be increased only via attraction of foreign direct investments.

Since it is not easy to revive the confidence of investors, especially under the global financial crisis, the country should apply the existent political risk insurance mechanisms. Country needs to apply extraordinary methods for the attraction of new investors. In this regard it seems reasonable to grant them some of those privileges, including tax breaks which can be enjoyed only by he investors operating under effective legislation in the free industrial zone, for a certain period and throughout the country. Moreover, special benefits should be offered to those investors who would invest their capital into export – oriented industries and create new jobs. There are key points and recommendations to which country should pay attention. These are:

- Freedom to conduct foreign trade activities
- Liberalization of trade and diversification of foreign economic relations in an environment of fair competition as essential elements of foreign trade policy
- Accession to World Trade Organization (WTO) as confirmation of Georgia's commitment to liberalization and integration to the world economic system.
- To restore confidence to the banking sector, a deposit insurance system needs to be set up in the country in the near future which would ensure some protection of depositors' interest in the case of banking institutions going bankrupt
- Development of a network of multilateral and bilateral trade and economic agreements.
- Agreement for creation of common agricultural market.
- Other trade and trade related agreements.
- There should be no restrictions on importation of goods, except those applied for health, safety, security and environmental reasons.
- No quantitative restriction.
- Specific (fixed) customs fee.
- Internal taxes applied to imported and domestic products – VAT and excise tax.
- In general, the lack of transparency and frequent and sudden changes of rules and regulations governing foreign trade may create delays and additional costs for traders. Availability of information through publication of regulations and guidelines relating to procedures and requirements is important for ensuring transparency.
- Publication of new laws and regulations in advance would make the trade predictable.
- Ensuring independent review of customs decisions.
- Simplification of procedures and reduction of data and information required.
- All traders shall be treated impartially.
- Procedures shall be the same for different modes of transport.
- Requirements shall be kept to the minimum that is needed to ensure the safety, security and streamlined flow of goods and services.
- Blockade by countries is harmful for all trade partners in the region.
- There should not be difficulties faced by businesses during the transit through Georgia.
- The use of international standards shall be encouraged.
- Development of customs and transport information system.

- The importance of technical assistance by international organizations and donor countries (Kakulia, 2008, p.10).

4. Conclusion and Recommendations

Georgia has made considerable progress on improving certain aspects of the investment climate. However, there are many areas that still need attention. As Foreign Direct Investment (FDI) is a huge perspective to bring capital, productive facilities and technology transfers as well as new jobs and management expertise to Georgia and as we know that long term effects of foreign investment will result in increased employment and household income, poverty will be decreased and Georgian economy will be developed then FDI is a huge importance for the country still today. Georgia attracts Foreign Direct Investors but still needs improvements in the business climate for the implementation of a few visible actions in the strategy of attracting FDI. Despite the progress in the liberalization of business environment, much is still to be done. In particular, property rights are not fully secured; transparency, protection of property rights and expropriation problems still exist. In Georgia this danger has to be regarded as high. Although on the decline, corruption remains high and non-transparency prevails in many places. This raises serious doubts on the application of the mentioned active trade policies that are highly sensible to careful implementation. There are some problems in judiciary too. The closing of a business in Georgia requires twice as much time as in OECD countries. The bankruptcy practice is inefficient. The dispute resolution at courts is, in businessmen's opinion, biased. It can be said that the reforms in judiciary lag behind the liberalization of business environment.

Despite unstable economic environment and territorial conflict Georgia has a high potential for long term relations with foreign investors and developing different spheres of industries. It's important to stress that there are no single solutions to this problem. Effective reform must be directed to change the system in the better direction. To be on the top of the list of countries for extended FDI and multinational production Georgian authorities have to take into account the following list of factors driving FDI inflow:

- Political and economic stability (to reduce investment risk and provide reasonable predictability for making business decisions).
- Government behavior that facilitates doing business.
- An FDI legal framework in line with the best international practice (with security of property and persons and enforceability of contracts).
- An enabling environment for domestic market growth including adequately developed infrastructure and human capital. The availability of all these conditions to all companies automatically and by law (without a need for a special treatment and discretionary decisions by officials or civil servants).

The results of analyzes revealed serious problems with protection of owner's rights, though Laws and regulations in the area of corporate governance have been substantially amended. The level of the investment activity in Georgian capital market (and especially through public trading) is still quite low because of the various reasons including the deficit of the investment resources, lack of the attractive investment objects, low level of the standards of the corporate management and deep prudence of foreign investors. Along with this it should be noted that notwithstanding the short period of the experience of regulation the major problems have been underlined in the field of protection of investors (imperfect legal basis, mistakes made in the process of mass privatization, utilization of the processes of reorganization for redistribution of the shares and for discharging the undesirable shareholders, ignorance of the shareholders and disregarding of their rights by the managing bodies and other) and the possible trends of solution.

Georgia needs to ensure that its medium-term fiscal position is compatible with its balance of payments, monetary and inflation targets. Special attention is needed as well to support small and medium-size enterprises, including establishing business incubators, an effective crediting system, and informational services. Development of the country depends, to a great extent, on efficient utilization of its natural and geo – political resources. The country is quite rich in different minerals, especially in hydro resources. Another important resource is the geographical location of the country and its transit potential both in east – west and north – south direction. Legal sector has been conditioned by poverty of the population, limited investment resources and extreme restriction of the investments for local legal investments so we think that production factors can be increased only via attraction of foreign direct investments. In addition:

1. We consider inevitable that for the mobilization of domestic investment resources and development of market liquidity, distinct portion (share) of privatized units should be sold using stock exchange mechanisms.
2. Property and control structure should be more transparent and easy to access. For this reason, improvement of legislative base and as well as reinforcement of its practical realization mechanisms are very important.
3. Property right registration should be implemented by independent body.
4. In Georgia, the dependence, in general, concerning regulations and approach “no regulation” should be changed to “less regulations” or “better regulations”. Financial sector regulations should be based on best international practices and tendencies, it concerns especially financial openness and monitoring of activities that is impossible without financial plural accounts and acknowledgement of appropriate audit standards and what is a most important without a realization in practice.
5. Market competitive regulation mechanisms should be strengthen, which excludes discrimination of state privileges and assistances, as well as in the process of privatization and state acquisition, tenders. It will strengthen investors’ beliefs, that their rights will not be humiliated not by State and private sector as well. Besides, this, consolidation of competitive regulations will create guarantees that from the side of already existed participants in the market not to establish or reinforce market entry barriers.
6. Investment policy, as well as changes in any sphere of economic policy should be the subject of RIA analysis in order to evaluate regulatory operations (actions) / inactivity influence considering all interested parties interests, complexity of regulatory processes should be ensured and society interests in these processes should be considered.
7. Besides that, serious measures for the welfare for the expiration of ensuring transparency of already existed norms should take place.

8. It is designated that in spite of current world processes (including making regulatory regime more severe) declaration of future growth of economic freedom systematically takes place in Georgia (one example is initiation of Liberty Act), though ensuring such guarantees of economic freedom like defending private property and establishment of free competition conditions are frequently ignored.
9. It should be noted that at the same time of recognition of so called Liberty Act changes about investment activities were implemented, by which guarantees and their protection mechanisms for investors actually will deteriorate. We consider that these are steps taken backwards and old editions must be restored. Administration is another problem.
10. Recently, domestic financial control became especially more active, all these aggravate the feelings of not forecasting and inobservance that is reflected negatively on investment activity.
11. Increased investment influence on the development of small industries and forming more active partner relationships and export opportunities for the last period is not observed at all. Influence on overcoming poverty problems is still less observed and effective.

Above mentioned is indicating once more that attracting foreign investment automatically do not stipulates the achievement of main goals of country's development and for the growth of the influence the economy of the country and society prosperity and wellbeing complex, investment policy (which will be established on consequent analysis and encouragement of those investment which will take care of realization of country competitive advantages) draw out is very important. Concretely:

- Country should improve investment climate, which will be competitive compared to other countries. For this reason:

✓ Government should estimate and consider investment encouragement measures, so, the political and social price of motivations, environment protection expenses, and etc. (for example, to export capital and profit freely is very costly for the country, because foreign investor is not interested in reinvestment in his/her own country, which would strengthen country's financial situation).

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STORMY BALKANS: PERCEPTIONS OF SAFETY CULTURE AND SOCIAL CHANGE IN GREECE AND SERBIA

Abstract

Greece and Serbia are used as case studies to test existing theories of culture and assess contemporary perceptions of risk. Existing models suggest that both countries should present high collectivity and high risk aversion. Respondents in four organizations per country (manufacturing, service, education and one state-owned) were questioned concerning their overall perceptions on their way of life and their attitudes toward safety and risk. The results indicate that, contrary to most existing approaches on comparative culture, both countries lean more heavily toward the individualistic way of life. Both samples fear existing institutions most and see them as incapable of guaranteeing a risk-free professional or social future. The evidence is partially explained as a result of 'transition shock' to true market economies which can be seen as a 'crisis' in its own right, dictating individualistic behavior. Such behavior is deemed more suitable for effective handling of crises as the individualist sees risk as an opportunity rather than a problem. However, in order to overcome the lack of continuity and long-term focus inherent in individualism, a new model of safety culture is necessary, with the key element being education in trust and cooperation.

Keywords: Culture, Risk, Balkans.

1. Introduction

In an era where cultural boundaries are becoming increasingly blurred, the term 'culture' itself misunderstood or misused, and business recommending cultural awareness and sensitivity, a study of culture, risk perception and its consequences on safety and social change appears in place. Even if safety values are hard to quantify and the exact definition of what constitutes culture an area of considerable theoretical and practical disagreement, typologies of cultural propensities can be a helpful guide to policy making. This is especially the case as institutions at the supranational level are becoming more common, particularly in European countries.

The aim of this study is to test cultural theory in the 'four ways of life' approach developed by Thompson, Ellis and Wildawsky (cited in Smallman and Weir, 1999) based on the original grid/group dimensions of culture as first expressed by Douglas. The grid dimension of culture seeks to understand the extent to which people are constrained by rules and regulations or not; while the group dimension studies culture from the prism of people's belonging to a larger collectivity or not. It can be argued that insofar as individualist American culture has permeated world culture considerably, with its view of the 'self made man' and the 'frontier mentality', world culture itself may be shifting more and more toward low grid and low group dimensions. This proposition, however, is rather contentious and fails to understand the strength and durability of 'home' cultures. This study's first objective will, therefore, be to identify the extent of the grid/group dimension in two countries which will form part of the comparative analysis, Greece and Serbia, and to classify these countries in a position within these dimensions.

The above aim is rather descriptive in nature and will be the outcome of empirical research; following this, however, an interpretation of the scores will be attempted, and this interpretation will go hand in hand with a re-examination of existing literature on culture in general and the development of safety culture in particular. Therefore, the second aim of this study, is a critique of existing paradigms in light of the results obtained here, and the assessment of whether the safety background of the countries studied is adequate or not.

A final aim, as a consequence of the above, is to draw on the literature of crisis management and suggest practical ways in which it would be possible, if deemed necessary, to improve existing frameworks of dealing with safety breaches in Greece and Serbia. In this sense, this third aim is more managerial in nature, while still retaining cultural sensitivity by operating within the 'way of life' framework uncovered as a result of this research. It is dangerous to suggest that one way of life, and subsequently one perceived method of reacting to crisis, is the 'best one'. Cultural relativity demands that disparate cultural elements are all respected as expressions of a particular mindset which seeks continuity and stable change rather than being uprooted, and management practices must follow as a result of these frequently dynamic and changing cultural patterns.

The study will begin with a consideration of cultural theory in general and the two prevailing ways of perceiving culture which result in diverging managerial approaches in general, and with regard to safety issues in particular. Further importance will be placed on issues of cultural and social change, and how the grid/group distinction may have an effect on these. Moreover, safety culture and risk perception will also be subject to theoretical consideration as concepts that can assist the risk manager to create more effective frameworks for prevention and intervention. Greece and Serbia, as case studies, will also be presented briefly from a cultural perspective, and existing theories of comparative culture briefly evaluated.

The study proposes to examine employees in organizations within Greece and Serbia in order to examine their perceptions on culture in general and safety issues in particular. To this extent, semi-structured questionnaires are deemed to be the most suitable tool for the purposes of this study, allowing for an examination of cultural perceptions on the one hand and specific risk anxieties in life and in the workplace on the other. This chapter will also include a section on the multiple limitations of the research, as well as an examination of the ethical ramifications of conducting research on sensitive issues such as safety and crises.

This study is relevant within the current discourse of crisis management as it links culture, perceptions and management of safety issues, in this way giving considerations to social, individual and business levels at the same time. It is deemed that only such a trilateral consideration can result in the development of appropriate safety frameworks. The choice of countries in the case study is also relevant, to the extent that in both countries a number of considerable crises have occurred in the last years which have, however, not been the object of adequate study at an international level. Serbia was subject to a devastating war which ended a mere twelve years ago, to the worst inflation in history in 1993, as well as to the NATO bombing between March and June 1999. Greece's recent safety issues have been devastating fires in the summers of 2006 and especially 2007, the deadliest aviation disaster in the country's history in 2005, as well as the constant threat of earthquakes. While culturally sharing a number of elements such as religion and a history of conquerors, recent political developments make the countries studied considerably different; the exercise of comparing their cultures as they relate to risk is a useful beginning for similar studies of a Pan-European nature, which are more than necessary if an integrated approach to risk is ever to be attempted seriously.

2. The Existing Literature

Perhaps no other term has been shrouded with different nuances of understanding and a variety of definitions as the term 'culture'. Bodley (1994), cited in Barthorpe et al (2000) defines culture differently according to topical, historical, behavioural, normative, functional, mental, structural and symbolic functions. In terms of perception, perhaps the most relevant is his definition of culture as mental as 'a complex set of ideas, or learned habits, that inhibit impulses and distinguish people from animals'. Geert Hofstede (1990, 1991) defined culture at *'mental programs'*, or *'software of the mind'*, which can create patterns of thinking, feeling and action, and by virtue of this simple definition, the complexity of the term becomes clear. Locatelli and West (1998), citing Ott who has based his work on Schein's cultural pyramid, discuss culture in terms of artefacts, patterns of behaviour, values and beliefs as well as basic underlying assumptions. Linstead and Grafton Small (cited in Hopfl, 1994, p.50) more specifically define corporate culture as 'the term used for a culture devised by management and transmitted, marketed, sold or imposed on the rest of the organisation'. This definition is quite contentious, as it can be easily questioned what the origins of culture are and whether it can be simply 'devised', let alone marketed and sold effectively. Nevertheless, corporate culture is considered an integral part of organisational strategy formulation (Barthrope et al, 2000). Culture is multi-layered and complex (Collard, 2007) and 'not a static entity, but a complex and dynamic system of beliefs and symbols on human activity' (Rozakis, 2007) which are always amenable to unpredictable change. The concept of isomorphism (Toft and Reynolds, 2005) can be applied to world views as well; learning takes place as paradigms are considered, accepted or rejected, and basing a paradigm on other events with similar features is a valid way of (re)creating culture. Likewise, the concept of cognitive dissonance finds its origins in culture: in order not to have inconsistencies between attitude and behaviour, people tend to bind these with the 'glue' called culture.

The management of change into the 21st century certainly requires consideration of a new way of thought on the part of employers, with commitment from senior management, clear setting of safety policies and an ability to delegate authority (Cooper, 1995) seen as essential. Culture, including safety culture, has often been considered the territory of management with the implication that management has the right to manipulate certain aspects of work, 'in the pursuit of corporate consensus, organizations seek to 'colonise' the non-rational, corporate culture functions to conceal discrepancies and to gloss over the dysfunctional' (Hopfl, 1994). While it is beyond the scope of this paper to discuss this rational or irrational character of culture, as well as the question of where this originally develops from, this debate assists in delineating the dual nature of the theory on culture, especially safety culture, which has implications for the role, as well as the 'rights' of management.

Dimensions of Culture and Organisations

In order to understand different 'ways of life', the starting point of cultural theory is founded on the work of Mary Douglas and her grid/group dimensions of culture. Grid refers to 'the total body of rules and constraints which a culture imposes on its people in a particular context' (Mars and Nicod, cited in Scarman Centre, 2006b, pp.4-7) while group 'refers to the extent to which an individual is morally coerced by others, through being a member of a bounded face-to-face unit' (Mars and Nicod, cited in Scarman Centre, 2006b, pp.4-8). Based on whether these are low, or high, the subsequent grid, representing four ways of life, can be generated. These are:

- Individualism, with weak grid and weak group
- Egalitarianism: weak grid, strong group
- Fatalism: strong grid/weak group
- Hierarchy: strong grid, strong group

Each on these four ways of life implies a very different perception of risk and, therefore, a disparate framework for risk management can be expected. According to Scarman Centre (2006b, pp.4-15), the individualist will tend to disregard risk as a phenomenon that is unlikely to ever occur, seeing it as a random event or as an opportunity. Without risk, there would be no entrepreneurs, since there would also be no opportunity for personal reward (Smallman and Weir, 1999). The egalitarian, on the other hand, seeing himself as part of a system, will view risk as an omnipresent threat, especially as potentially originated from 'others', beyond the group, yet is risk averse through experience (Bellaby, 1989) The egalitarian has an 'internal source of power' (Bellaby, 1989, p.6) The fatalist, bound by rules of which he has little control, does believe in risk and disaster, but simultaneously rests unable to do much about it, accepting disasters as inevitable. Finally, the hierarch, as a rational player, will see disasters as resulting from rule breaking or individualistic acts. He is likely to 'accept high risks on condition that decisions are made by experts and disasters are blamed on rule breaking' (Rozakis, 2007, p.203); therefore, it is the hierarch who is likely to develop the most rational safe management system and attempt to socialise all members of the group so as to minimise risk.

It must be noted that these four ways of life are theoretical tools which clearly try to fit facts into prescribed categories, occasionally, if not often, blurring differences significantly. If the complexity of culture and its expression, as stated above, truly exists, then in the 'real world' it is questionable if such an 'exclusive' theory is, in fact, optimal. Additionally the issue of 'shifting' from one risk culture to another throughout one's life span is also a blurry issue; the entire discussion of the generation gap could well be understood as a difference to the degree of desired risk aversion, with one generation taking the role of the previous one as it ages. Life course transitions are often means to bridge the gap between attitudes and are often markedly distanced from the theory. Nevertheless, the theory alone is a truly useful tool which delineates important differences between societies, and it will be the starting point for this research.

Webb (1999) has made a further typology of emergency organisations based on tasks – regular or not – and structures – old and new. The resulting typology of four organisations therefore involved:

- Established organisations (regular task/old structures) i.e. army
- Expanding organisations (regular task/new structure) i.e. volunteers during a disaster which 'expand' the authority and the scope of the army's involvement
- Extending organisations (non-regular task/old structure) which participate only fleetingly in a particular aspect of a disaster situation
- Emergent organisations (non-regular task/new structure) which are often ad hoc groupings developed to respond to a disaster situation.

The preponderance of one or different types of these organisations may well be a reflection of culture. In cultures where old structures may be weak or have collapsed or are viewed with suspicion, it can be expected that risk will be dealt with by 'expanding' or, especially, 'emergent' organisations in a more *ad hoc* fashion, which sometimes can be as effective as the 'structured way' [cf. in the case of the spillage of the Exxon Valdez in Alaska, local fisherman, who were part of the Cordova District Fishermen United, acted in unison in order to protect their areas of interest, the hatchery stock, from the oil (Browning and Shetler, 1992, p.486)].

Issues in Cultural Change

It can be assumed that one of the tasks of a risk manager is to increase sensitisation of the public, whether within a particular organisation, or in society as large, to the issues of risk that surround it, with a view of thereby increasing knowledge, subsequent individual and group abilities to prevent risk, and to manage possible disasters. To this extent the risk manager is, to a certain extent, involved in changing cultures, organisational, national, or even super-national, to create a more responsible and effective disaster response.

What exactly changing culture entails will remain an issue of debate. It has been claimed that it takes up to five years to change culture (Dilley and Kleiner, 1996) although behaviours can be changed in a quarter of a time based on the application of 'motivation' in the form of rewards and punishments. Change becomes necessary when 'the established patterns no longer serve, at least to the required degree, the purpose of an organisation' (Mitroussi, 2003). The most facilitating factor for cultural change is the experience of a dramatic turning point

(Harrison, 1995), provided that this is 'correctly' understood or perceived by the members of the group. Borgelt and Falk (2007) identify four stages to an 'intervention': the trigger stage of identifying a problem, the initiating stage, a largely informal method of sensitising people to the need for the intervention, then the development stage, where a more formalised procedure takes place, and finally, the management and sustainability stage, where ideally the cultural 'change' can be solidified by avoiding complacency and a return to older perceptions or behaviours.

The application of the above to issues of risk and safety is complex for a number or reasons. Safety culture is 'composed of the beliefs, norms and attitudes of its members towards safety' (Scarman Centre, 2006d, pp.1-15). Hopfl (1994) makes a very clear and useful distinction between corporate culture and safety culture and the inherent contradiction between the two terms. As corporate culture attempts to usually reinforce an 'us' versus 'them' rhetoric based on invulnerability, coherence and order, this comes in contrast to the fact that concern for safety issues by its nature is part of the expectation for a non-orderly interruption to this invulnerability, which also necessitates isomorphic learning or inter-organisational cooperation. One of the greatest barrier to the sound development of an accepted safety culture is resistance to change, which can be assumed to be ever present especially under the functionalist paradigm where the division between 'them' and 'us' is conspicuous and where the understanding of safety culture may be very different for different groups, especially between management and shop floor workers (Harvey et al, 2001).

It is resistance to change that renders paradigms such as that by Borgelt and Falk optimal for piecemeal issues which require solving, but clearly problematic to wide concepts such as culture where a single 'textbook', 'step by step' approach to change has yet to be proven widely accepted. Therefore, though 'policy and framework are necessary, [...] since culture is both a product and a moulder of people, the emphasis should be on 'organisational learning' which recognises a long-term process' (Toft and Reynolds, 2005, p.29). For this learning to be most successful, 'active learning;, implying not only knowing something but also taking remedial action to improve faults that have been found, is essential. Moreover, according to Waring (cited in Scarman Centre 2006, pp.6-14), it is not possible to train safety culture i.e. sessions or slogans are not sufficient for culture to develop, which means that cultural change itself is extremely complex. This is especially so due to contradictory beliefs that people hold, which implies that their cultural allegiance, especially in terms of 'way of life' may shift depending on the issues at hand or the prevailing mood. This brings into the discussion the very 'grey' area of emotions, and the existence or not of emotional intelligence (Goleman, 2002) and inspirational leadership ability to push active learning rather than to enforce mere 'passive learning', which results in conformity rather than cultural regeneration and enhances safety. The correct 'manipulation' of a possible dramatic crisis in order to transform culture largely rests on skilled leadership's motivations and ability to institute change as a positive consequence of frequently negative, or even life-threatening, crisis. To this extent, crisis may well be one of the prerequisites to cultural change itself. Ultimately, it has been consistently found that attitudes to safety are context dependent (Cheyne et al, 2002) and depend on the industrial context mainly; and ultimately the debate around functionalist or interpretative paradigms may well be seen in a different light as the endless debate between natural scientists who stress the rational and objective versus social scientists who reiterate the social character in the construction of risk (Hood and Jones, 1996) and therefore safety culture.

Smallman and Weir examine cultural shifts using the group/grid dimensions of culture, and make a number of interesting observations based on their belief that ‘there occurs a cultural shift at times of crisis, whereby hierarchists, egalitarians and even fatalists will converge toward more individualistic behaviour’ (1999, p.38). According to the authors, it is bureaucratic, hierarchical organisations (or societies) that will be most deeply affected by crisis, as prior to a crisis, the rigid formalism will prevent adequate communication, while during a crisis, they predict a collapse of formal structures and an abandoning of rules. The recommendation is a more individualist, or as they label it, entrepreneurial, culture, in which adequate communication beforehand and more fluid rules ensure better crisis management.

Two final words of caution are due. Firstly, it is tempting, and perhaps convenient or politically expedient, to accord system failure or the appearance of risks to problems of culture. The ambivalence and vagueness of the term ensure that in apportioning blame, essentially nobody and nothing specific is really blamed. A case in point is the explosion at the Union Carbide Factory in Bhopal, discussed by Perrow (1999). In this case, the accident was explained off due to substandard conditions which were a result of Indian ‘culture’. Nevertheless, a few months later, a similar plant in Virginia, U.S. had a similar accident, which could clearly not be deemed a result of U.S. ‘culture’. Secondly, as Perrow also mentions, in systems which are tightly coupled, to the extent that there are many socio-technical factors working together to create high risk, ‘culture’, though it may well play a role, should not be accorded the most important one. Nor could the creation of a ‘perfect’ safety culture, whatever this might entail, neatly dismiss the possibility of risk and disaster which looms within the system.

Comparative cultural research and the cases of Greece and Serbia

Safety culture is one of the predominant issues which underline the development of safety policies within organizations and yet it seems to remain one of the issues that are ill-defined and equally ill-measured (Harvey et al, 2001). Research on this issue in the southern Balkans has been constrained for a variety of reasons, particularly lack of resources and the absence of sufficient interest and/or expertise in this field. This piece of research will attempt to fill this void in research by comparing the underpinnings of safety culture in the workplace in Greece and the Republic of Serbia.

One of the major works in comparative culture has been the work of Geert Hofstede (1980), carried out in the workplace of more than fifty countries from 1967, and continuing well into the 1980s in its various versions. While there are many arguments against using the work of Hofstede, both from a methodological perspective of accuracy and concerning the issue of dynamic change of culture, nevertheless, this is a seminal work which points to certain directions. Hofstede identified initially four, later five, ‘dimensions’ of culture in the workplace, which both typify each country and can be used to understand the cultural implications of attempts for cultural change. The original four dimensions were power distance, uncertainty avoidance, masculinity/femininity and individuality/collectivity. Hofstede's research included Greece and the former Yugoslavia; it is a matter of interpretation whether the scores for Yugoslavia could be usefully 'translated' into those for today's Serbia. Greece and Serbia share high power distance, meaning the extent to which there is a marked division between 'management' and 'employees'. They also share a tendency toward collectivity, according to Hofstede, which immediately gives a direction toward the expectation of their location along the 'group' dimension. This is also supported by more recent research in Serbian businesses (Zabkar and Brencic, 2004). However, Greece is seen as more masculine i.e. more competitive and status-conscious, though the result for communist Yugoslavia thirty years ago may not be valid today. Similarly, both cultures point toward high uncertainty avoidance, the dimension most interesting from a risk analysis perspective. Uncertainty avoidance implies the extent to which a culture tolerates difference and is risk averse. Cultures with high uncertainty avoidance will, therefore, find it difficult to accept change easily and are expected to work hard to 'protect' themselves against (emotional) risk; this, however, does not necessarily imply a thorough framework of safety measures, as religion or law (in the sense of bureaucracy) are more frequently the tools for such 'protection' rather than a rational identification of safety issues that need to be handled. In the whole sample of countries studied by Hofstede, Greece was found to have the highest uncertainty avoidance, with a score of 112 going beyond the scale! Yugoslavia's score is significantly more reasonable, yet still this (no longer existing) culture can still be classified as having higher than average risk avoidance. Collard notes one of the faults of Hofstede's research in epistemological terms as 'describing groups and nationalities in essentialist terms of contrasting beliefs and values as a form of generalisation' (2007, p.745) is scientifically dangerous. Another critique of the work of Hofstede found it to be 'a good indicator of cultural values and representation, but not of practice' (Harvey, 1997). In this piece of research conducted in Germany, the author found that beneath the standards and regulations typifying Germany's high uncertainty avoidance and power distance, there was a complex series of *ad hoc* behaviours which Hofstede's theory fails to address. This illustrates both the danger of resting too tightly on theory and the significant layers existing in culture and reproduced on a daily basis.

Given the methodological and financial difficulties of comparative cultural research, as well as the marginalisation of the countries of Eastern Europe, it is not surprising that there are few studies which have had Hofstede's scope. Nevertheless, a useful, more contemporary effort is that of John Mole (2003) who has studied work culture across the board in European countries, and uses an analogy to the wild west to identify whether cultures belong to a organic/mechanistic view of organisation (ad hoc rules and regulations vs. clearly articulated ones) and an individualist/collectivist divide. This is extremely similar, once again, to the group/grid understanding of culture, and therefore, a very useful starting point for this piece of research; unfortunately with the exception of Slovenia, none of the other republics of former Yugoslavia were part of Mole's sample, presumably due to methodological difficulties in a (former) war zone. The scores for Greece reflect Hofstede's research even thirty years later, with an ad hoc system of rules and an emphasis on collectivity, which under Mole's classification makes the country an 'outlaw' along with others in the region such as Bulgaria and Romania. The implication of the term 'outlaw' from a management perspective is rather obvious.

Feichtinger and Fink (1998) have produced an interesting theory of collective culture shock in Eastern European countries, generally typified by lack of orientation, uneasiness and anxiety (which can be predictors of high uncertainty avoidance) and of lack of trust towards both the West and the public sphere and politics. Compounding the 'missing yardsticks' (1998, p.305), as they are coined, are bouts of apathy and the inability to take decisions, which then become manifested in defensive mechanisms and the tendency to reject change. The authors predict that new cultural forms will only begin being accepted after 2010, and their sample is formed by countries already in the European Union; it may not be an error to assume that, culturally, contemporary Serbia is still in the 'disorientation' phase, and that will be one of the tasks to be accomplished in this paper.

A comparative study of perceptions in the Balkans of service in the banking sector by Glaveli et al. (2006) is a useful recent piece of research involving Greece and Serbia from which elements of cultural practice can be drawn. Greek bank customers appear significantly more satisfied with their overall banking experience, including feelings of security, precision, responsibility and good management, compared to their Serbian counterparts.

Research on excellence within Greek business by Vouzas and Gotsamani (2005) notes the technical successes of quality techniques, but the noted lagging behind in terms of personnel and leadership issues. Cultural shifts to a quality management approach are found wanting as 'human resources issues were not at the centre of quality strategy formulation' (2005, p.264).

Finally, Zabkar and Brencic (2005) have researched the business environment in Serbia and have found it to be more characterised by feelings of interdependence and belonging into groups. Comparing Serbian to Croatian culture, they find that 'the Serbian culture is more cooperative, emphasizes the experience of living, and is more concerned with getting along with others'. (2005, p.210). The implication here is generally positive cooperation and the development of trust relationships in organisations. Sevic notes the expectation of bureaucratic cultures being replaced by entrepreneurial ones (2005), which also positively impacts on trust as a way of escaping the culture of blame that has been preponderant in the last decades.

Greece and Serbia : cultural similarities and differences

Greece and the Republic of Serbia have been chosen for this research as they represent opposite poles within a similar region. Both countries have a legacy of an Ottoman past and a culture, based on Hofstede's dimensions of high collectivism and high power distance, which presumably have an influence at all areas of employment including issues of safety. Both countries are of a conservative Christian Orthodox tradition while neither have been associated with heavy manufacturing, but have been traditionally agrarian societies which have recently been challenged by making the leap to a service society. Additionally, the culture shock idea that has been developed for Eastern Europe could find some grounding for Greece despite its lack of a communist past: the sudden liberalization of the market starting in the early '90s coincides ironically with the fall of communism. Until then, Greece was very much a state leaning on patronage, tight-knit systems and monopolistic, state-protected enterprises.

Despite these similarities, the countries do demonstrate significant differences: Greece has been independent since 1828 while the independent Republic of Serbia has barely a two-year history, and that has been plagued with ethnic strife in the past twenty years, continuous changes of regimes and territorial base, which is not the case in homogeneous Greece, at least in the period following the Second World War. Furthermore, Greece is seen as a leader in the South-East Europe region, and stands 24th in the UN's Human Development Index (HDI) , while the Republic of Serbia is economically and socially one of Europe's least developed countries, and as a result of its past regimes, has never even been included in the HDI. It can be argued that if it were, it would not surpass the neighbouring Republic of Macedonia which stands at 65th out of 177 nations considered (United Nations, 2006). Additionally, Greece is ethnically rather homogeneous, with few minorities in northern areas, and nowadays a significant 'importer' of labour from other (interestingly not Serbia) Eastern European or Asian countries. Serbia, on the other hand, is ethnically more heterogeneous even not including Kosovo, with significant minorities of Hungarians, Romanians, Slovak and 'Muslims' who are of Turkic or Albanian ethnicity; due to its economic condition, on the other hand, it cannot be yet considered a significant importer of labour.

The problems that these countries face are in similar sectors but of a different nature. Serbia, emerging from Yugoslavia, was once part of the world's 'largest experiment in empowerment and workplace democracy…every Yugoslav citizen…would have director-level voice in [his] company' (Lynn et al, 2002), though the failure of the system is partially explained as a 'lack of fit' between the prevalent culture of collectivism and the efforts to empower the less educated who were not able to adequately accept this. Serbia today has immense social problems in a number of sectors including health, education and construction (Lazarovic-Petrovic, 2005). 'Wild building' is a wide-spread process whereby certificates for building are illegally provided by underpaid state employees. Below standard educational institutions are a consequence of ill-paid staff and inadequate facilities. There are also continuous issues of corruption in basic medical intervention. Loans from Europe are largely conditional and do not always assist in the pushing of privatisation efforts. Greece demonstrates problems in the same sectors but not nearly to the same extent; the construction industry is far better regulated and legislation on the whole is in line with European law, though not in every instance. A notable deviation is the refusal of the government to recognize private universities. In both countries, education can be said to institute partial, rather than systems, approaches, which is particularly negative for safety issues, notably emergency management (Nikolic et al, 2007).

A comparison of cultures, therefore, will demonstrate the extent to which these countries are or are not compatible culturally, and also permit the development of possible future research across further European cultures. People's perception of risk and the subsequent development of safety culture are also useful study areas; if the ideal of isomorphic learning is not to be forgotten, then certainly spreading knowledge based on the experience of other cultures and environments is the way for European policy-making to break the walls that separate it into clusters and come through with integrated solutions for the issue of safety.

3. Brief Review of Methodology

Based on the literature above, the main hypothesis will be developed which shall be tested through the questionnaires and subsequent analysis. Hofstede and Mole both found Greece to be largely collectivist i.e. to be strong group. Similarly, Mole discovered Greece to be organic i.e. weak grid. Therefore, the hypothesis regarding Greece is that it belongs to the egalitarianist 'way of life' based on the grid/group dimension. The lack of research and the significant changes in the territory that is now Serbia makes hypothesis development for this nation more challenging. However, based on the original scores for Yugoslavia by Hofstede, and the subsequent research by Mole in Bulgaria and Romania which have a similar (communist) background, once again the hypothesis for Serbia will be that it belongs in the egalitarian camp. This is especially so if the country is in the state of 'culture shock' and in that sense going through the 'growing pains' of lack of trust and self-confidence. Therefore, the backbone of the hypothesis to be tested is that Greece and Serbia, despite contemporary differences in political alliances, historical developments and workplace characteristics, display a similar cultural pattern, which has subsequent ramifications in terms of safety culture. To this extent, the discussion by Bellaby (1989) of the safety cultures of gypsum miners, bikers and sliphouse and kiln workers becomes interesting as the same dimensions were found to be present in them. In his analysis, Bellaby focuses on the role of insults as a means to 'test' new members of the group before they were admitted as part of an 'us' versus 'them' culture, which is typical of the egalitarian way of life.

Two interlinked, yet distinct, questions regarding sampling must be addressed. On the one hand, the question of the definition of 'work environment' needs to be considered. On the other hand, the more micro-level issue of the profile of respondents also needs to be resolved.

Concerning the first question, research was conducted in four companies in Greece and four companies in the Republic of Serbia. These were chosen based on amenability; more companies were approached, but ultimately four were selected where co-operation of local respondents could be ensured. The companies chosen cannot be named due to reasons of confidentiality but represent a variety of sectors: a major bank group with operations in both countries; and a service firm, a manufacturer and a public sector company in each of the countries studied.

In investigating safety culture, it is essential that both sides of the equation are observed i.e. both line level employees and managers. Sample size becomes an important issue here. Probability sample at each location would naturally enhance the chance that the results are representative of the whole population working in the environment (Bryman, 1989, p.107). However, it might be impossible to collect a whole sampling frame (Morris, p. 43) and even if one is given, it may not include part-time employees or those employed on a temporary basis or those who have just commenced their employment. Therefore, quota sampling may be more appropriate in each instance, with the important issues being to include responses from people of all ages, an equal representation of males and females, employees from different departments i.e. shopfloor/operations, packaging, administration, office staff etc. as well as employees with different amount of work experience, ranging from a few weeks to many years. Likewise in terms of managers, care must be taken to ensure there are a number of managers surveyed for each organization, though it can be perhaps assumed that in terms of demographic profile, these will be predominantly male given the preponderance of male managers in this part of Europe.

Secondary data was used where possible to investigate existing practices within working environments. Where possible, documentation and manuals on safety practices, transcripts of existing incidents or disasters and other company materials were studied in detail. The issues of credibility, representativeness and meaning, as highlighted by MacDonald (2005) become relevant here, especially as distortion of secondary data is not uncommon in a region not unknown for its less than enviable law abiding. In general, all environments studied had documented safety processes relevant to their operation and communicated to all staff (at least theoretically).

As far as primary data collection is concerned, questionnaires were used for both managerial and line staff, as it was deemed more appropriate to run the same semi-structured questionnaire for all categories of employees. The quantitative data collected was analysed and then also in clusters depending on company activity, on country (Greece or Republic of Serbia) and by certain demographic variables such as age or years of experience.

A note of caution is due. Perhaps the biggest problem of this piece of research revolves around the sensitive issue of safety and risk in general, especially in highly risk-averse cultures such as Greece. This is compounded with the existing suspicion toward the researcher no matter what the topic would be. Given the content of research, managers were especially reluctant to discuss lapses in past safety and were expected to praise existing safety measures which would probably be portrayed as more than adequate. Similarly workers did their best to conceal any past problems which could reflect badly on them or reveal them to be unwilling, uncommitted or sloppy workers. It is unethical for the researcher to not divulge the true purpose of research though at the same time, there is no reason to be specific about the existence of the theoretical intricacies which will in any case be incomprehensible to most respondents. Therefore, a basic explanation of the 'concern for safety' along with very careful wording of the questionnaires should somewhat alleviate this issue. A letter explaining the general reason for this project was composed and attached to all questionnaires. A related problem here was gaining access to company documentation which was frequently considered confidential and, even if not so, was often not accessible due to misunderstandings over who exactly is authorized to grant access to these. While every effort was made to get reliable safety records, the truth is that to a certain extent, more is likely to be discovered through informal networks and participant observation than through secondary research, yet such observation is beyond the scope of this project.

4. Data Analysis

This section will be both quantitative and qualitative in nature, while retaining a rather descriptive nature: while certain comments on the results will be made, the following chapter will involve a deeper interpretation of the findings, in light of the aforementioned theoretical perspectives.

The analysis of statistics will involve a statistical scoring of the responses to the first part of the questionnaire (questions 1 and 2) with an analysis for nationality (i.e. the samples for Serbia and Greece), nature of company studied, and respondents' age. Unfortunately in the Greek sample there was a severe dearth of female respondents, so that analysis by gender would not be reliable. In order to complete the analysis, the statements in question 1 were separated according to whether they involved a study of group or grid dimensions. In many cases, the scores had to be reversed as a result of the fact that a 'high score' of 5 in some of the questions, as expressed, would in fact reveal a low, rather than a high, adherence to group or grid. For example, agreement with the first section of the first question 'I am in charge of my own destiny', would suggest in fact low adherence to group; similarly, agreement with statement 13 'I like taking risks in my professional life' would suggest low uncertainty avoidance in Hofstede's terms, or, for the purposes of this analysis, lower grid.

5. Analysis by nationality

For the following table, the reader is reminded that a score of 1 implies strong disagreement with the statement, while 5 implies strong agreement.

Table 1: Mean score per statement by nationality.

	Serbia	Greece
I am in charge of my own destiny	3,4	3,9
My family influenced my choice of job	1,6	1,9
Religion has an important effect on my behaviour	2,1	2,8
I see myself as someone who follows traditions	2	3,4
The media affect my opinions	2,1	2,8
I take decisions without asking for advice	2	2,8
It is important to respect rules even if I don't agree with them	2	3
I dress conservatively	2	2,9
I have many friends	4	3,1
I accept lifestyles different to mine	4,2	4
I can openly discuss issues at work with my superiors	3	3,8
I like taking risks in my personal life	2,8	2,9
I like taking risks in my professional life	2,7	2,9
I usually agree with generally accepted opinions	2,3	3,1

Of particular interest in the above results are the significantly higher scores of the Greek sample with regard to the importance of religion and the importance of following traditions, though in neither case can it be claimed that the Greek sample shows an extremely high value for these issues. Equally interesting are the higher scores of Greece concerning perception of adherence to rules and agreement with generally accepted opinions. On the other hand, however, the Greek sample indicates a higher independence in taking decisions without advice and the ability to approach superiors in the workplace in the event of a problem. Also worth noting are the almost identical scores of both samples concerning perception of risk taking both in personal and professional issues. Both samples perceive themselves on the whole as in charge of their own destiny and independently minded in regard to career choice; in fact the scores on these dimensions are considerably higher than expected from 'collective' societies. Nevertheless, the above contradict slightly with the desire to agree with generally accepted opinions in the Greek sample.

As mentioned beforehand, in order for the group/grid dimensions to be analysed meaningfully, in certain instances scores were reversed. The total overall scores for the group and grid dimensions for Serbia and Greece were as follows:

Serbia – mean group score: 2,71
Serbia – mean grid score:2,41
Greece – mean group score: 2,73
Greece – mean grid score: 2,80
This already suggests that both countries present a remarkably similar profile based on the group/grid dimension, and that in neither sample can a very clear positioning be made on the basic of the distinction into individualism, egalitarianism, fatalism and hierarchy, possibly due to the central tendency problem. The Serbian sample leans more clearly toward the individualist camp (low grid, low group); so does the Greek sample, though the scores here are more tempered, especially as far as grid is concerned.

Analysis by Age

A large portion of the respondents interviewed were aged between 28 and 40, with a smaller percentage of younger and older employees. Very few respondents were above 55 years of age. In order to make for a meaningful analysis, respondents will be categorised as younger (up to 34) or older (35 and above) for the purpose of this cross-section. It would be particularly interesting to run a special study with respondents of older age groups (55 and above) which could reveal potential deviations in so-called 'older generations'.

Table 2: Mean score per country by respondent age

	Serbia	Greece
Younger respondents – Group	2,71	2,81
Older respondents – Group	2,71	2,69
Younger respondents – Grid	2,66	2,71
Older respondents – Grid	2,17	2,86

There appears to be little variation by age between the two countries, and in the Greek sample the scores are uniform throughout all the categories. An interestingly low score appears for grid for Serbian older respondents; this is especially perplexing given the communist past of the country where rules and regulations are held as having had a very broad effect on perceptions and behaviour. However, in studying the specific questions in this section, the score for ‘Religion has an important effect on my behaviour’ is particularly low at 1,6 (compared to the Greek sample, whose mean score is 3). The lack of religious fervour during communism may partially account for this deviation in the grid results for the older Serbian sample, though it doesn’t account for the equally low mean score of 1.8 to the question ‘It is important to respect rules even if I don’t agree with them’ (which has a mean score of 2.4 for younger Serbians and an impressive 4.0 for younger Greeks).

Analysis by household membership

This is only possible for the Greek sample, given that there were no respondents in the Serbian sample living alone. This can be explained by the socio-economic nature of the society; those financially secure enough to live alone are very few, and even then the mores of society are such that they stay with their antecedent families until marriage; people coming to work in the capital from the countryside often share houses to lower costs. This is not the case in Greece, at least given the sample studied, where in fact the majority was composed of single households, which in itself leads to interesting, if rather alarming, demographic conclusions. The grid-group analysis for the Greek sample based on living alone or not is again rather uniform:

Table 3: Mean score by composition in Greek households

	Greek scores
Single Household – Group	2,6
Multi-Person Household – Group	3
Single Household – Grid	2,9
Multi-Person Household – Grid	2,6

A large deviation here is in the reversed score of the question ‘I take decisions without asking for advice’ where those of single households score 2.6 compared to 4.0 of those living with others – this being a reversed score, it implies that those living with someone will be influenced much more in decisions by ‘group’ (i.e. other household members). Similarly, the reversed score of the question ‘I like taking risks in my personal life’ indicates that people living alone score 2.6 compared to 4 – again, those living with others appear less likely to be willing to add unnecessary risk in what may already be a ‘secure’ household environment.

Analysis by years of work experience

Table 4: Mean score per country by years of work experience

	Serbia	Greece
0-3 years - Group	2,80	2,79
3-9 years - Group	2,60	2,67
10 years + - Group	2,64	2,8
0-3 years - Grid	2,69	2,79
3-9 years - Grid	2,0	2,76
10 years + - Grid	2,36	2,9

Once again, scores here are largely compatible and no particular relationship between years of work experience and perception can be discerned. Interestingly, the grid score for respondents with average years of work experience in Serbia is lower, especially in relation to the question 'It is important to respect rules even if I don't agree with them' which has the lowest score in the whole study of only 1,2. This may partially be explained by the fact that these respondents entered employment during very difficult times of transition, and they see themselves as forces of change who are to change rules rather than accept the *status quo* which they would rather reject.

Analysis by locus of employment

As mentioned previously, the companies studied were grouped as follows: bank (case study in both samples), service sector, manufacturing sector and public sector. The following table presents the results on the group/grid dimension for each sample based on employment.

Table 5: Mean score per country by nature of employment

	Serbia	Greece
Group: Bank	2,50	2,71
Grid: Bank	2,86	3
Group: Service sector	2,76	2,92
Grid: Service sector	2,29	2,5
Group: Private sector	2,76	2,79
Grid: Private sector	2,39	2,57
Group: Public sector	2,79	2,5
Grid: Public sector	2,21	3,14

Comparing the two countries, it is evident that there are very small variations in all of the companies' scores with the exception of the 'grid' dimension in the public sector which is considerably higher for the Greek sample. In other words, the respondents employed in the Greek public sector feel considerably more constrained by rules than their counterparts in the Serbian sample.

Within each of the firms studied, it appears that the grid dimension is higher in the bank for both samples, but in the Serbian sample in this firm there is significantly lower 'group' than in any of the other samples; while also in the Greek sample, group in the bank, as well as the public sector in general, appears lower than that in the service and public sectors. Overall, however, the responses reveal a remarkably similar pattern overall.

6. Perceived safety in society and the workplace

Every single respondent in the Serbian sample responded negatively to the statement 'I believe society protects me adequately from risks'. This compares with 75% negative responses from the Greek sample. The implication is, here, that society as a whole (i.e. government and the institutions that surround the individual) is inadequate in effectively providing one of their elementary tasks – protection of citizens against risk. The responses from the Serbian sample, given recent developments, were expected; it is the Greek sample that surprises.

Further surprise concerns the statement ‘I believe my company protects me adequately from work-related risks’. Here 60% of the Serbian respondents were positive. This was especially the case with the private and manufacturing samples in Serbia. In contrast, 75% of the Greek sample was negative across the board concerning perceived risk in the workplace.

Qualitative analysis

The true nature of the differences in perception in the two countries studied comes from the analysis of the comments made by the respondents regarding the risk they are exposed to in their lives and in the workplace. The Serbian respondents almost uniformly made mention of the negative, unstable political situation which they perceive as a major risk to their future, as well as a possible direct threat to their life. Most respondents (about 80%) also made mention of traffic and bad driving, and in a few instances this was also indicated as the greatest threat the respondents have been exposed to, if they had been involved in a vehicle accident in recent years. Further risks in life mentioned by the Serbian sample were the fear of poverty and general financial insecurity and a number of female respondents also mentioned rape as a preponderant risk. The Greek sample, on the other hand, seemed to have little commonality in its views on perceived risk. Only traffic issues and bad driving can be singled out as a common theme to these respondents, whose overall perceptions to risk seem to be bound to specific personal situations which differ from one individual to another.

Regarding risks at work, a similar portrait of the two countries emerges, with the Serbian sample far more ‘uniform’ in its responses. A common thread was the bad condition of buildings which is perceived as a threat to safety overall and health in particular. Lack of heating, bad plumbing and the absence of appropriate installations were mentioned by a majority of respondents. A further interesting theme was the fear of theft in the workplace either by co-workers or as a result of unauthorised entry by third parties at the work place. Further sources of psychological or emotional risk were frequently addressed in the form of insincerity or lying at the workplace, bad overall relationships with superiors, peers or subordinates, stress as a result of too much ‘chaos’ and disorganisation at work and the frequency of verbal arguments. The Greek sample once again presented little uniformity in its responses, with a whole spectrum of issues addressed such as working at heights, possibility of data loss, cold weather, responsibility for large amounts of money or even electrocution. On more than one occasion, the risk of unemployment was pertinent. Interestingly, this was mentioned only once in the Serbian sample.

The Serbian respondents also appeared proactive in the remedying of the problems encountered, with a number of solutions forming a common element to many of the questionnaires. Nearly all made mention of ‘economic development’ in one form or another, though few became more specific as to what they mean by this; those who did mentioned more investing in infrastructure, especially medical and transport-related. Educational reforms at university level were frequently suggested as a means of alleviating fears and of improving the quality of the workforce. Ongoing education of the workforce was also singled out as necessary, and lacking, especially in regards to risk. The need to control criminality, reduce corruption, create new laws and increase security in public places as well as the workplace itself were also mentioned more than fleetingly. One respondent openly remarked on the need to 'cleanse' the police force and enforce strict internal controls within the army and the police. Another interesting theme was the desire for psychological support of workers by establishing advice centres and by determining individual responsibilities at work more efficiently. Therefore, the theme of 'communication' emerged quite frequently; training in good communication was seen as a way to counter psychological risk and improve overall camaraderie at work. Some of the responses which were closer to the theme of risk management noted the absence of any serious risk management efforts and the overall ignorance of staff as to the risks which they are exposed to; better management and a better risk framework were perceived as means to promote improved safety at work.

The Greek sample, on the other hand, made little mention of criminality or corruption; instead the need to protect consumers in the face of increasing prices and looming loss of financial power was here a common idea. Mention was also made of the need to respect existing legislation. This suggests that while in Serbia the need for institutionalisation of legislation in the first place becomes an issue, in Greece it is a case of implementation of what is perceived as an adequate, but not well executed, framework. The Greek sample on a number of occasions underlined the need for more safety on the roads through heavier fines and the development of better pavements. In a significant number of responses, the questions regarding possible solutions to risks were not completed by the Greek respondents, which is itself worthy of interpretation. One response, translated verbatim was 'Unfortunately Greek society is and will remain rubbish – nothing can be done'. Little mention was made of communication issues or the need to solidify institutions, which was the case with the Serbian sample.

Rather understandably perhaps, more than 90% of the Serbian respondents noted the 1999 NATO bombing as the greatest risk they have been exposed to in the past ten years. Given that this was a unique occasion, bombing was not noted by anybody as a perceived future threat, indicating that Serbian respondents feel they are no longer exposed to an external political threat of this sort. This is interesting given the volatile nature of the Kosovo situation, and will be commented on further. The Greek sample once again displayed no uniformity regarding the issue of greatest risk exposed to: among the ones mentioned, possibility of air crash in bad weather, earthquakes, having children, riding a motorcycle, near death of close family member are indicative of the personal nature of risk to the average Greek respondent.

7. Data Interpretation

In this section, the data analysed in the section above will be placed within a context both with regard to previous research discussed in the literature review, and with the aim of referring to the research objectives of this project.

Greece and Serbia and ways of life

The first objective was to place Greece and Serbia along the group/grid dimension based on the responses obtained. Given the scores obtained, it is suggested that the countries exhibit a similar pattern, with weaker than average group and grid in both cases, though the grid score was considerably lower in Serbia. Both countries therefore belong to the individualist 'way of life' where people are seen as linked in a 'competitive network' frame (Frosdick, 1995). This suggests lower than average belonging to groups and being constrained by them on the one hand, and a lower than average respect of, and binding by, established rules or institutions such as religion and law. This leads us to reject our null hypothesis of belonging to the egalitarian camp.

Further analysis of the data does little to uncover particular variations in attitudes, though it is worth noting that in the public sector in Greece the scores for grid are slightly higher to the extent that they can even be considered as 'high grid'. Additionally, analysis for household composition suggests that in Greece, the group dimension is also considerably higher in households of more than one person.

Having established the countries' position on the axes, the more challenging task is to interpret these scores given the situation of the loci studied today. The scores go against the analysis made by Hofstede, which suggested a 'collective' mentality i.e. large participation in groups and a large influence of groups on behaviour as well as a high degree of uncertainty avoidance for both Greece and Serbia i.e. a great propensity to not tolerate the unknown and to follow established 'norms' and known paths of behaviour in order to avoid (emotional) risk and uncertainty. Despite the methodological limitations of this research, it is still suggested that the responses obtained are valid and reliable, at least for the respondents studied. The lack of respondents of older age groups and the central-tendency factors may to some extent affect the data, but still explanations need to be discovered elsewhere.

Both the research by Feichtinger and Fink and by Smallman and Weir may suggest reasons why Hofstede (and Mole) are not justified by the data in this study. On the one hand, the 'transition' shock of countries in the south-eastern European region may well result in new forms of behaviour, especially to the extent that people reject old, accepted forms of cohesion. Due to the transition they are experiencing, new forms have yet to be discovered and accepted fully, leaving people in a void where they feel they don't belong, and that they need to apply basic 'survival' principles in order to practically and psychologically withstand the tension of social change. Smallman and Weir interestingly suggest that in times of crisis all behaviours tend to be transformed toward the individualistic sphere for survival to be ensured. According to the authors, this is also the best strategy for survival, as it ensures free flows which are flexible in the light of change.

Qualitative comments from this study further enhance the idea that, in a sense, respondents in both countries are 'in crisis' and, therefore, their perception of themselves has shifted to ensure their own survival. The Serbian sample consistently made mention of the need for communication, advice centres, information. They are demanding what has been coined 'socio-emotional' leadership, which is especially true in disasters and crisis situations; leadership that is conscious of feelings and addresses these (Scarman Centre, 2006d, pp.4-42). Their uniform condemnation of 'society' which is considered inadequate in offering protection against risks may further support the shift to individualism as means to survival. The Greek samples' individualistic responses, which have been difficult to categorise because they are so respondent-specific, are a further indication of the breakdown of larger community understanding. The lack of mention of issues such as ecology, pollution, lack of open spaces or unattractive, even illegal, urban planning which clearly is a significant issue in Serbia at least (Petrovic-Lazarevic, 2005), suggests that most respondents do not have a clearly developed collective conscience; most desired 'solutions' to risk situations are either formulated generally or in such a way that specific positive outcomes for the respondent can be immediately clear and understood.

Two comments regarding the above are essential. On the one hand, if we are to accept that these societies as a whole are in 'crisis', then it may well be the case that once situations are normalised, the shift to individualism will give way to 'older' ways of life such as the hierarchical structure that was to be expected according to Hofstede's data. On the other hand, there are many examples of the development of 'expanding' or 'emergent' organisations, in Webb's terminology, in both Serbia and Greece. The development of mass resistance to the 1999 bombing in Belgrade or the vast protests protesting the rigged elections of 2000 in Serbia and the mass of volunteers helping with the fire crisis of 2007 in Greece are indicators that within a clear and acute crisis, when 'grid' is not functioning at even basic levels, 'group' and the feeling of belonging to a greater society is ever present. This is somewhat ironic indeed.

Safety culture in Greece and Serbia

According to the theory, the individualist sees risk as an opportunity, as a random event that may or may not occur, but which should not be factored into one's equation, as it cannot be predicted or controlled. The bigger question here in relation to the countries studied, is what such a profile implies for the development of an appropriate safety culture by the government.

Socio-cultural distinctions notwithstanding, it could be argued that the role of a democratic government as far as risk management is concerned is to protect the basic rights of its citizens as well as promote their welfare and safety from risks, whether within or beyond the control of the individual. Stated otherwise, the aspects of governmental aims can be summarized as risk assessment and management, business (and societal) continuity and civil protection (Scarman Centre, 2006b, pp.8-6), all of which can be seen through the prism of safety culture. For the former aim, it is essential that hazard constructions are adequate (Scarman Centre, 2006e, pp.5-10), for the second and third that subsequent legislation is developed which can realistically be applied in every contingency. It is clear that from the respondents' point of view, the government is not adequate in either of the three, but perhaps the most problematic one is in fact risk assessment and management from the individualist perspective. The reason for the failure in developing safety cultures may well be that too much of an effort has been made by governments to rationalize, and therefore, 'protect' through a system of rules and bureaucratic regulations (post-communist in Serbia, patronage and the state as the overarching leader in Greece), whereas in fact the tendency of the people has been toward more ‘open’, ‘opportunistic’ systems of governance and, as an antecedent to this, culture.

In some ways this can be reformulated as the theoretical dichotomy between rationalists and generative perspectives. While rationalists aim to recognize, analyse, formulate and implement – which may well be claimed to have been the backbone of governmental practice thusfar – the generative perspective challenges ‘the notion that there is an objective reality out there, which strategists should try to discover’ (Scarman Centre, 2006a, pp.7-12); instead it seeks to promote lateral thinking which makes sense of the world, reflects, envisions and ultimately acts (Scarman Centre, 2006a, pp.7-15). If, according to this theoretical strand, strategy is art, therefore, imperfect, the generative perspective may well reject any claim to overarching governmental plans being anything more than blueprints which allow for multiple ‘artistic’ interventions at all levels depending on specific contingencies; for example, Rosenthal has been very critical of the concentration of rules in the Netherlands (Scarman Centre, 2006e, pp.6-27). Safety culture in Greece and Serbia may, therefore, well be nonexistent partially as a result of this dichotomy. While governments have been rationalists, general perceptions challenge this; the subsequent void implies that legislation stalls, rules are followed technically but not in practice, and the subsequent result is inability to create successful safety frameworks on the one hand and dissatisfaction from ‘end users’ on the other, who feel they are not adequately protected partially because the foundation of this protection is based on antiquated, no longer valid, cultural perceptions of what is acceptable.

However, the general suggestion by Serbian respondents that they feel adequately protected by their firms (especially the ones employing fewer people) points to the seeds of appropriate development of safety culture within the workplace, if not in society as a whole. This does not mean to suggest that feeling protected also implies a positive safety culture; but it does suggest that feeling protected is the first, essential step, for the creation of an appropriate understanding of safety. It is relevant here to bring into the discussion the control/mobilization divide (Scarman Centre, 2006e, pp.6-7) as a key aspect of culture. This can be taken back to the role of the organization/government in protecting its citizens: should it do so by telling them what to do, giving them guidelines as to what it could do or allowing for more freedom in its reactions? This parallels an old debate in management thinking from the ‘old style’ authoritative style to the ‘newer’ style of participative leadership which encourages the development of ‘leaders’ at all levels of the organization or community.

In a truly collectivist society where individual responsibility is eschewed in favour of multiple layers of hierarchies before decision-making is attempted, it may be seen that responses to crises will perhaps fail as they take longer than they should. Indeed, following the earthquake at the Japanese town of Kobe, for example, there was local reluctance to seek help in order to ‘save face’ or even to believe in media reports before acting (Bawtree, 1995, p.10); the hierarchical rather than horizontal systems that are a result of high uncertainty avoidance also resulted in emergency services (fire, police and defense) initially acting independently, only cooperating more effectively later on in the response effort; further poor horizontal communication was demonstrated in the bad communication among different levels of government (municipality and prefecture). It appears that the Japanese focus on uncertainty avoidance and 'vertification' failed to create the sense of urgency which would have yielded a better emergency response. In fact, 'a remarkable aspect of the Kobe aftermath is the scale of community self-help with residents helping to run their temporary accommodation' (Scarman Centre 2006e, pp.6-23). It appears that culture may in fact be flexible to the demands of emergencies and itself create opportunities for mobilization rather than control as needed at the local level. This was evidenced in the countries studied during the biggest crises of the past years; emergent volunteer efforts to extinguish fires or provide post-disaster relief to those affected in Greece for example point to a 'group' feeling that is quite removed from the results of this paper. Therefore, it seems reasonable that 'the generic model should include planning that aims for social mobilization rather than social control' (Scarman Centre, 2006e, pp.6-29) which suggests quite a broad scope for organizational arrangements which are rather different to the ones adhered to so far; even more so, when data suggests that cultural shifts have taken place which perhaps nobody has been aware of.

8. Recommendations and Conclusions

Frosdick (1995) gives an account of what the organization of a football stadium would imply for the individualist. Spectators would be allowed to sit where they like with little segregation. There will be little formality in dressing and the ratio of stewards to spectators will be low. There will be little continuity in personnel and when things go wrong, the perception of blame will be on someone external i.e. an 'us' vs. 'them' culture. Blaming will be overt.

It is apparent that a positive safety culture needs to address this issue of blame, as well as the consideration of 'external enemies' which are always seen as responsible for problems. In fact, most of the respondents quite overtly blame others for their own misfortunes and problems, which is to be expected from the individualist. However, if 'cultural relativism' is to be applied, the true challenge is to develop a positive safety culture within the individualist camp, rather than 'change' orientation to suit the demands of the safety manager. This is in no way simple, even in countries where governments have given a high priority to safety and emergency planning in general. The UK approach, for example, has been criticised as too centralized and not holistic enough (O'Brien and Read, 2005). To create such a holistic system would be extremely costly, as it would have to take into account all possible scenarios and perceptions (Scarman Centre, 2006e, pp.9-5). Clearly, there will be no panaceas or perfect systems.

If the thesis by Smallman and Weir is to be accepted, then the countries' placing as individualists already indicated a considerably agility in dealing with crisis situations, rather than a tendency to be paralysed by them as was, for example, the case following the Kobe earthquake. Such agility may well be the result of unconscious 'training', either in resilience as far as the Serbian population is concerned or due to the frequency of natural disasters such as earthquakes and fires as well as road accidents which have been singled out by the Greek experience. The emphasis here is on the development of a group understanding and pattern of behaviour that may well be more challenging in societies with low group and low grid. Further comment will be made on the issue of mutual trust singled out by this definition.

As far as organizations, and even governments as a whole, are concerned, the framework proposed by Ansari and Modarress (1997) based on the experience at the Boeing corporation is an effective springboard to developing a positive safety culture and greater (group) perceptions of safety, providing that this framework is adapted to the individualistic nature of the societies studied in this paper. The researchers suggest a five-point long-term plan in order to bolster safety and, thereby, shift cultures away from ineptitude regarding safety. Their framework involves five elements:

- Executive leadership, which involves listening to people's concerns, establishing a top-level steering committee, publicizing the effort and adopting new frameworks concerning safety accountability.
- Safety improvement processes, necessitating an abandoning of traditional safety procedures in favour of a behavioural safety model based on direct focus on action, behaviour and performance; managerial accountability; empowerment rather than power concentration at the top.
- Across-the-board value-added training; which are the result of a study of how people truly learn, and which also incorporate an evaluation component.
- Alternative work programme/return to work for those previously injured to make a successful comeback to the workplace.
- Communication through newsletters, production of films and the focus of safety issues at meetings.

Such 'textbook' approaches to safety issues do, to a certain extent, obscure the extent of the problems and turn a blind eye to issues of cost which are paramount in safety discussion, especially as cultural change is a long-term process whose results are frequently unclear at early stages. A further problem is to what extent such a safety plan should or could be implemented at the state, government level, where it may most be necessary in terms of Greece and Serbia. In fact, especially with regards to Serbia, the majority expressed satisfaction with safety in the workplace, though whether perceived satisfaction also implies an optimal, effective safety approach is a further complicating point.

Nevertheless, the framework proposed, if appropriately used, could be well received by respondents within an individualistic cultural framework. Communication was especially mentioned by Serbian respondents as a problem area where they perceived a lot of improvement was needed to reduce psychological risk which, predictably, affected their entire work experience. Most efforts to create cultural change have failed because of inappropriate studies of behaviour and underlying perceptions of employees (Cooper and Phillips, 1997). The deficit model of communication, with its emphasis on scientific rationality which gives no value to lay knowledge (Scarman Centre, 2006b, pp.3-7) may be at the root of many evils regarding safety measures in the loci studied. By perpetuating authoritarian and authoritative remarks, such risk communication only serves to perpetuate old bureaucratic systems clearly at odds with the individualistic leanings of the respondents. Similarly, this further justifies a narrow participationist approach, where all debate on safety outside those qualified is seen as opening the debate to ill-informed actors (Hood et al, 1992). A social learning approach using reflexivity (Scarman Centre, 2006b, pp.3-28) may be a helpful way to minimize conflict and enhance understanding avoiding the danger of treating humans as analogous to physical objects (Hood et al, 1992). It is in this that the development of leaders becomes essential.

The development of leaders, however, is a thornier point in societies which are relatively high on corruption levels and are known for nepotism and the eschewing of meritocracy; this is perhaps particularly so at the government level with politicians uniformly labelled inept and with no social conscience. Yet, as noted by Sevic (2005), there is hope in Serbia for the development of entrepreneurial leaders that are capable of analyzing needs, are capable of taking risks and a problem solvers rather than rule followers (Williams, 2008). It is the development of true leadership that is probably the greatest challenge for both loci studied. Even if technical excellence can often be observed, as noted by Vouzas and Gotsamani (2005), the human aspects of the equation are generally lagging behind. This may be partially also caused by individualist tendencies, as low adherence to rules and a lower feeling of community belonging are less likely to give rise to good communally responsible leaders. On the one hand, such leadership would border on ‘corporatism’, the desire to accumulate as many social constructions as possible (Scarman Centre, 2006e) in order to ensure both maximum expertise and maximum ownership of solutions. On the other hand, the role of empathy is primary; good leadership, especially in times of crisis, is associated with significant empathy, as in the case of the Mayor of Amsterdam following the crash of an aircraft into a tower-block; the Mayor ‘always gave priority to empathy’ (Scarman Centre, 2006d, pp.4-42) and his leadership has been held as an example of successful handling of a difficult event. Issues of emotional and social intelligence, as developed by Goleman, also become relevant here. A good question to pose, to which no answer will be attempted here, is to what extent can true emotional or social intelligence develop when people reject rules and the influence of their groups. Can they really display organizational awareness, teamwork and conflict management skills that are necessary for good leadership?

The low group rankings may be helpful in assisting the development of true accountability systems and empowerment. Following the aftershocks of the transition stage as mentioned by Feichtinger and Fink during which there appears little institutional support to shift leadership styles (Petrovic-Lazarevic, 2005), there is a belief that imported Western leadership styles will gradually improve, especially with regard to accountability issues. If the new wave of individualism is indeed accurate, then Hofstede’s scores of high uncertainty avoidance may well have subsided, allowing for the development of a culture where individual accountability is accepted rather than viewed with trepidation by employees and citizens as a whole. The danger here for Serbia is that empowerment will follow on the lines of the old Yugoslav self-management systems which failed as they provided participation in structure but not in processes, culture or the broader environment. (Lynn, 2002). Given the Greek tradition of technical excellence and little attention to softer issues, this is also a danger there; empowerment may be instituted on ‘paper’ but not further ‘pushed’ into the organizational system by unsupportive managers who are not operating within a leadership framework.

Individualist leanings may also assist in the correct administration of training programmes that emphasize individual learning styles and retention rather than older mass-training styles which have a technical focus rather than an emphasis on cultural change. More attention needs to be given to education as a whole and the continuing education of the workforce, as noted by some Serbian respondents. In fact, education as a whole has been relegated to a political process in both countries; in Greece the long-term refusal to acknowledge private universities and in Serbia the old-fashioned theoretically-based system with little practical applications both perpetuate cultures more appropriate for 'hierarchs' rather than individualists. It is not surprising then, that in both countries educational systems are viewed as big political failures and yet if these systems that carry with them a culture incapable of instilling or creating an appropriate safety culture.

A final point to be made is concerning the issue of trust, which was interestingly found to be so essential to Serbian businesses by Zabkar and Brencic. Respondents in both countries show a remarkable lack of trust in their leadership, in the legal frameworks they are subject to and in their social organization. Greek respondents on the whole further show lack of trust in the workplace, with 40% of Serbian respondents concurring. It may well be the lack of trust that has led to increase in individualism rather than the other way round. Distrust is at its highest following failures in the handling of the disasters, and it takes time, the emergence of good will, and continuing communication of genuine incorporation of local interests to overcome distrust (Browning and Shelter, 1992) after disasters. And yet, for positive safety cultures to develop, trust is perhaps the biggest key. Tyler (2003) makes mention of social trust, which is based on perceptions of the *motives* of others rather than procedural fairness. Believing that 'authorities' are acting with the purpose of someone's welfare in mind, defined as social trust, is found to hugely correlate with accepting decisions, particularly unpopular ones. Behavioural integrity i.e. the congruence between espoused and exhibited values is perhaps the most critical element for trust (Joseph and Winston, 2005). It is here that the biggest problem in the development of safety cultures emerges: behaviours differ from rhetoric in the loci studied, and the result is lack of trust. This is the case with leaders of societies (politicians) and organizations (managers) alike. It is here that most attention needs to be paid, and it is in trust that issues of leadership, communication, positive motivations and correct learning all find their common denominator. It must never be forgotten that risk society is polarized and uncharted (Scarman Centre, 2006f) and, in a sense, there will never be a 'right' way of doing things, merely a 'better' or 'more efficient' way.

9. Conclusion

This paper has attempted to examine perceptions of risk and place Greece and Serbia within the group/grid dimension of culture in order to identify 'ways of life' in these countries. With culture itself being a complex, often misused term, divisions into typologies such as that attempted by 'ways of life' are often not fruitful; nevertheless, they are a starting point for understanding. The literature suggests that both countries should display high group in the form of adherence to larger groups and high grid in the form of a high tendency to prescribe and follow rules in order to minimize risk. Following research in four organizations in each country, the results largely place both Balkan states within the individualist camp of low grid and low group, thereby contradicting a lot of the comparative literature available on culture, including Hofstede's seminal work on organizational culture. Analysis of the data across a variety of indicators such as place of work, household composition or age shows little variation in the data. The results can be explained on one level as a result of the aftershock of difficult transitions to true market economies which occurred in both countries despite their different historical and economic profiles. It is deemed that,in a broad sense, both societies are in 'crisis', with social problems of mistrust that need to be addressed urgently if progress is to be made in addressing considerable issues in sectors such as education, housing or health. The consequences of individualism on safety issues are that many of the current frameworks in place, based on a larger than necessary, ineffective state apparatus, are out of place and need to be re-examined entirely. The state is considered inadequate in all its major aims as an institution, while 'blamism', typical of individualistic ways of life, is rampant in both countries. Some evidence from the private sector in Serbia suggests that individual organisations are already working in the right direction regarding safety issues. Nevertheless, on a broader societal level, unemployment, political instability and inadequate legislation concerning behaviour on the road appear to be risks that instill fear and uncertainty in Greek and especially Serbian respondents. Further research on a larger scale is necessary both within the countries studied and across the region in order for more useful comparative data to be uncovered and the exact nature of the shift in paradigms to be explained. A wider scope of future research should include more detailed analysis of risk and fear and in-depth observation of organizational safety processes and their perception by employees. It is suggested that there is scope for good inspirational leadership and student-centered training programmes. In fact, the individual rankings point to a potentially good reception of such leadership efforts if they are appropriately applied. Better communication in company and also between the state and the 'people', with the subsequent creation of a trust society, may be the only viable way to move into the 21st century and finally cast off the negative implication of the term 'Balkans'.

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INFRASTRUCTURE AND RECOVERY FROM GLOBAL CRISIS: EMPLOYMENT, OUTPUT , AND INVESTMENT STRATEGY

Abstract

Infrastructure can have a significant role in reducing the effects of global financial crisis, since most developed economies underinvested to infrastructure facilities. In addition to the economic benefits by pepping up the economy in the financial turmoil, it has long been proven in the literature that the output increase ,labor productivity, and employment have been positively affected by the increase in public spending. This paper deeply studies these issues and public policy on infrastructure. Considering infrastructure as a long term investment would lead to inadequate strategy, so in this paper, infrastructure performance is also included. The importance of infrastructure sector for the economy is explained in an empirical research using U.S.A. data for the period between 1792 -2009.

Keywords: Global Crisis, Public Spending, Augmented Dickey Fuller.

1. Infrastructure

Infrastructure is a strategic sector and most countries chose not to report the priority needs and investment outcomes. The United Kingdom infrastructure spending, according to unpublished OECD data, was less than similar sized economies such as France and Italy and more significantly it is also less than much smaller economies Belgium and Sweden. The investment shortfalls of the UK in transport, urban development and communications are a threat to long term attraction of the country for new investments. The UK infrastructure investment is less than depreciation amount. However, due to the privatization of water, sewage, and energy utilities, private sector is more active in infrastructure in the UK, then European average. Also rising political and economical pressures to raise extra revenue, limits the funding for low priority infrastructure investment.

The UK solution to this situation is private finance for public infrastructure investment (PFI). In order to be beneficial for the economy, the capital investment in national industry for private sector is required. Government finance can cost much cheaper than private sector projects, but there are efficiency gains with private sector as well as market capacity increase for funding of these investments. On the other hand due to transfer of risks, namely design and construction risk, commissioning and operating risk, demand risk, residual value risk, technology risk and regulation risk, the private sector investment is more costly. On the other hand increasing public spending outside of long term economic growth have created problems in 1970s and 1980s due to high interest rates and currency volatility. PFI was introduced in 1992 when the government revenue decreased, and government was unable to allocate public spending for infrastructure sector, eventually a measure for macroeconomic problems (Clark, 1999, p.346).

Infrastructure has various positive effects for the economy. There are empirical evidences on indirect effects of infrastructure, such as fall of unemployment, and rise of wages. The direct effects are always present, applied specifically for the market such as the decrease in transport costs after a transportation infrastructure investment. In the following table (Table 1), the effects of transportation infrastructure on trade volumes and an imperfect labor market. The transportation costs are assumed to decrease 20% by using better roads or modes.

As seen in the table 1 transportation costs decrease the cost of unit good transported and increase trade volumes. This means that more agricultural and industrial goods are produced, due to increase in productivity due to less transportation costs and more trade flows. This results an increase of labor in the rural region and capital in urban region. As a result there is an increase in total welfare (1389 to 1401) and decrease in unemployment (3.65% to 3.50%) (Zhu, 2009, p. 68).

Table 1: Trade Volume and Labor

Trade Volumes, values and transport costs for base and improved infrastructure								
	Base				**Infrastructure improvement**			
	Volume(U)	Value(I)	Cost(I)	Cost rate (I/U)	Volume(U)	Value(I)	Cost(I)	Cost rate (I/U)
Good 1	26.6	110	11	0.462	32.5	131	10.7	0.357
Good 2	21.2	110	11	0.578	25.8	131	10.7	0.499
Labour Market and Welfare for base and improved infrastructure								
		Base				**Infrastructure Improvement**		
	Wage	Rate(%)	Utility / capita	Welfare	Wage	Rate(%)	Utility / capita	Welfare
Region 1								
Employed	1.862	95.8	3.293		1.907	96.7	3.393	
Unemployed		4.2	3.213			3.3	3.237	
Total		100		328.8		100		338.8
Region 2	1.97				1.866			
Employed		96.9	10.61				10.634	
Unemployed		3.1	10.434				10.515	
Total		100		1060.4				1062.9
Total				328.8				1401.7

Source: Zhu, 2009, p.68

2. Infrastructure and Global Crisis

The solution to world economic crisis should be evaluated on global basis since a country can't isolate itself from the rest of the world. Therefore the approach for coordinated international action is critical. Income inequality is obvious among and within countries. The US deficit continues to be a threat for the global economy. The announced stimulus packages should be applied in global coordination.

Investment in infrastructure is the major component of the stimulus plans. Virtually all countries allocate large sums to infrastructure development. In France € 11.1 billion will be spent to infrastructure which accounts for the half of the stimulus package. This includes direct state investment to improve rail and energy infrastructures, postal service, higher education, research and improvement of state owned properties. Canada, Germany, Poland, Portugal, UK and US focus on environmentally friendly technologies (Ortiz, 2009, p.3).

It will take time for infrastructure spending to help the economy obtain previous growth quickly, but it will provide a significant economic boost. As the current downturn is expected to last for an extended period, the infrastructure investment will be a key solution for the recovery. Local economy can benefit from the plan, as most of the infrastructure money will be spent on hiring workers and on materials and equipment produced domestically.

The US recovery plan includes $160 billion infrastructure spending, a $90 billion in traditional infrastructure (highway construction, public transit and waterways); a $70 billion for a variety of energy, science and healthcare projects. Every dollar spent on public infrastructure is expected to boost GDP by $ 1.59. As countries underinvested to infrastructure, the period of financial volatility is an opportunity for accomplishment long-term growth prospects. Construction and manufacturing benefit most from the infrastructure spending included in the stimulus plan (Zandi, 2009, p.11).

Construction and manufacturing will experience strong job growths under packages that includes infrastructure, energy, and school repair. Due to tax cuts and other precautions all sectors are effected positively with more U.S. job creation as given in the below table (Table 2). The spending on infrastructure, schools, and energy investments will create jobs specifically on construction sectors, whereas other sectors would indirectly benefit (Romer, 2009, p.6).

Table 2: The Effects of Recovery Package on Employment

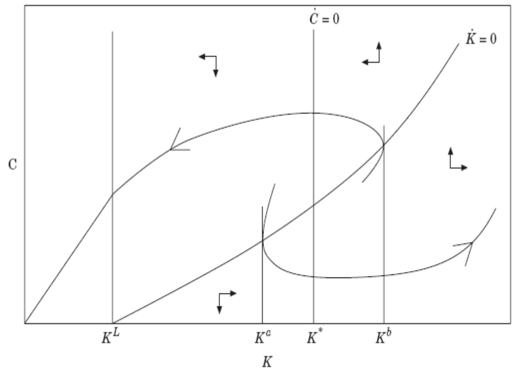
Component	Total Effect	Direct Effect	Indirect Effect
Energy	459,000	305,000	153,000
Infrastructure	377,000	236,000	142,000
Health Care	244,000	166,000	78,000
Education	250,000	166,000	83,000
Protecting Vulnerable	549,000	140,000	409,000
State Relief	821,000	442,000	379,000
Making Work Pay	505,000	0	505,000
Tax Cut			
Business Tax	470,000	0	470,000
Incentives			
All Components	3,675,000	1,455,000	2,219,000

Source: Romer, 2009, p.6

3. Output Effects

Private companies use public facilities to some extent and increasing levels of production leads to lower returns under public services overcrowding. Therefore public spending is a crucial factor for production in the economy. For the sake of the model the government uses only tax revenue to allocate public spending between regions. The public spending is under blockage meaning as one firm increases its use of public resources , the other firms will make less use of it. When a firm increases its size, the marginal product of the last unit of capital decreases. So in the micro level, the production of a firm is a function of private capital of the firm and productive public services. Figur e 1 shows a non linear modeling of the system in consumption-capital plane. Above the K=0 line , the stock of agregate capital decreases, while below capital increases. On the left of the C=0 line consumption increases, and on the right it increases. The two trajectories overlap for values Ka and Kb. For K< Ka, there will be corner allocation, a poverty trap. Marginal product of capital is not sufficient for more market entry due to congestion of public spending. Between Ka and Kb , the economy may move to either corner allocation or balanced growth path. Under these conditions, expectations would determine which way the economy moves. For K >Kb , the economy moves directly to balanced growth path , and the economy grows forever since the capital allows further entries. Corner allocation and balanced growth path. The model shows that public spending determines the performance of the economy (Acconcia, 2000, p.227).

Figure 1: The interior stationary equilibrium is excluded as a possible long-run outcome because it is locally unstable



Source: Acconcia, 2000, p.227

Previous literature has repeatedly shown that public capital affects real private output in the economy. When modeling the real output as a dependent variable, it is seen that the output per worker changes with the stage in business cycle. The considered variables are U.S. real gross domestic product in billions of 1982 dollars(Q), privte domestic labour index(L), private domestic real capital input(K) in billions of 1982 dollars,real stock of equipment and structures(G), output as percentage of capacity in manufacturing. (GAP) The data is tested for non-stationary , which means spurious regressions exist. In other words there are casual relations whereas in fact there is no relation. So the data is tested for unit square root, Augmented Dicky Fuller methodology. Accordingly, the data is integrated to the level 1. On the other hand Johansen's cointegration test is applied , where null hypothesis can not be rejected. According to ordinary least square result in the first difference, (Table 3) the coefficient of public capital infrastructure variable is positive and significantly different from zero. This is an indicator that public sector investment increases the private sector real output (Delorme, 1999, p.568).

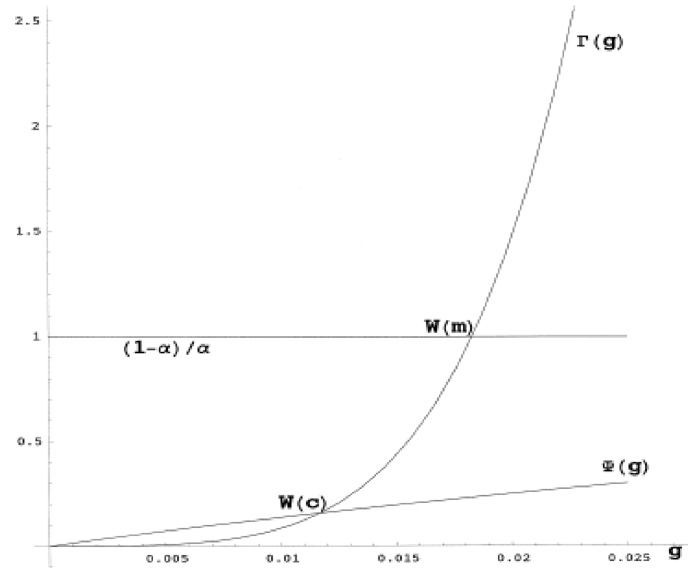
Table 3: Average Production Function

Variable	Coefficient
Intercept	0.0024
Dln(K/L)	0.6099
Dln(G/L)	0.2762
Dln(GAP)	0.4122
T	0.0001
D.W.	1.8407
R2	0.49

Source: (Delorme, 1999, p.568)

The economy consists of commodity goods (Y) and infrastructural goods (G) which enter all production as an essential output. Production of Y relies on capital for commodity as well as infrastructure, and G relies on capital for infrastructure. In the market economy, the household owns all the capital , and they are charged a price for the capital services consumed. Profit maximization increase the demand for K and G. Whereas in the Command economy the social planner optimize the infrastructure. The figure 2 shows that economic growth rate achieved by the market economy exceeds that of command economy. But market economy may not realize this growth efficiently due to rival and non rival factors (social costs). Fully State controlled economy also leads to suboptimal production. Public spending equals a fixed portion of capital, whereas in market economy it is the private marginal product of capital (Dasgupta, 1999, p.376).

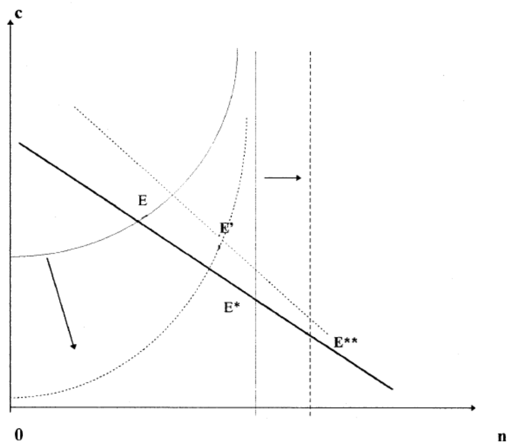
Figure 2: Market growth rate dominates command growth rate



Source: Dasgupta, 1999, p.376

The economy has a large number of households with budgetary constraints. The government purchases a portion of the private output to produce public services. A change in public services affects the change in consumption through the change in capital and long run growth rate. Starting from initial steady state , the government raises public spending financed by a raise in taxes. This would crowd out private consumption due to raise of taxes and reduce private capital due to crowd out effect. As in Barro, government spending increases growth rate until an optimum point of government spending. As seen in the below figure (Figure 3), the public spending increases the consumption by a shift in the curve and increase in marginal productivity of capital . As this is financed by increase in taxes, private consumtion is reduced. The new steady state E' is a higher growth point. Also due to the shift in C=0 curve the growth is higher in E''. The limit to this is the Barro optima (g*) where the fall of savings (1-g-c) is larger than the reduction in marginal productivity of capital (fall in k) (Mourmouras, 1999, p.403).

Figure 3: The effects of an increase in public investment (when *g* , *g**)



Source: (Mourmouras, 1999, p.403)

It is long been argued that high fixed costs of infrastructure investments require governments to highly subsidize. However if a suitable financial model can be proposed, most infrastructure do not require high subsidies. To model this, transportation investments with increasing fixed costs are analyzed for the optimal capacity investment, toll levels, welfare, and cost recovery. Traffic demand, user costs, and toll levels are considered in the table 4. F is shown as the fixed cost and k the variable cost. Z is the optimal capacity, Y is the local demand,and C(Z) is the associated cost, where θ is the toll. Depending on the optimal capacity Z, and the toll collection opportunities, self-financing models can be created. Large projects are more effective for governments since there are more toll collection opportunities as well as economies of scale advantages (Borger, 2009, p.516).

Table 4: The cost structure of Infrastructure projects

K	18.69	16.82	14.95	9.35	5.61	3.74	1.87
F	0	2608	5216	13.04	18.256	20.864	23472
Θ	21.15	20.06	18.91	14.95	11.58	9.46	6.69
Y	1233	1246	1260	1307	1347	1373	1406
Z	1395	1486	1594	2091	2091	2783	5029
C(Z)	26,080	27,609	29,046	32,585	33,861	33,845	32,872
Toll revenue	26,080	25,001	23,830	19,545	15,605	12,981	9,400
Cost Recovery	1	0.9	0.8	0.6	0.5	0.4	0.3

Source: Borger, 2009, p.516

The majority of the previous research involves public capital as an indicator of infrastructure. Today, railways, tramways, telephone systems, power distribution networks, and some hydraulic works are privately owned. So there is a clear need for private infrastructure. The below table is based on Spanish transport, communications, power distribution , hydraulic works, urban and suburban infrastructure for public and private sectors. During period 1855-1866 Spain invested to railroads intensely as well as ports and telegraph system. After that period Spain faced an infrastructure crisis which lasted until mid-1870s.

Two thirds of the investment was railroads, accounting 24% of the total resources in the year 1895. Later, the railroad investments stagnated due to the competition of main network and a strategy to diversify infrastructure. This led to an increase in ports and urban and suburban infrastructure and after telephone system and electricity distribution.

Finally in the period 1923-1936, roads , ports, and hydraulic works were the main investment for the public when private sector invested electricity, telephone, and urban transport. In sum Spanish infrastructure investments are concentrated on railroads and also diversified in other fields.

The output (y) , infrastructure capital (g) , machinery and equipment capital (k) and labor (n) are shown for the Spanish data between 1850-1935 is shown in the Table 5. According to causality results, GDP and machinery investment per worker are both helpful in prediction of variables. Augmented Dickey-Fuller and Phillips-Perron unit root tests indicate that the hypothesis that a unit root exists cannot be rejected. Engle –Granger and Johansen cointegration results also inform presence of cointegration and finally the infrastructure capital increases productivity of the economy as shown in the Table 5 (Loncan, 2007, p.458).

Table 5: Output and Infrastructure

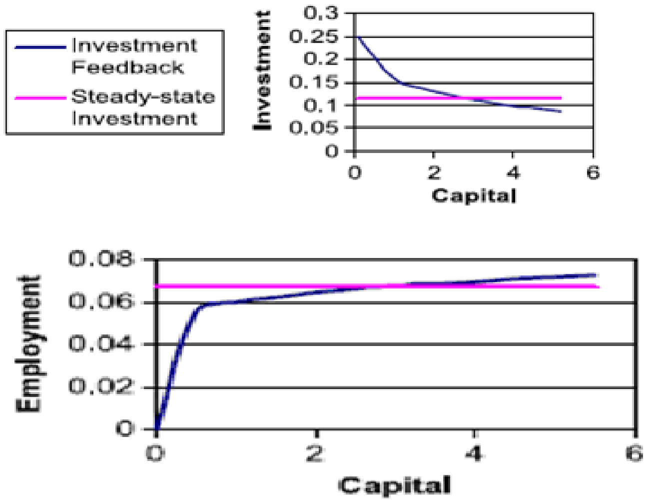
Unit Root Tests (1830-1935)		
Variable	ADF t-stat	PP t stat
y-n	-3.39	-3.39
k-n	-3.09	-3.23
G	-3.33	-2.3
Johansen Cointegration test		
None	30.76	
At most 1	12.47	
At most 2	0.06	
Engle Granger Cointegration test		
Test Stat	4.04	
Cointegration Equation		
k-n	0.24	
G	0.008	
Constant	-3.856	

Source: Loncan, 2007, p.458

4. Labor and Productivity

The role of the government is to obtain a sustainable infrastructure investment in a labor production economy under capital constraint. To model this, government is assumed to make the infrastructure investment and production firms are followers in a Stackelberg game. Firms use infrastructure and labor to make a minimum amount of net profit. If the constraints are met at the steady state, then the government strategies will be met given there is enough initial infrastructure capital. The below figures show that the greater the public infrastructure, the lower the investment should be. In addition when the capital is smaller than steady state level , it is optimal to invest more than I = 0.113217, to move towards steady state. Below figure (Figure 4) also indicates that infrastructure investment leads to increase in employment. The rate of employment changes sharply when infrastructure capital is low, after the steady state level it decreases (Tapiero, 2008, p.884).

Figure 4: Investment and Labor



Source: Tapiero, 2008, p.884

Most of the research shows that the increase of productivity following 1995 is due to increase in IT capital as well as human capital, hardware , and infrastructure. Non residential, non farm output can be modelled as a function of technology index, labour , total stock, capacity utilization, private capital and public capital. Information technology has a key role for the production process in productivity of labour and capital, utility, and quality. U.S. economy is modelled for the period 1975-2001. It is seen from the below table (Table 6) that information technology and government infrastructure has been a significant contributor to economic growth. Finally, there is a significant increase in the labor productivity (Duggal, 2007, p.498).

Table 6: Factor growth accounting

%dQ	1993	1994	1995	1996	1997	1998	1999	2000	2001
	5.73	7.17	4.88	5.21	7.23	5.6	5.57	7.05	1.36
Due to a %d in									
KO	0.37	1.05	0.87	1.53	0.88	0.82	0.44	0.84	0.65
KIT	1.06	1.11	1.17	1.21	1.32	1.39	1.32	1.44	1.29
L	0.77	0.36	0.08	0.71	1.43	1.32	1.12	1.32	0.84
F	0.77	0.95	0.74	0.59	0.77	1.11	1.38	1.31	1.26
U	0.81	1.75	0.09	-0.78	0.84	-1.01	-0.68	0.07	-4.69
T	1.95	1.95	1.93	1.95	1.99	1.97	1.99	2.07	2.01

Source: Duggal, 2007, p.498

5. Infrastructure Allocation and Government Policy

From the viewpoint of regional allocation of public infrastructure the government decides how much infrastructure to allocate for each region with the budget obtained from taxpayers. The size and need for infrastructure is different for regions. The value added for a region is a function of employment, capital and infrastructure equipment. In the below table, French data of 1985-1992 is used. The data includes regional GDP, regional employment, non-residential private capital stock, transportation infrastructure stock and investment, number of companies over 500 employees, political congruence, absolute value of election difference results. According to the table table 7, capital, employment and infrastructure affects regional growth and policy decisions are affected by political factors to some extent (Cadot, 2006, p.1145).

The regional allocation of transportation infrastructure may be categorized in two factors; this are output per capita based on local needs and the political factors. Transport service demand of a region depends on services provided by government and regional factors such as number of vehicles. Due to the differences in population, output per capita, demand; vehicles, congestion, political clout between regions, one needs to take into account efficiency equity trade off, infrastructure needs, and political factors in the optimization of infrastructure investment under budgetary constraints.

Table 7: Regional Growth and Policy Decisions

Production Function : Dependent Variable ln(VA/EMP)	
CAP/EMP	0.182
EMP	0.029
INFRAST/EMP	0.08
PARIS	0.214
Policy Function : Dependent Variable INV / EMP	
VA /INFRAST	-1792.84
PARTY	117.17
DIFF	-34.62
LEPEN	29.31
LARGE	8.25
INCUMB	26.26
INCUMB*LARGE	-
TGVCENTRE	1096.46
TGVNORD	3112.54
PARIS	-619.28

Source: Cadot, 2006, p.1145

Spanish data has been used for the period 1987-1996 in the Table 8. Economic determinants have more explanatory capacity than political variables. Infrastructure investments adjust slightly towards its long run value. Investments are sensitive to per capita output and share of transportation services. Regional governments need more time to adjust long run values and infrastructure needs and efficiency are more important factors. Political considerations play a role where electoral productivity is higher. The production function should include infrastructure investment as an endogenous factor as it affects production positively (Castells, 2005, p.1197).

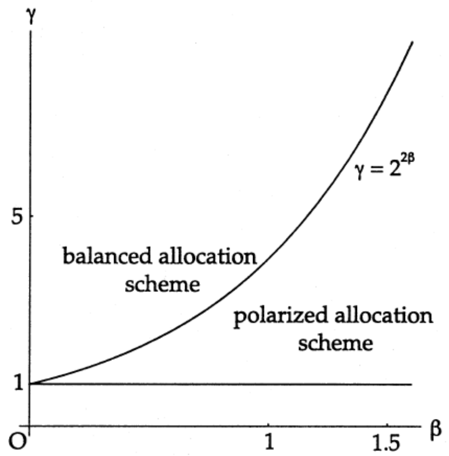
Table 8: Structural parameters of key variables

	Central Government		Regional Government	
	Transportation	Roads	Transportation	Roads
Equity Efficiency Tradeoff	0.45	0.425	0.702	0.7
Infrastructure Needs				
ln (Trucks / Y)	0.177	0.279	0.336	0.315
ln (Km)	0.042	0.046	0.101	0.076
ln (Air)	0.009		0.009	
Electoral Productivity				
ln pxd3	0.144	0.158	0.075	0.075
lnpxd2	0.186	0.197	0.137	0.124
lnpxd1	0.228	0.235	0.157	0.173
lnpxd0	0.27	0.273	0.219	0.222

Source: Castells, 2005, p.1197

The allocation of infrastructure across regions is an important policy decision. The goal of the government is to maximize social welfare, under budget and other resource constraints. The goal of the government is to invest in infrastructure so that most people can have similar standard of living. If there are regional differences, the people will mitigate to other regions for better standards. In other words, one can talk about two allocation schemes, to equalize the productivity across regions (balanced allocation schemes) and where infrastructure is concentrated in one region (polarized allocation schemes). The two parameters to consider is therefore β, degree of returns from infrastructure and γ, degree of regional differences in terms of comparative advantage. Assuming Cobb-Douglas utility for spending and price index, when β is sufficiently high for a given γ , (or when γ is sufficiently small) polarized allocation scheme is optimal (Figure 5) (Takahashi, 1998, p.234).

Figure 5: Optimal Allocation Schemes for the Cobb-Douglas Utility Function

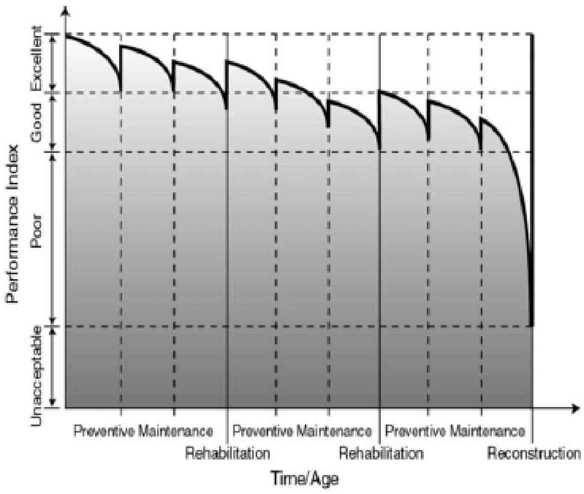


Source: (Takahashi, 1998, p.234)

6. Infrastructure Performance

One of the most important issues in infrastructure is to maintain profitability of asset management. United Kingdom, Italy , Spain, New Zealand, Australia are among the countries that apply these techniques, outsourcing when necessary. Most of the time, the operating company is also responsible for maintenance. The key issues in asset management are geographical allocation , asset valuation, performance standard, quantitative condition assessment, performance forecast, asset management planning, asset renewal / replacement analysis , and asset disposal. Asset management is active in all of the phases of asset life cycle that is related with asset performance. Asset preservation significantly reduces the costs of rehabilitation and replacement. Research has shown that life cycle costs of infrastructure can be reduced 75-90% with preventive maintenance (Figure 6) (Dornan, 2002, p.47).

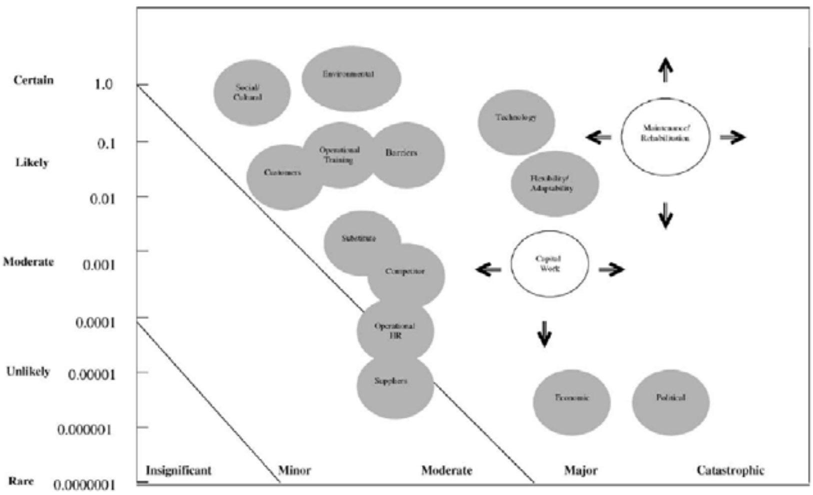
Figure 6: Infrastructure Life Cycle – Preventive Maintenance



Source: Dornan, 2002, p.47

Risky assessment is a critical issue for infrastructure performance. Risk levels of infrastructure are unlikely, moderate, likely and almost certain. Five categories of risk are insignificant, minor, moderate, major and catastrophic. Infrastructure risks are the following; political risk; economic risk; social risk; cultural risk; environmental risk; technology risk; supplier risk; customer risk; risk of substitutes; competitor risk; barriers to entry risk; operational risk (human resources); operational risk (training); flexibility and adaptability risk. Infrastructure projects are analyzed in risk mapping as in the below figure to consider cost, benefit and risk. (Figure 7) The X axis is the magnitude of consequences and Y axis is the probability. Although political and economic risks are unlikely to occur, their magnitudes are extremely significant. Social , environmental and cultural risks are more common. Risk of competitors is among the most critical (Piyatrapoomi, 2004, p.209).

Figure 7: Risk Map for Infrastructure

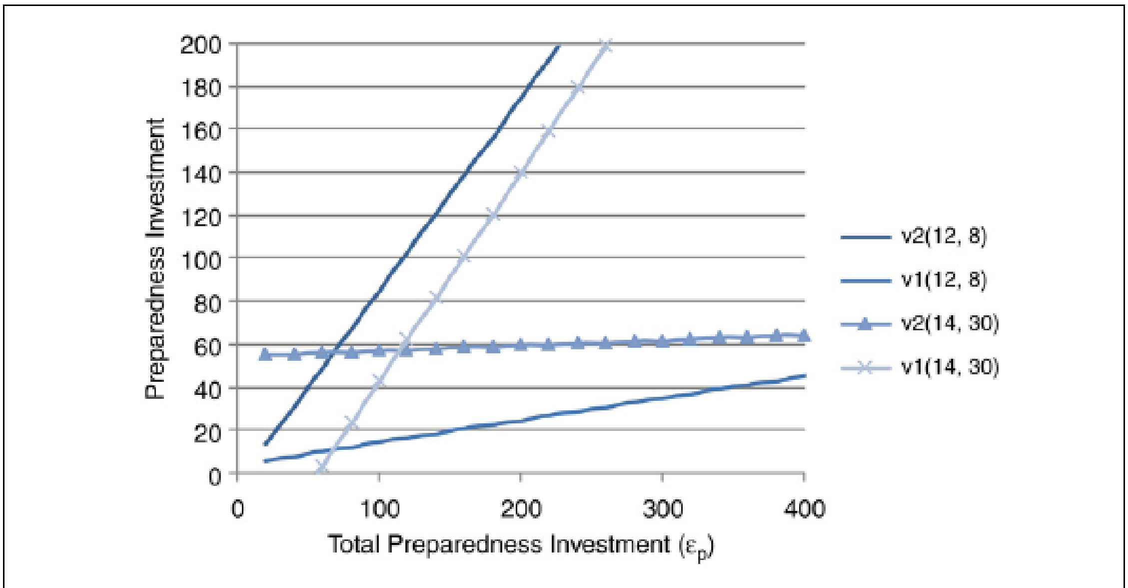


Source: Piyatrapoomi, 2004, p.209

Strategic awareness is a level of readiness that are made in advance of a natural disaster or a man made activity to reduce the consequences and/or the probability of occurrence to an acceptable level. The objective of this process is to minimize cost of preparedness , cost of recovery and ineffectiveness of recovery, subject to limited resources, considering impact of preparedness on recovery, and socioeconomic interdependencies. Each sector will invest in optimal amount of preparedness investment.

Optimal amount of investment can be modeled based on a two sector model by increasing the investment and analyzing the efficiency. The model presented in the below figure is prepared based on the U.S.A. data. (Figure 8) The factors to consider are the effectiveness of investment for individual sector recovery, the total nominal output of sectors relative to each other, the interdependencies of sectors possibly to effect other sectors, the critical output for the sectors. α is a system parameter indicating that a dollar investment to sector one generates $12 prevention , whereas in sector 2 this is $8. These parameters are combined with other parameters such as relative nominal output levels, sector interdependency and relative criticality. Sector two is more than twice effective as sector one, however it is more than 4 times interdependent. These issues should be considered in the allocation of preparedness funds through regulation or incentives (Crowther, 2008, p.652).

Figure 8: Preparedness Investment



Source: Crowther, 2008, p.652

7. Emprical Findings

A time series can be taken stationary only if its stochastic properties is not affected by an incremental change in time. For the purpose of this study the U.S.A. data of GDP, total public spending as percentage of GDP, CPI, Labor Productivity (Manufacturing Production / Output

Hour), and Unemployment rate is used for the period 1792-2009. The data is suspected to be non stationary.

In linear stochastic analysis, a unit root is 1 for the equation. In cases that the root is more than 1, the system is no longer stationary and will explode in linear regression. There are several methods to test for the unit root. The data is tested as given in table 8 for non- stationary in the popular Augmented Dickey Fuller approach. The test examines the null of ARIMA (Auto regressive moving average) against the stationary time series. Benchmark critical values are developed by Fuller in 1976. For empirical purposes we rely on finite samples where number of lags is a factor (Cheung, 1995, p.277).

We use Schwarz Criteria to determine the number of lags in the analysis. From the table 9 it is seen that all variables except CPI is non stationary. The ADF t-statistics exceed the critical values at 5% level without trend. These series (except CPI) have a unit root (the hypothesis is accepted) and are integrated in the order one I (1), the first differences.

Table 9: Augmented Dickey Fuller Results

VARIABLE	ADF (LEVEL)	CRITICAL VALUE
PUBLIC SPENDING / GDP	-0,2818(4)	-2.8749
CPI	-2,8748 (1)	6.1375
GDP	-2,7289(8)	-2.8752
LABOR PRODUCTIVITY	-2,0160(4)	-2.875
UNEMPLOYMENT	-0,7903(3)	-2.8749

Due to the non-stationary structure of time series data, public spending /GDP is suspected to Granger cause, Labor Productivity and unemployment. Granger Causality test is applied to determine whether a specific time series can be used to explain the change in the other. Granger methodology depends on a series of F-tests on the first differences in a lagged linear regression analysis. In other words if past data of one series can be used to forecast other then one granger causes the other. Table 10 indicates Granger Causality between public spending and Unemployment and GDP.

Table 10: Granger Causality Test Results

Ho	Observation	F-statistic	Probability
Public Spending and Unemployment			
SPENDING_GDP does not Granger Cause UNEMP	215	828,532	0.00034
UNEMP does not Granger Cause SPENDING_GDP		239,893	0.09330
Public Spending and Labor Productivity			
LABOR_PR does not Granger Cause SPENDING_GDP	215	223,760	0.10925
SPENDING_GDP does not Granger Cause LABOR_PR		927,824	0.00014

According to Granger Causality Test results, under 5% significance level, the hypothesis that public spending does not Granger Cause unemployment can strongly be rejected however unemployment does not granger cause public spending can not be rejected. As expected this is an indicator that there is a one way relationship indicating that public spending granger causes unemployment. In other words, there is a strong relationship between public spending and employment. In times of financial volatility, government spending on infrastructure would also create employment in the economy. Similarly there is a one way relationship between public spending and labor productivity, indicating that public spending Granger causes labor productivity, explained by hourly manufacturing production. This creates a better investment environment for the economy.

8. Conclusion

In this paper it's been shown that developed economies underinvest to infrastructure. In the periods of financial volatility, there is a decrease in total output and employment. This paper is an evidence of the positive effects of infrastructure spending in the period of financial turmoil. The efficiency gains and additional fund creation possibilities in the infrastructure projects may require private sector investments.

Public spending determines the performance of the economy as there is the finding that every dollar spent on public infrastructure increases GDP by $ 1.59. In other words public spending also increases private output. Thus, government spending would help to balance the reduced growth rates and high unemployment in economic crisis, given an optimal amount of spending is allocated for infrastructure.

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GLOBALIZING FINANCIAL SYSTEMS AND ECONOMIC GROWTH IN THE MIDDLE EAST REGION

Abstract

Due to the benefits that resulted from globalizing financial system, it has been widely accepted in the literature of this field that financial system globalization play a vital role in improving resource allocation through the financial markets, thereby increasing safety of financial systems operations and also thereby strengthening the local emerging financial system and markets in the Middle East region (World Bank, 2008). One of the main reasons for this paper which focusing on the influence of globalizing financial systems (GFS) on the economic growth in the Middle East region is because there is an increase in funds flowing from developed industrial countries toward the emerging Middle Eastern financial markets. Therefore these Middle Eastern financial systems are becoming increasingly important in terms of globalizing financial systems. Hence, and based on literature and empirical evidence, GFS raises the economic growth in Middle Eastern economics through a number of channels (IMF, 2006). Some of these channels are directly affect the determinants of economic growth rate, and indirect channels, which in some cases could be even more important than the direct ones. Evidence from financial analysts, economic theories and financial indicators that are presented in this paper suggest that GFS should be approached carefully in the ME, with good institutions and macroeconomic framework viewed as important. The review of the available evidence does not, however, provide a clear road map for the optimal rapidity and running of GFS. Therefore, this paper aims to provide theoretical and empirical evidences, which explore the effect of GFS on the economic growth in the Middle Eastern emerging financial systems and markets.

Keywords: Globalizing financial system, Emerging economics, Global financial crises.

1. Introduction

Financial systems play a critical role as a channel for the transfer of financial resources such as capital, funds and assets from net savers to borrowers. The analysis of the influence of the globalizing financial systems (GFS) on the economic growth has attracted a great deal of interest in recent times. The term GFS refers to an area of research in financial economics that covers many aspects of inter-relationships between financial system participants. The issues of GFS and analysis of the economic growth in the emerging markets in the Middle East (ME) have received a great deal of interest among academic researchers and practitioners.

In recent year, the changing nature of the financial system has become an increasing focus of policy interest and of academic studies. Based on the financial analysts and economists, these changes and GFS may be seen as (i) necessary and welcome progress towards a more efficient of local financial system, which provides financial institutions (FIs) more cost-efficiently and allocates capital more efficiently than has been previously the case; and/or (ii) they are seen as threatening to financial system stability and as a development towards a financial system that is level to crisis at frequent periods (IMF, 2006; World Bank, 2008). IMF (2006) shows that financial system are the combination of all FIs, institutional and individual investors and financial markets together, which have an essential and major role in the performance of the economy. Ross (2002) noted that in today's economy, the financial system mainly consist of a central bank, banks, non-bank financial institutions (NBFI), and financial markets. Hence, and based on literature and empirical evidence, GFS raises the economic growth in Middle Eastern economics through a number of channels (IMF, 2006). Some of these channels are directly affect the determinants of economic growth rate, and indirect channels, which in some cases could be even more important than the direct ones.

The emerging financial markets in the ME have achieved considerable improvements over the last ten years. Several factors have played vital roles in these improvements, such as the conduct of sound macroeconomic policies, financial system reforms, privatization, financial liberalization, and stock market integration. One of the main reasons for this paper focusing on the influence of the GFS on the economic growth in the ME is because there is an increase in funds flowing from developed industrial countries toward emerging financial systems and markets in the ME. Hence, these Middle Eastern financial systems are becoming increasingly important in terms of GFS. Therefore, this paper aims to provide theoretical and empirical evidences, which explore the effect of GFS on the economic growth in the ME. In particular, this paper focuses on emerging markets in this region, namely Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria and United Arab Emirates. The ten countries that are considered in this study have adopted several sound macroeconomic policies and financial system reforms over the last ten years which have contributed to higher economic growth. These policies and reforms include trade and financial liberalization, privatization programs and openness to foreign directed investment (FDI). Moreover, these reform policies are considered as indispensable in order for these countries to face the growing financial and economic challenges that resulted from the recent global financial crisis (GFC) and changes in the global economy. Thus, GFS without an appropriate set of requirements might lead to few economic growth benefits and more output and unpredictability consumption in the short run.

The rest of the study is structured as follows: section 2 outlines an overview of GFS; a revision of the related features and factors. Section 3 presents the benefits and the relationship of the GFS and economic growth in the ME, which determines the direct and indirect channels to enhance economic growth that derived from GFS. Section 4 highlights the impact of the GFC on the economic growth in the ME. The last section 5 presents the conclusions, contributions and recommendations for this study.

2. Globalizing Financial System; Features and Factors

Globalizing financial system (GFS) and financial system integration are, in principle different concepts. GFS is an aggregate concept that refers to rising global linkages through cross-border financial flows (IMF, 2008). Financial system integration refers to an individual country's linkages to international capital markets. For instance, increasing GFS is necessarily associated with rising financial system integration on average (IMF, 2008; World Bank, 2008). Based on literature and empirical evidence, GFS raises the economic growth in the ME through a number of channels (AMF, 2008). Some of these directly affect the determinants of economic growth. On the other hand, indirect channels, which in some cases will be even more important than the direct ones, include increased production specialization due to better risk management, and improvements in both macroeconomic policies and institutions encouraged by the competitive pressures or the "discipline effect" of the globalization (World Bank, 2008).

The features of global capital flows within GFS in the ME are:

1- The level of global capital flows has risen substantially in the last 5 years. Not only has there been a much greater volume of flows among developed industrial countries but there has also been sudden increase in flows between industrial and the emerging Middle Eastern economics, and
2- This increase in global capital flows to the ME is the outcome of both "pull" and "push" factors. (i) Pull factors arise from changes in policies and other aspects of opening up by the ME (Brau and McDonald, 2009). These include liberalization of capital accounts, domestic stock markets, and large-scale privatization programs. (ii) Push factors include business cycle conditions and macroeconomic policy changes in both the developed and the emerging Middle Eastern markets (Brau and McDonald, 2009).

In addition, the rapid development of communication and widespread of using the Internet in the ME - as one aspects of globalization- has been considered as important tool for GFS, economic growth and financial markets (Sherman and Rowley, 2006). This tool enable institutional and individual investors, agents, traders and all participants in financial system to have the access to information, and consequently the ability to manage their portfolio more efficiently. IMF and World Bank (2008) reported that some of major factors, which encouraging high level of interest in GFS and investments by local and global institutional and individual investors in the ME are:

- Lack of local financial investment opportunities
- Interest rate differentials
- Greater liquidity of global stock markets
- Political and economic diversification
- Perceived comparative advantage
- Substantial growth in available investment funds
- Changes in foreign investment policy
- Investment stability
- Strong economy
- Improved global communication and financial system information

- Access to investment capital
- Greater collection of investment choices

3. The Influence of Globalizing Financial System on the Economic Growth in the Middle East

3.1 Introduction

At the beginning of the 21st century a huge amount of capital flows into the ME financed infrastructure projects such as railroads and direct investment in foreign companies (Foreign Direct Investment- FDI) have been increased (Marashdeh, 2007). A stock markets in the ME as one of the main financial system combination, which it is a system that allows both institutional and individual investors to easily buy and sell financial securities such as stocks, bonds, commodities - such as valuable metals or agricultural goods- and other tangible items of value at low transaction costs and at prices that reflect efficient markets (Marashdeh, 2007). On the other hand, according to Bloomberg, Macquarie Research (2009), eight of the top ten best performing stock markets in the world in 2008 were in the ME. Saudi Arabia has become one of the world's largest emerging stock markets by capitalization. This liquidity, along with the high oil prices in the Q2 and Q3/2008 has created a substantial cash surplus in the region (Macquarie Research, 2009).

3.2 The GFS Direct and Indirect Channels Enhancing Economic Growth in the ME

There are a number of direct and indirect channels through which embracing GFS enhancing the economic growth in the ME. These channels are inter-related in some ways, but this explanation is useful for reviewing the importance of each channel. However, it has confirmed difficult to empirically identify a strong causal relationship between the GFS and the economic growth. The following points represent the direct channels, which enhancing the economic growth in the ME:

1- GFS allows for increased investment in the ME while provides a higher return on capital (ROC, ROI) than is available in developed industrial countries. This effectively reduces the risk-free rate within the ME.
2- Improves the allocation of risk through following steps: (i) Increased risk sharing opportunities between global and local investors help to diversify risks (Claessens et al 2004). (ii) This ability to diversify in turn encourages FIs to take on more total investment, thereby enhancing economic growth. (iii) As capital flows increase, the domestic emerging stock market becomes more liquid, which reduce the equity risk premium, thereby lowering the cost of raising capital for investment (Claessens et al 2004).
3- International portfolio flows can increase the liquidity of domestic emerging stock markets in the ME (Marashdeh, 2007). Hence, increased global ownership of domestic FIs generates a variety of other benefits such as: (i) Foreign FIs participation facilitate access to international financial markets (Saunders and Millon, 2004). (ii) Improves the regulatory and supervisory framework of the domestic FIs industry (Saunders and Millon, 2004). (iii) Foreign FIs introduce a variety of new financial instruments and

techniques and also promote technological improvements in domestic markets (Brau and McDonald, 2009; Saunders and Millon, 2004).

4- Financially globalized economies seem to attract an exceptionally large share of FDI inflows, which have the potential to generate technology spillovers and to serve as a channel for passing on better management practices (AMF, 2007). These spillovers can raise aggregate productivity and, in turn, boost economic growth.

The following figure (1) presents the direct channels which enhancing the economic growth in the ME.

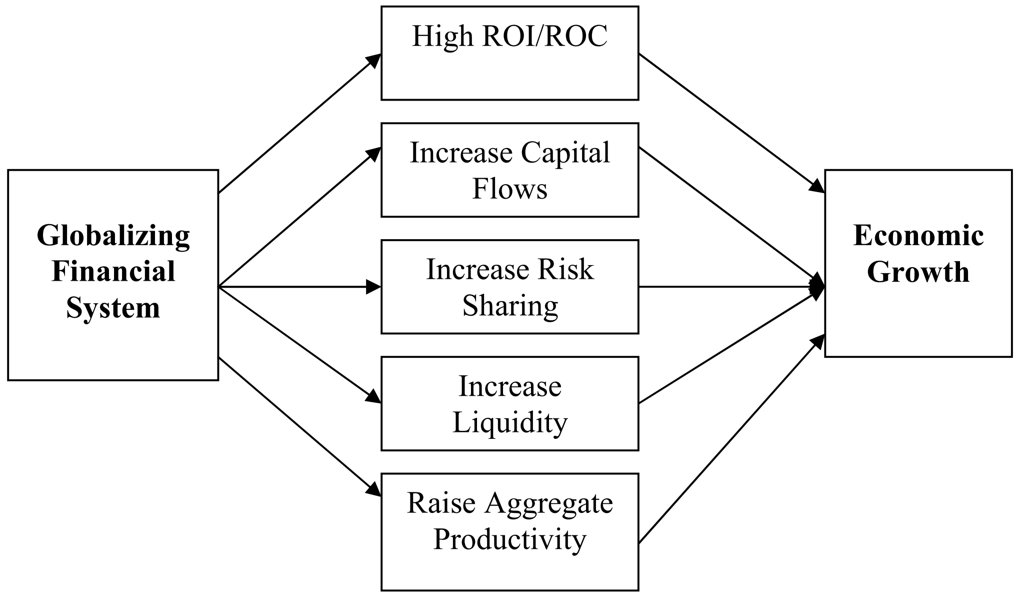

Figure 1. Direct Channels to Enhance Economic Growth

On the other hand, the following points represent the indirect channels, which enhance the economic growth in the ME:

1- Specialization in production increases productivity and economic growth is intuitive. In principle, GFS plays a useful role by helping countries in the ME to engage in international risk sharing and thereby reduce consumption volatility (AMF, 2007). Eventually, this risk sharing would indirectly encourage specialization, which in turn raises the economic growth in the ME.

2- GFS increases productivity in an economy through its impact on the government's ability to credibly perform to a future course of policies (AME, 2008; World Bank, 2008). More specifically, the disciplining role of GFS changes the dynamics of domestic investment in an economy to the extent, which it leads to a reallocation of capital towards more productive activities in response to changes in macroeconomic policies.

3- A country's readiness to undertake GFS interpreted as an indicator that it is going to practice more responsive policies towards foreign investment in the future (IMF, 2008). The removal of restrictions on capital outflows leads to an increase in capital inflows, indeed, increase economic growth. Many countries, including, GCC, Egypt, Jordan and Lebanon have received significant capital inflows after removing restrictions on capital outflows (AMF, 2007).

The following figure (2) presents the indirect channels which enhancing the economic growth in the ME.

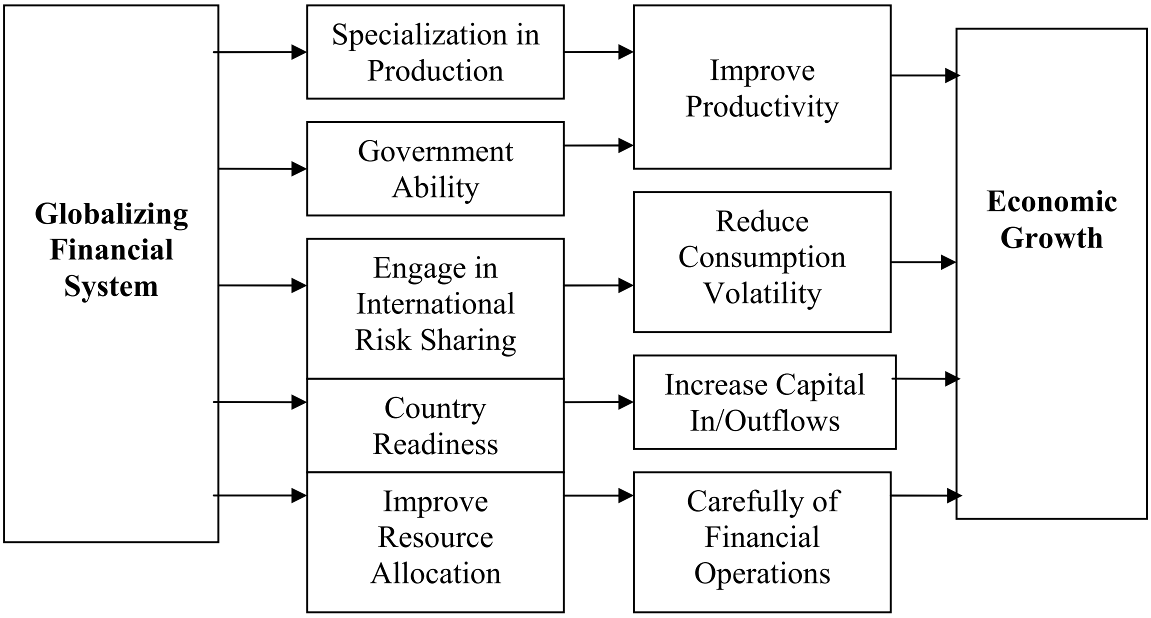

Figure 2. Indirect Channels to Enhance Economic Growth

3.3 The Impact of GFS on the Economic Growth and Financial Indicators in the ME

The gross domestic product (GDP) for the ME is projected to slow to 3.9 % in 2009 and a quick resolution of the global financial crisis in high income countries could produce an increase in GDP to 5.2 % in 2010 (CIA, 2008). The ME region witnessed a sharp rise in inflation as a result of the surge in global prices for food and feed grains, together with an increased demand in several economies. The world is becoming more urban, and decisions are increasingly being decentralized to cities and municipalities. The following collected data for the ME countries are based on the World Bank, International Monetary Fund (IMF), and the CIA (2007; 2008). These data include: Population; GDP in US dollars; GDP per capita; inflation rate; unemployment rate; trade and government statistics, which present the changes and improvements on these economic indicators.

The following Tables 1 and 2 provide major of economic statistics and indicators comparison (2007-2009) for GDP as one of economic growth indicators in the ME (Arabian Business, 2009). Also Tables represent GDP, inflation, unemployment rates, and current account balance in the ME.

Table 1: Economic Statistics for GDP in the ME (2007-2009) (US$)

Country	Population (Million)	GDP 2007 (Billions)	GDP 2008 (Billion)	GDP 2008 %	Forecasted GDP 2009 %	World Ranking GDP 2008	GDP Per Capita 2008	World Ranking
Bahrain	0.779	17.40	19.675	13.09	13.43	96	25,245.41	32
Egypt	75.045	127.97	158.255	23.67	23.95	52	2,108.80	116
Jordan	5.854	15.83	19.124	20.79	21.92	98	3,266.52	103
Kuwait	3.443	111.51	159.73	43.24	43.46	51	46,396.74	19
Lebanon	3.799	24.64	28.024	13.73	13.83	83	7,375.85	68
Oman	2.595	40.39	56.318	39.43	40.04	68	21,703.79	34
Qatar	1.098	73.26	116.851	59.51	59.74	56	106,459.62	2
KSA	24.897	381.94	528.322	38.33	39.09	20	21,220.62	35
Syria	19.88	38.97	44.492	14.17	14.43	75	2,237.96	114
UAE	4.764	190.74	269.956	41.53	42.40	36	56,666.70	8
The ME	-	1,399.70	1,919.11	37.11	37.22	0	-	-
Advanced Economies	-	39,188.16	42,694.95	8.95	9.74	0	-	-
The World	-	54,584.92	62,054.13	13.68	14.02	0	-	-
World's Av	-	301.57	342.84	13.69	14.03	0	-	-

Source: Developed for this study

The above Table 1 shown that GDP for World Average in the previous year 2008 was 13.69% which is more than was in 2007. In the current forecasted year, 2009, GDP for the World expected to reach US$64,167.96 Billion, which is 3.41% more than the 2008 figure. At the same time, GDP for the ME in the previous year 2008 was US$ 1,919.11 Billion. On the other hand, in year, 2007, GDP for the ME was US$ 1,399.70 Billion, but GDP for the ME in 2008 is 37.11%, which is more than was in 2007. In addition, in the current forecasted year, 2009, GDP for the ME expected to reach US$2,140.45 Billion, which is 11.53% more than the 2008 figure (CIA, 2008).

Investment (% of GDP) for the World in the previous year 2008 was 23.528 %, in the current forecasted year, 2009; Investment (% of GDP) for the World expected to reach 23.58 %, which is 0.23% more than the 2008 figure. At the same time, investment (% of GDP) for the ME in the previous year 2008 was 24.546 %; hence the ME is 1.02 more than the average. Further, in the current forecasted year, 2009, Investment (% of GDP) for the ME expected to reach 25.75 %, which is 4.89% more than the 2008 figure (CIA, 2008).

Table 2: Economic Statistics for Inflation, Unemployment Rates and Current Account Balance in the ME for 2008 (Indexed to Year 2000)

Country	Inflation Rate %	World Ranking	Unemployment Rate %	Current Account Balance (% GDP)	World Ranking
Bahrain	12.6	127	3.5	1.802	14
Egypt	17.8	61	8.7	0.561	59
Jordan	15.3	86	13.0	-1.846	158
Kuwait	13.2	107	2.2	4.459	3
Lebanon	13.4	103	10.0	-1.398	148
Oman	12.9	119	5.0	1.006	26
Qatar	17.6	63	0.6	4.291	4
KSA	12.2	145	15.0	3.249	7
Syria	12.5	131	9.0	-2.722	74
UAE	12.0	N/A	12.7	2.256	10
Middle East	-	-	-	2.285	0
Advanced Economies	-	-	-	-1.008	0
The World	-	-	-	-	-
The World's Average	-	-	-	-	-

Source: Developed for this study

- Data for inflation are end of the period, not annual average data. The index is based on 2000=100.
- Current Account Balance based upon balance of payment, and calculated as the sum of the balance of individual country.

As shown in Table 2 the current account balance (% GDP) in the ME in the previous year 2008 was 22.856 %. However, in year, 2007, it was 18.36 %. Hence, the current account balance (% GDP) in the ME in 2008 was 24.46% more than it was in 2007. In addition, in the current forecasted year, 2009, the current account balance (% GDP) in the ME expected to reach 17.05 %, which is 25.40% less than the 2008 figure (CIA, 2008).

The Middle Eastern countries that responded to high food prices by increasing wages of select groups to help mitigate the worst of the impact on living standards are now having to deal with increased inflationary effects. In December 2008 developments in global commodity markets over the last three years, notably in 2008, have had an impact on the ME, and resulted in substantial up and down shifts in terms of trade, current account positions, and external financing requirements. While these shifts occurred at a time when the external environment for growth and for international finance deteriorated, GDP held up well through 2008 and the pace of GDP growth for the ME was unchanged in 2008 from the strong 5.8% registered in 2007 (World Bank, 2008). On the other hand, contraction of net exports is the main cause of the real GDP decline in the ME. Specifically, Kuwait is projected to grow at 0.7 %, KSA at 0.7 % and UAE at 0.5 %. Qatar is projected to grow at 7.0 %, a rate well above the region's average. Bahrain and Oman are projected to record moderate growth rates of 2.0 % and 1.5 %, respectively, based on moderate decline in crude oil production levels. During 2008, the Middle Eastern countries saw increased investment activity in the construction, property, telecommunications, financial and service sectors. Despite consist efforts in industrial development; the region has yet to establish itself as a sufficiently strong manufacturing base for export-led growth.

The following Table 3 shows the real GDP growth rates and consumer inflation rates as annual percentage changes in the ME for period (2006-2009).

Table 3: Real GDP Growth Rate and Consumer Inflation Rate in the ME (2006-2009) (Annual Percentage Change-Based on GDP 2000 Constant Prices)

Country	Real GDP Growth Rate				Consumer Inflation Rate			
	2006	2007	2008	2009	2006	2007	2008	2009
Bahrain	6.5	8.1	6.3	2.0	2.1	3.3	3.5	3.5
Egypt	7.1	7.2	6.5	5.4	7.6	9.5	17.1	9.7
Jordan	6.3	6.0	6.0	3.6	6.3	5.4	14.0	6.5
Kuwait	6.3	4.6	6.1	0.7	3.1	5.5	10.4	5.7
Lebanon	0.0	4.0	5.5	3.0	1.5	6.7	11.7	5.7
Oman	7.2	6.1	6.0	1.5	3.4	5.9	12.4	6.0
Qatar	12.0	9.5	16.0	7.0	11.8	13.8	15.0	11.2
KSA	3.2	3.4	4.2	0.7	2.2	4.1	9.9	4.5
Syria	5.1	6.6	6.5	3.2	10.0	4.5	14.7	6.0
UAE	9.4	5.2	7.4	0.5	9.3	11.1	18.6	5.2

Source: Developed for this study, ESCWA, (2009)

On the other hand, Saudi Arabia (KSA) ranks 27th in the global competitiveness report 2008-2009 issued from WEF. Several countries in the ME are in the upper half of the rankings, led by Qatar (26th), Saudi Arabia (27th) and United Arab Emirates (31st). The following Table 4 represents the global competitiveness index (GCI) for the ME (2008- 2009).

Table 4: Global Competitiveness Index (GCI) for the ME Countries 2007-2008 Comparison

Market	GCI (2008-2009) Ranking	GCI (2007-2008) Ranking
USA	1	1
Singapore	5	7
Germany	7	5
Japan	9	8
Hong Kong	11	12
UK	12	9
France	16	18
Australia	18	19
Malaysia	21	21
Qatar	26	31
KSA	27	35
Spain	29	29
UAE	31	37
Kuwait	35	30
Bahrain	37	43
Oman	38	42
Jordan	48	49
Italy	49	46
Syria	78	80
Egypt	81	77

Source: WEF (2009)

3.4 The Emerging Stock Markets in the ME

The ME region is one of the world's fastest growing emerging markets and financial systems especially in the banking sector and capital market. The evidence is that a competitive banking sector, liquid equity and debt markets in the ME are strongly associated with higher economic growth rate in the region. Financial markets tend to promote efficiency in allocating investment, and hence contributing to the productivity growth by:

- Improving the management of risk
- Identifying productive projects and efficient firms
- Promoting corporate governance
- Mobilising savings; and
- Justifying the adverse effects of global financial crisis.

The emerging financial market and financial investment liberalization have been the origin of many recent cases of GFS in the ME. The emerging stock markets in the ME have achieved substantial improvements in the last decade. Several factors have played vital role in the Middle Eastern financial markets growth, such as the achievement of higher economic growth, monetary stability, stock market reforms, privatisation, financial liberalization and institutional framework for investors (Claessens, et al. 2004). Marashdeh (2007) noted that the performance of stock markets in the ME and the prices of stocks depend significantly on the speculation of the investors. Hence, over- responses and incorrect speculation can give raise to unreasonable behaviour of the stock market. Excessive optimistic speculation of future predictions in the emerging Middle Eastern markets can raise the prices of stocks to a tremendous high and unnecessary pessimism on the part of the investors can result in extremely low prices (Syrian Securities and Exchange Commission, 2006). Today, with the expansion of economies of the ME, there has been unprecedented growth in new FIs targeting to compete with global players for a greater share of the regional stock markets.

4. The Influence of the Global Financial Crisis on the Economic Growth in the ME

The fundamental financial system of the country is a sound and prosperous basis. The origin of current global financial crisis (GFC) has been noted that the decade of the 21st saw a commodities boom, in which the prices of most important properties rose again after the late-twentieth century commodities recession of 1980-2000. But in 2008, the prices of many commodities such as oil and food, got so high to cause real economic damage, threatening and a reversal of globalization http://research.cibcwm.com/economic_public/download/smay08.pdf.

The financial phase of the current GFC leads to emergency interventions in many national financial systems (IMF, 2008). As the GFC developed into genuine recession in many major economies, economic stimulus meant to recover economic growth became the most common policy tool. To date, the direct effects of the GFC experienced by most developing economies in the region have been relatively mild, as banks and other FIs in the ME were not large holders of subprime mortgage-backed securities (AMF, 2008; World Bank, 2008). But indirect effects are increasingly becoming evident with spread on sovereign debt increasing and equity market witnessing sharp decline. Gross capital flows to countries in the ME have also declined, and expected to weaken further (Arabian Business, 2008). The GFC affects on GDP, inflation and unemployment rate in the ME. Thousands of workers lost their jobs during the following months of the GFC, and so, the slump continued until now, unemployment rates around the world have being increased more than ever before. In general, GDP as one of economic growth indicators in the ME is 6.5 percent in 2008, up slightly from 6.4 percent in 2007. On the other hand, a jump in bank borrowing from $4 billion to $14 billion over the last year to Jun 2009 offset a falloff of some two-thirds in bond and equity issuance in the period, but outright decline in capital inflows is likely as we move into 2010. Further, the strict regulations imposed by the central banks in some countries in the ME such as Saudi Arabia, Qatar, UAE, Kuwait, Bahrain, Oman, Lebanon, Syria, Egypt and Jordan were crafted to make these immune to political crisis; and so far, this has applied to the global economic crisis as well. However, economic statistics shows that the Middle Eastern FIs remain, under the current circumstances, high on liquidity and reputed for their security. Thus, the GFC has increased requests for merger approvals, particularly for failing FIs. Institutional investors suggest that the emerging markets in the ME, Asia-Pacific and Eastern Europe are least affected by the GFC. Conversely, North America and Europe are felt to be most seriously impacted by the GFC (Jones Lang LaSalle (JLL), 2009). Towards the end of the 2009, the huge public and government spending programs around the world began to take effect, bringing the promise of renewed growth in the developed countries and recovery for the world economy growth.

5. Conclusions, Contributions and Recommendations

5.1 Conclusions

There is no systematic examination of how the GFS affected on the economic growth in the ME. The lack of a strong and robust effect of GFS on the economic growth does not necessarily imply that theories that make this connection are wrong. The evidences and the economic and financial indicators that have been presented in this paper suggest that GFS should be approached carefully in the ME, with good institutions and macroeconomic frameworks viewed as important. The review of the available evidence does not, however, provide a clear road map for the optimal rapidity and running of GFS. GFS helps countries to reduce macroeconomic volatility. The Middle Eastern economics may have little choice but to strengthen their financial system linkages eventually in order to improve their economic growth potential in the long run (CIA 2007; 2008). The problem is how to manage the short-run risks apparently associated with GFS. Hence, GFS without a proper set of preconditions lead to few economic growth benefits and more output and consumption volatility in the short run.

It is important to acknowledge that the scale of the current GFC is unprecedented. The implications have been much more thoughtful than any previously witnessed and are being felt all of the ME countries – a consequence of the increasingly GFS and open global financial markets. While the Middle Eastern financial systems are continuing to attract top investment projects, with billions of dollars, there are some concerns that the GFC could see funding dry up, especially now that the big spending Gulf Countries (GC) are being hit by the GFC (IMF, 2009).

While the role of the GFS in the ME in promoting economic growth has been challenged in the past, it is now widely recognised (Arabian Business, 2009). GFS development and the economic growth are an efficient way of attracting local and foreign investors to invest in financial instruments in the ME. Hence, it is important to understand exactly how GFS in the ME operate to attract more investors to invest in the ME. Due to the benefits that resulted from GFS, it has been widely accepted in the literature that GFS plays a vital role in improving resource allocation through the financial markets, thereby increasing safety of financial operations and also strengthening the local emerging financial systems and markets in the ME region. Given the current state of GFS in the ME, the development of stock markets involving cross-border movement of funds is challenging as it has to address many of existing impediments to greater GFS and economic growth in the ME region.

With the continued effect of the GFC into 2009, seeing significantly reduced stock investment activity globally, this has seen many major global investors retreat to their local markets seeking local investment opportunities in often distressed local environment. This will continue to play out over 2009-2010 effecting all stock markets including these in the ME. Hence, as result of this situation, it is seeing significantly reduced the economic growth particularly in the stock market performance in the ME over 2009-2010.

5.2 Contributions

1. Identified the characteristics of GFS and the economic growth in the ME.
2. Contributing to a better understanding of the influence of GFS on the economic growth; particularly stock markets in the ME.
3. Providing a background of the emerging financial system and stock markets in the ME and how it could continue to be important information for investors.
4. Examining the impact of the GFC on the economic growth and the emerging stock market performance in the ME.

5.3 Recommendations

1. For the purpose of promoting the stability, integrity, diversity and efficiency of financial systems in the ME, it is crucial that the emerging Middle Eastern stock markets should work more closely together to size the investment opportunities.
2. As a result, the ME will be in a better position to benefit from a higher retention of saving in our region. Therefore, the greater stability and efficiency in capital flows in the ME enhance the economic growth, diversification and integrity of stock markets.
3. Global unemployment rate has rocketed and there has been a dramatic increased in the numbers of business liquidations, including a number of prominent long established brand names. This trend is set to continue throughout the developed economies over the course of 2009 unless critical action is taken by world leaders on a rescue package that will enable the international money markets to start functioning again.

4. The ME countries need to enhance its understanding and promote wealth creation within the local economy.
5. Increased knowledge to developing new investment sector performance indices for the listed companies in the ME stock markets regarding emerging markets.
6. Restoring confidence to the financial markets and stimulating economic activity in the ME will be central to the economic growth and stock market recovery.

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THE EFFECT OF COMPANY OWNERSHIP ON THE TIMELINESS OF FINANCIAL REPORTING: EMPIRICAL EVIDENCE FROM MALAYSIA

Abstract

The IASB's *Framework for the Preparation and Presentation of Financial Statements* considers timeliness as an important qualitative characteristic of financial information. To be relevant and useful, financial information must be provided to users within the time period in which it is most likely to bear on their decisions. For an emerging market economy, timeliness in reporting of otherwise non-publicly available financial statement information remains, for the most part, the only means by which outside shareholders and investors keep themselves informed about firm performance. In the present economic scenario, this concern for timely reporting becomes more acute as emerging market economies face greater uncertainties as they combat the ongoing global financial crisis. Using emerging country data, this paper reports the findings of the impact of different levels of forms of company ownership – i.e. ownership concentration, institutional ownership and foreign ownership – on the timeliness of release of financial statement information of a sample of 198 Malaysian listed companies for the 2007 financial year. Audit delay, which represents the number of days between the balance sheet date and the date of the auditor's report, is a variable that directly impacts on financial reporting timeliness. Utilizing prior studies, we developed a model of audit delay, in which audit delay act as a variable dependent on various company ownership variables and other control variables. Using multivariate analysis, the findings provide evidence that ownership concentration, institutional ownership and foreign ownership have some impact on audit delay, and hence, the timeliness of release of financial statement information to the public.

Keywords: Company Ownership, Corporate Governance, Malaysian Listed Companies.

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1. Introduction

This study uses emerging country data to investigate whether different levels of forms of company ownership has an effect on the timeliness with which audited financial statement information is released to investors and the general public by examining the 2007 annual reports of 198 non–financial and non–REIT companies listed on the Main Board of the Bursa Malaysia.[1]

The IASB's *Framework for the Preparation and Presentation of Financial Statements* considers timeliness as an important qualitative characteristic of financial information. To be relevant and useful, financial information must be provided to users within the time period in which it is most likely to bear on their decisions. According to Healy and Palepu (2001), the financial reporting process is a potentially important means by which management communicates firm performance and governance to outside investors. Timeliness in the release of financial statement information is recognized as an important characteristic to investors and other users of accounting information (Zeghal, 1984) and is an important determinant of their usefulness (Haw et al., 2006; Givoly and Palmon, 1982; Patell and Wolfson, 1982).

Furthermore, Leventis et al. (2005) assert that in emerging market economies, timeliness in reporting of otherwise non-publicly available financial statement information remains, for the most part, the only means by which outside shareholders and investors keep themselves informed of firm performance. In the present economic scenario, this concern for timely reporting becomes more acute as emerging market economies face greater uncertainties as they combat the ongoing global financial crisis. Therefore, as noted by Jaggi and Tsui (1999), it will be beneficial to both international and domestic investors in understanding the causes of delays in the release of audit reports in the context of an emerging economy.

2. Objectives of the Study

Companies often take a considerable length of time to release their financial statements as these financial statements are required to be audited by external auditors. The auditing literature suggests that the length of time taken by the auditor to complete the audit is often determined by the extent and amount of audit work to be performed. This, in turn, is affected by the auditor's assessment of the acceptable audit risk associated with the audit engagement (Arens et al., 2006, Bamber et al., 1993).[2] According to Arens et al. (2006), when external users place heavy reliance on the financial statements, it is appropriate that acceptable audit risk be reduced by increasing the extent and amount of work to be performed in accumulating planned evidence. Arens et al. (2006) further suggest that the distribution of a company's share ownership, i.e. the extent to which a company's shares are widely held by several investors or (closely held by a few investors) is a good indicator of the degree to which

[1] REIT stands for Real Estate Investment Trust. In Malaysia, a REIT company is a trust fund that holds or invests in rental properties. Its major income is rental income and it is required to distribute most of its profits as dividend to its holders.

[2] Acceptable audit risk is a measure of the auditor's willingness to accept that the financial statements may be materially misstated after the audit is completed and an unqualified opinion has been issued.

external users place heavy reliance or (little reliance) on its financial statements. Following from this, an auditor associates a client with lower acceptable audit risk if the client's shares are more widely held by outside shareholders – for e.g., the presence of institutional and foreign ownership – than if its shares are more closely held by a few insiders, i.e. ownership concentration. As the effect of lowering the acceptable audit risk for a client increases the extent and amount of audit work to be performed, this increases the length of time taken to complete an audit of the client's financial statements and subsequently to delay the timeliness of its release.

By contrast, the corporate governance literature on institutional shareholder activism suggests that institutional investors play an important role in monitoring and disciplining management (see for e.g., Smith, 1996; Wahal, 1996; Karpoff et al., 1996; Carleton et al., 1998; Gillian and Starks, 1998; Del Guercio and Hawkins, 1999; Gillian and Starks, 2000; Muhamad Sori and Karbhari, 2005). Such a role arises due to the conflict of interests between managers and shareholders (see Jensen and Meckling, 1976). According to Gillian and Starks (2000), the primary emphasis of such activism has been to focus on the poorly performing firms in their portfolio and to pressure the management of such firms for improved performance in order to enhance shareholder value. Following from this, institutional investors can actively perform their role and effectively monitor management by exerting pressure on management to disseminate information, including audited financial statement information, on a timely basis. We argue that companies will have the incentive to respond positively to those demands.

Also, prior research from the finance literature suggest that foreign investors are likely to invest in firms for which information is more readily available on a timely basis in order to overcome the asymmetric information problem that may exist between foreign and local investors (see for e.g., Kang and Stulz, 1997; Portes and Rey, 1999; Coval and Moskowitz, 1999; Ahearne et al., 2000; and Jiang and Kim, 2004). Following from this, we argue that companies with significant holding of their shares held by foreign investors will have the incentive to provide more timely information to those investors.

Accordingly, the primary aim of our study is to investigate whether different levels of forms of company ownership – institutional ownership and foreign ownership – has the effect of delaying (as suggested by the auditing literature) or hastening (as suggested by the finance and corporate governance literature) the release of audited financial statement information to investors and the general public. Our secondary aim is to investigate whether ownership concentration, a key characteristic common of listed companies in Malaysia, has an impact on the timely release of audited financial statement information. In doing so, our study answers the call made by Carslaw and Kaplan (1991) to conduct further research examining company ownership in order to obtain an improved understanding of its effect on an important determinant of reporting timeliness: audit delay. We hope to provide new evidence of that understanding in the context of an emerging economy. Another reason for conducting this study is that company ownership has not been considered by prior Malaysian studies as a potential variable in understanding audit delay.

3. Literature Review and Hypothesis Development

Literature Review

Defining Audit Delay. Consistent with previous studies, our study defines audit delay (AD) as the period measured in number of days, between the financial statement date and the date of the auditors' report (for e.g., Newton and Ashton, 1989; Carslaw and Kaplan, 1991; Bamber et al., 1993). This period denote the elapsed time between the close of a fiscal year and the end of audit fieldwork (Kinney and McDaniel, 1993, p.135).

Two significant events directly affect AD. The first is the length of time taken by the client organization to 'close its books' and prepare its draft un-audited financial statements ready for the external audit. The second is the length of time taken by the external auditors to carry out an audit and to complete their investigation of the draft un-audited financial statements before issuing their opinion in the form of an auditors' report addressed to the shareholders of the client organization. Clearly, the length of time taken by the auditors to perform the audit has an effect on the timeliness with which audited financial statements are released to investors (Almosa and Alabbas, 2008; Wermert et al., 2000; and Bamber et al., 1993). Givoly and Palmon (1982, p.491) assert that the length of the audit process is the single most important determinant of the timeliness of the earnings announcement. Typically, most companies will make their earnings announcements after the financial statements have been audited (Bamber et al., 1993).

Determinants of Audit Delay (AD). The determinants of AD have been the subject of several previous studies. The majority of these studies have been carried out in the context of developed countries (for e.g., Lai and Cheuk, 2005; Knechel and Payne, 2001; Schwartz and Soo, 1996; Ashton et al., 1989; Ashton et al., 1987; Newton and Ashton, 1989; Carslaw and Kaplan, 1991; Davies and Whittred, 1980; and Dyer and McHugh, 1975) while a few have been carried out using developing and emerging country data (for e.g., Karim et al., 2006; Leventis et al., 2005; Ahmed, 2003; Owusu-Ansah, 2000; Jaggi and Tsui, 1999; Ng and Tai 1994). There are also a few emerging country studies specifically utilizing Malaysian data (for e.g., Ahmad and Kamarudin, 2003; Naimi et al., 2006; Johari and Syed-Ahmad, 2007; and Che-Ahmad and Abidin, 2008).

The provision of audit services embodies the client-auditor relationship. Not surprisingly, these studies reveal that AD is potentially influenced by various client-related attributes (for e.g., Ashton et al., 1989; Newton and Ashton, 1989; Bamber et al., 1993; Ettredge et al., 2000; Jaggi and Tsui, 1999; Carslaw and Kaplan, 1991; Kinney and McDaniel, 1993; Courtis, 1976; Dyer and McHugh, 1975) and auditor-related attributes (for e.g., Lai and Cheuk, 2005; Schwartz and Soo, 1996; Ashton et al. 1987; Knechel and Payne, 2001; Williams and Dirsmith, 1988). Therefore, to facilitate the rest of this review, the relationship between AD and client attributes and between AD and auditor attributes are considered in turn.

Among client-related attributes, AD is found to be a decreasing function of company size (Bamber et al., 1993; Carslaw and Kaplan, 1991; Ashton et al., 1989; Courtis, 1976; Dyer and

McHugh, 1975). Also, companies in the finance industry have consistently shown to have shorter AD (Ashton et al., 1989; Newton and Ashton, 1989; Courtis, 1976, Dyer and McHugh, 1975). However, companies with fiscal year-ends during busy periods are found to be associated with longer AD (Garsombke, 1981; Dyer and McHugh, 1975). Also, Ashton et al. (1987) found that companies with other than a December year-end have longer AD. In contrast, Davies and Whittred (1980) fail to detect any significant association for the company year-end variable in their study. AD is found to be a decreasing function of client ownership concentration or company control (Bamber et al., 1993; Carslaw and Kaplan, 1991; Gilling, 1997) in contrast to Jaggi and Tsui (1999) who do not find family ownership or control to be statistically significant in their Hong Kong study based on sample data collected from 393 companies for the years 1991 – 1993. Further, Carslaw and Kaplan's (1991) study found company control significant only for one of the two years they studied. Naimi et al. (2006) find various audit committee attributes such as independence, financial literacy and number of meetings held to be negatively associated with AD in their Malaysian study based on a sample data collected from 628 companies for the year 2002. AD has been found to be positively associated with the existence of extraordinary items (Ashton et al., 1989; Bamber et al. 1993) in contrast to an earlier study by Davies and Whittred (1980) who found no significant association. Generally, various forms of "bad news" have been found to be associated with longer AD. Companies reporting net losses (Carslaw and Kaplan, 1991; Ashton et al., 1989; Bamber et al., 1993), companies in financial distress or similar financial condition (Whittred and Zimmer, 1984; Bamber et al., 1993; Jaggi and Tsui, 1999), companies receiving modified opinions (Simnett et al., 1995; Ashton et al., 1989; Bamber et al., 1993) and qualified opinions in the auditor' reports (Soltani, 2002; Ashton et al., 1987; Whittred, 1980) have comparatively longer AD. Also, Kinney and McDaniel (1993) find that companies with correction of previously reported interim earnings have longer AD. Other client attributes found to have an influence on AD include companies' operational complexity, internal control quality and listing status (Ashton et al., 1987). Debt proportions was found to be significantly associated with longer AD (Carslaw and Kaplan, 1991) as was debt ratios (Garsombke, 1991) but, in contrast, gearing ratios, in a Zimbabwean study by (Owusu-Ansah, 2000) are not found to be significantly related to AD. Finally, Leventis et al. (2005) find that a shorter AD is associated with paying premium audit fees.

Among auditor-related attributes, type of audit firm or audit firm size has been found to be negatively associated with AD (Ahmed, 2003; Lawrence and Glover, 1998; Ashton et al., 1989; Gilling, 1997). AD is also found to be negatively associated with the proportion of work accomplished during interim audit (Ashton et al., 1987; Knechel and Payne, 2001) and of the percentage of total audit hours related to partner and manager time (Knechel and Payne, 2001). On the other hand, AD is found to be positively associated with a structured audit approach (Bamber et al., 1993; Newton and Ashton 1989) in contrast to William and Dirsmith (1988) who observed that clients of structured audit firms experienced shorter delays or lags. AD is also found to be positively associated with incremental audit effort and negatively associated with the provision of non-audit services (Knechel and Payne, 2001).

Malaysian Studies on Audit Delay (AD). There is a paucity of published research on the determinants of AD utilizing data of Malaysian listed companies. In one study, Che-Ahmad and Abidin (2008) find director shareholdings, total assets, number of subsidiaries, type of audit firm, audit opinion and return on equity to be important determinants of AD for a sample of 343 companies listed on the Bursa Malaysia in 1993. In another study, Ahmad and Kamarudin (2003) utilizing a sample of 100 companies listed on the Bursa Malaysia during the period 1996-2000, find that AD is significantly longer for companies that are from the non-financial industry, receive other than unqualified audit opinions, have other than 31 December as the financial year end, are audited by non Big-5 audit firms, incur negative earnings and have relatively higher debt proportions. Two unpublished studies are worthy of mention. Naimi et al. (2006) find various audit committee attributes such as independence, financial literacy and number of meetings held to be negatively associated with AD in their Malaysian study based on a sample data collected from 628 companies for the year 2002. Johari and Syed-Ahmad (2007) find number of subsidiaries, standard unqualified audit opinion, presence of profit and size statistically significant in determining AD for a sample of 265 companies listed on Bursa Malaysia in 2004.

However, none of the above studies considered the company ownership variables that we presently investigate in our study, in their models.

4. Hypothesis Development

Institutional and Foreign Ownership. As suggested by the auditing literature (see for e.g., Arens et al., 2006; Bamber et al., 1993), auditors associate companies with lower acceptable audit risk when external users place heavy reliance on its audited financial statements. A good indication of this is when the ownership of a company's shares is more widely held by outside shareholders. Since auditors lower acceptable audit risk by increasing the extent and amount of work performed before completing the audit, such companies are therefore expected to experience relatively longer audit delays. We argue that auditors take consideration of the level of shareholding of a company's shares held by outside institutional and foreign shareholders when evaluating the extent to which external users place reliance on its audited financial statements. Hence, our first, second and third hypotheses, expressed in the alternative forms, are that:

H1: *Companies with relatively higher level of institutional ownership of their shares experience longer audit delays, ceteris paribus.*

H2: *Companies with relatively higher level of foreign ownership of their shares experience longer audit delays, ceteris paribus.*

H3: *Companies with very significant foreign ownership of their shares experience longer audit delays, ceteris paribus.*

The institutional ownership variable (IOWN) is measured by the percentage of total shares held by five of the largest Malaysian institutional investors, namely the Employees' Provident Fund, Permodalan Nasional Bhd, Lembaga Tabung Angkatan Tentera, Lembaga Tabung Haji and Social Security Organisation, relative to the total number of shares in the company. The foreign ownership variable (FOWN) is measured by the percentage of total shares held by foreign investors relative to the total number of shares in the company. We introduce a second foreign ownership variable, SIGFOWN, to identify companies having significant foreign ownership presence. The variable is assigned a score of '1' if the percentage of total shares held by foreign investors relative to the number of shares in the company exceed 20 percent; otherwise '0'.

Ownership Concentration. Conversely, auditors associate companies with higher acceptable audit risk when external users place little reliance on its audited financial statements. A good indication of this is when the ownership of a company's shares is more closely and tightly held by a few inside shareholders. Since higher acceptable audit risk allows the auditor to reduce the extent and amount of work performed before completing the audit, such companies are therefore expected to experience relatively shorter audit delays. Hence, our fourth hypothesis, expressed in the alternative form, is that:

H4: *Companies with concentration of ownership experience shorter audit delays, ceteris paribus.*

The concentration of ownership variable (OCON) is measured as the percentage of shares held by the single largest shareholder relative to the total number of shares in the company.

5. Methodology

Sample Selection and Data Collection

The sample for this study is drawn from companies listed on the Bursa Malaysia at the beginning of 2006. After excluding companies from the financial services and REITS industry classifications, we randomly selected 200 companies from the other companies in the remaining industry classifications. Two companies were dropped from the original sample due to missing data. The 2007 annual reports of the remaining 198 companies were then retrieved from Bursa Malaysia's website.

We extracted the following data from the annual reports. The date on the balance sheet is identified as the financial statement date; whereas the date above which the audit partner signs the auditors' report is identified as the date of the auditors' report. The two dates are used to calculate audit delay. The auditors' report is also used to identify the type of audit firm and whether the client firm has subsidiaries which are not audited by the reporting external auditor. Data such as annual revenues, total debts, total assets, earnings per share, non-audit fees, size of audit committee, and data on share ownership are extracted from the consolidated income statements, consolidated balance sheets, notes to the financial statements, statements of corporate governance as well as from other additional compliance information given in these annual reports.

Main Model

Multiple regression models are the most frequent methods applied by prior AD studies (for e.g., Lai and Cheuk, 2005; Ashton et al., 1987; Bamber et al., 1993; and Carslaw and Kaplan, 1991). Borrowing a theoretical framework from these studies, the following AD model using cross-sectional multiple regression analysis is proposed:

$$AD = \alpha + \beta_1 (YE) + \beta_2 (AUD) + \beta_3 (AF) + \beta_4 (NAF) + \beta_5 (TD/TA) + \beta_6 (EPS) + \beta_7 (REV) + \beta_8 (SOA) + \beta_9 (ACSIZE) + \beta_{10} (OCON) + \beta_{11} (IOWN) + \beta_{12} (FOWN) + \beta_{13} (SIGFOWN) + \varepsilon,$$

where (predicted sign in brackets):

Dependent Variable:		
AD	=	Audit delay, measured in days, calculated from the financial statement year-end date to the date of the auditors' report,
Control Variables:		
YE (+)	=	Busy audit period; companies with a December financial year-end assigned a '1'; otherwise '0'.
AUD (-)	=	Auditor type; companies audited by Big 4 auditors assigned '1'; otherwise '0'.
AF (+)	=	Audit fees; surrogate for audit quality/audit effort/audit hours spent on the audit.
NAF (-)	=	Absolute amount of non-audit fees paid to reporting auditors; knowledge spill-over promotes earlier completion of audit.
TD/TA (+)	=	Ratio of total debts to total assets; a measure of a company's leverage and risk.
EPS (-)	=	Earnings per share; a measure of profitability and "good news".
REV (-)	=	Annual revenues; a proxy for company size.
SOA (+)	=	Number of subsidiaries audited by other than the principal auditor; an alternative measure of audit reporting complexity.
ACSIZE (-)	=	Size of the audit committee; a proxy for good corporate governance practice in place.
Hypothesized Variables:		
OCON (-)	=	Ownership concentration; audit work reduction as external users place little reliance on audited financial statements.
IOWN (+)	=	Institutional ownership; audit work increment as external users place heavy reliance on audited financial statements.
FOWN (+)	=	Foreign ownership; audit work increment as external users place heavy reliance on audited financial statements.
SIGFOWN (+)	=	Significant presence of foreign ownership; audit work increment as external users place heavy reliance on audited financial statements. Assigned '1' if foreign ownership of total shares exceeds 20%; otherwise '0'.

As shown above, our AD model employs a total of thirteen (nine control and four hypothesized) independent variables.

Results and Discussion

Table 1 exhibits the descriptive statistics for all 198 companies:

Table 1: Descriptive Statistics (N=198)

Variable	Minimum	Maximum	Mean
AD (days)	37	486	98.81
YE	-	-	60%
AUD	-	-	70%
AF (RM' million)	0.005586	10.4000	.33155899
NAF (RM' million)	0	4	0.14
TD/TA	0.009118	1.783196	0.41677859
Variable	**Minimum**	**Maximum**	**Mean**
EPS (sen)	-370.4	247.0	16.382
REV (RM' million)	0.0000	23,320.400	950.25969492
SOA	0	122	5.29
ACSIZE	3	7	3.86
OCON (percent shares)	4.12	99.16	30.1913
IOWN (percent shares)	0.00	21.64	1.1650
FOWN (percent shares)	0.00	87.13	7.8911
SIGFOWN	-	-	10%

As shown in Table 1 above, the mean audit delay for the companies in our sample was 99 days with a minimum delay of 37 days. Sixty percent of the companies in our sample have a December year-end while seventy percent of these companies are audited by audit firms from the Big-4.

The mean shares held by the single largest shareholder, as measured by OCON, is 30 per cent of the total shares of a company, for the companies in our sample. The mean shares held by domestic institutional shareholders, IOWN, were approximately 1.2 per cent; while the mean foreign ownership of shares, FOWN, was approximately 7.9 per cent. Approximately 20 companies or 10 per cent of the companies in our sample have shares which are significantly held by foreign investors, SIGFOWN, in which they hold more than 20% of the total shares of those companies.

A correlation matrix is shown in Table 2:

Table 2: Correlation Matrix

	AD	*YE*	*AUD*	*AF*	*NAF*	*TD/TA*	*EPS*	*REV*	*SOA*	*ACSIZE*	*OCON*	*IOWN*	*FOWN*	*SIGFOWN*
AD	1													
YE	-0.04	1												
AUD	-0.12	0.03	1											
AF	-0.11	-0.04	0.11	1										
NAF	-0.08	-0.07	0.13	0.66	1									
TD/TA	0.15	0.00	-0.11	0.07	0.11	1								
EPS	-0.14	-0.05	0.11	0.17	0.15	-0.29	1							
REV	-0.19	-0.06	0.14	0.76	0.62	0.13	0.27	1						
SOA	0.05	-0.04	-0.13	0.20	0.25	0.11	0.11	0.11	1					
ACSIZE	0.08	0.02	0.03	0.18	0.07	-0.01	0.04	0.17	-0.08	1				
OCON	-0.27	0.18	0.26	0.02	-0.06	-0.09	0.07	0.09	-0.12	-0.06	1			
IOWN	-0.25	0.05	0.21	0.45	0.33	0.03	0.21	0.52	0.04	0.19	0.18	1		
FOWN	-0.07	0.03	0.24	0.08	0.13	-0.03	0.09	0.07	0.00	0.05	0.03	0.26	1	
SIGFOWN	-0.12	-0.03	0.22	0.01	0.00	-0.03	0.03	-0.02	-0.05	0.01	0.03	0.22	0.83	1

The preliminary bivariate results of Table 2 above show that AD is negatively associated to our hypothesized variables: OCON, IOWN, FOWN and SIGFOWN. Only the correlation coefficients between AD and OCON ($r = -0.27$) and between AD and IOWN ($r = -0.25$) are significant at the 0.01 level (2-tailed).

Overall, the results of Table 2 above suggest that except for a few inter-relationships where the correlation coefficients (*r*) exceeded 0.50, correlation between most of the independent variables is not a major problem. However, to be certain, we tested for the existence of multicollinearity using VIF (variance inflation factor), tolerance, condition indexes and variance proportion measures to establish that our regression model is not plagued with multicollinearity.

Table 3 presents the multivariate results using multiple regression for our sample companies:

Table 3: Multiple Regression (N=198)

Variable & Predicted Sign	Regression Coefficient	VIF	t-value	*p*
YE (+)	-1.445	1.066	-.286	.775
AUD (-)	1.188	1.199	.206	.837
AF (+)	2.439	2.858	.577	.565
NAF (-)	-1.700	2.073	-.264	.792
TD/TA (+)	22.637	1.201	2.019	.045 **
EPS (-)	-.016	1.271	-.265	.791
REV (-)	-.002	3.077	-1.447	.149
SOA (+)	.083	1.162	.390	.697
ACSIZE (-)	4.398	1.090	1.641	.103
OCON (-)	-.434	1.186	-2.775	.006 ***
IOWN (+)	-1.942	1.591	-2.003	.047 **
FOWN (+)	.490	3.602	1.422	.157
SIGFOWN (+)	-27.438	3.542	-1.828	.069 *

Summary Statistics:

Intercept	88.075
R^2	0.173
Adjusted R^2	0.115
F-test	2.961 ***

*, **, *** = Significant at the 10%, 5% and 1% level respectively using a two tailed test.

The regression results for our model of audit delay are shown in Table 3 above. The F-test (F-test = 2.961, $p < 0.001$) indicates that the model is sufficiently robust. The adjusted R-squared of 11.5% suggest that the model has some reasonable explanatory power. The VIF values (none exceeds 10.000) suggest that multicollinearity is not an issue in interpreting the regression results.

Only eight of the thirteen independent variables (AF, NAF, TD/TA, EPS, REV, SOA, OCON and FOWN) showed association with AD in the predicted directions. Of these TD/TA is significant at the 5% level and OCON is highly significant at the 1% level. Of the four variables which showed association with AD, opposite to the predicted directions, SIGFOWN is marginally significant at the 10% level and IOWN is significant at the 5% level. Consistent with a prior Malaysian study conducted by Ahmad and Kamarudin (2003) our study finds that companies with relatively higher proportion of debt are subject to longer AD, in contrast to Che-Ahmad and Abidin (2008), who did not find debt proportion to be significant. Carslaw and Kaplan (1991) suggested that such companies have higher risk exposure and are more likely to face bankruptcy and therefore likely to "…raise additional concerns in the auditors' minds that the financial statements may be less reliable than normal", (p.25). In contrast to prior studies on AD, the results of our study did not find YE, AUD, AF, NAF, EPS, REV, SOA and ACSIZE to be significant.

In the remainder of this section we devote our discussion to the main variables of interest in our study: OCON, IOWN, FOWN and SIGFOWN. As hypothesized, and consistent with Bamber et al. (1993), Carslaw and Kaplan (1991) and Gilling (1997), we find AD to be a decreasing function of OCON ($p < 0.001$). The bivariate results from Table 2 above provide further support for this relationship. Our results provide strong evidence that companies with ownership concentration have relatively shorter AD. Often, the number of external users placing reliance on the audited financial statements of these closely-held companies is negligible (Arens et al., 2006). Moreover, internal users are those who normally exercise control over these companies; therefore have no need of the audited financial statement information since they already have easy access to such information (Nicholls and Ahmed, 1995; Adhikari and Tondkar, 1992). Hence, auditors conduct a less than detailed examination of the books and records and an earlier completion of the audit.

Contrary to our hypothesis, we find AD to be a decreasing function of IOWN ($p < 0.05$). The bivariate results from Table 2 above provide further support for this relationship. We offer two possible explanations. The first, require an understanding of the state of the Asian (including Malaysian) corporate landscape. Muhamad Sori and Karbhari (2005) noted that a key characteristic of the ownership of listed companies in emerging Asian markets has been the high degree of ownership concentration as opposed to wider institutional ownership. Muhamad Sori and Karbhari (2005) note further that institutional investors are found to be generally passive, preferring exit over voice. Moreover, according to Haniffa and Cooke (2002), in the case of Malaysia, a significant number of these companies are family-owned and they exercise little or no formal separation between ownership and managerial control. Under that scenario, institutional investors are unlikely to obtain any benefit from placing reliance on the audited information; hence, auditors might have little or no incentive to conduct a detailed and comprehensive audit. Secondly, the corporate governance literature on institutional shareholder activism suggests that institutional investors play an important role in monitoring and disciplining management (see for e.g., Smith, 1996; Wahal, 1996; Karpoff et al., 1996; Carleton et al., 1998; Gillian and Starks, 1998; Del Guercio and Hawkins, 1999; Gillian and Starks, 2000; Muhamad Sori and Karbhari, 2005). In Malaysia, this role has been assumed by an organization called the Minority Shareholder Watchdog Group (MSWG), established in 2002, and sponsored by five large Malaysian institutional investors, namely the Employees' Provident Fund, Permodalan Nasional Bhd, Lembaga Tabung Angkatan Tentera, Lembaga Tabung Haji and the Social Security Organisation (Muhamad Sori and Karbhari, 2005). Institutional investors can actively perform their role and effectively monitor management by exerting pressure on management to disseminate information, including audited financial statement information, on a timely basis. We suggest that companies, and their auditors, will have the incentive to respond positively to those requests in order to remain in the 'good books' and to avoid adverse media and public attention. The auditors have additional incentives to reduce damage to their reputation by supporting this group of institutional investors to promote corporate governance 'best practice' in the marketplace.

Although our study finds an association between AD and FOWN in the hypothesized direction, it is not statistically significant. However, for the companies in our sample with significant foreign ownership presence (i.e. > 20% of total shares) we obtain results contrary to our expectation; we find AD to be a decreasing function of SIGFOWN though the relationship is only marginally significant ($p < 0.1$). Prior finance studies have found that foreign investors tend to limit their overseas investments to well-known, large and profitable companies (see Kang and Stulz, 1997; Dahlquist and Robertsson, 2001; Lin and Shiu, 2003; and Chiang and Kuo, 2008), whilst prior auditing studies on AD have consistently found AD to be a decreasing function of company size and profitability (for e.g., Bamber et al., 1993; Carslaw, 1991; Ashton et al., 1989). Carslaw and Kaplan (1991) suggest that larger profitable companies may be able to exert greater pressures on the auditor to start and complete the audit on a timely basis to convey the good news (p.23). In addition, they suggest that larger companies are more efficient and are more likely to have stronger control systems which reflect on their ease of audit (p.29). Taken together, these studies provide a possible explanation for the observed relationship between AD and SIGFOWN above. Unfortunately, other results from our study do not show any statistically significant relationships between foreign ownership, company size, profitability and a shorter audit delay to support that explanation. We find a more plausible explanation from the corporate finance literature (see for e.g., Suto (2003)) which suggests that foreign participation in emerging capital markets contributes to disciplining corporate management of domestic firms; as international investors are more concerned about corporate value and thus demand more information than local investors. Obviously, for the information to be useful and relevant it has to be made available on a timely basis.

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CRESTFALLENNESS OF NATIONS: AN INQUIRY ON REASONS OF THE GLOBAL FINANCIAL CRISIS

Abstract

The aim of this study is to investigate the reasons of the 2008 Global Financial Crisis. This study contains the effects of the economic policies which applied after the 1973 Oil Crisis. Methodologically, historical process and macroeconomic data will be used. While examining the 2008 Financial Crisis, the decays at the home loans are mentioned and the negative influances of the subprime credits are emphasized. But it is known that several factors are effected on the occuring in an economic crisis, not only a factor. Thus, it can be said that income distribution which gradually worsening, increasing of the speculative transactions, rising the war economies and such various factors caused the formation of the 2008 Global Financial Crisis as well as deteriorations of the housing markets.

Keywords: Economic Crisis, Income Inequality, Speculative Activities.

1. Introduction

2008 Global Financial Crisis also named as Mortgage crisis has spreaded everwhere in the globe by starting from the U.S.A and affected the economy of both developing and developed countries in a negative way. Therefore, heavy load has occurred on the national economy with the crisis, increased unemployment figures and decreased economic growth figures.

The Global Crisis occurence in 2008 may have caused to a mistake in perception. It'a as follows: the occurence of financial crisis as a result of disruptions in residence market thanks to subprime loans given to people not having any power to buy something has showed Mortgage markets as a reason of this crisis. Whereas, infrastructure of the crisis has lasted much older and the one has originated from profound and complicated reasons. The crises being a a reality that the world economy has experienced for centuries have come to a global state with the increase of interaction between world economies and a state of that it has covered the whole world with the effect of development in communication.

While crises have depended on real variables such as production, consumption, saving, etc., the speculative movements arising from money and capital market have begun more determinent in the crises over the years. Inflated prices artificially, movable and (or) immovable properties rising above their values has had a crucial role in the occurence of new period crises.

However, it is not possible to say that only factor in occurence of 2009 global crisis is the speculative transactions. War economies peaking in the interwar and cold war period after industrial revolution took an important role in the emergence of global crisis, too. Because war economies required huge financial resources, cutting down on the fields such as education, health, social policies and infrastructural was imminent and a great burden on national budget, too.

It can be said that unjust income distribution as a result of unstable development is other factor in emergence of global economical problems. Because, not being shared justly of produced wealthness by community has been a cause of less consumption than production. That has openned the way to both national and global crises by yol açarak economical problems originated from the lack of ready Money demand.

The reasons and etc. above is not only these. It may be stated that many factors like these have a role in emergence of global financial crisis. Nonetheless, those problems seem as the main factors which break out the crisis.

2. The Emergence of Global Financial Crisis

The starting point of global financial crisis is the housing sector. Mortgage loans have increased dramatically in parallel with low interest rates and upturn in house prices of the U.S.A markets since 2006 and the consumers have entered in propensity to consume much more than their incomes. The situation has reversed since the last quarter, 2006 and the house stock that could not sell has reached the highest level in the years after 1993. The consumers have begun to have difficulty in payment with being closed of cheap loan period and increasing of changeable rational of interest, the number of those subjected to sequestration has increased and the stated sequestrations have nearly been the trigger of global crisis (Ataman Erdonmez, 2009, pp.85-88).

The problems starting with mortgaged home loan have turned into an liquidity crisis since the middle of 2007, the bankruptcies have occurred in the banks experiencing liquidity problems bacause of difficulties had in returns of mortgage loans. Subprime loans given to low-income groups who do not have purchase power and being high-risk elements with these specifications have an important role in being had difficulties in returns of loan. These loans putting pressure on takers in company with interest increase and distributed in the period when interest rates were low gave rise to slowdown in the sectors dependent on housing particularly building and insurance and this discussed slowdown has deepened with spreading to other macro data (Agcakaya and Yavuz, 2008, pp.8-15).

At the beginning, the global crisis has affected financial market. On the other hand, it has spreaded to real sector, too and branched out from the develop countries (USA, Western Europe and Japon) to developing countries (Iceland, Hungary, Russia, South Korea, Thailand, the Republic of South Africa and etc.) (TOBB, 2008). With the crisis, the cost of sourcing for the developing countries markets increased and the escapes from their markets have begun.

The crisis has increased the borrowing cost of emerging market countries. The stock yield of the companies in East and Central Europe counries and Latin America ones incurred large losses (Çetinkaya et al., 2008, pp.226-231).

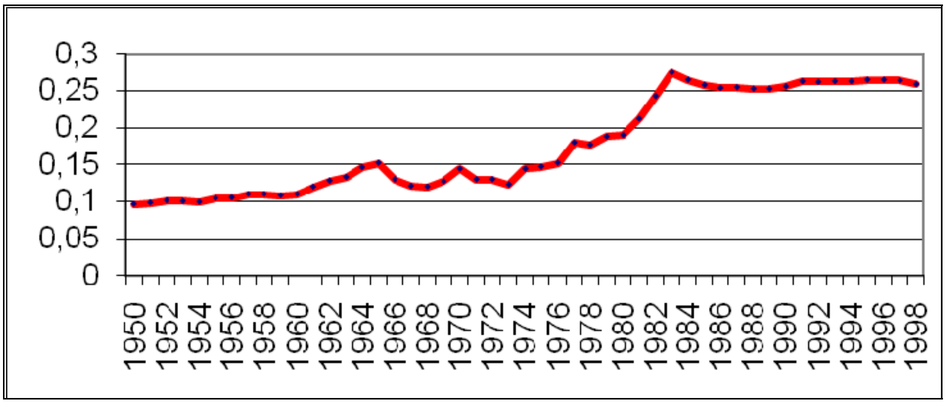
3. The Accumulated Problems being The Source of Crisis

It is possible to mention that there are various reasons creating 2008 economic depression named as Global Financial Crisis and having influence on a substantial part of the globe, especially the developed western economies. These factors which can also be associated with the economic cycle after 1973 oil crisis can be discussed with the following four titles-including but not limited to these-.

3.1 The Process resulting in recession: Not shared wealth

Market-oriented policies put into practice after 1973 oil crisis have caused an apparent disruption in global income distribution and the welfare difference between the developed counties and less-developed countires has been opened continuously. Thus, while the income of the most rich %20 in the world was thirty-onefold of the income of the most poor %20 in 1965, this rate rose sixtyfold in 1990 (Somel, 2002, pp.197-202). The number of people living under the poverty threshold worlwide has been 1.089 billions since 2001 (DPT, 2007, pp.7-11).

Figure 1: The Global Gini Coefficient Value (1950-1998)



Source: Çiftci, 2004, pp.163-164

When the figure 1 showing the global income distribution after The World War IIis checked out, the breakage afterward 1973 is seen clearly. So, the global distribution being more fair than the years carried out in the period subsequent to the war and called as Keynesian Welfare State practices began to retrogress post 1973 Oil Crisis.

The applications implemented by reason of getting over the crisis had an effect on the global income distribution at the breakage postwar in 1973. Besides the applications-such as easing of the law protecting to worker safety, the reduction of the power of union, the spread of part-time and informal working applications- effecting labour-market, the public policies reducing fair deals contrary to increasing public expenditures and financial and economy policies being a kind of regressive tax applications lay behind the distruption in the distribution balance (Ghai, 1995, pp.55-61).

Steep turn, transformation experienced in economic policy post oil-crisis increased the poverty in less-developed countries and deterioration in distribution became more serious. Therefore, the number of the earners below 2 dollars a day rose from 294 millions to 556 millions in sub-Saharan African countries and from 799 millions to 1 billion 92 millions in South Asian countries between the years of 1981-2005. As for the number of earners below 2 dollars a day, it has changed as 2 billions 564 millions worldwide since 2005 (World Bank, 2008, pp.10-13).

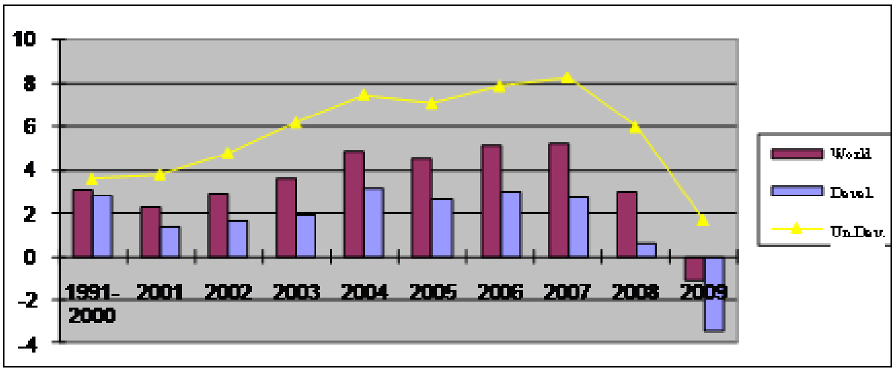
On the one hand, the applications named as Neo-Liberal doctrine coming up after 1973 crisis 1973 opened the gap between developed countries and developing ones. On the other hand, the balance of distribution in themselves of developed countries deterioriated, too. When the advanced economies that emerged Global Financial Crisis were analyzed, it was seen that income distribution of these countries within their own was about to retrogress. For example, Gini coefficient average of OECD Organization consisting of advanced economies mostly rose from 0,293 to 0,310 till from 1970s to 2000. (OECD, 2006, p.219). Similarly, Gini coefficient value being 0,399 in 1967 in the USA where has been an important role in global economy rose to 0,456 level in 2001 (U.S Census Bureau, 28.07.2009).

It is possible to handle the effect of retrogression of both national and global distribution principles on 2008 economic crisis with the insufficient effective demand approach. The insufficient effective demand approach that John M. Keynes used for the purpose of expressing 1923 depression is in response to the approach that The Classical Liberal doctrine depends and envisages that there will be full employement in all conditions (Keynes, 1959, pp.313-320).

The inefficient effective demand issue also defended by Karl Marx in 19.century before Keynes is related to decline of buyers' purchasing power. According to this approach, John Baptiste Say's "Mahrec Law" is not valid. Labourers consume less than their products and most of their productions are interiorized as "residual value" by many employers. Consequently, as an over-production to be occured in an environment where wages supress is not be able to be consumed in the market, disproportion between amount of production and amount of consumption appears definitely and a substantial portion of production goods can not be consumed (Yılmaz et al., 2005, pp.78-88).

When the above mentioned two situations (the disruption of global distribution balance and concordantly insufficient effective demand) are examined alltogether, the dimension of galbal-scale recession is well understood. The inefficient effective demand problem had in the USA being the center of the crisis and other developed countries has affected the booming ecenomies such as India, Russia and China that has derived its economic growth from the activities carried out with Western World. That's to say, decoupling hypothesis brought forward by some economics environments isn't seemed valid (Egilmez, 2008).

Figure 2: Average Economic Growth Rate of The Global Economy(%)



Source: IMF, 2009, p.169

The growth performance of World Economy approximately for the last twenty years is showed in Figure 2. When the figure is analyzed, it can be understood that adverse effect 2008 crisis caused affected the whole world economy. So, inefficient effective demand which both developed countries (DC) and developing countries experienced and being able to be associated with deteriorated distribution balance has brought about world-wide economic shrinkage.

3.2 Speculative Bubble and the Crisis in the Environment

While 2008 crisis causing a negative impact on world economy is examined, the importance of global-wide speculative transactions is supposed to stress, too. The speculation called as "buying or selling process in the hope of price alteration in future rather than the expected utility related to the use of good" by Nicholas Kaldor give rise to irrational manners depending on mass psychology in the economic entities and correspondingly may be turned into buying or selling spree (Mazgit, 2007, pp.8-11).

The first experience known as related with transactions being the subject of speculation is "Tulipmania" experienced in Holland in 17th century. Upturn in tulip prices between the years-1634-1637- turned a speculative bubble after a while, yet this unreal price rise came to the conclusion with price decline rapidly in February, 1637 (Garber, 2000, pp.61-64). After tulipmania in Holland, one more speculative bubble named as "South Sea Bubble" emerged in 18th century of England and enormous rise of "South Sea Bubble" stocks eventuated in collapse in 1720 (Okan, 2003, pp.51-55).

Nevertheless, the most important speculative bubble burst in respect to impacts on economy history is a big crunch happenned in New York Stock Exchange in 1929. The speculative transactions in New York Stock Exchange being a center of welfare explosion, production and consumption rise and great leap in America economy during 1920s and parallelly artificial inflated share values cultimated in collapse in 1929 autumn and that collapse made out the Great Depression that is the first great crisis of the history (Parker, 2009, pp.30-44).

The spreculative transactions often encountered in the historical process increasingly continued in consequence of revolutions in communication and information technologies after 1980. The financial centers such as New York, Tokyo, Zurich, Frankfurt, London and Hong Kong during 1980s when globalization fact has accelerated have become “super market” and begun to control a large part of stock market movements worldwide (Tozum, 2002, pp.159-161).

In parallel with financial mobility in today’s world, there are substantial changes in the structure of economic crises. While economic crises in advance of speed progress in financial markets was dependent on real variables such as technical development, rate of profit, supply or demand much more, financial variables such as Exchange, banking transactions and hot money flows after recent increases in financial markets have started to be determinative of emerging financial economic crises and the crises beginning at financial markets have begun to spread real sector gradually, too (Boratav, 2004, pp.107-110).

The financial transactions to be also mentioned as virtual economy can give cause for economic entities to be irrational. As required by “law of demand” being a basic approach in economics, the demand for a good rising its price is needed to decline. Nonetheless, the bubbles arising as a result of speculative transactions are not in accordance with this reality. By the time the products such as stock Exchange and bond are accepted as a good one by one, price rise in these papers being rational cause decline of demand. However, the increase of demand being parallel with price rise emerging on these papers is an indicator of that the transaction is irrational, not rational (Eğilmez, 2009, pp.98-102).

Economical applications carried out post 1973 crisis caused an important change in the characteristic of capital movements after second World War and the capital movements came a state of more speculative. These speculative transactions named as hot money not only contribute to capital accumulation but also affected some national economies in a negative way. Hot Money flows originating with big amounts caused foreign trade deficit to increase by creating problems in foreign exhange markets of the countries where they entered into (Berksoy, 2009).

The above mentioned effects of speculative transactions make themselves felt especially in less-developed or developing country markets. In the developing countries having carried out a series of reforms especially liberalization of capital movements since the beginning of 1980s, grand economic crises happenned during 1990s. These crises resulting from capital markets and financial transactions liberalized largely and occuring in Mexico in 1994 and in Southeast Asia in 1997 gave birth to deep economical recession in the countries such as Mexico, Turkey, Argentina, South Korea, Thailand and Malaysia (Güloğlu and Altunoğlu, 2002).

3.3 Economic Warfare, Ecocide, Energy and Food Bottle-necks

Wars have as a long history almost as human history and caused large-scale disasters through the history. The first World War being the first full scale war of the history broke out owing to colonial activities becoming intense after 1873 economic crisis and lasting (Ferro, 2002, p.132-133) during 19th century (Dennis, 1973, pp.610-617).

In fact, there wasn't any sitution to be associated the war till from 1870s to the beginning of 1910s in Europe in contrast to cutthrout competition continuing in colonials. There wasn't a big scale hot conflict between European countries. But, the rise in economic warfare keeped the war potential in Europe alive (Hobsbawm, 2005, pp.326-353). Economic interests and expansionist policies hiding behind national interest discourses provoked war expenditures of big economies and started to the process going to first World War (Beaund, 2003, pp.173-183).

The first World War broke out in this atmosphare and the important economies of Continental Europe such as Germany, Russia, France, Austro-Hungarian Empire ,Italy came out of the war by declining. (Broadberry and Harrison, 2005: p.26). After this effect which the first World War created on dominant economies, the World War II broke out in 1939 and the economic warfare activities continued by rising during both preparation process to the war and thewar (Durand, 1999, pp.103-106).

Adversary cold war period post World War II caused armament race to keep continually and the rise in defence spendings continued. With the inclusion of great powers such as England,France and China to this armament race beginning after 1945 between USA and USSR, the economic warfare reached up a global scale. It was hoped past cold war that armament race would end. However, substantial amount of military spendings continued (Granet, 1999, pp.332-341).

Table 1: Five Countries Having the highest Depense Spending

	USA	China	France	England	Russia	World
Sorting	1	2	3	4	5	
Defense Spending(Billion $)	607	84,9	65,7	65,3	58,6	1464
The Percentage in World Defense Spending (%)	41,5	5,8	4,5	4,5	4	
Per Capita Defense Spending($)	1967	63	1061	1070	413	217
Defense Spendingı/GDP(%)	4	2	2,3	2,4	3,5	2,4
1999-2008 Change(%)	66,5	194	3,5	20,7	173	44,7

Reference: Perlo-Freeman, Perdomo, Sköns and Stalenheim, 2009, p.182

Figure 2 shows the highest five defence spending of the world and these mentioned countries' portion in the world defence spendings.When the table is analyzed,it is understood that these five countries,especially USA,have spent substantial amount for defense.(%60 of defense spendings in world).It will be able to be well-understood that total defence spending has reached 1,464 trillion dollars worldwide since 2008 and the point economic warfare reached when taken the amount of defense expenditures' increase between the years of 1999-2008 in proportion to % 44,7 into account.

War economies are accepted as anti-recession and deferring crisis by some people. According to this; big scale wars can provide deferring crisis or getting rid of it. The accuracy of this can be accepted in the short or medium term. However , in the long term economic imbalance and poverty will increase.The thing going to be is that economic imbalance and poverty will totally increase. Because the rising of spending on defense means the decreasing of spending on education, health, infrastructure, social security etc… The final effect of this decrease is going to be felt on the whole society (Stiglitz, 2003).

Beside the increasing war economies, ecologic balances corrupting fast also pose a threat for the world. Nowadays , because of the environmental destruction; glaciers are melting so fast , air pollution, concrete pollution, noise pollution, and metal pollution are increasing and forests are disappearing. Now the climate changing, overstepping water and air pollution , chemical accidents and transportation of dangerous wastes subjects concern whole humanity and require a solution above nationalities (Baykal and Baykal, 2008, pp.3-7).

Increasing of the environmental destruction and becoming common of the war economies prevent the use of global energy sources effectively and increase expenditures on economies. The risk of battle going on in areas having important reserves with respect to petrol – like Middle East – constitutes oppression on petrol prices. The last example of this is increasing of the petrol prices dated from the Second Gulf War in 2003 (Lemieux , 2005).

The increase on petrol prices, besides creating cost pressure in every part of economy, because of increasing demand for biofuel, leads an extra increase on the prices of agricultural crops like sugarcane, green soybean and corn. So, in 2007 – 2008 term when the increase on petrol prices culminated, soybean (mainly used in biomasses) prices increased % 36, 19 and the price of corn also increased % 33,98. Also in the same term, the average price increase of whole agricultural products reached % 39,64 (UNCTAD, 2009).

Every cost constructive effects of destruction which happened in the environment and expansion arised in war economies, chiefly the food products, affects economies of underdeveloped and developing countries as much as developed countries (Dağdemir, 2003, pp. 27-29). When coming up the dimension of hunger problem and the increase on food prices , the anxiety for progress of hunger problem emerges. However, FAO (International Food and Agriculture Organization) expressed that only 30 million dollars a year are needed in order to come to an end the global hunger problem (FAO, 2008). If it is considered that 1, 464 trillion are left for only defence expenses, tragicomic state of the problem could be seen more clear.

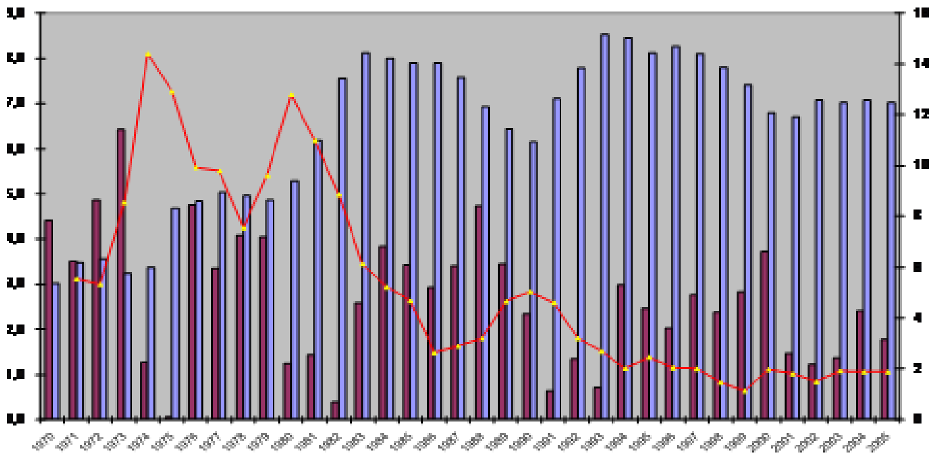
3.4 Chronical Macro Problems: Low Growth in the Center and High Unemployment

Even Global economic disaster that erupted in 2008 in ABD created negative effects on macro variables like unemployment and economic growth, economic performance in the period after 1973 wasn't beter than Welfare Government Period. Welfare Government Period expressing the duration between 1945 and 1973 had been named as the Golden Age of Capitalism and the largest expansion phase of free market economy became at that period.

Although the whole age had been named as the Golden Age, problems had already begun to arise before petrol crisis in 1973. Towards 1970's while the growth speed was decreasing, the rate of profitability decreased in main economies like the USA, England and France before the crisis in 1973 and there also lived declines in the growth rate of industrial production towards 1970s (Başkaya, 2004, pp. 139-146).

Low growth and high unemployment terms also protected their existences after 1980's in free market economies that began to come through problems before 1973 petrol crisis and this situation have become chronic until today.Struggle with the inflation became successful in West economies applying contractionary economic policies in order to compensate inflationary pressures because of 1973 petrol crisis, however high unemployment and low growth couldn't be prevented (Kazgan, 2005, pp.94-98).

Figure 3: Economic Performance of seven Developed Economies post Oil crisis



Light-Colored Bar: Unemployment Rate
High-Colored Bar: Economic Growth Rate
High-Colored Curve: Inflation Rate

Source: Acar ve Şahin, 2009, p.91

The figure 3 reflects the average economic performance of seven developed (D-7) economies after 1970. As seen in the figure, high growth and low unemployment levels before oil crisis seem remote nowadays. The low growth and high unemployment in these countries being good at struggling with inflation which only oil criss caused have become cronic and this situation has continued until today.

Emphasizing to 2008 crisis doesn't mean that developed economies had time without any problem until that time. Western economies encountered with various problems fundamentally after 1973, too. Developed market economies also had financial problems in 1980s and 1990s. The stock market collapse in the USA in 1987 ended up with the bankrupt of many American Saving and Loan Association. Rapid reduction of real estate price in Japan through 1990s brought a lot of banks and insurance companies into verge of bankruptcy. As for Germany, it struggled with heavy laden resulting from union of west and east (Allen, 2003, pp.208-221).

In spite of that developed economies of Western had these financial problems, it can be stated that crises' happening in near countries during 1990s-transposition of crisis risk to near) contributed not to occur a large scale crisis between 1973 and 2008. For example, "Asian Miracle" describing the miracle which Southeast Asian Countries (South Korea, Malaysia, Singapure, Thailand, Hong Kong, etc) performed after 1980s eventuated in 1997 crisis and appeared a large scale decline in Asia economies (Öksüz, 2001, pp.43-50). Similarly, many apparent problems emerged in this important economy of Latin America thanks to the crisis occurred in Argentina in 2001 (Evirgen, 2004).

Table 2: Growth Performance of Economies Around in 1990s (%)

	1993	1994	1995	1996	1997	1998	1999	2000
Turkey	7,7	**-4,7**	8,1	6,9	7,5	3,1	**-4,7**	7,2
South Korea	5,5	8,3	8,9	6,8	5	**-6,7**	10,9	8,8
Singapure	12,7	11,4	8	7,5	8,4	**0,3**	5,9	9,9
Hong Kong	6,1	5,4	3,9	4,5	5	**-5,3**	3,1	10,5
Tailand	8,4	9	9,3	5,9	-1,4	**-10,8**	4,2	4,3
Malaysia	9,9	9,2	9,8	10	7,3	**-7,4**	5,8	8,5
Mexico	2	4,4	**-6,2**	5,2	6,8	4,9	3,8	6,9
Arjentina	6,3	5,8	-2,8	5,5	8,1	3,8	**-3,4**	-0,5
Brazil	4,9	5,9	4,2	2,7	3,3	**0,2**	0,8	4,2
Chile	7	5,7	10,6	7,4	7,4	3,9	**-1,1**	5,4

Reference: IMF, 2001, pp.166-175

Economic growth performance of developing economies named as around economies that showed during 1990s is given in the data in table 1. As understood from the table, the near countries generally having a good growth performance faced with severe shrinkage from time to time because of the crises they had. While Asian economies were shrinking seriously right after 1997 crisis (in 1998), the economy of Mexico from Latin America countries shrank rapidly post 1994 crisis. As for Tukey, she affected from the crises in 1990s and encountered with economic shrinkage occasionally in spite of not being an Asia or Latin America country with her specific position.

It can be said that crises' occurence in emerging capitalist countries named as near and after all central countries' not affecting from that are related to different solution suggestions suggested for economy policies. The policies such as openness, privatization and liberization suggested to around economies made these economies unprotected against global fluctuation and the government interferences in these countries were minimized at the recommendation of central economies. Nonetheless, when central economies making suggestion to around economies encountered with an economical or a financial problems, thet did not refrain from public interventions (Berksoy, 2008).

4. Conclusion and Suggestions

2008 economic crisis also named as Global Financial Crisis has affected many economies, especially the USA, in a negative way. The mentioned economic crisis has been called as Mortgage Crisis and associated to the problems resulting from Subprime Loans.

However, there are many more specific reasons of the crisis than this. Before anything else, the welfare rise in the world hasn't been distributed fairly and the clear injustice of distribution has appeared between both countries and social public in the countries.

Even if this emerged social injustice seems at first appearance like a situation breaking social peace, it causes negative results on economical activities and "insufficient effective demand" problem appeared owing to decline of society's purchase power. Moreover, this problem doesn't remain limited only in country. An insufficient effeftive demand problem emerging especially in developed countries has impeded to emerging countries planning their development efforts according to economical activities generally with developed countries.

Other main factor in emergence of global crisis is the rises of speculative transactions. Economic crises have lost this characteristic gradually even if they result from real variables at the beginnig and in the crises, the effects of speculative activities have increased. This kind of activities causing a sort of bandwagon effect(herd psychology) not only in developed countries but also developing countries has caused economic rationality to disappear and that invited crises. In addition to these, hot Money movements directing towards emerging countries have affected financial balances of these countries and damaged them to develop and progress.

Economy warfare and increasing defense spendings can be accepted as other crucial reasons of economic crisis. Even if economic warfare is accepted as a fact deferring to recession and preventing economic crises by some people, the appearance of long-term economic and social problems will be unavoidable. That's to say, because defense spendings require huge and substantial financial resources, economization and restrictions in education, health and social policy will be compulsion. That situation is to damage social balances for a long-term. Also, it will affect economic balances in a bad way. Furthermore, as the rise in economic warfare is to result ecocide, effective distribution of the resorces won't occur and therefore the increases to be come up in production cost will bring problems for economy.

The listed factors above are accepted and the main ones in accurance of global crisis. Absolutely, just these aren't factor for the accunance of crisis. However,the effects of these factors on global crisis seems much more.The global crisis shows that a global economic system not contributing to social peace, damaging distribution balances, aiming at economic warfare rather than science and humanity, depending its development and growth on speculative movements by giving up productiveness and disregarding developing countries will often exposure and suffer crisis and have economical problems.Then, the following policies can be suggested to decrease the risk of one more crisis of the global economy

- Economy policies should protect social and global balances, the whole economic system ought not to be only for profit. Protection of social balances is compulsory not only for the protection of social peace but also keeping economic stabilisation.
- Speculative transactions should be restrained, the policies in the direction of resources heading towards speculative transactions to be directed to productive fields should be put into practice. Because, sudden and large-scale hot Money movements making financial balances of countries upside down damage to economies and make crises inevitable.
- Economy warfare harms to social balances and economy. That's why, scientific studies for education, health, social programs, development and peace should be utilized. The fair use of the earth's resources for a peaceful purpose will bring both developed and developing countries in higher welfare level.
- Justlike in 1990s, trying to export economic crisis from central country to around countries will be an interim remedy. In stead of this approach not to be of service rather than deferring crisis, emerging countries having structural problems ought to be provided support by developed countries and solidarity and cooperation atmosphere between developed and developing countries should be dominant.

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CONFOUNDING IN THE INTERACTION OF THE GLOBAL FINANCIAL CRISIS WITH THE REAL SECTOR: ECONOMIC FUNDAMENTALS AND EFFECT OF REDISTRIBUTION ON THE KEYNESIAN MULTIPLIER

Abstract

The hypothesis of this paper is that the current crisis has its roots in the fundamentals of the real economy and that this has caused the financial crisis. The analysis considers variables hidden by the aggregation used in macroeconomics, which would account for sources of confounding concealing the role of the real sector economy in this financial crisis. The main variables considered are: the inequality in the part of income above the subsistence level; the aggregation of inequality and total factor productivity; the outflow of total factor productivity growth from delocalised factories; the bias in the statistical data due to financial bubbles. Their analysis brings about an inverse correlation of inequality with effective demand and with growth, and one clearing of controversy on the Keynesian multiplier: its thrust would be the inequality decrease. Excessive increase in inequality would then have had a leading role in decreasing effective demand while inequality, concentrating economic entitlements in affluent hands, was increasing the propensity to save. This has generated asset prices appreciated excessively beyond the intrinsic present values of their possible future cash flows, resulting in financial bubbles and eventually a paradox of thrift dynamic: the financial crisis.

Keywords: Inequality, Effective demand, Keynesian multiplier.

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In Benazzo (2009), a paradigm is presented in which competition for meritocracy is good for TFP growth and cooperation for keeping as low inequality as possible is good for the outlet markets. In other words, given a situation in which the economy is at full potential output, TFP growth is maximised in the long run on the condition that its benefices are equally shared by both capital and labour (Paolo Sylos Labini, 1981), and throughout all occupational groups. Capital remuneration and wages of all occupational groups should keep growing at the same yearly percentage as that of TFP growth. This analysis in Benazzo (2009) is recalled synthesised in the first part of this article, as an analysis base for further argumentations. The mentioned condition has been unattended in the last decades, such that capital remuneration and top executives remuneration have grown more that TFP growth, while other occupational groups remuneration have grown less. A number of statistics show an increase in real income also for lower and middle income occupational groups. However the value of time should also be accounted for. In large part of households, time worked has increased, either by both husband and wife working, or by decreasing holidays. Time foregone is generally considered good for the wife that works, however the best condition would be that this allows the husband to stay more at home (Krugman, 2007). Time foregone is generally wealth foregone. Another factor to consider is the inflation of the subsistence sector expected by applying Amartya Sen's (1981) analysis of famines due to inequality increase. Even if the real income has increased a little or stayed constant, after adjustment for time, inequality enlarges the subsistence sector cost in the economy (Benazzo, 2009). This means that there are less economic entitlements left in order to secure consumption of goods and services beyond subsistence and wealth decreases even beyond figures of real income.

Before discussing the recent financial market bubbles the base of the analysis is on the three main sources of confounding that would hide a clear correlation between inequality and effective demand (Benazzo, 2009). These are recalled here. As a first source of counfounding, inequality has a different effect on the subsistence sector and the modern industrial sector. This latter includes all the rest, such as leisure food, leisure clothes, additional housing, appliances, holidays, recreation, etc. It is here called "Industrial" in the sense that was absent in traditional subsistence economies, "modern" as industrialization touches also the traditional subsistence sector production, which remains "traditional". A rise in inequality creates a dynamic of inflation of the subsistence sector in relation to the modern industrial sector, within the economy. Subsistence is assumed to be the same in general for all economic agents, and to change due to factors which are quite independent from a person's efforts or skills, such as the climate of the area (mountain, desert, ...), the metabolism of the person concerning food and reaction to cold or hot temperature. Inequality should therefore be measured on the modern industrial sector only because inequality has anyway to be ensured, and because subsistence can be assumed an equality consumption in itself. A second source of confounding concerns the presence of action on effective demand both from the part of TFP growth and from the part of an increase in inequality in opposite directions. This requires the control of one of the two while analysing the effect of the other on effective demand. A third source of confounding is in the open economy with delocalization, where the demand side remains local, while the supply side production is delocalised. Inequality acts therefore locally and TFP growth is imported from the delocalised plants. This should be taken into account, as well as the fact that delocalization tend to give the fruits of TFP growth to the parent headquarters in the developed country, leaving the developing country as if that TFP growth remained absent as before. Altogether these sources of confounding require to be controlled in order to avoid that a variable, i.e. called inequality, is measured on an inappropriate aggregate (first), without controlling for another variable in the closed economy, i.e. TFP growth domestically (second), or for another variable in the open economy, i.e. TFP growth imported from delocalised factories (third). Disregarding this is generating an improper variable called inequality which actually includes in itself dynamics of the equality of the subsistence sector and dynamics of domestic and imported-delocalised TPF growth, generating a confounding variable rather than considering inequality.

A limit situation is that of an extremely unequal economy as opposed to a completely equal economy. Both economies are considered closed and both have the same overall total of economic entitlements. Entitlements are considered those that allow securing both in the private and public sector goods and services. The subsistence sector is the same in both economies, which have the same population. What remains of economic entitlements, are distributed completely equally in one country and at the opposite limit are possessed by only one household in the other. These entitlements are defined as wealth entitlements (Benazzo, 2009). An example can be done on effective demand in the two situations. The demand of subsistence in both is the same. A population of three million household is considered, with three persons per household on average. In the country with perfectly equal distribution of wealth entitlements above subsistence, the population would by something like four million cars, two millions home cinema, one million sport equipment, and infrastructures, such as seven hundred kilometres cycle lanes in cities of one million inhabitants, buses that pass at less than three hundred metres from the door for 95% of the city population. For the other economy, the only household that has all the amount of wealth entitlements in an exaggerated concentration, the effective demand would be for some one hundred cars, fifty home cinema, ten sport equipment, and practically absent infrastructures, with cycle lanes only for their usual path in the cities the household visits normally, and without a public transportation infrastructure.

The analysis of how to exit from this situation of the extremely unequal economy is analysed. Without considering (re)distribution, only one possible way is available, consisting in increasing the TFP in the subsistence sector (Benazzo, 2009). The other one is to change distribution by increasing remuneration of the occupational groups, or by redistribution through taxes. From such analysis base, the redistribution is analysed in more detail. The only wealthy household could be taxed by the state at a very high level and the proceedings be used to put up public sector enterprises that provide public sector goods and services. The exaggeratedly wealthy affluent household would forego most part of its wealth. Another alternative would be that the same taxed entitlements of that household are taken by the state and provided in equal shares to all households. Eventually this could lead to the situation of the other economy in which all had equal wealth entitlements.

Equal entitlements for all households sound very much in line with the ideal of Communism. Effective demand on the demand side is discussed here rather than growth. When growth is considered, supply side enters into the picture with the necessity to foster meritocracy in order to maximise TFP growth (Benazzo, 2009). How meritocracy requires incentives and rewards is also a question of cultural attitude. Its regional variability tends to hide constant patterns of correlation between inequality and effective demand.

The discussion of which use of taxes is better, either the state owning the enterprises, or the citizens receiving entitlements and putting up enterprises is beyond the objective of this paper. The other case is the exaggeratedly affluent household puts up factories and pays employees wages above subsistence in a way as to sell all the productions.

In all three cases there is time friction. The state needs to find entrepreneurs, management teams and put up factories and employ. The households receiving entitlements would need to compete in order to find entrepreneurs, put up an expansion of the credit system in order to collect funds for the entrepreneurs. The only affluent household would have to behave as the state.

This framework is used to read the last decades dynamics, starting from the increase in inequality that has occurred. The benefits of increased productivity have gone in larger part to capital remuneration, to top executives, and to media personalities.

As inequality has increased, TFP growth results stems as having had more and more difficulty in decreasing prices in order to counterbalance the decrease in effective demand due to the increase in inequality. A number of factors are individuated as having slowed the process such that inequality has piled up.

A factor is the delocalization in developing countries. This has allowed to decrease further prices of products then imported in developed countries, increasing the developed country real income. The effect on inequality has been to increase it, as decrease in prices has been for all the different levels of wealth, from the extremely affluent to the limitedly wealthy. As headlines as well as statistics do report, the middle class has been the occupational group that has suffered the most (Krugman, 2007).

Another factor is the use of the conventional mainstream paradigm for which the economy can be governed looking only at the supply side: if the economy is slacking then it is sufficient to put up factories, in order to decrease unemployment and to produce goods and services. The markets would then adjust prices so that if demand is lagging, prices would deflate and demand would be reinstated. Keynesian economics is supposed to work in much a similar way when the public sector puts up factories and decreases unemployment, with the additional issue of the distortions to the market efficient functioning. The paradigm here considered argues that the demand side is important too. Valuations of companies share values have been based on the net present value of the future cash flows. The question is how the future cash flows are estimated. In a paradigm in which the economy can be governed exclusively from the supply side, the operators, basing on the mainstream conventional wisdom would have projected into the future the current trends in cash flows estimating that they would have continued in the future, as the reports on data from the economies were leading to consider in such directions. This positive outlook would have led more and more economic agent to invest in the financial markets. The forecast of future cash flows, in the light of the paradigm discussed here, where the demand side matters, stems as incorrect.

There would have been contrasting forces. On the demand side, the fundamentals of perspectives of outlet markets for enterprises were deteriorating, on the other side positive supply side forecasts were fostering to invest in the share market. These forecasts were enhanced by two main factors. One was that profits were positive, and the reason for this in the last decades has also been because the benefices from TFP growth were going mainly to remunerate capital; and also top executives. Profits therefore may be considered as taken in two main ways, either from the present in a sustainable future way, or taken running down one or some economic thrust forces. Both are seen to have been at work, together mixed in the profit maximisation. The part of the profits exceeding the rate of TFP growth, results as unsustainable. Similarly, the part of top executive remunerations that was increasing faster than TFP growth results as unsustainable. The unsustainable part of the profits in the long run was set to reverse and subtract value to the sustainable part, in the form of lost market shares. Financial markets valuations have left the two together as this is coherent with the mainstream conventional paradigm.

In a period like the current one, when there are problems in finding consumers to buy the goods and services, the conventional mainstream economics would say that deflation would resolve, by reinstating demand. This contrasts with another mainstream economic principle of the economies of scale. When demand is lagging there is idle capacity. The companies would continue to function as fixed costs are sunk costs, however to continue to be profitable they necessitate to decrease costs just when decreased sales decrease economies of scale. This can be sustained in the short term, however the dynamic persists in the long term this may entail that there is lack of funds to provide for amortization.

The current mainstream economics may well make things worse, deepening the crisis, if actions are taken that increase inequality, as in the inequality-decrease paradigm this corresponds to reverse the multiplier. When the way out of the crisis is considered to be the decrease of wages, in order to decrease prices, this may well increase inequality in the economy, decreasing therefore demand in a larger amount than the decrease in wages would allow reinstating. Eventually price may need to be lower than variable costs. The option of turning an economy even more export-led can work as long as there are other economies that are import –led. As the crisis is generalised, such a proceeding to look for competitiveness in exports would be short fetched, as much more as many countries are trying that way out of the crisis.

The risk to take the wrong route is also present when the last decades mainstream economics is put aside to go back to Keynesian economics, but mixing it with the mainstream deregulation paradigm of last decades. The result is composed of Keynesian expenditure brought about implementing tax cuts, with the idea that when economic agents would have more money in their pockets, they would spend it. The issue about cutting taxes is that the redistributive action of progressive taxation is decreased, therefore increasing inequality. The paradigm here discussed indicates that inequality decrease is a general multiplier of effective demand, while Keynesian expenditure is analysed as working only when it is performed while decreasing inequalities. As such, the Keynesian multiplier is a special case of the general inequality decrease multiplier (Benazzo, 2009). In a way, the inequality decrease multiplier is a criterion for grading priorities on long term policies in the current crisis in order to resolve it. The best policies would be to decrease inequalities, considering the dynamics of the closed and open economy. Keynesian expenditure performed while decreasing inequality spring as one optimal option. Keynesian expenditure performed with tax cuts and in general while decreasing inequality stems as the worst option. Keynesian economics would indicate that the deficit so created is going to be covered by the multiplying effect. The inequality decrease multiplier indicates instead that budget deficit performed by increasing inequalities would decrease the multiplier instead of increasing it, deepening the crisis even more. In comparison, the maintaining of the last decades mainstream approach to economics to minimize deficit emerges as a better option as it would avoid slipping even faster into the crisis by budget deficit with increasing inequalities.

The inequality decrease multiplier has, among its characteristics, such as attributing a simpler dynamic to unemployment, the characteristic to give an explanation of why Keynesian economics is thought to function only in case of big recessions or depressions, while being neutralised by inflation in other cases (Benazzo, 2009). The analysis indicates the rationale in disregarding in which direction inequality has been progressing, in less dramatic downturns, when Keynesian expenditure had been brought about. Certainly in case of big recessions and depressions there is a large unemployment and its absorption would decrease inequalities, especially in those countries where unemployment benefits are limited or very scarce. In economies more in line with the unemployment benefits standards of the European ones and in less dramatic recessions, if unemployed are employed back with Keynesian expenditure by paying them the same amount of money as the benefits they were receiving as unemployed, or very similar, then the effect of decreasing inequality is quite limited and may well be easily neutralised by other measures that increase inequality.

While the unsustainability of profit was gradually increasing within the domestic economy, in the light of the inequality decrease multiplier, the same concerns on the increase of inequalities and of remuneration of capital at a faster rate than the rate of TFP growth apply to the international economy. Delocalization has dramatised such same dynamics, with many delocalised companies profiting in even larger part of the TFP growth and concentrating it in the remuneration of capital or of domestic and national expatriated top executives (and few ranks below).

The hiding of these dynamics behind data aggregations brings to overvaluation of future prospects of cash flows, generating subsequent financial market bubbles. Such bubbles were reinforcing the perception that share market values were set to progress further, and this expectation was self fulfilling by means of placements of savings in such instruments.

Another side of the dynamics may be described as composed by large amounts of money available for savings. This is coherent with the large amount of innovative financial instruments created in the last decades.

Here also the paradigm of the decrease in inequality multiplier provides an explanation which fits with the events. As inequality has increased and was counterbalanced by TFP growth, wealth has kept concentrating in few hands. These households were consuming already all that they could, or almost. The propensity to save has therefore increased as a lesser part of the entitlements were set to be spent. This has generated additional money available for investment, sustainable on the demand side until the decreased propensity to consume was counterbalanced by TFP growth. This dynamic diminishes the entitlements used to consume in the modern industrial sector; it increases their part used for the inflating subsistence sector. The TFP growth needed to counterbalance that necessitates to be accelerating in order to counteract on a decreasing set of available entitlements to be used in the modern industrial sector.

This creates a decoupling: savings increase, while the outlet market perspectives of enterprises remain first constant, until TFP growth counterbalances the effects of inequality increase on effective demand, then deteriorate as TFP growth becomes insufficient. This composes the financial markets bubbles occurred in sequence more and less recently. In this paradigm of inequality decrease multiplier, interest rates and prices are insufficient to determine an equilibrium with full employment and maximisation towards full potential output. An additional condition is required, as indicated by Paolo Sylos Labini (1981), extended also to the distribution of the remuneration among occupational groups. This condition of distributed growth of remunerations at the same pace of TFP growth, as seen in this paradigm (Benazzo, 2009), requires a social contract obtained by cooperative decision processes. Cooperation is quite more challenging for devising theories and models with respect to competition. In this perspective, interest rates and prices are conditions for clearing the markets, necessary however insufficient for reaching full employment and maximising output.

On the other side, interest rates and prices, as they always need to clear the markets, would need to adapt in the medium and long term to the fundamentals in order to clear the markets. In a situation in which effective demand is insufficient, in the long run clearing markets need to adapt the situation by inflation. With inflation, the same previous amount of money buys fewer goods and services, in coherence with decreased effective demand. How can inflation settle in with a situation of decreasing effective demand, which is meant to decrease prices with deflation?

One way is composed by the dynamic of the subsistence sector in presence of increasing inequalities, where inflation settles in the subsistence sector, while deflation settles in the modern industrial sector. The result is that the entitlements left for ensuring wealth consumption of goods and services, decreases, decreasing the wealth in the economy. This has been examined in Benazzo (2009), discussing about the introduction of the Euro in Italy. Inflation in goods and services related to the subsistence sector has been estimated at something around 15 percent, while official statistics were measuring an overall inflation around 3 percent, meaning that the weight of the subsistence sector has been enlarging in the whole economy.

On another side, the financial bubble itself keeps entitlements away from effective demand. When the placements of savings are felt insecure because there is a feeling about gloomy perspectives for future cash flows, then the bubble bursts, and the bubble goes somewhere else. In the end of the 1990s and beginning of 2000s, the financial turmoil has started fostering diversion of savings from the stock markets to the housing market. The housing market refers to the subsistence sector. Even if the house needed as shelter for subsistence may be a very small one, a larger house may be felt a better place, and the increasing demand in the housing market has lead to the expectation that housing was a good position where to place savings. This has lead to inflation in the subsistence sector that has taken an increasing part of the economy, while leaving fewer entitlements to be enforced in the modern industrial sector.

Incidentally, there is an effect of TFP growth of this shift of placements of savings from the stock market to the housing market. The housing market has less space for TFP growth than other sectors. This entails that the possibilities of TFP growth to counterbalance the effect of increasing inequality on effective demand decrease, exacerbating the recession dynamic.

Concerning the interest rate, when it is taken alone, it has a limit in the sense that it is the cost of capital. Investment decisions depend on the difference between the return on capital and the cost on capital. In a paradigm in which the supply side is sufficient and there is always sufficient demand in the outlet market, then the return on capital can be considered related to each market and quite constant in time, and therefore the decisions of investment would depend just on the cost, the real interest rate. In the paradigm in which there is a inequality decrease multiplier, when inequality increases the outlet markets shrink and the return on investment decreases. The real interest rate in itself becomes part of the decision of the entrepreneurs. It still needs to clear the markets; however the investment decisions depend also on the prospect in the demand side in the long run.

Such a dynamic composes a functioning in which when inequality increases there is a decoupling between supply side and demand side, and a decoupling between savings and investments. As prices and interest rates necessarily clear the markets, this decoupling remains hidden within a financial market bubble, while it builds up, due to conventional paradigm expectations and to the dynamics involved. When the financial bubble bursts, the cycle has built up an involution spiral difficult to counteract. The tumbling of the financial market valuations operates the working of the paradox of thrift, in which an increase in savings brings to a decrease in output which decreases the value of savings. In the conventional paradigm this is a paradox, because it is in contrast with the paradigm that an increase in savings increases output. In the paradigm of the inequality decrease multiplier, the paradox of thrift, rather than a paradox is the normal functioning of the economy when inequality increases. In a paradigm in which inequality is outside the picture, expectations would make the dynamic work as financial bubbles that build up and burst passing to other placements, until possibilities where to transfer bubbles exhaust.

The financial bubbles and the current financial crisis are therefore explained in the inequality decrease multiplier paradigm as due to economic fundamentals rather than financial market malfunctioning. The financial market is seen as having experienced an influx of availability of funds much higher than the requests of financing from the enterprises. It is seen as having adapted its functioning in order to find ways for matching savings received with borrowings, and the easy lending for the housing market has been a step in that direction, for employing a big availability of funds. On the side of statistical data, the decoupling between hidden fundamentals that bring towards a crisis and apparent market valuations entails that the recorded statistical data about the economies in such situations are biased, overestimated in relation to the hidden fundamentals. This overestimation thus needs to be accounted for in empirical analysis. The policies implications with excessive inequality are that the benefices of TFP growth should go to labour and, within occupational groups, to lower wages occupational groups, either before taxes or after taxes, in order to decrease inequalities. In an international economy setting based on competition, this may start by decreasing top executives' and media personalities' remunerations, before and/or after tax. This equates as an increase in the remuneration of the less wealthy. The two measures are considered equivalent as they both decrease inequality. Upon this, inflation/deflation would do the rest as in mainstream supply side economics, however with the analysed different dynamics involved.

Concluding Remarks

There is a decoupling which is individuated between the supply and the demand side when inequality increases. As its implications, prices and interest rate become insufficient to bring to an equilibrium that reaches full employment and full potential output. There is a further condition for a maximising equilibrium to be maintained: that capital remuneration and remunerations throughout all occupational groups grow at the same rate of TFP growth in the long run. If the economy is away from the equilibrium of full employment and output maximisation such condition would bring the economy near the maximising equilibrium only in the very long run. If the disequilibrium is due to inequality that has increased too much, then there would need to be opposite unbalanced counterbalancing dynamics on the shares of TFP growth for reaching maximum output or there would need to be counterbalancing redistribution. The last decades mainstream paradigm has concentrated the attention on the supply side, without viewing the increasing inequalities as a problem. This would have led expectation in the financial markets to interpret all of the increase in cash flows of the companies as sustainable, while the inequality decrease multiplier paradigm subdivides it in two chunks, part sustainable as due to TFP growth, part unsustainable as due to inequalities increase that run down the TFP growth benefices in the long run. There would have been as such a decoupling between expectations and statistics showing positive prospects, and the fundamentals of the economy that were deteriorating towards a turning point and then an involution of recessive cycle. The financial crisis would as such be the consequence of the structural problems in the fundamentals of the economy, rather than vice versa. The policies implications are that inequality needs to decrease; that Keynesian expenditure is effective when it decreases inequality. If it increases inequality the crisis is expected to worsen.

This paper analyses economic dynamics using logical propositions. Its validity is reasoned on conciliating certain puzzles between empirical data and controversial parts of mainstream theories and paradigms. Its validity could be put under direct empirical verification by applying its working dynamics to empirical data, by devising adapted theories and models, where empirical data are available. Were empirical data are yet to be available, studies can be performed on how and when certain data are anyway obtainable through indirect methods.

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DID THE SECURITIZATION CONTRIBUTE TO THE RELEASE OF THE SUBPRIME CRISIS? EMPIRICAL INVESTIGATION FOR AMERICAN BANKS

Abstract

The central assumption of this paper is that the securitization, the act of converting illiquid loans into liquid securities, has largely contributed to an excess of risk taken by American banks on their subprime credits. Empirical investigation, conducted on 6775 American banks located in 50 states between 2003 and 2007, confirm this assumption. In addition, we find that banks which securitize are also those which have an increasing rate of profitability and a higher risk rating. Moreover, this crisis seems to have a macroeconomic explanation: the fall of the house price index since 2006 seems to deteriorate the situation of the US banks.

Keywords: Subprime crisis, Panel logistic regression, Securitization.

1. Introduction

The financial history was marked in the last decades by a succession of financial crises. Black Monday of Wall Street (1987), the Asian financial crisis (1997) and, recently, the subprime crisis seem to have a periodic frequency. According to the 2009 Global Financial Stability report, the amount of the American assets for the whole financial institutions during the period between 2007 and 2010 may exceed 2,7 billions of dollars against 2,2 billions of dollars expected in January 2009. According to the International Monetary Fund, the global amount of the loosed credits in the world is estimated at approximately 4 billions of dollars, of which two-thirds are at the load of the banks, and the remainder comes from the insurance companies, hedge funds and other institutions. Since August 2006, various actions were undertaken by the central banks for the rescue of the financial markets. This has been materialized by liquidity injections for several times. Indeed, the amount of the injections of the European Central Bank exceeded the sum of 500 billion Euros. The bank of England also, injected until April 2008, 63 billion Euros for the repurchase of real estate credits. Some economists and professionals argued that the propagation of the subprime crisis was supported by the vehicle of securitization. In fact, the amount of banks securitized credits raised substantially from 1268,6 billions of dollars in January 2000 to about 2523,4 billion dollars in 2008, an increase of about 100%.

The aim of this paper is to test empirically the role of the securitization in the release of the recent subprime crisis. In fact, we will check the assumption of the excessive risk-taking by bank firms in loans granting. This high risk is supported by the possibility for American banks to transform their credits into negotiable evidences of indebtedness using the precess of securitization.

After an overview of the theoretical and empirical literature on the banking and Subprime crisis (section 2), this article gives an outline of some stylized facts related to the release of the Subprime crisis in the United States (section 3). Then an empirical analysis is proposed, based on statistical and econometric analysis conducted on a sample of 6775 American banks between 2003 and 2007 (section 4). The empirical results are presented in section 5. Section 6 concludes.

2. Existing Literature

The securitization is the process of taking an illiquid asset, or group of assets, and through financial engineering, transforming them into a security. A typical example of securitization is the *Mortgage Backed Security* (MBS), which is a type of *Asset Backed Security* (ABS) that is secured by a collection of mortgages.

A mortgage loan is a standard debt contract between the borrower (the property purchaser) and the lender (the financial institution which grants the credit). The credit is guaranteed by the bought of the property if the borrowers do not pay its loan. All the mortgages have not the same credit risk. We distinguish three types of loans: *Prime, Subprime* and *Alt-A Mortgage*. The main difference which exists between the prime and the Subprime Mortgage (Mortgage loan at the high risk) consists in the profile of the borrower risk. The Subprime loans are granted to a high-risk population. In fact, the bankers select the applications for the credit by constructing a measurement scale about the borrower risk based on:

- Their previous relation with the bank (payment of old loans, ratio of debt to income).
- The credibility of the documentation provided by the borrower to check his income.
- The *"credit score"* of the borrower. This one is initially given by a "FICO score". It is a score given by *The Fair Isaac and Company* (FICO) and secondly, by the amount of the requested loan.

Therefore, according to the definition accepted by the majority of banks, a mortgage loan is classified in the Subprime category, if it is granted to a borrower having a *FICO* score below 620 points. The FICO score, calculated by Fair, Isaac & Co, ranges between 300 and 850 points. The higher score is, the more the chance to have a credit under better conditions (interest rate, LTV, term of payment…) is high. A FICO score higher than 720 is considered as excellent and makes it possible to qualify the borrower as a "premium". When the borrower has a credit score ranging between 720 and 620, the loan is considered as Alt-A Mortgage.

The process of securitization is working as follows: First, a regulated and authorized financial institution originates numerous mortgages, which are secured against the various properties the mortgagors purchase. Then, all of the individual mortgages are grouped together into a mortgage pool, which is held in trust as the collateral for an MBS. Mortgage Backed Securities are largely issued by aggregators such as Fannie Mae or Freddie Mac[1]. A new security is created, backed up by the claims against the mortgagors' assets. This security can be sold to participants in the secondary mortgage market. This market is extremely large, providing a significant amount of liquidity to the group of mortgages, which otherwise would have been quite illiquid on their own. The MBS are subdivided to the CMBS (Commercial Mortgage-Backed Securities) and the RMBS (Residential Mortgage-Backed Securities).

The securitization has several advantages for banks. Initially, it represents a new funding source. Thus, securitization allows transforming illiquid portfolio to a liquid one. Moreover, the risk of loss on the portfolio value will be transferred to the investors. For example, if the portfolio ultimately has bad quality and if flows generated are insufficient, the investor will support the financial loss. However, it is generally rare that the totality of the risk is transmitted to the investors. For the case of the US banks, the grantor preserves the "first risk" on the portfolio[2]. Securitization also makes it possible to manage the balance sheet by controlling the swelling of this one. Indeed, by refinancing the portfolio of credit, the grantor can increase its activity or generate new credits while maintaining its balance sheet on a controlled level. Finally, securitization can also be considered as an arbitration instrument. An increase of the value could be released either by buying a diversified bonds portfolio transmitted by companies, or by transferring bonds with a SPC (Special Purpose Company) which finances the purchase by a securitized bond emission. The differential could thus yield an increase of the value.

González-Hermosillo (1999) advances that the moral hazard may occur when banks take excessive risks by granting loans to very lucrative conditions in the short run, but for which prospects for long run refunding are reduced. This behavior is also motivated by the fact that bank supervisors expect that possible losses will be absorbed by a third part, like the government through rescue operations or the international financial organizations. As confirmed by Miotti and Plihon (2001), the vulnerability of banks would not be due only to the moral hazard, there would be also a speculative behaviour adopted by domestic banks which are motivated by financial liberalization and the transformation of the banking environment. In fact, according to these authors, financial liberalization increases competition between foreign and domestic banks and thus decreases the profit of the latter from intermediation activities. At the same time, in the post-liberalisation period, companies had the

[1] Definition given by Investopedia, a Forbes Digital Company.
[2] Generally, the most risky bonds are repurchased by the grantor in order to support the first risk of non payment of its portfolio: these bonds are called subordinate bonds.

possibility to be financed directly on financial markets, this will decrease banks benefits which will be encouraged to have some speculative operations. The two authors had a Keynesian's inspiration. It is located in line with the analysis developed by Kindleberger (1989). According to this author, the majority of financial crisis in the financial history had three phases: displacement, euphoria and distress. Displacement is an event which modifies the behaviours and expectations of the market intervenors. The euphoria is the phase which follows displacement; it is characterised by a period of blooming. Finally, the distress is the phase of panic and bankruptcies. It results from the positions taken by the agents following an excessive risk-taking.

This analysis can also be applied to the recent financial subprime crisis. We consider that securitization (period of displacement) as a new tool of financing on the market motivated the American banks to grant high-risk loans and to evaluate badly the quality of the borrowers. Then, the American banks saw their profit increasing. This period can be considered as the euphoria period. The excessive risk taken by banks led, with the collapse of the real estate market, to a financial distress and failures: the stage of distress. The development of the financial markets and the emergence of financial innovations (derivative products, credits securitization) give the banks the opportunity to satisfy their preference for the liquidity. In other words, banks made profitable placements which do not have a direct relationship with the financing of the productive economy, unlike credits intended to finance investments. These speculative operations have contributed to the development of the financial capital (or fictive), which is opposed to the industrial capital invested in the productive chain.

At the same time, the majority of works related to the analysis of banking crisis have been concentrated on the implications of the macroeconomic conditions. We mention among them, Demirguç-Kunt and Detragiache (1998) and Glick and Hutchison (2001)[3]. Arteta and Eichengreen (2002) showed that the domestic financial liberalization increases the risk taken by financial institutions, which contribute to the release of the crisis. Noy (2004), tried to study the probability of the occurrence of banking crisis based on financial liberalization and banking supervision variables and using a multivariate Probit model. Other studies, which introduce the concept of securitization such as Uzun and Webb (2007), showed the basic similarities and differences between banks which securitized their loans and those which do not do it. Their results show that the size of the bank is a main determinant to differentiate banks which securitize from those which do not do it, and that the credit securitization is negatively related to the capital ratio. Keys et al. (2008) validated several assumptions, all converged towards the same conclusion: the negative effects of the securitization process on the behavior of banks. The methodology adopted is the use of variables related to the loans granted to households (FICO Score, the loan characteristics, the maturity, the borrower characteristics, and the type of the documentation on the borrower…). Ambrose et al. (2005) showed in their study that banks tend to retain the riskiest credits in their portfolio whereas they sell the least risky credit. Still more, the authors found that the riskiest credits are those

[3]In their article "Banking and currency crises, how commons are twins?", Glick and Hutchison (2001) show the relation between bank crisis and exchange crisis, in particular in the emergent countries.

related to the mortgage backed securities. Wolfe (2000) suggests that banks transfer the risk of the securitized credits to the investors. However, if the remaining credits have lower quality than those sold, securitization increases the risk of defect of the bank. Dionne and Harchaoui (2003) tried to study the relationship between the bank's capital, securitization and the risk. By studying the case of Canada for the period 1988-1998, these authors show that *"securitization has negative effects on the ratio of capital, and that there exists a positive relation between the securitization and the risk of the banks"*. Jiangli and Pritsker (2008) found that banks which have recourse to securitization are those which present a great profitability, a considerable debt ratio and a less insolvency risk.

Based on a database of 65 banks which emitted "Collateralized Loan Obligations" (CLOs) between 1995 and 2004, Hirtle (2007), Cebenoyan and Strahan (2004) and Goderis et al. (2007) conclude that securitization increased the credit lending by banks. Drucker and Puri (2007) considered a multivariate model and conclude that more the clauses in the lending contract are severe and numerous, more there will be less agency problems when granting credits. Minton et al. (2004) conclude that, when the risk is measured by the capital ratio, the least risky banks are those which securitize more. However, by using other risks measurements (provisions on credit/net income of the interests) on an European database, Bannier and Hansel (2008) conclude that the riskiest banks are those which securitize more.

Gorton (2009) confirm the contribution of the real estate prices in the evolution of the process of securitization as well as the complexity of this financial process, which may generate an information asymmetry. Franke and Krahnen (2005) suggest finally that securitization, while making possible for banks to transfer a part of their risks, encourages them to take some more. This was confirmed empirically by using the method of event. The authors advance that the systematic risk of banks tends to increase when they announce to proceed to the loans securitization. This means that the financial market considers that these banks will benefit from securitization.

3. The Subprime Crisis: Some Stylized Facts

In this section, we will try to transpose the theoretical analysis presented previously on the recent financial crisis in the United States. Indeed, the development of the direct finance on the financial market intensifies the banks competition: it's the phase of displacement. This one is characterized by an increase in the real mortgage credits to high-risk population, the guarantee being the real estate. The incentive of American banks to the granting of the mortgage loans was favoured by the real boom of properties recognized by the government since 1997 and by the abundant banks liquidity resulted from the securitization process.

Insert figure 1 about here

As shown in figure 1, total bank credit has considerably increased from 4 778,60 billions of dollars in the first month of 2000 to 9415,3 billion dollars in April 2008, an increase of about 97%. This increase may be due to a much more important increase in the mortgage loans, as shown in figure 2.

Insert figure 2 about here

The increase in mortgage credits was higher than 141% between January 2000 and April 2008. This increase is justified partly by the property's boom that the country recognized. The figure 3 presents the trend of the real estate price in the United States.

Insert figure 3 about here

Since 1997, The United States has experienced a boom of the real assets price. The average price increased from 150.500 US dollars in 1997 to reach a peak of 266.000 dollars in 2005. Shiller (2007) concluded that the index of real asset price on the US market has risen of about 85% between 1997 and 2006. This real assets boom encouraged the banks to grant mortgage loans to high-risk population. In the worst situation, when the borrower is unable to pay his debt, the bank can sell the asset. Demyanyk and Van Hemert (2008) advance that the problems of insolvency of borrowers could have been detected before the occurrence of the subprime crisis, but the rise of the house price index between 2003 and 2005 masked these problems. The appreciation of the house price index in this period encourages US banks to grant loans, even for riskier households, because of the capacity to have surplus when selling the mortgage house.

The process of the Subprime made it possible for a household to buy a real estate for a fixed interest rate during the first 2 years (for example 1.45%). Then, the borrower has to pay at variable rate containing an allowance for risk (for example 8%). If not, the real estate is mortgaged. In this case, the loan is granted after examination of the value of the real estate, contrary to the standard practices where the banks grant a credit according to the borrower solvency. The monthly payments of the loan increase significantly after the second year, making impossible for the majority of purchasers to repay their loans. Consequently, they sold their real estate with an increase of the value (the American real estate market increasing by 10% per year) enabling them to repay the loan and the interests and, why not, take again a Subprime credit on another real estate: It is the phase of euphoria. In addition, thanks to the new tools of financing on the market, the US banks could securitize their credits. This new mechanism of securitization made it possible to the banks to have regular liquidity, which enabled them to grant more and more high-risk loans.

Insert figure 4 about here

The figure 4 shows a considerable increase in the credits securitized by US banks. In fact, the overall amount of securitized loans have evolved from 1268,6 billions of dollars in January 2000 to 2523,4 billion dollars, an increase of about 100%. Securitization made it possible to the US banks to have regular liquidity to finance their lending operations. However this phase of euphoria of the US economy did not hold a long time. In 2006, we observe a general fall in the prices of the American real estates. The recipients of Subprime who wish to sell their goods at the end of two years are confronted with the fall of the value of the real estate since its purchase: the sale does not make it possible any more to repay the Subprime credit. The borrower of the Subprime credit declares himself as a personal bankruptcy. The bank recovers the house and puts it on sale. It will be sold with an important loss that exceeds 20% sometimes. This phase is known as the phase of distress.

4. Research Methodology and Data

Our empirical analysis is designed to test if the securitization has played a significant role in the release of the recent subprime crisis. Thus, we introduce financial indicators on American banks (Indicators which measures the volume of credit securitized, the doubtful debts, the credit risk, the demand and the supply of the credit and finally, the profitability of American banks). On the other hand, a macroeconomic variable of house price index is introduced. Our model aims to check for the probability of failure of American banks according to seven explanatory variables.

4.1. The Econometric Methodology

According to the previous empirical studies, four types of methods of prediction of financial crisis are generally used. The simplest one, used especially when there is no theoretical background, consists to observe the evolution of the macroeconomic parameters in countries which experiences financial crisis and, to detect possible "anomalies on them". However, this method presents some limits for the simple reason that it cannot be neither quantified, nor subjected to tests of significance. To mitigate these limits, three other methods, considered as more rigorous, could be used: the method of "events", a graphic and historical method, the method of the multivariate models estimated on individual data, either macroeconomic or microeconomic, and finally the method of the advanced indicators used generally for the detection of business cycles[4].

In this study, we use the panel data logit model. The logit model is one of the most used models to predict the probability of realization of an event. Jagtiani et al. (2003) affirm that the use of the simple linear models, like the Logit model, in the early identification of the banking failures gives more adequate results than the more complex methods, like the nonparametric models. Plihon and Ben Gamra (2007) affirm that this method, in addition to its simplicity, have the advantage to measure the contribution of a variable in the probability of the release of a crisis at a given moment. Moreover, this method makes it possible to take into consideration the qualitative variables that can be at the origin of the crisis.

According to the Logit model, we suppose that a variable denoted $y_{it}*$ is the latent binary dependent variable. In fact, we do not model y_{it} but the probability that this variable takes the value 1 (P (y_{it} =1)). $y_{it}*$ is called the latent variable. The observed variable y_{it}, is connected to the latent variable as follows: y_{it} takes the value 1 if the bank is a failed one and 0 otherwise. It is supposed here that $y_{it}*$ depends linearly on a number of explanatory variables x_{it}.

$$y_{it}* = \beta' X_{it} + \varepsilon_{it} \quad (1)$$

[4] Dehove, « La détection avancée des crises financières »

where $y_{i,t}^*$ is the binary dependant variable, $x_{i,t}$ is a set of explanatory variables, $i = 1,\ldots, 6775$ banks, $t = 2003,\ldots.2007$. Consequently,

$$P(y_{it}=1)=P(y_{it}^*\geq 0)=F(\beta' X_{it})=\frac{Exp\beta' X_{it}}{1+Exp\beta' X_{it}}$$

where F is the logistic distribution function.

4.2. Data Description

In this paper, we employ the Federal Deposit Insurance Corporation [5] database. Our empirical investigation is conducted on a sample of 6775 US banks located in 50 states between 2003 and 2007. The econometric methodology used is based primarily on the estimation of a Logit model described below.

$$DEFAULT\_BANK_{i,t}=\alpha+\beta X_{i,t}+\delta MBS_{i,t}+\varepsilon_{i,t} \qquad (2)$$

Initially, it was necessary for us to distinguish between default banks from those which are not (healthy ones). Thus, we use the *Banker's almanac* database in order to determine the list of failed banks. To do this, we adopt the definition given by Godlewski (2004). Therefore, a bank is considered as failed if, at least, one of the 4 following situations exists:

- Under administration (support of an institution of regulation)
- Suspended or revoked banking license.
- In liquidation.
- In bankruptcy.

Based on the following criteria, we have identified 78 failed banks between 2003 and 2007. So, our dependant variable is a binary variable with 1 denoting the onset of failure for bank *i* in year *t* and 0 otherwise. On the basis of the theoretical and empirical analysis presented above, we explain the probability of default of American banks by seven variables. The first and most important variable in the specification represents the volume of the securitization operations for each bank. This variable noted “MBS” will be measured by the value of the mortgage backed securities. In the same time, a set of control variables which may affect the probability of the occurrence of banking crisis is introduced. These variables are the total risk weighted assets / total assets (RISK), the total deposits /Total assets (DEP), the net loans and leases/ the total assets (LOANS), the return on assets (ROA), the net charge offs to loans(COL) and finally the house price index (HPI). The table 1 presents the overall variables used in the econometric investigation, their definitions and expected signs.

[5] The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the federal government. It preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least $250,000; by identifying, monitoring and addressing risks to the deposit insurance funds; and by limiting the effect on the economy and the financial system when a bank or thrift institution fails. The website: http://www.fdic.gov/

5- Empirical Results

The estimation consists in determining the probability of the failure of 6775 banks over the period 2003-2007. First of all, we have to be sure for the appropriation of the panel technique. To do this, we estimate the same equation for each year between 2003 and 2007. The coefficients and the significance of the variables were sometimes quite different from one estimate to another, proving that the model should be estimated in panel data. It was then necessary to check for the assumption of fixed effects. This implies the possibility for the dependent variable to vary according to the banks and this, independently of the explanatory variables. In our case, the dependent variable is a binary variable, that's why the estimate of the model under the assumption of random effects is preferable. Then we remark a great disproportion: only 79 failing banks against 6696 healthy ones. This disproportion is likely to bias our results. To solve this problem, we choose to use the method of King and Zeng (2001). This method consists in allotting weights to the observations in order to represent their contribution on the whole population. The weight of each group of observations is represented as follows: $(1/N_0)*[N_0+N_1)/2]$ for group 0 (healthy banks) and $(1/N_1)*[N_0+N_1)/2]$ for group 1 (failed banks); where N_0 and N_1 denote respectively the number of observations of the healthy and failed banks. Finally, a matrix of correlation of the all variables used in the model was established (Table 2). We do not detect any important correlations between the variables.

The next step consists in the estimation of the model (2) using the Logit technique. The table 3 shows the results of the estimation of the probability of the failure of 6775 American banks over the period 2003-2007. The global result of the model estimation is significant. In fact, the likelihood ratio test, testing the significance of all variables introduced in the model, is conclusive, showing that at least one of the variables represents a good explanatory factor (rejection of the null assumption of the nullity of the coefficients). From the same point of view, the seven variables introduced seem to be significant. One may note that the interpretation of the binary models (Logit, Probit…) is made only on the basis of the sign of the coefficient of each variable and not on its value. Thus, we will interpret a positive coefficient by saying that any increase in $X_{,t}$ contributes to make more probable that *Prob* $(Y_{i,t}=1)$. A minus coefficient means, inversely, that any increase in $X_{i,t}$ contributes to draw $Y_{i,t}$ to its weakest modalities *Prob* $(Y_{i,t}=0)$.

The significant and positive coefficient of the ratio of the net charge offs to loans (COL) combined with a positive and significant coefficient of ratio of the total risk-weighted assets to the total assets *(*RISK) show that American banks were encouraged to lend credit to high-risk households. Thus, more the value of the net charge offs to loans is large and that of the ratio of total risk-weighted assets to the total assets is important, more the bank would be exposed to the risk of insolvency of the borrowers and more the probability of the failure of this bank is important. This result is in line with previous empirical studies on the impact of the rise of the risky debts on the explanation of banking crisis.

Gavin and Hausmann (1998) argue that the doubtful debts may make the banking system more vulnerable to shocks and even to crisis. In addition, they affirm that the rise of bad and doubtful debts may induce an increase of the bank vulnerability because of the slowdown of the capital reserved for losses recovery. Noy (2004) announces that financial liberalization, in the absence of prudential supervision, may induce excessive risk-taking by domestic banks and even banking crisis. As a consequence, he proposes some regulation practices such as the establishment of limits on the rate and the volume of credits, especially for certain sectors, like the real estate.

This risky behavior could be explained by the possibility given to the US banks to securitize their credits and then to have more liquidity. Then, we test this assumption by introducing the variable of the mortgage-backed securities (LN_MBS) in the estimated model. Our results confirmed the role of loans securitization in the failure of banks since the coefficient of the mortgage-backed securities is positive and statistically significant at 1%. Thus, more the banks securitize their credits, more they are encouraged to grant high-risk loans, and more the probability of its failure is important. Gabriel and Rosenthal (2006) conclude that securitization of subprime mortgage loans raised the access of the low-income households to credits. Hirtle (2007) and Goderis et al. (2007) find that the securitization helped banks to increase the supply of credits, since it represents a new funding source for them. Working on European banks, Bannier and Hansel (2008) conclude that banks which have high risk of failure are those which securitize more their loans. Hansel and Krahnen (2007) affirm that the loan securitization provokes banks to take more risks, which may affect their long-run financial performance.

At the same time, it is often argued that credits securitization made it possible for banks to realize a rising ratio of profitability. To test this hypothesis, we introduce the variable of the Return on Assets (ROA). This hypothesis is confirmed by the significant and positive coefficient of ROA. Failed banks are those which were the most profitable during the years preceding the crisis. This may be due to the securitization process which generates more liquidity and permit to banks to grant more loans. Jiangli and Pritsker (2008) affirm that the securitization rise the profitability of the US bank holding companies. In fact, they found that the return on equity for the securitizers banks ranges from 10,4% to 13,01%, while the one of the non-securitizers banks is about 10%.

Finally, the macroeconomic variable of the house price index is introduced in the model to verify if the decrease of the real estate prices has contributed to the failure of banks which grant loans. The coefficient has a significant and negative sign. We could interpret this result by saying that the subprime crisis started in the United States was also explained by the spectacular fall in the prices of the real estate making impossible for the majority of the households to refund their debts, and for banks to recuperate the amount of the loan when selling the mortgaged real estate. Demyanyk and Van Hemert (2008) find that the appreciation of house prices masked the occurrence of the Subprimes crisis in the United States. However, once the house prices start to decline in the beginning of 2006, the Subprime crisis became more apparent. Goetzmann et al. (2009), using econometric analysis of the house prices before 2006, advance that the fall of this latter was not forecasted and that the borrowers and the lenders (banks) estimated an extrapolation of its rise in the future.

6. Concluding Remarks

This study seeks to examine the impact of a new financial innovation, namely the securitization, on the behavior of American banks and thereafter on the occurrence of the subprime crisis in the United States. Based on previous empirical works, the objective of our research is to test the hypothesis of the excessive risk taken by US bank firms. This high risk may be encouraged by the possibility for American banks to securitize their loans. Working on a database including 6775 deposit American banks located in 50 states, we search to test the impact of the securitization on the probability of the failure of American banks over five years between 2003 and 2007. This period is so critical since it just precedes the occurrence crisis and is characterized by the development of the volume of the securitized loans.

Our results confirm the general assumption of the excessive risk taken by the US bank firms. In fact, the riskier assets and the bad and doubtful loans are found to increase the probability of the failure of the US banks. At the same time, we found a positive relationship between the volume of the securitized credits and the banking failures, suggesting that banks which securitize more their loans are those for which the probability of failure is higher. This result was supplemented by the introduction of other control variables. We found that banks which securitize more are those which have an increasing rate of profitability following an excessive risk-taking when granting loans. In addition, another interesting conclusion is that the current financial crisis has also a macroeconomic explanation. The price level of the real estate contributed largely to the occurrence of the recent crisis in the United States, especially since 2006. This result should however be checked with consideration of other macroeconomic variables which seem to exert an impact on the Subprime crisis, such as the real interest rate.

According to these results, several policy recommendations on the banking supervision policies and the prudential standards applied to the banking system should be addressed. Among them, we mention a better transparency of the dispersion of the credit risk, a control of the methodology adopted by the credit rating agencies in the evaluation of the emitted bonds, a revision of the banking supervision standards by the consideration of the ratio of the volume of the securitized credits.

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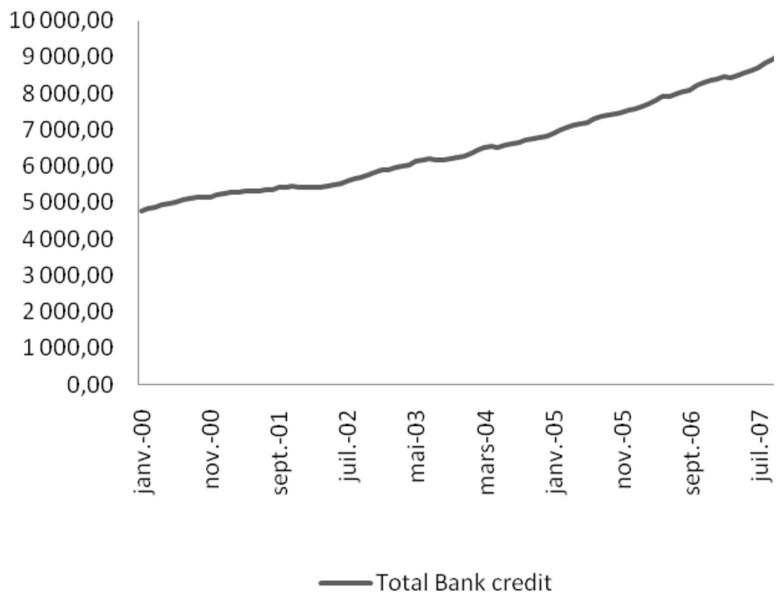
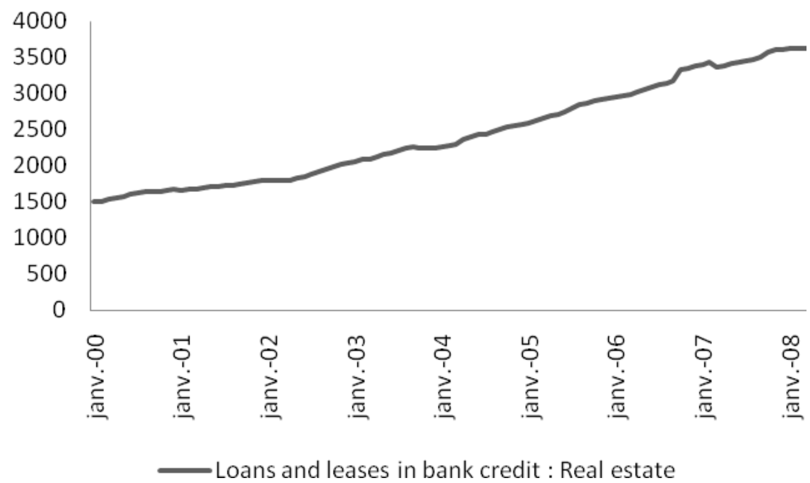
Figure 1. Evolution of the volume of bank credit (Billions of dollars)



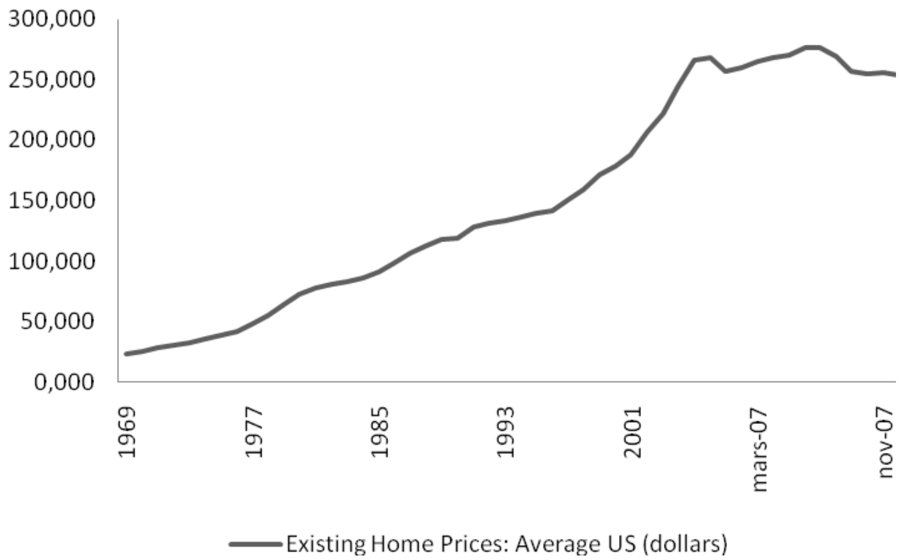
Data source: Federal Reserve Statistical Releases

Figure 2. Mortgage credits (Billions of dollars)



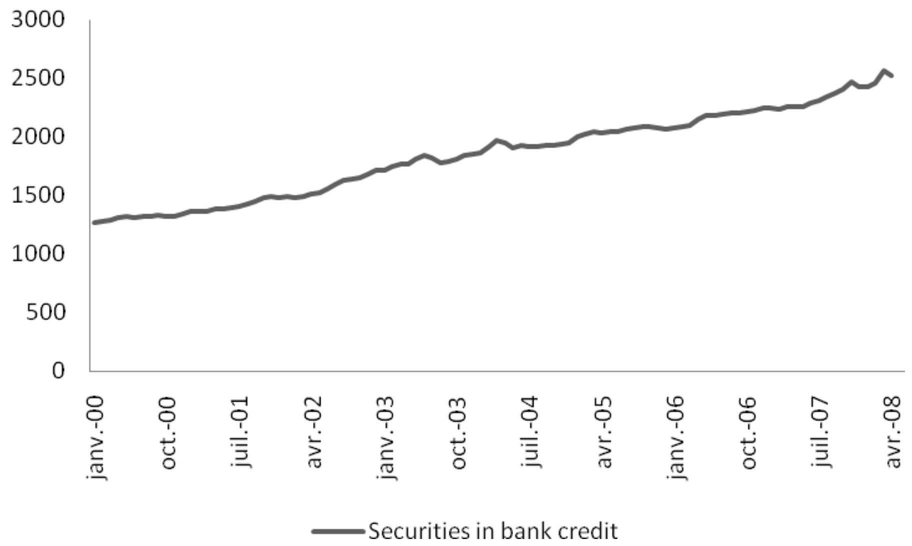
Data source: Federal Reserve Statistical Releases

Figure 3. Evolution of the existing home prices



Data source: National Association of Realtors

Figure 4. Evolution of the securitized bank credits



Data source: Federal Reserve Statistical Releases

Table 1: Data description

Variables	*Definition*	*Expected sign*
DEFAULT_BANK	The dependent variable. It represents the probability of the defect of the bank. It is a binary variable which takes the value 1 if the bank is failed or 0 in the contrary case.	--------------------
LN_Mortgage-backed securities (MBS)	The volume of the securitized credits: mortgage backed.	The expected sign is positive, higher is the ratio more the bank is encouraged to take excessive risk by financing mortgage operations. The Excessive risk taken is encouraged by the possibility given to banks to securitize their credits.
Total risk-weighted assets / Total assets (RISK)	The credit risk: It represents the minimum of capital due based on the percentage of the banking credits balanced by the level of risk	The expected sign is positive. The probability of defect of the bank rises with the increase of its risky credit.
Total deposits /Total assets (DEP)	The demand for credit. It is the ratio of the total deposit compared to the total assets of the bank.	The expected sign is negative. Indeed, a failed bank is the one which concentrates less and less on its traditional activities, the lending of credit on the basis of the volume of the deposits. So, higher is the ratio, less will

		be the failure probability of the bank.
Net Loans and Leases/ Total assets (LOANS)	This variable measures the credit supply: Ratio of the total credit compared to the total of assets	The expected sign is positive. Higher is this ratio, more the bank tends to grant high-risk loans and the probability of the failure of the bank increases.
Return on assets (ROA)	The earning of the assets invested (net result/total credit)	The expected sign is negative: a failed bank is that which have a decreasing growth rate of profit.
Net Charge offs to loans (COL)	The quality of the held credits: Ratio of the doubtful debts on total home credit	This variable measures the quality of the held credits: ratio of the doubtful debts on total credit. We expect a positive sign: the larger this ratio is, more the quality of the credits is poor and more the borrowers tend to be insolvent.
House Price Index (HPI)	It represents the house price index in the United States	The fall of the real estate prices combined with the rise of interest rates may induce the incapacity of the households to honor their engagements and the incapacity of banks to have surplus when selling the mortgage house. Then, the expected sign is negative: weaker is the value of the real estate, more important would be the probability of failure of the bank.

Table 2. Stamp correlations of the variables

Variables	**DEFAULT_BANK**	**RISK**	**DEP**	**LN_MBS**	**ROA**	**LOANS**	**LN_HPI**	**COL**
DEFAULT_BANK	1.0000							
RISK	0.0578	1.0000						
DEP	0.0005	-0.0150	1.0000					
LN_MBS	0.0495	0.0106	0.0450	1.0000				
ROA	-0.0063	0.1023	-0.0834	-0.0027	1.0000			
LOANS	0.0014	0.0242	0.1211	0.0002	-0.0002	1.0000		
LN_HPI	0.0000	-0.1021	-0.0240	0.0035	0.0209	0.0039	1.0000	
COL	0.0087	0.1004	0.0050	-0.0179	-0.1659	0.0033	0.0111	1.0000

Table 3: Contribution of the explanatory variables in the probability of the failures of the banks

Variables	Coefficient	Std. Error	z-statistic	P-value
LN_MBS	1,616***	0 ,032	49,48	0 ,000
RISK	17,1298***	0 ,362	47,30	0 ,000
DEP	-1,8665***	0,6935	2,69	0,007
ROA	-0,4183***	0,0564	-7,42	0,000
LOANS	0,0289*	0,0171	1,69	0,091
LN_HPI	-4,1504***	1,0560	-3,93	0 ,000
COL	0,393***	0 ,096	4,09	0 ,000
Wald test = 2309,42				
Prob>chi2 = 0,000 *Likelihood ratio test = 0*				

Dependant variable: DEFAULT_BANK
Random effect Logistic Regression
Number of groups= 6775
Period: 2003-2007
Number of observation= 33875
(***), (**) and (*) are significant coefficients at 1%, 5% and 10% level respectively.

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TURKEY'S RENEWABLE ENERGY SOURCES IN THE GLOBAL FINANCIAL CRISIS

Abstract

Machines that have very high production capacity were occurred as a result of quick development of industrialization alongside application of existed development in technology area to production. In every the other day energy necessity is increased with usage of these machines that make very big production in order to meet people's necessities. Important portion of energy necessity is supplied from fossil fuel such as coal, petrol, natural gas etc. sources. But countries is tended towards alternative energy sources in order to supply continuity of energy sources and to prevent environmental pollution due to some reasons such as; energy obtained form fossil fuels is limited, supplying of energy sources security is difficult and these sources damage environment in spite of increment of energy necessity in every the other day. As in all over the world, safe and continuous ways to arrive energy were searched in our country. In this frame studies were made bye various installations and alternative energy sources were determined for Turkey. In present energy sources the best source for energy-economy-environment trio is renewable energy sources and also must be given priority to form incentive legal arrangement and incitement mechanisms for building of this kind plants due to alternative energy sources have positive influence such as habitant sources, supplying employment possibility and bringing liveliness to country economy.

Keywords: Global financial crisis, Renewable energy sources, Present status.

1. Introduction

Energy is at front of important inputs for economic and social development. Energy procuring and effective usage are one of today's important problems depending on giving out of reserve of fossil fuel that supplies a big portion of world's energy necessity with big speed; coming to dangerous state of greenhouse gas emissions for people life and damaging of ozone layer. In world and Turkey big portion of energy necessity still is supplied from fossil fuels (coal, petrol, natural gas etc.) (Çolak *et al.*, 2005).

Fossil fuels were earned an important superiority against of renewable energy sources (RES) especially for last two centuries as a result of development and being cheap of production technology and also widespread usage. Petrol and coal domination had been continued trouble less for long years, but an insecurity media was created by1973 Petrol Crisis firstly. All over the world concentrated connection on RES was caused by this insecurity media. Mains of RES can be said as hydraulic, wind, solar, geothermal, biomass and wave (Çolak *et al.*, 2004). At 1980's petrol prices had decreased, but energy security problem that came to agenda as a result of petrol crisis was been permanent and protected its important. At result of this it became one of indispensable elements of energy politics.

2. Development of RES

Rising of providing of energy security and tending to source variety obligation had caused to taking part of renewable energy sources at energy fan too. Another development supporting renewable energy sources development hade taken shape during Human Environment Conference at 1972 in Stockholm. Principles that attract attention to carriage capacity of environment, take care of equity between generations for usage of sources, make connection between economic and social development with environment and emphasize between development and environment and base detent of continuable development are exhibited in Stockholm Proclamation. In 1990's clean environment consciousness was further developed. This consciousness was understood that conventional energy production and consumption cause negative effects directly at local, regional and global level on environment and natural sources and was given rise to supporting renewable energy sources that don't given emissions which cause dirtiness to atmosphere as "clean energies".

When energy that is one of the indispensable basic necessity sources for daily life of mankind is provided or with another words, when energy sources is used, necessity effort must be expended and precautions must be taken not to destroy livable areas for posterity. Warmth at world was reached to the highest level of last thousand years due to required effort don't show for getting medias that was told at past or important of the issue was noticed late and usage of fossil sources. In addition to this natural calamities as drought, torrent, storm was occurred/is occurred as a result of climate change, in addition to cause soul and estate losses, human health was affected/is affected negatively.

Aim of supplying as economic and not to destroy environment of energy that is needed for human was became the foreground as result of these negativeness is seen. In this circumstance

"Climate Change Environment Agreement (CCEA)" is submitted for signature to member countries at Environment and Development Conference at Rio in 1992 with big participation by United Nations because of rising international cooperation necessity. Obligation of decreasing of greenhouse gas emission of 2000 to levels of 1990 is brought for developed countries with CCEA. In 1997, obligation of decreasing of greenhouse gas emissions at least 5% according to level of 1990 was brought to signer countries with Kyoto Protocol that is prepared according to CCEA. In the circumstances European Union (EU) was accepted supplying 8% reduction standpoint of both union and other countries.

In this frame usage of all hydroelectric renewable and international support is deemed worthy result of published declaration with participation and consensus of countries representatives more than 170 World Continuable Development Summit at Johannesburg in 2002, then this standpoint is stood at 3. World Water Forum at Kyoto in 2003 and Renewable Energy Politic network for 21. Century (REN21) Conference at Bonn in 2004 with participation of 154 countries representatives (Martinot, 2006).

Also with aim of prevent negativeness that caused climate changes, giving priority to Energy Efficiency, Renewable Energy, Afforestation and to catch carbon dioxide (CO_2) and storage topics is decided at Climate Change Parties Conference (Conference of the Parties (CoP12)) at Canada in 2005. Energy sources that has renewable characteristic is given rise with made a decision in here

Performing studies as integrated about renewable energy sources and energy efficiency for continuable development will supply obtaining of more successful results. As a matter of fact studies in all over the world are performed appropriate to this direction. When energy that is one of the indispensable basic necessity sources for daily life of mankind is provided or with another words, when energy sources is used, necessity effort must be expended and precautions must be taken not to destroy livable areas for posterity.

3. RES in World and Turkey and Usage Status

3.1. Hydroelectric

Determinations of Hydroelectric potential are made from three different standpoints. First of these is gross potential, in here technical and economical feasibility doesn't take into consideration. Determination of second potential is standpoint of technical feasibility. Also in here economical feasibility doesn't take into consideration. Determination of third potential is economical feasibility potential so this potential can show modification depending on technological developments and approaches in energy politics (Gürbüz, 2007).

According to this, theoretical gross hydroelectric potential of Turkey is 433 billion kWh, this value corresponds to approximately 1% of total theoretical hydroelectric potential which total of theoretical hydroelectric potential is given base continent in Table 1 and 14% of potential in Europe. Potential that has technical feasibility is remained 50% stage (216 billion kWh) of gross potential. At present conditions, usable potential as economical is around 30% (130

Billion kWh) of theoretical potential. As well as some reiterated, it isn't clear but when projects are developed by private sector take in consideration, as seen in Figure 1 this value is reached to 35% stage (150 Billion kWh).

Table 1. Hydroelectric potential in World and utilizing status.

EXPLANATION	Theoretical Potential (GWh/Year)	Technical Potential (GWh/Year)	Economical Potential (GWh/Year)	Potential on Operation (GWh/Year)
Africa	4.000.000	1.665.000	1.000.000	84.000
Asia	19.000.000	6.800.000	3.600.000	805.000
Australia/Oceania	600.000	270.000	105.000	43.000
Europe	3.150.000	1.225.000	800.000	569.000
Central and North America	6.000.000	1.500.000	1.100.000	693.000
South America	7.400.000	2.600.000	2.300.000	554.000
TOTAL OF WORLD	40.150.000	14.060.000	8.905.000	2.889.000
TURKEY	**433.000**	**216.000**	**130.323**	**45.930**

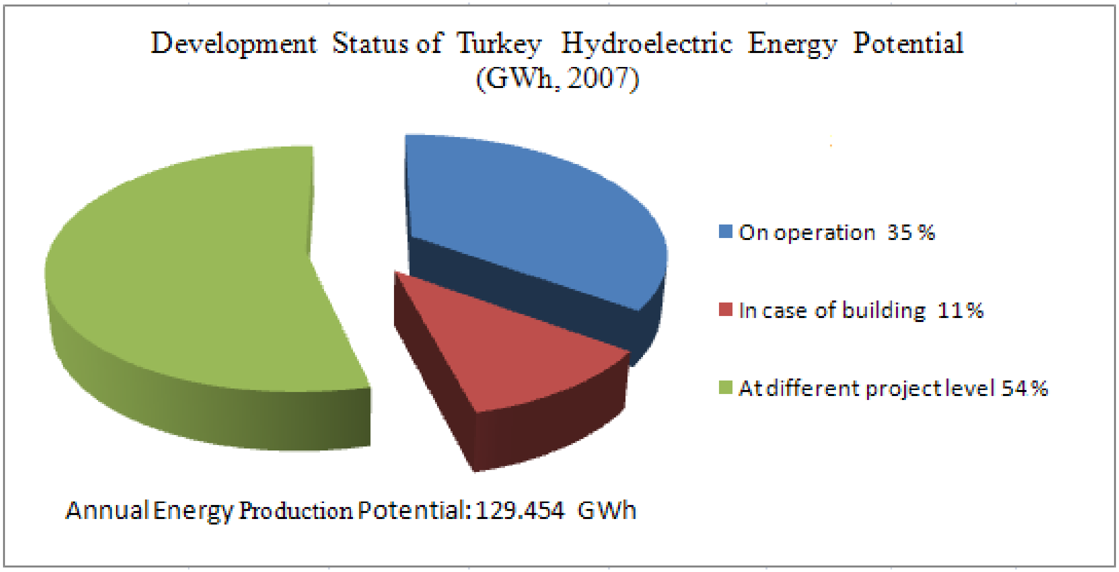


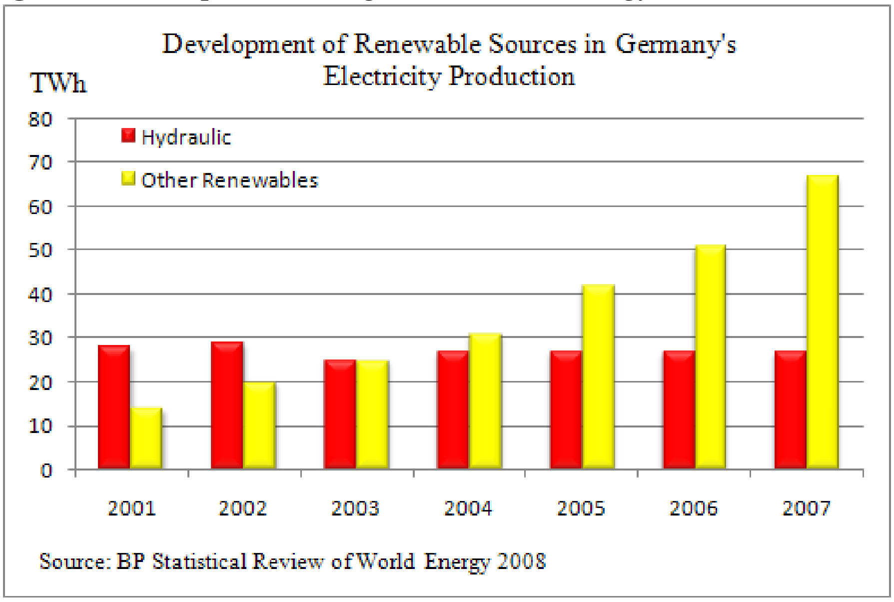
Figure 1. Development status of hydroelectric energy potential of Turkey

3.2. Wind

Wind energy potential of Turkey shows diversity at regions base depending on wind speed and wind continuity, especially a big potential is found at west (Thrace and Aegean) and south (Hatay and its around) of Turkey. At result of Wind Energy Potential Map study which is made by Ministry of Energy and Natural Resources- Management of Electric Works Study, when wind speed that is above 6.8 m/s is take into consideration in Turkey, wind energy potential of Turkey is around 48.000 MW. At present energy can be produced from 393MW of this potential.

After 1990s important investments had made for electric production from wind energy in world and countries of European Union depending on global warming and greenhouse gas emissions. As shown in graph given in Figure 2, usage of renewable energy sources is increased every the other day in countries of Europe, especially in Germany (BP, 2008).

Figure 2. Development of usage of renewable energy sources in Germany



3.3. Solar

Solar energy potential of Turkey is annual average bask period 2640 hours, daily 7.2 hours. Daily average radiation is 3.6 kWh/m^2, annual average radiation is 1311kWh/m^2. Present 11.5 million m^2 solar collectors is used for supplying hot water commonly and every year average 1 million m^2 capacity to this capacity. Result of Solar Energy Potential Map made by Ministry of Energy and Natural Resources- Management of Electric Works Study showed that there is solar energy capacity equals to 56.000 MW thermal power plant capacity and when this capacity uses, possibility annual average electric energy production capacity is 380 billion kWh. Whereas this capacity is used slightly, present total solar cell (PV) capacity is at about 1000kW.

3.4. Geothermal

There is 31.500 MW (20 MTEP) thermal potential in Turkey, but present 500 MW of this potential is appropriate for electric production. As electric production, 27 MW is on operation and 25 MW is in case of building. 1229 MW of total potential is used.

3.5. Bioenergy

According to study made by Ministry of Agriculture and TUBITAK-MAM, there is 8.6 million TEP potential, 5.1 million TEP is used as directly firing. Also there is 1.5 MTEP biodiesel production potential from 1.9 million hectare unused agricultural land and 3.5 MTEP bioethanol production potential from beetroot planting area.

4. Incitement Politics in Turkey for RES

Minimum price guarantee (5 Eurocent/kWh) for energy will be produced from renewable energy sources and buying guarantees for certain time (10 years) is brought with 5346 numbered "Corresponding to Usage of Renewable Energy Sources with view to Electric Energy Production" that came into force as issued at 25819 numbered official gazettes in 2005. Also supplying easiness for treasure and forest land at places where will be established these plants, giving RES certificate because of its renewable characteristic and they are exempted from being company which installs plant up to 500kW on the brink of meet own necessities with same law with made modification at 4628 numbered law and getting license.

RES law contains matters about usage and incitement of new and renewable sources (hydro, wind, geothermal, solar, biomass, hydrogen, etc.), in other energy production fields on the brink of firstly electric energy production, developing of national production facilities and supplying and usage necessary sources for incitement

Supplying of energy that required for decreasing of energy input cost is carried weight as safety and economically considering first rule of emulation at world markets in liberal economic structure is to reduce production costs to minimum level. Some private sector with this purpose, some private sector with opinion that instead of production difficulty is marketing of produced product or estate, there isn't market problem due to electric energy demand is increase every year annual average up to 7-8%, so entrepreneurs was entered to energy sector.

5. Conclusion

Reengineering of energy sector and at first years of opening to competition of sector as organizing free market order, in present energy sources the best source for energy-economy-environment trio is renewable energy sources and also must be given priority to form incentive legal arrangement and incitement mechanisms for building of this kind plants due to alternative energy sources have positive influence such as habitant sources, supplying employment possibility and bringing liveliness to country economy.

Average of increment at population, industry, urbanization of Turkey, also increment at electric consumption as parallel increment at economic prosperity level for long years is at 7-8% level; in future continuation of this increment is expected for long years.

75% of energy consumption of Turkey is met by importing. Foreign trade deficit is grown as parallel to increment of paid foreign currency amount because of increasing petrol and natural gas prices. Such that renewable energy sources is domestic; so increasing of produced energy from these sources, will contribute to decreasing of energy import addition to advantage for supply security, will prevent energy import. Also there are big advantages at operate all of renewable energy sources of Turkey as soon as possible, when advantages is thought such as not forming environmental negativeness, supplying contribution to economic perking up.

In this connection, usage and development domestic and clean energy sources inside major energy politics and strategies of our country must be given priority and environmental effects must be taken into consideration in every stage.

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A TIME TO LOVE AND A TIME TO DIE: AN INTERPRETATION OF GLOBAL INTEGRATION OF A PUBLIC SECTOR JUTE MILLS AS AN EXPORT PROCESSING ZONE

Abstract

In this paper, I explore the impact of current global financial crisis on Adamjee Export Processing Zone (AEPZ) of a post colonial state - Bangladesh. Here, I firstly explore the context and implications of the discourse of globalisation that initiated the decision of de(re)(con)structuring Adamjee Jute Mills (AJMs) the largest jute mills of the world as an EPZ for ensuring economic sustainability. Secondly I search for the underlying and undercutting issues that construct the current manifestation of AEPZ. Drawing upon the conceptual framework of Foucauldian approach along with the theory of World System, I have revisited the country's historical, political, social and cultural constructions that have contributed in the process of global integration of Bangladesh economy. Positing that there is no single reality to observe the issue, I take an attempt to explore the implications of the discourse and practices of globalisation along with the current global financial crisis through de(con)structing the context and text of a loss making public sector jute mill and (un)making of an economically (un) viable EPZ. Although the current manifestation implies that majority of the involved community are dislocated and deprived, EPZs at the policy level are still perceived and considered viable projects.

Keywords: Discourse of globalisation, Export processing zone, Jute Mills.

'***We must know whether or not we are affected or moved by the thing represented and what reasons we have for being or not being so affected'.***
- Foucault (2006) Hermeneutics of the Subject; p503

1. Introduction

This paper reviews the implication of current global financial crisis through presenting empirical evidence of Adamjee Export Processing Zone (AEPZ) of a postcolonial state-Bangladesh. This EPZ has been reconstructed through dismantling Adamjee Jute Mills (AJMs), which used to be renowned as the largest jute mill of the world.

Within the context of discourse of sustainability, growth and development of neo-liberalism, the whole public sector jute mills have been under the reform agenda of Jute Sector

Adjustment Credit Program (JSAC), since 1991. Closing down the AJMs is conceived as policy implications of the second trance provided by global policy regime under JSAC. Global policy regime refers The World Bank (WB), The International Monetary Fund (IMF), The World Trade Organisations (WTO) and the United Nations (UN). While reform process generally considers privatisation as the only effective mode of restructuring process, in case of AJMs transforming it into an EPZ appeared more rational and realistic.

EPZs are considered as free economic enclaves (Aimn 1976), appear as a constituting elements of rational economic growth model that prevails as examples in all those newly industrialised countries (NIC)s (Frank 1991). Replicating NICs growth model is conceived as one of the major measures to be integrated into the process of globalisation. It is envisaged that adapting such measures help the less developed countries in escalating the notions of standard of living and reducing poverty and pauperisation (Amin, 2004).

In this context the process of problematisation is initiated with contextual analysis that initiated the decision of de(re)(con)structuring AJM as an EPZ for ensuring economic sustainability. This paper has been structured into three major sections. The paper begins by the contextual analysis of the failure of AJMs, followed by the discussion on underlying and undercutting issues responsible for construction of AEPZ. Finally its current manifestation and how it has impacted the community are discussed.

2. Methodology

In this analysis, I draw upon both Foucauldian approach and genealogy of world system as my strategic frame of reference. The discursive arguments of the world system theory conducts historically analysis and highlights ruptures and discontinuities through discussing what has been done and what in reality is done from social, political and cultural perspectives (Foucault 1998); precisely from the perspective of political economy. Thus it reflects underpinning issues of the history of critical thoughts and provides the background of historical integration of Bangladesh as postcolonial state within the world system and with the single world economy; through informing us how the construction has been done in terms of structure and social formation. The structure is denoted as centre and periphery. The centres possess highly developed technology, therefore capable in auto-centric resource generation and possess highly skilled labour force (Amin 1990, 1976; Wallerestein 1975, 1974 a&b; Prebisch, 1959). Similarly; the peripheries are categorised in terms of their limitations, for instance: expertise in technology for extracting resources; expertise in handling technology; and dependency on the centres for accumulation process (Amin 1976, 1990). Therefore peripheries labour force is unskilled or semi-skilled and comparatively cheaper (Wallerestein, 1975, 1974 a&b).

The postcolonial context of Bangladesh comprises of hundred almost two years of British rule. In 1947, it had become a province of Pakistan as East Pakistan. However through popular movement and a bloody War of Independence Bangladesh became an independent country in 1971.

I have reviewed a series of news paper reports, features and publications of civil society organisations from 2002 to till August 2009. I take an attempt to examine the existing power dynamics at local and global level through deconstructing the dominant discourse and how it has impacted the life-world of AJM and later as AEPZ. Drawing upon on both critical discourse and hermeneutic analysis the write up focuses on who really benefited and who really exploited or deprived (Philips & Hardy, 2002) through such construction.

i) Contextual Analysis of reconstruction of AEPZ

Jute used to be acclaimed as the golden fibre of Bangladesh (Levi Strauss 1952, Jute Policy 2002). The country used to earn a huge foreign exchange through exporting jute goods. According to official statistics 35 million people (25% of the total population live on cultivating, manufacturing and trading jute goods. Jute sector is the second largest employment sector of the country as 10% of the total labour force is employed in this sector (Rahman 2009). In this section there will be an analysis on the failure of AJMs as jute mills and then the background of reconstruction of AEPZ.

Anatomy of failure of AJMs: Construction or a real crisis?

In contemporary mainstream literature chronic loss because of inefficiency, burden of excessive employment, corruption, massive politics and trade unionism, in AJM are discussed with certain regularities (Bhshkar, Gupta and Khan, 2006; Bhaskar and Khan, 1995; & Hoque, Siddique & Hopper, 1994) as the causes of failure. Therefore the prime condition of the second trances under JSAC (Jute Sector Adjustment Credit) was closing down AJM. Concurrently there is another parallel discourse of neo-liberalism on efficiency, sustainability and development, model of economic growth, golden handshakes, and end of contract benefit through global policy regime. The dominant discourse establishes those notions as system and provides certain objectivity of its actions. Because of such huge amount of loan for Bangladesh the per capita loan stands 140USD; while the per capita Gross national income is $772(Source:http://web.worldbank.org; retrieved July 28; 2009).

On the contrary the historical analysis claims that jute workers have been always perceived as militant. In fact during the colonial period there had been violent conflicts between Hindu and Muslim jute workers (Chakrabarty, 1989). Such conflicts shifted to a conflict between non Bangali and Banagli workers; due to favouritism of the management to the non –Bangali workers during Pakistan regime, particular in AJMs (Maron, 1954). It had been reported that in such violence between Bangalis and non Bangalis(mainly Bihari) officially 500 people had been died (Maron 1954). Such rupture at initial stage did not cause loss in production process. Gradually through the involvement with trade union workers perceived themselves as a collected body and learnt to put up their collected agenda. In that context during and after the Liberation War of 1971, the workers of AJMs played a great role. With the support of the workers the post-independent government nationalised the mills and created this space where the all workers irrespective of their ethnic background (along with Bihari workers) started working. From 1972-2002, the contributions of Adamjee to the economy was $529.14 million USD out of which 319.71 million USD was foreign currency (Mostafa, 2008).

Politicisation of the trade union was initiated after 1973.As the post independent government made it compulsory for the trade union to join to single-state-political party Ahmad and (Sobhan 1980). Such initiatives made trade union as a platform to be linked with power nexus to the opportunists (Sobhan and Ahmad, 1980). Evidences suggest that the post-independent government nationalised AJMs and established Bangladesh Jute Mills Corporation as an umbrella organisation (Sobhan and Ahmad, 1980). Responsibilities of BJMC were to connect the backward linkage jute cultivation with the industrial initiatives along with the approach of marketing at global level (Sobhan and Ahmad, 1980). But such pragmatic approach was constrained as the systematic representations of employers rested with state executives and with the politicians (Sobhan, 1979). As a result the dominance of the state owner enterprises such as AJMs in terms of their contribution in the economy as well as their performance in reality is determined and constrained by the nexus of bureaucracy petit bourgeoisie; in case of Bangladesh there is another actor that is external influence (Sobhan, 1979). Hence, AJMs became a tool of resource appropriation and space of demonstrating power (Sobhan, 1979).

Subsequently, the consecutive two army regimes (after the pro-state-socialist post independent regime was toppled by military in 1975) reaped the benefit of such construction, through institutionalised the politics of patron client relations with trade union leaders (Monem 2002). This process has constructed an image of trade unions as a violence producing institutions. Eventually the mode of such construction has supported in the following ways, firstly: it has reinforced bureaucratic power, as the management process has been completely rested with the bureaucrats (Hoque, Siddique and Hopper, 1994). On the contrary, general workers have been deprived of taking part in the decision making process on managerial issues; in negotiation on benefit packages, facilities; and thus making management accountable through the collective image of active trade unions. They have been forced to play the role of a wage labours only. Hence, they have become silent spectators of corruptions at their own mills.

Interestingly survey report of the Ministry of Jute states the sector usually faces loss mostly because of the delayed payment by the Nationalised Commercial Banks for buying the raw jute, and second largest cause is frequent power disruptions. On the contrary, loss due to the labour unrest takes the fourth position as a contributing cause of loss in the whole sector (Muhammad 2007, p.4). Correspondingly as a part of the process the first army regime established Bangladesh Export Processing Zone Author (BEPZA) under its Revised Industrial Policy (RIP). Second army regime established free EPZs. The provided facilities in EPZs include exemption of some legal measures such as right to build associations for the workers and rights to build trade unions in those enclaves (ICTU, 2000).

Within this context the disinvestments of AJMs and construction of AEPZ had been conducted. Because of its massive size and involvement of people the BNP-led four parties -alliance (Bangladesh Nationalist Party) government took tow tenures to draw the conclusion of the story that had been initiated during it first tenure in 1994. The official closure was done in June 30; 2002. The government had to retrench 30,000 workers and employees and to evict 500, 000 people from a place where they had been for almost fifty years. Moreover 10 million farmers were dependent on the amount of Jute demanded by the AJM.AJM had to buy 20 lakh metric tons jute from its 36 purchasing centres all over the country (Mostafa, 2008) .

Although the WB provided 250 million USD as a credit at a minimum service rate .75%o to the government for paying the end benefit to the workers and employees of AJMs (Mostafa, 2008), the series of massive protests and demonstration provide us other images about the disinvestment and payment process connected with AJMs. Jute suppliers staged chronic sit in strike for demanding their dues in entire 2003. Out of their 6.286 million USD dues the Ministry of Finance had released 3.14 million USD (The Daily Star August7; 2003). In April 3; 2004, one thousands five hundreds farmers and traders threatened the BJMC and the government to go on hunger strike for the payment of the rest of the dues (The Daily Star April3; 2004). Simultaneously evidences claims that undervaluation of the machineries and the closure of AJM caused 1.49 billion USD shortfalls to the government, since the valuation done by the inventory committee had not been done at the market rate of that time (The Daily Star 26 August, 2008). Interestingly AJMs holds the eighth position on the list of top defaulters, the amount of default loan is 17.82 million USD (The Daily Star July 7, 2009). Thus we can conclude that grand level corruption occurred at policy making level during the process of disinvestment.

While at the local level the dominant discourse communicates that the sector has lost it viability at the global level has reinforced the decision of reconstruction AEPZ. It received support from the business community and global policy regime (The Daily Star July 5, 2002). The global policy regime along with the government agencies consistently reaffirmed that there would be more than four hundreds million USD investment in AEPZ and it would be able to create 100,000 jobs (The Daily Star 6 March, 2006). Interestingly parallel to this dominant discourse of declining global demand of jute, at regional level we find that the Indian government is planning to double its volume of export of jute goods by 2010 (Muhamad 2007). Consequently at the global level the year 2009 has been declared as International Year for Natural Fibre (IYNF), with the following objectives, (i) to raise awareness and stimulate the demand of natural fibres and (ii) to encourage the government to make appropriate policy for ensuring the 'sustainability and efficiency of the natural fibre industries'. Yet the proposal of 'International Year of Natural Fibres (IYNF09) had been discussed at a joint meeting of the intergovernmental group on hard fibres and the inter-governmental group on Jute (http://www.naturalfibres2009.org/en/fibres/jute.html) at Food and Agricultural Organisation (FAO)in 2004. While in 2004 the cabinet committee of Bangladesh took a decision to (de)construct AJM into an EPZ (The Daily Star 18 December, 2004).

Such dialectic between discourse and set-practice at local, regional and global level denotes the inherent characteristics of neo-liberalism. Unmasking prevailing discourse reveals that the whole process has been designed to construct the collapse of the total governance structure of the Jute sector, through rationalising the non viability of the sector at global level.

ii) AEPZ and its consequences: Myth versus reality

Apparently because of aspiring promises of investment from the international arena, AEPZ perceived as a viable venture according to the related and involved institutions such BEPZA and WB. It was officially inaugurated in March 2006 (The Daily Star 6 March, 2006). During the inauguration program, the BEPZA reported to the press that 37 plots had been handed over, to the following companies: such as British Virgin Island; Hong Kong based Kwan Troy Apparels Ltd, Canada based Hy Lan Sweater International and Saleha Wear Ltd a local company and DNV clothing as a joint venture. The EPZS would become fully in operation within 18 months. The authority further assured that AEPZ was expected to generate USD 750 million earning for the country in a year with an expectation of creation of 100,000 jobs for the people (The Daily Star, March 6, 2006).

Similarly the Country Director of the World Bank Xian Zhu (Zhu, 2007) reaffirms that in 2002, jute sector reforms got a new lease of life with the closure of Adamjee Jute Mills (AJMs). This alone led to a decrease in BJMC's losses from Tk3.9 billion in FY2002 to Tk2.1 billion in FY2003. It also led to an increase in BJMC's productivity, which jumped from roughly Tk25, 000 per employee in FY2001 to Tk39, 000 per employee in FY2003. Zhu(2007) considers the conversion of Adamjee into an AEPZ in 2006 as a landmark in the country's economic management and industrial development history. All developed plots have been allocated to both local and foreign companies and as of January 2007, industries in operation have created direct employment for 34,000 people. Once fully operational, 70,000 people would be employed in AEPZ (Zhu, 2007).

However , after one year of such statements according to the Project Director of AEPZ the real investment in AEPZ is 45.39 million USD and only 6000 workers have been employed; against the announcement of investment of 400 million USD (The Daily Star September 5; 2008). A Canadian company Hy-Lan sweater International Ltd started operation at AEPZ in March 2006, which was the first significant investment after launching AEPZ (The Daily Star, September 5, 2008).

Due to global financial crisis the trend of FDI in September 2008- January 2009 was sluggish if we compare the trend of the corresponding period of FY2007-2008, in export earnings (Rahman 2009). Such acute crisis is foreseeable since the foreign direct investment is the critical for less developed countries export-led growth venture such as EPZ. Although at local level the policy makers are quite complacent about the economic turnover, restrictive measures in the deregulation of capital accounts appear as rescuing factor. Aspects of financial fluidity diverse, diverge and dynamic (Jameson, 2000). The singularity of the economy is deepening; AEPZ has to bear the backlash of the current global financial crisis. The manifestations of investment and employment trend only in AEPZs imply the backlash of the crisis in a remote peripheral country. It seems even in six years none of the initiatives could be able to ensure employment of same number of people who lost job because of closure of the mills. AEPZ remains as an illusion in terms of institutionally linked discourse and its constructed reality.

Failure of AJMs and AEPZ can be traced within the framework historical socio- economic, cultural and political structure of the country. According to the theory of critical political economy penetrating resources accumulation process by the colonisers indeed is the root causes of such structural crisis (Amin, 1976; Frank, 1990; Wallerstein, 1974 a&b). The manipulation of technology of production and sign and system constituted the economy to be destined as exporter of primary products (Gills & Frank1991, Frank (1990). Therefore jute that once used to integrate the economy of Bangladesh with the global market is now deemed as a failure sector. Such construction connotes that the country is destined to export only raw jute.

Secondly: the total failure of establishing workers' ownership on the public sector jute mills such as on AJMs can be explained with the framework of ethno-nations (Wallerstein, 1990) and lumpen-bourgeoisie. Manipulation of these two technologies of production initiated technology of subjugation along with governmentality. Therefore political technology is exerted throughout the social body (Foucault 1988, p.185). This process has created ethno-nation Wallerstein (1990). Ethno-nation comprises of indigenous bourgeoisie petit bourgeoisie, bureaucrats both army and civil, and politicians. In this context, flow of foreign funds as debt and aid from the centres after the independence in ex-colonial countries caused emergence of the lumpenbourgeoisie class. It comprises most of the constituting element ethno-nations, but they are the major actors in deciding the redistributive mechanisms of foreign funds and help in establishing patron-client relations with the centres (Baran 1973). They are engaged in the one-way resource accumulation process (Gill and Frank, 1991) and formation of rentier state (Baran, 1973).

After the War of Independence in 1971 all deserted industrial venture came under the public sector. But the lumpenbourgeoisie played a strong role in establishing their hegemony and the post-independent government failed in establishing ownerships of the workers on the means of production. This lack of ownership of the workers on the AJMs led to a passive role of the workers in resisting the management and policy level corruptions – finally to the failure of the workers in resisting the pressure of disinvestment and conversion of AEPZs.

iv) Implications on the community

Major implications of dismantling AJMs and failure of AEPZ on the community are: sponsored unemployment formally though the discourse of "golden hand shakes"; annihilation of identity as formal workforce; creation of reserve industrial workforce with fragmented individual identity; forceful evictions; dislocation; and loss of possibility to be integrated into the formal workforce again.

In reality such constructions created a feeling of dispossession; broke down the generation loop that had been constructed for fifty years. Mills premises adjacent colonies of the workers, schools and mosques used to define and set the routine of their lives. Such industrial culture also provided them a hope of integrating their generation into that formal workforce. Evidences suggest that even before the closing down AJMs six thousands students used to be taught in five schools located in Adamjee compound (Mostafa, 2008). Pauperisation has caused number of female members of the AJMs workers' household have started working as domestic household workers (Ali, Ali & Sarkar, 2005). Some of them have ended up in taking a profession of sex workers (Ali, Ali & Sarkar, 2005).

Crystallising above arguments signify following issues; firstly: the constructed truth of neo-liberal discourse involving efficiency argument based on global integration is not driven by any goal of social and/or economic justice; such as rights to work, rights to have an identity as formal work force and thus rights to enjoy their life-world. Similarly, whether the issue of corruption is addressed is questionable. All the arguments to dismantle AJMs have been used only to pursue the goal of bringing it within the control of the market centric global forces (IMF, WB, WTO and MNCs etc.).

3. Conclusion

The aim of this paper is to deconstruct the discourse and its current manifestation: a loss making public sector jute mills AJMs; and (un)making of a (un)viable EPZ as AEPZ. I have drawn attention to its manifestation through exploration the implications of global integration of economies; its institutionally produced illusions; how it forms the viability and validity of its constructed truth. At policy level in local arena still there is gap in realising the produced illusion of the concept of EPZs at the current context of financial crisis. In reality complying with the norms of globalisation for the people marks their disappearance from the broader social, political and economic scenario.

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ONE-WAY CROSS-NETWORK EXTERNALITY AND DETERMINANTS OF PAYMENT CARD USAGE IN CHINA

Abstract

In this paper, we look into the rapid expansion of China's payment card industry in recent years. Firstly, by employing Granger causality test, we find that the network externality across merchants and cardholders in China's payment card market is only one-way, in which merchants are dominant in driving the growth of cardholders. Then, our deterministic regression further shows that GDP of service sectors, size of banking and financial market, household consumption and the concentration of acquirers all have positive impacts on the demand of payment cards. However, GDP per capita and the concentration of issuers have significant negative effects on card usage.

Key words: Payment Card Industry, Cross-network Externalities, Two-sided Market.

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1. Introduction

The increasing importance of personal banking services in China has given rise to the golden period of China's payment card business in recent years. This market is regarded as the most promising revenue source of commercial banks in the future. According to statistics, the average annual growth rate of payment cards and Point of Sales (POS) in China are 46.8% and 21.3% during 1995 and 2005. As showed in Figure 1, both payment cards and POS terminals were increasing quickly during the period from 1995-2005 in China. However, lots of problems arise as a result of immature market environment, ill-formed operation modes and unreasonable industrial policies in China's payment card industry. The well-known "Bank-Merchant Battle" that happened in 2004 is among one of the most typical examples.[1]

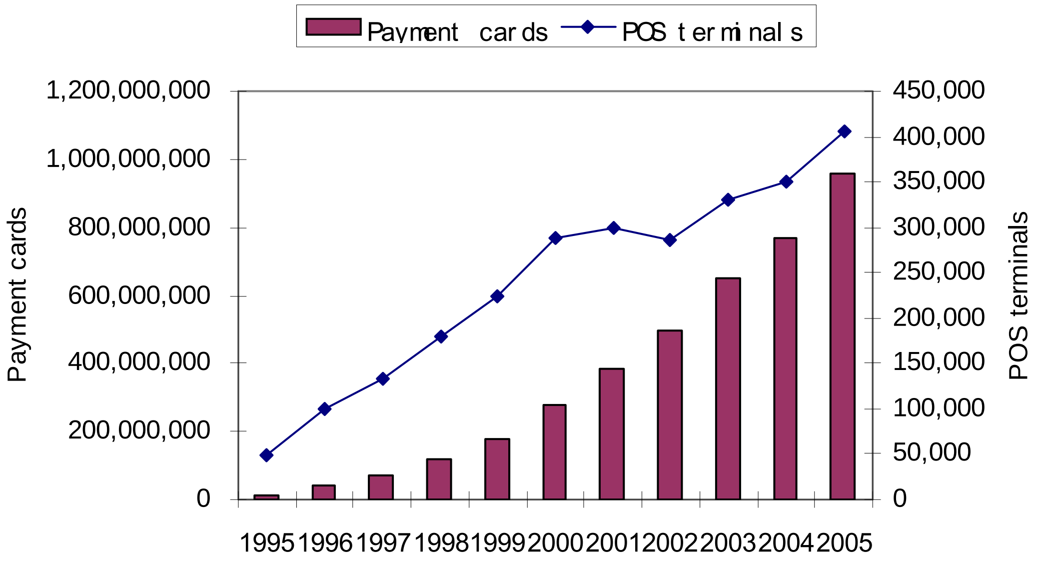

Figure 1. The Number of Payment Cards and POS Terminals in China (1995-2005)

In network economics, payment card markets are typical two-sided markets. According to Rochet and Tirole (2004), in a two-sided market, given the total amount of fees charged from two types of users at each side of the market fixed, the fees structure, in other words, the proportion paid by each side, will eventually affect each party's willingness to participate in the market and the total transaction amounts. Actually, in payment card industry network access providers like CUP, VISA and MasterCard have considerable power to make Interchange Fees (IF), which is key to profits allocation between issuers and acquirers.[2] E.g., when a customer buys something in a shop and chooses to pay by his credit card, the issuing bank then deducts the full price of transaction from the cardholder's account but keeps IF as its profit before transferring the rest of money to the acquiring bank. When the acquiring bank receives the money, it keeps another small proportion, usually less than IF, and then gives back the rest of money to the shop owner. Generally, different merchants have different IF rates according to which types of business they involve in. In order to improve the efficiency of payment card market, we should utilize the leverage of pricing strategies including IF, customer annual fees, merchant discounts, etc.

[1] In many cities of China, some big retail merchants joined up to boycott payment cards as they thought current merchant discounts were too high to afford. It was ended up with the compromise of China Union Pay (CUP) by cutting merchant discounts for some types of merchants. See reference [1] for details.
[2] IF is a kind of fees paid by issuing banks to acquiring banks in card payment. It is set by network access service provider like VISA and MC and aims to compensate issuing banks for their efforts in developing new customers, so it is actually a kind of cross-subsidization between merchants and cardholders.

According to Katz and Shapiro (1985), typical network industries like banking industry and telecommunication industry are characterized by strong network externalities. It means that the utility of customers using the network increase with the number of users using the same network. Network externality emphasizes the size of user group and its effects on demand for this product or service. Much complicated than simple network industries, two-sided markets are economic networks having two distinct user groups that provide each other with network benefits. Examples of two-sided markets include payment card market that is composed of cardholders and merchants, operating system market that consists of end-users and developers, tourism service with travelers and airlines as customers, and so on (Roson, 2005). Each "side" of a two-sided market not only exhibits network externality and enjoys the economies of scale, but also benefits from cross-network externalities. For example, customers prefer to use payment cards (brands) accepted by more merchants, and merchants prefer to accept payment cards (brands) used by more consumers. Therefore, cross-network externality implies that demand for a product or service is not only affected by the number of users in the same group but also depends on the number of users in the other group of the network platform.

Previous literatures have explicitly addressed the issues such as operation mechanism, pricing strategy and anti-trust regulation of payment card industries, so we do not list them here. As to the two-sidedness of payment card industry, Gowrisankaran and Stavins (2004), using ACH panel data of US Federal Reserve Banks, tested the network externality of US banking electronic payment system during 1995-1997. Rysman (2007), by examining the consumption records of VISA cardholders and POS transaction records of merchants during 1998~2001, found that there exists a positive feedback loop between consumer usage and merchant acceptance. Loke (2007), using data from Malaysian banking industry, uncovered that merchants background, their business types and expectations on other merchants had influences on their preferences on acceptance of card payment. Huang (2006), in a similar research on China's payment card industry, investigated the correlation between the number of credit cards users, the number of merchants with POS terminals and the sum amounts of transaction, and recognized the existence of network effect and standardization effect in China's payment card market. However, he failed to estimate the magnitude of network externality. Dong and Di (2007) also investigated the environment of China's credit card markets by surveys. Except for payment card market, Rysman (2004) studied the two-sidedness of yellow pages market and found that network internalization significantly increases the total surplus. Kaiser and Wright (2006) investigated magazines market in Germany during 1972-2003 and eventually identified the strong cross-network externality in this market.

In this paper, using yearly statistics of payment cards and POS terminals in China's 15 commercial banks during 1995-2005, we firstly test the two-sidedness of China's payment card market. Then, we identify the determinants of payment card usage. Lastly, we come up with some policy suggestions for further development of China's payment card industry. The rest of this paper is organized as follows. In chapter 2, we describe the data and variables. In chapter 3, we identify the one-way cross-network externality in China's payment card market. In chapter 4, we investigate the determinants of payment card usage. Chapter 5 are conclusions and policy implications of this paper.

2. Data and Variables

The data we use are collected from China Statistical Yearbook (1995-2006) and Almanac of China's Finance and Banking (1996-2006). The number of POS terminals installed every year are used to measure the number of merchants who are willing to accept card payment. Similarly, the number of payment cards issued in each year is used to measure the quantity of payment card holders.

Table 1 is the description of variables we use for empirical analysis. POSI and CARDI are the total number of POS terminals and payment cards at the industry-level, and posp and cardp are the number of POS terminals and payment cards at bank-level. Table 2 shows the summary statistics of variables in our regression model.

Table 1. Variables Description

Variables	Definition	Data
POSI	Number of merchants accepting card payment	Number of POS terminals in China in 1995-2005
Posp		Number of POS terminals installed by each local bank in 1996~2005
CARDI	Number of payment cardholders	Number of payment card issued in China in 1995-2005
Cardp		Number of payment card issued by each local bank in 1995-2005
GDP3	Indicators of economic development	GDP of China's tertiary industry (service sectors) in 1995~2005
GDPC		GDP per capita of China in 1995~2005
CITYCON	Consumption level	Total consumption of urban residents in China in 1995~2005
FD	Financial Market development	Sum of savings deposits and loans in China in 1995~2005
CHHI	Market structure of Payment card industry	HHI of issuing market (payment card) in 1995-2005
POSHHI		HHI of acquiring market (POS terminals) in 1995-2005

Table 2. Summary Statistics of Variables

	Range	Min	Max	Mean	STD
GDP3(Billion RMB)	5345.44	1997.85	7343.29	4197.46	1739.94
GDPC(RMB)	9057	5046	14103	8557	2819
FD(Billion RMB)	37742.72	10442.62	48185.34	25691.51	12258.70
CITYCON(Billion RMB)	440.53	353.76	794.29	532.39	142.38
CARDI(Thousand)	945296	14114	959409	359741	321176
POSI(unit)	357803	48384	406187	240317	112985

3. One-way Cross-network Externality

According to Roson (2005), Given the existence of cross-network externality in payment card market, the number of payment card users will affect the number of merchants willing to accept card payment, and vice versa. Although we have shown the positive correlation between the quantitative change of payment cards and POS terminals in Figure 1, it is still unclear whether there exists the cross-network externality in China's payment card market.[3] Actually, what we most concern is whether there is a causal relationship between them. In order to identify their underlying relationship, we employ Granger causality test (GC test). Since GC test is only applicable for stationary time series, ADF test should be performed first to assure the time series is stationary. The estimation equation used for ADF test is as follows.

$$\nabla y_t = \gamma y_{t-1} + \beta_1 \nabla y_{t-1} + \beta_2 \nabla y_{t-2} + \dots + \beta_{p-1} \nabla y_{t-p+1} + \varepsilon$$

Where, t is time, p is the number of period lagged. The ADF test results are shown in Table 3. Limited by relatively short periods of time series, we choose $p=1$. Time series variables CARDI and POSI both pass ADF test, which implies that they are linear stationary series and are applicable for GC test.

Table 3. Results of ADF Test

H0: CARDI has one unit root				H0: POSI has one unit root			
Lag period: 0		t-statistics	p-value	Lag period: 0		t-statistics	P-value
ADF test		-7.27123	0.0002	ADF test		-6.270817	0.0007
	1% level	-4.297073			1% level	-4.297073	
S.L	5% level	-3.212696		S.L	5% level	-3.212696	
	10% level	-2.747676			10% level	-2.747676	

Note: S.L refers to Significance Level.

Equation of GC test for variable CARDI and POSI is as follows.

$$CARDI = \beta_0 + \beta_1 CARDI_{t-1} + \dots + \beta_k CARDI_{t-k} + \alpha_1 POSI_{t-1} + \alpha_2 POSI_{t-2} + \dots + \alpha_k POSI_{t-k}$$
$$POSI = \beta_0 + \beta_1 POSI_{t-1} + \dots + \beta_k POSI_{t-k} + \alpha_1 CARDI_{t-1} + \alpha_2 CARDI_{t-2} + \dots + \alpha_k CARDI_{t-k}$$

Where, $t = 1, 2, 3, \dots\dots, 11$, and k=1. Table 4 shows the results of GC test. We can see that, at 90% significance level, POSI has significant positive affect on CARDI, which implies that the increase of total payment cards is subject to the increase of total merchants who accept card payment. Then, we turn to look at POSI's impacts on CARDI. Since p-value is only 0.15837, we would rather accept the Null hypothesis: CARDI has no effect on POSI. Based on the results of GC test, it can be inferred that causality does exist between two variables, which is, the number of merchants who accept card payment affects the number of payment cards to be used in the market. Therefore, this result indicates that the cross-network externality in China's payment card market one-way.

[3] It is possible that this is a spurious correlation relationship commonly driven by some underlying factors.

Table 4. Results of Granger Causality Test

Sample period: 1995—2005		Lag period: 1	
H0:	Sample size	F-statistics	p-value
CARDI does not cause change of POSI	10	2.49288	0.15837
POSI does not cause change of CARDI		4.06287	0.08366

We further estimate the coefficient of the one-way cross-network externality using Fixed Effect model. Since we accept the hypothesis that $posp$ has significant positive effect on $cardp$ at 10% significance level, the regression specification is like this.

$$cardp_{it} = \text{C} + \beta\, posp_{it} + \varepsilon$$

Where, $i = 1,2,3,......,15$ denotes bank, $t = 1,2,3,......,10$ denote year. Table 5 shows the estimation results. The adjusted R-square of the regression is 0.992, which indicates that the model is well fitted. The estimate of β is the elasticity of the one-way cross-network externality. It can be seen that that 1% increase of POS terminals will contribute 0.876% increase of the payment cards used in the market.

Table 5. Panel Data Fixed Effect Regression

Variables	Estimates	S.E	T-statistics	R-square
C	8.4228	0.4344	19.3862	
Posp	0.8767	0.0510	17.1735	0.992

4. Determinants of Payment Cards Usage

Lots of factors can affect the usage of payment cards according to the literature. Firstly, payment cards have broader application in developed countries, so the usage of it should be closely related to economic status of a country or region. Therefore, we use GDP per capita and GDP of service sectors to measure the economic status of China. Secondly, higher consumption of households should drive higher demand of payment cards usage. So, we use annual consumption of urban household in China to measure consumption level. Thirdly, we employ the total saving deposits and loans in China to measure the market size of banking and financial industry in China, which also impacts the demand of payment cards. Besides, we use Herfindahl-Hirschman Index (HHI) to measure the intensity of competition because competition status should play some roles in affecting the demand and usage of payment cards as well. We distinguish HHI index of issuers and acquirers separately. The OLS regression model is as follows.

$$CARDI_t = c + \alpha_1 POSI_t + \alpha_2 CHHI_t + \alpha_3 CITYCON_t + \alpha_4 FD_t + \alpha_5 GDP3_t + \alpha_6 GDPC_t + \alpha_7 POSHHI_t + \varepsilon$$

Where, the dependent variable $CARDI_t$ is the quantity of payment cards issued by all the banks in year t, and the independent variables $POSI_t$, $CHHI_t$, $POSHHI_t$, $CITYCON_t$, FD_t, $GDPC_t$, $GDP3_t$ are the quantity of POS terminals, HHI of issuers, HHI of acquirers, sum of household consumption, total saving deposits and loans, GDP per capita and GDP of service sectors respectively. We deflate $GDPC_t$, $GDP3_t$ and FD_t by CPI of year t. All variables are taken logarithm to avoid possible non-stationarity and heteroscedasticity. The OLS regression results are shown in Table 6.

Table 6. Results of Deterministic Regression of Payment Card Usage

Variable	Coeff. Est	S.E	t-statistics	p-value
CHHI	-3.691144	0.142312	-25.93703	0.0015
CITYCON	1.868503	0.038321	48.75964	0.0004
FD	0.650419	0.022999	28.28043	0.0012
GDP3	1.8652	0.06539	28.5243	0.0012
GDPC	-3.142325	0.052006	-60.42219	0.0003
POSI	0.85605	0.01141	75.02687	0.0002
POSHHI	2.592527	0.080833	32.07282	0.001
C	-6.241226	0.182968	-34.11109	0.0009
R^2	0.97	Mean of Dependent variable		19.38727
Adjusted R^2	0.97	S.D of Dependent Variable		1.058258
SSR	0.001528	AIC		-10.1394
SSE	4.67E-06	SC		-9.89731
LLR	58.69689	F-statistics		616848.6

Let us first look at the impacts of economic status on the number of payment cards. Comparing to GDP per capita which has negative impacts on payment cards usage, GDP of service sectors is statistically positive in explaining the usage of payment cards. This result is easy to be understood because payment card business, which aims to serve individuals and retail firms, should be closely linked to service sectors of a country. However, we find that GDP per capital, which mostly consists of industrial output in China, have significant negative effect on card usage. The reason is that GDP is composed of too many components and mostly of them do not reflect the real need of payment cards usage. As to the total household consumption and the size of banking and financial markets, their effects on the payment cards usage are positive and significant, which is exactly in line with our expectation. When we look at the coefficient estimate of CHHI, we find it is negative and significant, which implies that the more intensive (smaller HHI) competition in issuing market, the faster rise of payment cards usage. Contrast to CHHI, the coefficient estimate of POSHHI is positive and significant, which tells us that less competition between acquirers is favorable for the increase of payment cards usage. This finding is also reasonable because acquiring services enjoy the economies of scale, so monopolistic structure is more advantageous in reducing the costs of POS installation and usage. Besides, high concentration of acquiring market is also favorable for the enhancement of acquirers' bargaining power in competing for a lower Interchange Fees. Actually, due to the existence of the one-way cross-network externality in China's payment card market, the increase of merchants accepting card payment will ultimately pass on to the cardholders, thus lead to increasing usage of payment cards.

5. Conclusions and Policy Implication

In this paper, we find the existence of one-way cross-network externality in China's payment card market. We also explore the determinants of payment card usage in China. There are two main conclusions of this paper. Firstly, growth of merchants group ultimately dominates the performance of China's payment card market. It means that comparing to the booming of issuing market acquiring market has been the "bottleneck" of the whole industry. The inadequate POS terminals in China limit the usage of payment cards. Actually, the current IF structure depresses the incentives of acquirers and merchants in involving in card payment. Secondly, we find GDP of service sectors, the size of banking and financial market, household consumption and the concentration of acquirers have significant and positive impacts on payment cards usage, while GDP per capita and the concentration of issuers have significant negative effects on card usage.

The conclusions of this paper have following policy implications. First of all, it is urgent that the acceptance environment of payment cards in China should be further improved. Except that more efforts should be put to encourage merchants to use POS terminals, IF structure should also be optimized so that merchants can benefit more from accepting card payment and thus they have enough incentive to do so. Actually, issuers should try to make more money from cardholders instead of merchants, say, charging moderate annual fees for cardholders, or saving issuing costs, etc. In addition, one or more network access service providers should be established in order that the IF structure is efficient enough through competition. Finally, considering the economies of scale in acquiring market, government should also encourage mergers and acquisitions between current acquirers. By doing so, merchants will enjoy lower costs of accepting card payment. Besides, it is also essential for issuers to avoid price wars and try to increase value-added through brand effect and professional services.

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ACCELERATED DYNAMICS OF CREDIT IN SELECTIVE COUNTRIES FROM CENTRAL, EASTERN AND SOUTH-EASTERN EU MEMBER STATES AND IMPLICATIONS OF THE CURRENT FINANCIAL CRISIS

Abstract

The aim of the paper is to highlight the accelerated dynamics of credit activity conducted by credit institutions in some countries of Central, Eastern and Southeastern EU member States. In the paper, we propose relief to the common features and also the differences that arise between countries, in terms of level and especially the structure of credit activity. The significant transformations of the credit activity in the countries under study are highlighted through the use of statistical data, which allow us to illustrate the progresses and implications of occurred risks in terms of macroeconomic stability and in particular financial stability. The current international financial crisis has determined the decrease of the rate of growth of credits and even halting lending in some countries, which entailed significant intensification of the concerns of national and international authorities in adopting urgent measures in order to restore the stability of the economies and to resume the credit activity. In devising measures to restore normal functioning of the financial system, monetary authorities have taken account of the particularities of the financial system in every country. In the countries analyzed in the paper, financing the real economy is dominated by banks so that the measures taken by central banks focused on the banking sector and have sought to ensure its normal operation and support bank lending to economic agents and households. However, in determining the actions to be taken in order to restore the health of the financial system, central banks have taken into account the expectations on inflation rate, but in the same time, they remain firmly anchored to the objective of monetary policy to ensure price stability. Such behavior of central banks show that price stability is necessary even during periods of financial instability.

Keywords: Credit institutions, Lending structure, Loans granted households.

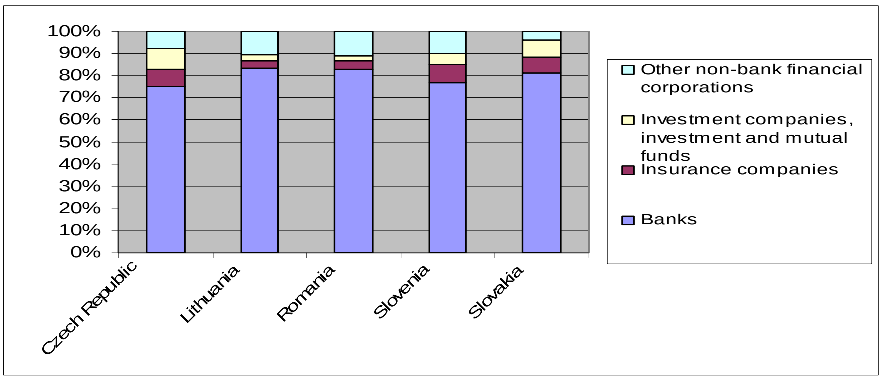
1. Introduction

As a consequence of the restructuring and privatization process, the alignment of banking legislation to European legislation requirements, diversification of products and services portfolio offered by the banks, the banking sector of the Central, Eastern and South-Eastern European countries registered in the last decade a significant consolidation and represents nowadays the most important component of the financial system.

The dominant position of the banking sector within the financial system of the Central, Eastern and South-Eastern European countries is illustrated by the banking assets that hold, on an average, 70% of the total assets of the financial system. As a matter of fact, the financial system of all the European Union member states is centered on banking financial intermediaries. In this respect, it is estimated that the stability and the efficiency of banking sector is an essential precondition for sustainable economic development of the states and, at the same time, for providing a good running of the nominal and real convergence process. Likewise, a solid and competitive banking sector allows the efficient transmission of monetary policy signs towards the real economy and, thus, contributing to achieve the basic objective of the central banks of the surveyed countries and namely, the provision and maintenance of price stability.

The financial system structure in the case of the considered countries can be followed based on figure 1. The data illustrated in figure 1 shows, on one hand, the dominant position of the banking sector within the financial system and, on the other hand, the fact that although the non-banking financial institutions hold a reduced share of the total assets of the financial system, in recent years they recorded a fast increase (mainly, the insurance companies, the investment funds and leasing companies). Such an evolution is due to the macroeconomic stabilization, structural changes within the non-banking sector, as well as to the measures taken by monetary authorities, mainly in Romania and Bulgaria in order to limit the increase of bank credits that engaged the increase of the credits given by non-banking financial institutions, especially by the leasing companies.

Figure 1: The structure of financial system in selective countries from Central, Eastern and South-Eastern Europe in 2008 (in % of total assets of financial systems)



Source: Restructured data after national central banks.

Our paper is structured as following: the second section highlights the changes produced in the banking sector from some countries of Central, Eastern, and Southeastern Europe, emphasized through the EBRD indicator, the presence of foreign banks, and the process of banking consolidation. The third section analyses the transformations registered in the credit activity of the credit institutions through the dynamics and the structure of the loans granted to nonfinancial corporations and to households. Also, in this section, we intend to highlight the factors that have determined the accelerated dynamics of credit, especially the one granted to households, but also the implications in terms of macroeconomic stability. The study ends with conclusions.

2. The Reform of the Banking Sector and Structural Changes in the Countries of Central, Eastern and South-Eastern Europe

Transformations in the banking systems of the countries of Central, Eastern and South-Eastern Europe taken in the analysis may be evidenced by a synthetic indicator calculated by the European Bank for Reconstruction and Development (EBRD), the assessment of banking reform and liberalization of interest rates. This indicator measures the degree of reform of the banking sector by liberalizing interest rates and the allocation of credit, the lending to the private sector, private ownership of the banking sector, the level of competition between banks, banks' solvency, the implementation of a regulatory framework and prudential supervision. The indicator values are between 1 and 4+ and have the following meaning: the value of 1 signifies reduced progress in the reform process, and the 4+ reflects a full convergence with international standards and performance of advanced industrial economies, a full convergence of banking laws and regulations with BIS standards, and a full range of banking services (EBRD, 2006).The reform of the banking systems of the countries taken in the analysis, revealed the EBRD indicator, may be pursued based on data in Table 1.

Table 1: Assessment reform the banking system based on the EBRD index,
in some countries of Central, Eastern and South-Eastern Europe in the period 1990–2008

Country	**1990**	**1995**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Bulgaria	1.0	2.0	3.0	3.0	3.3	3.3	3.67	3.67	3.67	3.67	3.67
Czech Republic	1.0	3.0	3.3	3.67	3.67	3.67	3.67	4.0	4.0	4.0	NA
Estonia	1.0	3.0	3.7	3.7	3.7	3.7	4.0	4.0	4.0	4.0	4.0
Hungary	1.0	3.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Latvia	1.0	3.0	3.0	3.3	3.7	3.7	3.7	3.7	3.7	4.0	4.0
Lithuania	1.0	3.0	3.0	3.0	3.0	3.3	3.3	3.7	3.7	3.7	3.7
Poland	2.0	3.0	3.3	3.3	3.3	3.3	3.3	3.67	3.67	3.67	3.67
Romania	1.0	3.0	2.67	2.67	2.67	2.67	3.0	3.0	3.0	3.3	3.3
Slovenia	1.0	3.0	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Slovak Republic	1.0	2.7	3.0	3.3	3.3	3.3	3.7	3.7	3.7	3.7	3.7

Source: EBRD, 2008.

The transition indicator's values, computed by EBRD, highlight, on one hand the fact that all analyzed countries have registered significant progresses in the banking sector reform, and, on the other hand, for all countries (except Hungary, Estonia, and Latvia, where the transition indicator has the maximum value of 4+) there are still improvement possibilities. The lower score obtained by Slovenia and Romania (3,3% for the year 2008 by comparison with 3,67% in the case of Bulgaria and Poland) is due to the slowly rhythm of the reform process.

A fundamental characteristic of reform in the analyzed countries is privatization, which was completed in a large number of countries and which has deeply affected the structure of bank ownership (see the data in table 2). This led to a significant decrease of shares owned by banks with state-owned majority capital in favor of the banks with private majority capital, that is foreign capital, especially in Romania – from 14.1% to 2.1%). By comparison, in Slovenia and in Poland, banks with state-owned majority capital hold for the moment the biggest part of the market. Bank privatization sectors was considered the most important way through which foreign banks could step into the bank markets of Central, Eastern and South-Eastern European countries. In this context, it is to be mentioned the most important privatization made until now in Central and Eastern Europe, that is the selling of the Commercial Bank of Romania at the end of 2005 to Erste Bank AG, which has determined in Romania the significant increase of the percentage of assets held by the banks with foreign majority capital out of the total assets of the banks, from 59.2% at the end of 2005 to 87.3 % at the end of 2007.

Table 2: Asset shares of state-owned banks and foreign-owned banks[1],
in some countries in Central, Eastern and South-Eastern Europe in the period 2002 – 2007

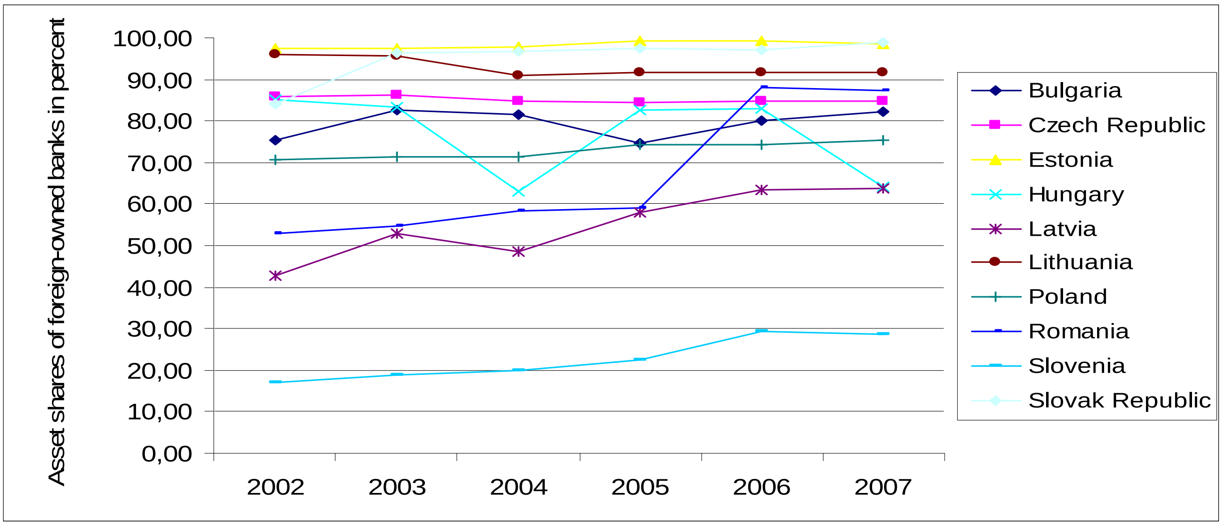
Country	**2002**		**2003**		**2004**		**2005**		**2006**		**2007**	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Bulgaria	14.1	75.2	2.5	82.7	2.3	81.6	1.7	74.5	1.8	80.1	2.1	82.3
Czech Republic	4.6	85.8	3.0	86.3	2.9	84.9	2.5	84.4	2.2	84.7	2.4	84.8
Estonia	0.0	97.5	0.0	97.5	0.0	98.0	0.0	99.4	0.0	99.1	0.0	98.7
Hungary	10.7	85.0	7.4	83.5	6.6	63.0	7.0	82.6	7.4	82.9	3.7	64.2
Latvia	4.0	42.8	4.1	53.0	4.0	48.6	4.3	57.9	4.4	63.3	4.2	63.8
Lithuania	0.0	96.1	0.0	95.6	0.0	90.8	0.0	91.7	0.0	91.8	0.0	91.7
Poland	26.6	70.7	25.8	71.5	21.7	71.3	21.5	74.3	21.1	74.2	19.5	75.5
Romania	43.6	52.9	40.6	54.8	7.5	58.5	6.5	59.2	5.9	87.9	5.7	87.3
Slovenia	13.3	16.9	12.8	18.9	12.6	20.1	12.0	22.6	12.5	29.3	14.4	28.8
Slovak Republic	1.9	84.1	1.5	96.3	1.3	96.7	1.1	97.3	1.1	97.0	1.0	99.0

(1)- Asset shares of state-owned banks in per cent
(2)- Asset shares of foreign-owned banks in per cent
Source: EBRD, 2008.

[1] *Asset share of state-owned banks (in per cent).* Share of majority state-owned banks' assets in total bank sector assets. The state includes the federal, regional and municipal levels, as well as the state property fund and the state pension fund. State-owned banks are defined as banks with state ownership exceeding 50 per cent, end-of-year. *Asset share of foreign-owned banks (in per cent)* - share of total bank sector assets in banks with foreign ownership exceeding 50 per cent, end-of-year.

In 2007, the foreign banks prevail mostly in the Slovak Republic, Estonia, Lithuania, Romania, the Czech Republic and Bulgaria (see data in table 2 and figure 2). In these countries, foreign banks are the leading actors on the domestic bank markets, hence their behavior influences greatly the bank crediting operations and generally the level of financial mediation. In comparison to the mentioned countries, the percentage of the foreign capital is much lower especially in the Slovak Republic (only of 28.8% at the end of 2007), where, on the one hand, banks with state-owned majority capital have for hold a significant percentage of the market (14.4% at the end of 2007), and on the other hand, the private capital which is mostly domestic.

Figure 2: Asset shares of foreign-owned banks[2]
in selective countries from Central, Eastern and South-Eastern in the period 2002 – 2007



Source: EBRD, 2008.

Banking sector in the countries of Central and Eastern Europe is dominated by banks from Western Europe, especially the Austrian banks (Erste, Raiffeissen), French (Société Générale), Italian (UniCredit, Intesa), German (Commerzbank, BayernLB) and Dutch (ING), which is shown in table 3. In the Baltics, the banking sector is dominated by five large Scandinavian banking groups (Swedbank Group, SEB Group, Nordea Group, DnB NOR Bank ASA Group, Danske Bank Group) which reached in 2008 more than 84% of the total credit market and earned over 92% of the profit of the entire banking system in Lithuania (Bank of Lithuania, Financial Stability Report, 2009).

[2] *Asset share of foreign-owned banks (in per cent)* Share of total bank sector assets in banks with foreign ownership exceeding 50 per cent, end-of-year.

Table 3: Involvement of Western Banks
in the Countries of Central, Eastern and South-Eastern Europe in 2008

Country	**Main foreign banks**
Bulgaria	UniCredit, OTP, Raiffeisen
Czech Republic	KBC, Erste, Société Générale
Estonia	Swedbank, SEB, Nordea
Hungary	KBC, BayernLB, Intesa
Latvia	Swedbank, SEB, DnB NOR Bank ASA group
Lithuania	SEB, Swedbank, DnB Nord
Poland	UniCredit ING Commerzbank
Romania	Erste Société Générale Raiffeisen
Slovenia	Société Générale Intesa UniCredit
Slovak Republic	Erste Intesa Raiffeisen

Source: Centre for Eastern Studies, 2009.

In specialized literature (Hryckiewicz, 2008) tackling the banks with international operations, there are several factors which are very important for the selection of the location, such as: the potential of bank market from the host country, the legislation of the country of origin, economic growth rates of the origin and host country and the headquarters of the foreign bank. In the case of the Central, Eastern and South-Eastern Europe countries which were taken into account for our study project, foreign banks were interested to extend their operations especially because of the high economic growth of bank markets in those countries , the low financial mediation and the high level of interest rate.

From the point of view of the host country, this is interested in attracting the interest of foreign banks as they may contribute to the enhancement of stability, reliability and competitiveness of the banking sector, to the significant improvement of the banking practices further to the numerous advantages created, such as: better bank-risk management, bank product quality, range and price improvement, the enhancement of the efficiency of the banking operations further to the know-how added, technology and liquidities included, the facilitation of the access to foreign financing for the companies and the individuals of the host country.

Furthermore, foreign banks may contribute to the enhancement of the private sector crediting in the host country, on the one hand, because they are not restricted by the conditions on the domestic market, and on the other hand because of the easy access to financing on the international financial markets, based on the reputation of the mother bank (Burcu, 2008).

Besides these advantages, the presence of the foreign banks also presents certain limitations, the most important being the exposure of the host country to a high contagion risk. This is because the financial difficulties of the mother bank that take place when the origin country is in recession may affect their branches abroad. On the other hand, significant macroeconomic unbalances in the host country may determine the withdrawal of the foreign bank capitals or the renunciation of the mother banks to the financial support of their branches, with serious consequences, particularly in the financial stability of that country.

Another mutation that occurs in the structure of the bank sectors in all Central, Eastern and South-Eastern European countries is the intensification of bank reinforcement, seen in the increase of the number of banks (see the data in table 4). If in the case of some countries, mostly the Czech Republic, Bulgaria and Hungary, we see a significant diminishing of the number of banks, in the case of other countries such as Estonia, Latvia, Lithuania, and Romania we witness a divergent tendency, the number of banks increasing.

Against the background of banking reinforcement, it is worth noting that the decrease of the number of credit institutions was the result of numerous mergers and purchases and less the effect of bank going bankrupt.

Table 4: The evolution of number of credit institutions in different countries in the period 2003 - march 2009

Country	**Number of credit institutions**						
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009 Q1**
Bulgaria	35	35	34	32	29	30	30
Czech Republic	77	70	56	57	56	54	54
Estonia	7	9	11	14	15	17	17
Hungary	222	217	214	212	206	204	198
Latvia	23	23	25	18	31	34	33
Lithuania	71	74	77	77	80	84	84
Poland	660	744	730	723	718	712	713
Romania	39	40	40	39	42	45	44
Slovenia	33	24	25	25	27	25	26
Slovak Republic	22	21	23	24	26	26	26
MU	6623	6427	6271	6157	6128	6570	6550
EU	9054	8908	8689	8514	8348	8525	8465

Note: PL data for the number of credit institutions include credit unions since 2004, whereas previously it included only commercial and cooperative banks.
Source: ECB, 2008 and Bank of Slovenia.

The transformation of the structure of the bank system in the studied countries may be shown in the significant extension of the bank unit network (although in most countries the number of bank decreased), which shows that banks want to conquer as many market segments as possible and to provide quality products and services in order to attract customers and to make them loyal.

Table 5: The evolution of number of local units (branches)/credit institution in different countries in the period 2003 – 2007

Country	Number of local units (branches)					Number of local units (branches)/credit institution				
	2003	2004	2005	2006	2007	2003	2004	2005	2006	2007
BG	NA	5606	5629	5569	5827	NA	160	165	174	200
CZ	1670	1785	1825	1877	1862	21	25	32	32	33
EE	197	203	230	245	266	28	22	20	17	17
HU	3003	2987	3125	3243	3387	13	13	14	15	16
LV	581	583	586	610	682	25	25	23	21	22
LT	723	758	822	892	970	10	10	10	11	12
PL	8688	8301	10074	10943	11607	13	11	13	15	16
RO	3387	3031	3533	4470	6340	86	75	88	114	150
SI	725	706	693	696	711	21	29	27	27	26
SK	1057	1113	1142	1175	1169	48	53	49	48	44
MU13	168730	168476	169644	181499	183981	25	26	27	29	30
EU27	206956	211442	214925	228601	233581	22	23	24	26	27

Source: data processed based on ECB, 2008.

The number of local units or branches per bank increased significantly (see the data in table 5), especially in Romania from 86 local units in 2003 to 150 in 2007, the level being 5 times higher in comparison to the EURO area. Furthermore, in Romania the highest rise of the number of local units was recorded, by 41.8% in 2007 in comparison to 2006. These evolutions were recorded against the background of the significant extension of the banking mediation and of the banking retailing operations. Nevertheless, when we consider the bank density expressed by the number of crediting institutions to 100 000 inhabitants, the level we have in Romania, kept relatively constant, is under the level of the other states and mostly under the level of MUI3 and EU27 (see the data in table 6).

Table 6: The evolution of the ratio bank density in different countries in the period 2003-2007

Country	2003	2004	2005	2006	2007
Bulgaria	0.45	0.45	0.44	0.42	0.38
Czech Republic	0.76	0.69	0.55	0.56	0.54
Estonia	0.52	0.67	0.82	1.04	1.12
Hungary	2.19	2.15	2.12	2.11	2.05
Latvia	0.99	0.99	1.09	1.22	1.36
Lithuania	2.06	2.15	2.29	2.29	2.37
Poland	1.73	1.95	1.91	1.90	1.88
Romania	0.18	0.19	0.19	0.18	0.20
Slovenia	1.65	1.20	1.25	1.24	1.33
Slovak Republic	0.41	0.39	0.43	0.45	0.48
MU13	2.12	2.05	1.99	1.94	1.92
EU27	1.86	1.82	1.77	1.72	1.68

Source: data processed based on ECB, 2008.

The enhancement of bank reinforcement in the Central, Eastern and Southeastern European countries also has effects on the bank market concentration, measured by the ratios Herfindahl – Hirschmann and the market share of the first 5 crediting institutions (see the data in table 7). In the case of all the studied countries, we can see a tendency of decreasing the bank market concentration that, next to the increase of the number of banks with foreign-owned majority capital may be perceived as signs of enhancement of bank competitiveness. Furthermore, it is worth mentioning the situation in Poland where the concentration degree is much lower (in the case of both indices) in comparison to other countries, which means a higher competitiveness on the banking market. In all countries (except for Poland) including in EU27 and the Monetary Union, the first 5 credit institutions hold more than 50% of all banking assets.

A particular case appears in the banking system of Estonia, which records the highest concentration index (see table 7). In this direction, it is worth mentioning that two subsidiaries of the Swedish banks - Swedbank and Skandinaviska Enskilda Banken (SEB) - hold 68% of the banking sector assets (IMF, Country Report, Republic of Estonia, 2009).

Table 7: The evolution of the concentration index of banking market in different countries in the period 2003 – 2007

Country	**Herfindahl* Index**					**Weight of the 5 leading credit institutions in the total assets**				
	2003	2004	2005	2006	2007	2003	2004	2005	2006	2007
Bulgaria	NA	721	698	707	833	NA	52.3	50.8	50.3	56.7
Czech Republic	11187	1103	1155	1104	1100	65.8	64.0	65.5	64.1	65.7
Estonia	3943	3887	4039	3593	3410	99.2	98.6	98.1	97.1	95.7
Hungary	783	798	795	823	839	52.1	52.7	53.2	53.5	54.1
Latvia	1054	1021	1176	1271	1158	63.1	62.4	67.3	69.2	67.2
Lithuania	2071	1854	1838	1913	1827	81.0	78.9	80.6	82.5	80.9
Polonia	754	692	650	599	640	52.0	50.0	48.5	46.1	46.6
România	1251	1111	1115	1165	1041	55.2	59.5	59.4	60.1	56.3
Slovenia	1496	1425	1369	1300	1282	66.4	64.6	63.0	62.0	59.5
Slovak Republic	1191	1154	1076	1131	1082	67.5	66.5	67.7	66.9	68.2
MU13 unweighted avg.	579 983	599 997	642 1029	630 996	654 1006	40.5 54.2	41.6 54.2	42.6 54.9	42.8 54.4	44.1 54.7
EU 27 unweighted avg.	545 1145	567 1114	600 1135	588 1104	628 1102	39.7 58.8	40.9 58.5	42.1 59.3	42.1 58.9	44.4 59.4

* calculated as the sum of the square of the market shares for all credit institutions in a Member State

Source: ECB, 2008.

3. The Banking Intermediation, the Lending Structure and their Implications

A significant sign of progress recorded by the banking sectors of Central, Eastern and South-Eastern European countries is represented by the increase of financial intermediation degree expressed both in the light of banking assets share of GDP and in the light of banking credits share of GDP (see the data of figure 3). Such an evolution reflects the significant orientation of credit institutions to the real economy and their return to the financial intermediation function.

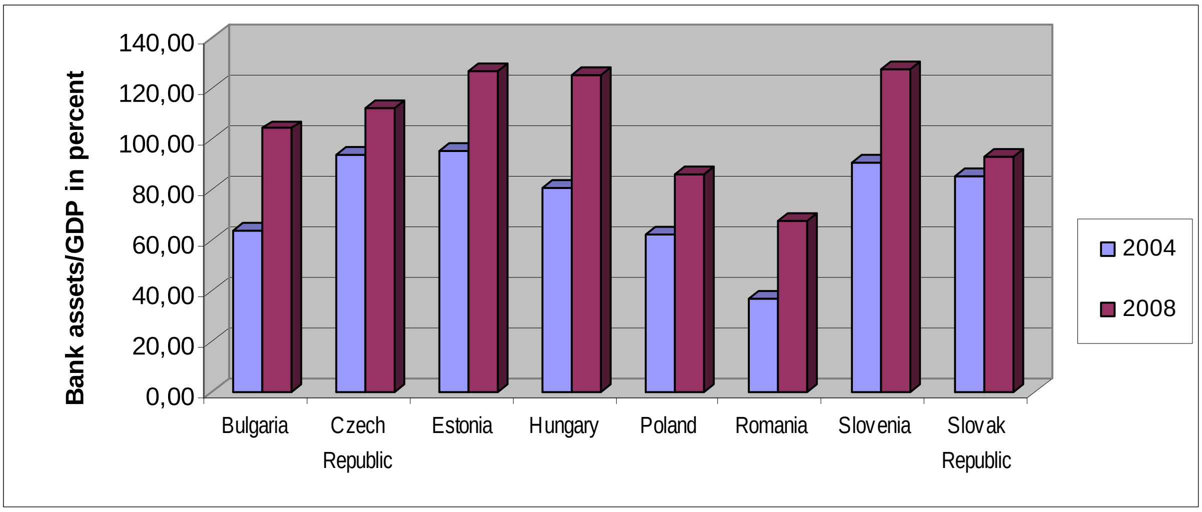
The significant remaking of the financial intermediation process, mainly in Bulgaria and Romania (see the data of figure 3) was determined by the changes occurred at the offer level and at banking credits demand.

The increase of banking credits offer was determined by the decrease of crediting risk of the real economy based on the improvement of macroeconomic conditions (the decrease of inflation rate, of interest rate, national currency appreciation), the existence of a liquidity excess in the banking sector and also by the competition increase on the banking market following foreign capital entries). Likewise, the increase of banking credits offer was sustained by the creation of credit offices, by improving the credit guarantee regulations, by improving the banking legislation, of audit and accounting practices.

Regarding the credit demand, it increased as a consequence of improving the macroeconomic conditions (decrease of inflation rate, of interest rates, economic growth acceleration), the initial lowered indebting degree of population and increasing of its income (Sirtaine, 2007).

Based on the data shown in figure 3, we may find out that of the surveyed countries, Slovenia, Estonia and Hungary have the highest degree of financial intermediation, and, at the opposite side, there is Romania that, although recorded remarkable progresses on the financial intermediation level, is under the level of the other countries and well below euro zone average. At the end of 2008, the financial intermediation degree measured by the share of banking assets of GDP was of 262.3% of euro zone (Raiffeisen Research, 2009). Such a situation shows that the Romanian banking market features a great growth potential. The significant difference between the financial intermediation degree in Romania and EU25, for example, is considered as normal if we take into account the GDP per capita that is much below the average of EU 25. In this respect, it is worth mentioning that, in Romania, at the end of 2008, the GDP per capita expressed at the purchasing power parity was at only 43.5% of EU25 average (National Bank of Romania, 2008b).

Figure 3: Evolution of financial intermediation
(bank assets/GDP in %) in different countries in the period 2004-2008



Source: Raiffeisen Research, 2009; national central banks.

The loans granted to the economy by the credit institutions (to the non-financial corporations and to the households) have recorded an accelerated rise, especially in the Baltic countries, followed by Romania and Bulgaria (see the values in table 8), evolution justified by the initial very low levels of financial intermediation and by its convergence process towards the levels of EU developed countries.

The fast increase of banking credits in the Central, Eastern and South-Eastern European countries was financed by the significant entries of foreign capital in the banking sectors, stimulated by the high differential of positive interest and by the anticipation of a real appreciation on the long run of the currencies of the respective countries (Isărescu, 2008).

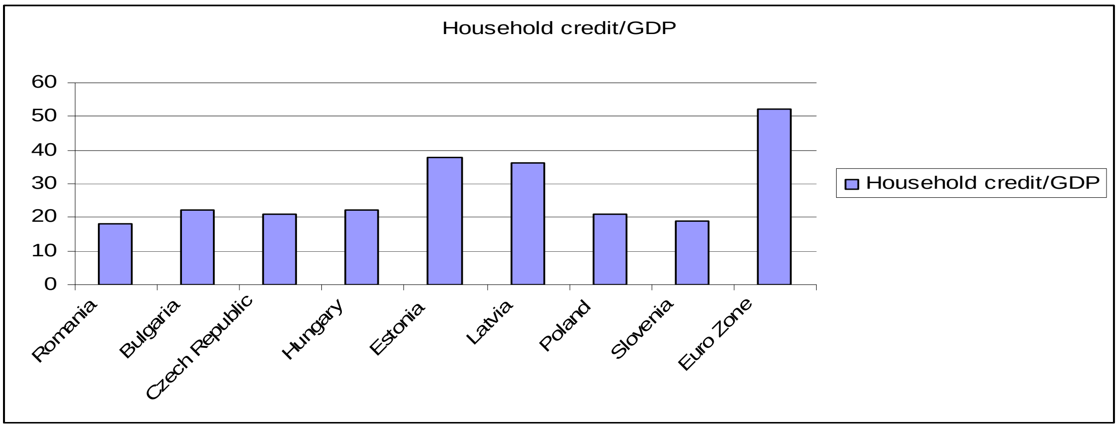
Table 8: Evolution of loans granted to the economy of credit institutions
in the period 2005 – 2008 (growth in % year on year in domestic currency terms)

Country	**Growth in loans granted to non-financial corporations**				**Growth in loans granted to households[1]**			
	2005	**2006**	**2007**	**2008**	**2005**	**2006**	**2007**	**2008**
Bulgaria	22.34	19.40	72.43	32.32	58.39	30.55	52.35	31.30
Czech Republic	14.33	20.08	17.09	14.08	32.27	29.28	34.40	21.15
Estonia	62.02	59.18	30.96	5.94	70.0	63.15	33.96	10.85
Hungary	11.4	12.68	14	4.5	31.07	31.29	31	20.97
Latvia	47.46	52.47	36.30	16.87	84.19	75.52	39.17	6.91
Lithuania	42.95	41.26	36.74	15.79	90.50	65.99	58.07	20.58
Poland[2]	2.72	14.19	23.37	28.80	21.92	33.02	37.72	44.30
Romania	32.30	43.22	46.81	29.68	79.98	83.76	82.09	38.74
Slovenia	22.5	24.8	35.9	18.30	28	24.1	27.1	14.80
Slovak Republic	22.0	21.5	24.1	13.1	42.1	32.5	28.5	25.5

[1] including non-profit institutions serving households
[2] loans granted of monetary financial institutions
Sources: national central banks.

Analyzing the dynamics of the banking credits depending on the beneficiaries (non-financial corporations and households) it is found out a faster increase of the credits given to households in all the surveyed countries, except Bulgaria where the increase of credits given to the corporate sector surpassed, at the 2007 level, the credits given to households (see the data of table 8).The significant expansion of credits given to households points out the large increase of credit demand for houses, consumer credits but also the strategies of the credit institutions acquiring new market quotas by attractiveness and diversity of credit offers. Such an evolution was determined by interest rate reduction, the increase of population incomes, need of improving the endowment degree of the houses and consumer durables, as well as significant orientation of the credit institutions to crediting the households and competition increase between banks on the retail segment. The share of loans granted to households in relation to GDP, for some countries, can be observed in the figure 4. From the analyzed countries, Romania holds the last place, which reflects the existence of a growth potential for the household credit.

Figure 4: Household credit in selective countries from Central, Eastern and South-Eastern Europe in 2007 (as % of GDP)



Source: National Bank of Romania, 2008(c).

The dynamics of banking credits given to households are significantly sustained by the house credits that, in some countries, especially in Romania, Bulgaria and Poland, at the 2007 level, recorded a more important increase compared to consumer credits (see the data of table 9). In these countries, the housing loans have become the most important banking products from the retail segment.

Table 9: Evolution of the loans granted to households by the credit institutions in the period 2006 – 2008 (in % year on year)

Country	Growth in loans for housing purchase			Growth in loans for consumer credit			Other loans to households		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
Bulgaria	74.06	64.25	38.05	50.03	49	29.85	31.08	26.83	5.86
Czech Republic	40.07	42.06	20.14	37.71	30.22	22.85	30.20	33.64	25.53
Estonia	63.26	31.59	10.37	89.29	48.11	7.13	33.68	39.37	21.46
Hungary	18.82	15.68	24.58	61.23	39.82	40.73	17.37	1.38	12.04
Latvia	86.17	44.39	7.31	63.53	21.48	1.1	33.47	25.08	-0.47
Lithuania	60.19	61.86	24.87	68.25	43	19.37	113	58.07	5.98
Poland	55.57	59.88	64.88	24.15	35.98	17.95	14.87	41.35	35.76
Romania	184	81	47.25	85.70	65.36	33.74	70.13	200	109
Slovenia	42.98	36.50	27.25	7.07	19.94	5.14	19.75	23.73	10.02
Slovak Republic	45.27	33.33	26.1	27.54	18.71	23.91	83.64	33.13	22.30
MU 13	12.51	6.93	1.62	7.49	4.93	2.29	2.89	1.87	2.27

Source: national central banks and data processed based on ECB,2008.

The significant dynamics of the housing loans was determined by the ratio between supply and demand. Regarding the credits demand for housing, its increase has been determined especially by the increasing of the population's income, and also of housing price.

In specialized literature (Zoltan Walko, 2008) it is highlighted the existence of an interconditioning relationship between the volume of housing loans and the housing price. For example, the increase of the demand for housing loans and of their volume has engaged a significant increase of the housing price. On the other hand, a higher housing price mounts the collateral value, which allows the acquiring of a higher credit volume.

Regarding the housing credit supply, its increase was determined by the competition growth on this market segment, caused by the entries of foreign banks, the lower risk presented by the housing credits (they are collateralized through the mortgage), the banks possibilities for obtaining a higher profit and the improvement of the institutional framework. The accelerated growth of the volume of housing credits had positive effects through the improvement of living conditions for the population, the development of the constructions sector, but has also engaged the appearance of risks in terms of financial stability. The higher share of housing credits denominated foreign currencies, especially in Estonia, Latvia, and Romania, has exposed the households to the risk of devaluation of national currency, but also to risk of increase of interest rate. In this context the monetary authorities have adopted various measures to ensure financial stability. For example, the National Bank of Romania has increased the provisioning coefficients for the credits denominated foreign currencies or for the credits indexed based on the exchange rate.

The structure analysis on destinations of credits given to households (see the data of table 10) illustrates the existence of some discrepancies between the countries. In this respect, it is worth mentioning the situation of Romania, where, at the 2007 level, although house credits recorded the most important increase, they hold a more reduced share, the consumer credits are prevailing. Comparatively, in EU27 and euro zone, the situation is reversed where the housing credits hold a share of over 70%. Such a difference shows the low purchasing power of Romanian population and its prevailing orientation to consumption and the low degree of endowment with consumer durable (National Bank of Romania, 2006). Consequently, the banking crediting of Romanian population should align to European standards regarding the relation between house credits and consumer credits. Among the studied countries, especially the Czech Republic and the Baltic countries have a similar structure of the credits granted to households as the ones in the Euro zone.

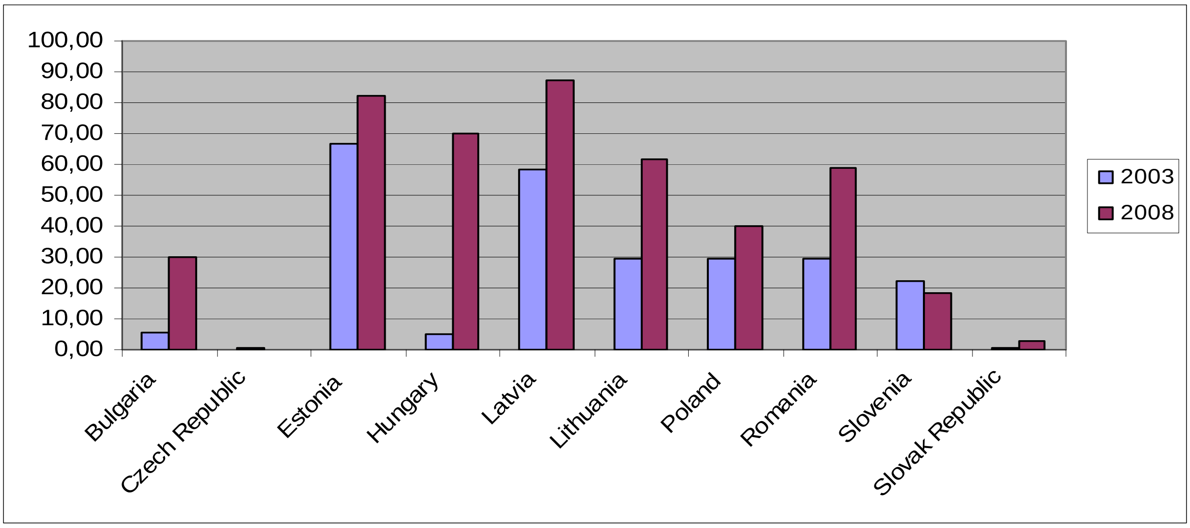
The extremely fast increase of credits given to population households and, within them, mainly of the ones expressed in foreign currency (stimulated by the lower interest rates compared to the ones related to loans in national currency and by the appreciation of national currencies), has determined significant increase of the domestic demand, pressure on inflation and increase, at high levels, even at alarming levels, of current account deficits, mainly in the Baltics, Bulgaria and Romania (see the figures 5 and 6).

Table 10: Evolution of structure the loans granted to households (according to destination) by the credit institutions in the period 2005 – 2008 (in %)

Country	2005			2008		
	Loans for housing purchase	**Loans for consumer credit**	**Other loans**	**Loans for housing purchase**	**Loans for consumer credit**	**other loans**
Bulgaria	28.41	60.63	10.96	42.81	51.16	6.03
Czech Republic	67.54	21.43	11.03	70.26	19.36	10.38
Estonia	82.16	8.88	9.00	80.51	11.10	8.39
Hungary	59.97	31.66	8.37	50.75	44.52	4.73
Latvia	71.46	14.75	13.79	78.95	12.38	8.67
Lithuania	69.07	16.26	14.67	69.28	14.47	16.25
Poland	35.76	37.64	26.60	52.53	19.61	27.86
Romania	13.19	84.55	2.26	21.06	74.29	4.65
Slovenia	31.95	45.96	22.09	43.38	36.85	19.78
Slovak Republic	65.66	13.67	20.67	67.60	13.54	18.86
MU 13	69.52	13.26	17.22	71.37	12.88	15.75

Source: national central banks and data processed based on ECB, 2008.

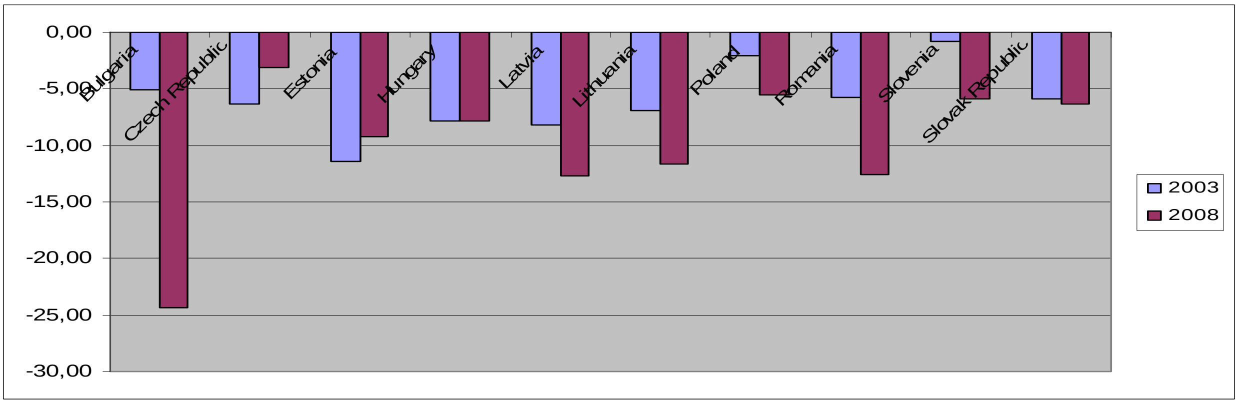
Figure 5: Evolution of loan denominated in foreign currency (in per cent of total loans) granted to households by the credit institutions in the period 2003–2008



Sources: IMF,2009(b) and National Bank of Hungary, 2009.

In this context, the monetary authorities, being concerned by providing price stability, including provision of financial stability, adopted a set of measures in order to slow down the credits given to the population, mainly the foreign currency credits and mortgage credits. Within the measures adopted by the monetary authorities in various countries, mainly in Bulgaria and Romania, there are included both handling of indirect tools of monetary policy (especially, minimum banking reserve requirements, interest rate of monetary policy) and also measure of management nature, such as introducing some crediting limits and limits to loans expressed in foreign currencies.

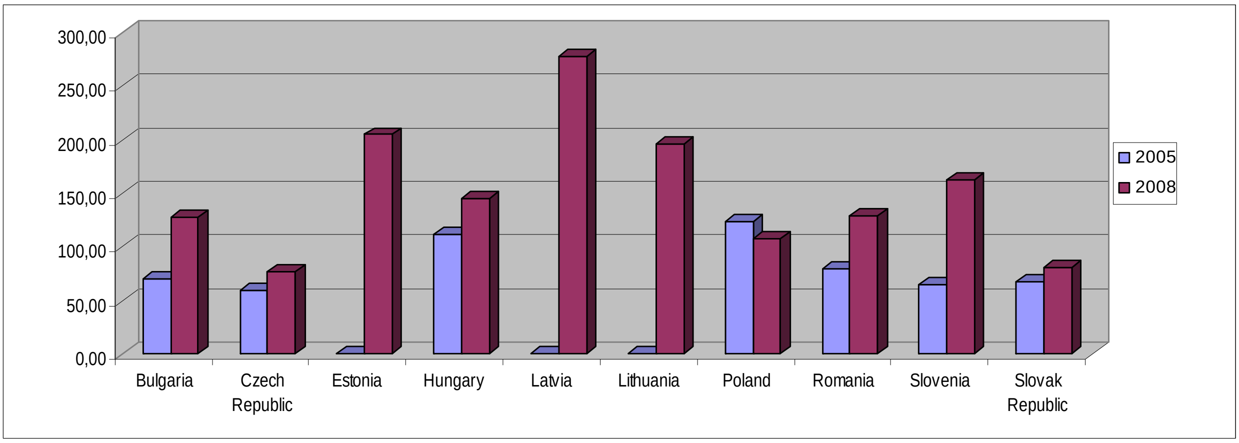
Figure 6: Evolution of current account balance(in per cent of GBP)in the period 2003–2008



Sources: IMF, 2009(b) and National Bank of Hungary, 2009.

The significant progresses recorded by the banking sectors of the countries under survey, following privatization and entries of foreign banks, can also be highlighted also in the light of the relation between credits and deposits (see the data of figure 7). Regarding the relation credits/deposits, the progresses recorded by some countries point out the significant expansion of the credit but also mutation at the balance level of credit institutions, such as their significant orientation to the real economy, the increase of foreign financings as a consequence of lower interest rates.

Figure 7: Evolution of the relation credits/deposits (in %), in the period 2005-2008

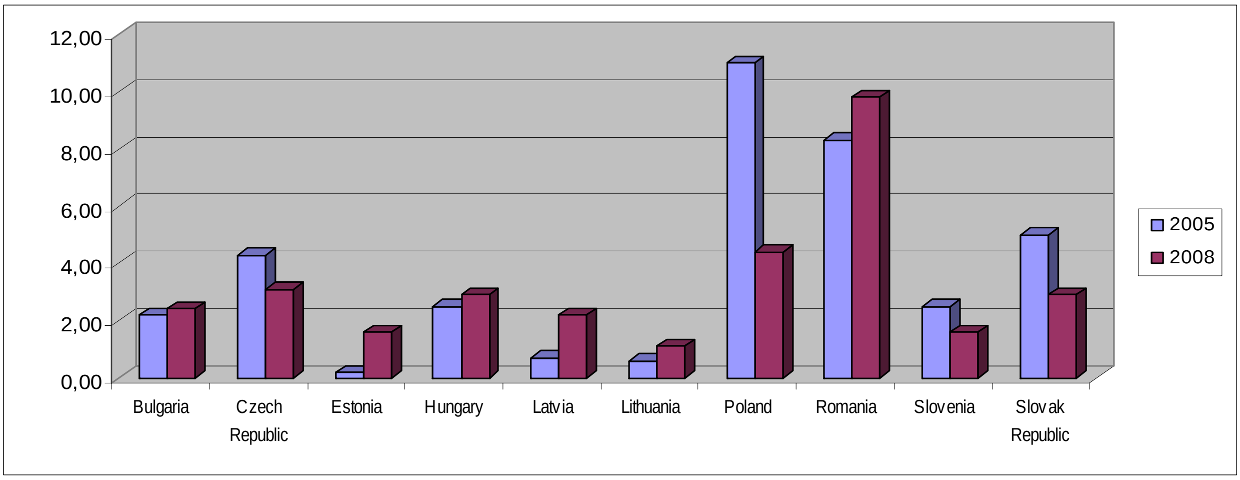


Source: National Bank of Hungary, 2009.

The intensification of the banking crediting has implications also on the share of nonperforming credits in the total portfolio of credits. Non-performing loans include sub-standard, doubtful and loss classification categories. Based on the data presented in figure 8, it can be concluded that, in the year 2008, the highest share of nonperforming credits was registered in Romania. This situation is due to the significant expansion of the credits granted to households and especially of the credits in foreign currencies (see the data in tables 8 and 9 and figure 5) based on the significant appreciation of the Romanian currency in the first part of 2007 and on the renouncement of the National Bank of Romania to the measures of banking prudency concerning the limitation of credits in foreign currencies. But, the significant depreciation of the Romanian currency from the beginning of 2008 and especially from October 2008, in the context of the current international financial crisis, has negative implications for the debtors exposed to the currency risk and for the quality of the credits portfolio of the credit institutions. In the present conditions, the share of nonperforming credits is still high, being also determined by the fall of the population income and of the price of real estate assets as a consequence of the international financial crisis.

In the year 2008, based on the significant depreciations of national currencies as an effect of the turbulences from the international financial markets, it has been registered a meaningful increase of the share of non-performing credits also in Latvia, Estonia, and Lithuania, countries where the loans in foreign currencies granted by the credit institutions have held a higher share (see the data from the figures 8 and 5).

Figure 8: Evolution of the nonperforming bank loans in 2005 and 2008 (in per cent of total loans)



*BG-December; CZ-September; EE-September; HU-December; LV-December; LT-March; PL-September; RO-June; SI-June; SK-September.
** includes only loans to the nonfinancial sector
Source: IMF, 2009(a).

As a result of the global financial crisis, the banks from Central, Eastern and South-Eastern Europe face sharply slowing economic growth, tough external financing conditions, higher risk aversion and a tense liquidity situation (Deutsche Bank Research, 2008). Due to the high ratio of FX-denominated credits (e.g. in the Baltics, Ukraine, Hungary and Romania), the strong FX depreciation represents an important challenge for the Central, Eastern and South-Eastern European banks. In 2008 and 2009 credit slow down sharply due to the local and foreign funding constraints. The main sources of external bank funding (international bond issuance, syndicated loans and parental intrabank funding) have declined in the last twelve months.

In the context of the restructuring and privatization process, of the significant expansion of crediting and competitiveness enhancement, the bank sectors of the Central and Eastern European countries improved profitability and efficiency. Although interest margins decreased as competition increased, banks witnessed a rise in income as the volume of operations boomed and the range of bank products and services diversified. In the period 1994-2008, the banks's ROE increased from 2.8% to 21.2% in the three largest Central and Eastern European countries (Poland, Hungary and Czech Republic). In 2008, the bank sectors of most countries witnessed a deterioration of the profitability and efficiency ratios in the condition of the considerable reduction of the volume of operations in this period of international crisis (see table 11).

Table 11: Comparative situation of profitability and efficiency of the banking sector in the period 2005-2008 (%)

Country	**2005**		**2006**		**2007**		**2008***	
	ROE	ROA	ROE	ROA	ROE	ROA	ROE	ROA
Bulgaria	21.4	2.0	25.0	2.2	24.8	2.4	23.1	2.1
Czech Republic	25.2	1.4	22.5	1.2	24.4	1.3	23.7	1.3
Estonia	21.0	2.0	19.8	1.7	30.0	2.6	21.4	2.0
Hungary	24.7	2.0	24.0	1.8	18.1	1.4	17.7	1.5
Latvia	27.1	2.1	25.6	2.1	24.2	2.0	4.6	0.3
Lithuania	13.8	1.1	21.4	1.5	27.3	2.0	16.1	1.2
Poland	20.6	1.6	22.5	1.7	22.4	1.7	22.2	1.7
Romania	15.2	1.9	11.7	1.5	11.4	1.3	18.11	1.4
Slovenia	13.8	1.0	15.1	1.3	16.3	1.4	13.7	1.1
Slovak Republic	16.9	1.2	16.6	1.3	16.6	1.1	13.9	0.9

*BG-December; CZ-September; EE-September; HU-December; LV-December; LT-December; PL-September; RO-December; SI-September; SK-September.

Source: IMF, 2009(a) and National Bank of Romania, 2008(a).

From the viewpoint of financial stability, an important part is played by the ratio "capital adequacy", that although in certain countries had a descending trend is still in all countries above the minimal level provided by European and international regulations (8%).

Table 12: Comparative bank regulatory capital to risk-weighted assets in the period 2005-2008 (%)

Country	**2005**	**2006**	**2007**	**2008***
Bulgaria	15.3	14.5	13.9	14.9
Czech Republic	11.9	11.5	11.5	12.9
Estonia	11.7	13.2	14.8	18.3
Hungary	11.6	11.0	10.4	11.1
Latvia	10.1	10.2	11.1	11.8
Lithuania	10.3	10.7	10.9	12.9
Poland	14.5	13.2	12.1	11.6
Romania	21.1	18.1	12.7	11.9
Slovenia	10.6	11.1	11.2	11.2
Slovak Republic	14.8	13.0	12.4	11.3

*BG-December; CZ-September; EE-September HU-December; LV-December; LT-December; PL-September; RO-September and June; SI-June; SK-September.

Source: IMF, 2009(a).

4. Conclusions

The bank sectors of Central, Eastern and South-Eastern European countries passed through significant qualitative transformations in the past decade, being dominated by private banks, respectively by foreign banks, which brought numerous advantages for internal bank markets and new challenges for the monetary authorities.

A significant index for the progresses made by the bank sectors of Central, Eastern and South-Eastern European countries is the increase of the financial mediation degree that shows the significant orientation of the credit institutions to the real economy.

The accelerated dynamics of loans granted by the credit institutions, especially households loans, particularly in the Baltic countries, Romania and Bulgaria has been driven by changes in the supply and demand of credits, which have improved significantly in the last years. These changes are due to improved macroeconomic conditions (lowering the inflation rate and interest rates, accelerating economic growth), intensifying competition in national banking markets, improvement schemes to guarantee loans, improving banking legislation, accounting practices and auditing, initial low debt level and growth of population' revenues.

The accelerated growth of households loan has been significantly sustained by the housing loans, which in some countries was the most important product on the retail banking segment. Such development has both positive effects through increasing the level of living of the population, significant development of the real estate sector, but it implied risks to macroeconomic stability.

In the context of current international financial crisis, lending activities of credit institutions recorded a significant decrease in the beginning of 2009.

The banking sector from the countries analyzed in the paper was not directly affected by the current crisis as it has been exposed to toxic assets. Starting with October 2008, the effects of international crisis were felt indirectly by the banking sector from the countries considered for the study by reducing external financing, increasing their cost and damage the international economic environment, which decreased the supply of and demand for loans, respectively the restriction in the activity of bank loans.

In some countries, the banking sector is faced with deteriorating loan portfolio quality, lower performance indicators and instability.

The economic recession and the worsening of macroeconomic imbalances all over the world have intensified the concerns of national and international authorities in order to adopt urgent measures, aimed at restoring macroeconomic stability and resuming the credit activity.

In the period before the current crisis amplification (amplification produced by Lehman Brothers bankruptcy in September 2008 and after the taking over, in the same month, of the bank Merrill Lynch by Bank of America), the central banks of the countries reviewed have implemented restrictive monetary policy measures (in particular, higher reserve requirements, higher interest rate, the introduction of limits on loans denominated in foreign currency) in order to counter inflationary pressures caused by rapid dynamics of bank loans, especially those granted to the households.

Starting with September 2008, when turmoil in international financial markets have turned into a deep financial crisis worldwide, the central banks in the countries reviewed have relaxed restrictions on monetary policy (in particular, by reducing reserve requirements and in early 2009, by lowering the interest rates of monetary policy) to ensure normal operation of the banking sector and to support the bank lending of real economy.

In elaborating the measures to implement, the national authorities took into account the particularities of national financial systems (bank-oriented systems), and the extremely serious effects of restricting lending on national economies.

Currently, the bank lending activity is facing a slight recovery, but we can say that its reviving depends on the real economy, because the economic agents are the main customers of banks.

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BIPLOT REPRESENTATION OF THE FINANCIAL INVESTMENT RETURNS

Abstract

The aim of this study is to represent the rates of real profits created by means of financial investments in Turkey from January, 2001 to October, 2008 using the biplot approach. We investigate a cluster of euro&dollar&gold returns. Deposit interest rate return did not have an important correlation with the other rates of returns. There was a negative correlation between euro&dollar&gold and stock returns. During the crisis and turbulence periods, euro&dollar&gold returns cluster increased, however stock return decreased. We also observed that economic stability passed-through financial stability.

Keywords: Financial macroeconomics, Financial Returns, Biplot Approach.

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1. Introduction

Financial macroeconomics is a discipline which helps us to understand the behavior of tools for speculative money demand, however more complicated then the sciences because of unobservable events, asymmetric information and uncertainties. There is a high level of asymmetric information in economics specifically concerning the equity markets which puts a spanner into the research papers. The movements caused by hidden information in big-open-markets affect the small-open-markets (see Hartmann, Straetmans and De Vries, 2004 and Dungey and Martin, 2007 for the contagion and linkages among different markets). Therefore, this asymmetric information pass-through the small-open-economies simultaneously. It is a common fact in small-open-economies that the international stock market directly affects the internal stock market. Again the role of asymmetric information can not be underrated. Knowing the future may help investors to earn more. See Bauer and Vega (2008) and literature cited in for the effects of several variables on the international stock market covariation, specifically the effects of superior knowledge about the interest rates and aggregate equity market. Or in a simultaneous recession case, the correlation among the international stock market increases as mentioned by Aydemir (2008).

The aim of this article is to represent and analyze the real rates of returns of US dollar, euro, stock, gold and deposit interest rate in a two dimensioned space by biplot approach in a single graph by the location of the observations which may help for practioners in economic institutions while taking investment decisions. Granger *et al.* (2000), Kolari *et. al.* (2008), Carruth *et al.* (2000) and Hammoudeh and Yuan (2008) are the recent studies trying to investigate the interaction among the financial variables by convensional time series methods. We simply represent the interactions among several investment tools by biplot. The approach also captures the asymmetric information during the turbulences and the effects of cumulative shocks on the series. Within this asymmetric context as far as we know, this is the sole paper other then Gheva (1986), applying a dynamic biplot representation of a time series data. We only apply the methodology for a rate of returns of the financial tools. We do not predict the variables or search for a possible causality among the variables. Here we simply present a representation of several investment tools in two dimensions. However, the standard error and correlation among the variables can be catched by an application of vector calculus. We observed that the total variation was expressed sufficiently and the knowledge loss is minimal.

The following section is the data and methodology. In the third part, we present possible relations between the real returns of deposit rate, equity share, gold and exchange rate. The fourth section discusses the results obtained from the approach and gives a brief summary of the findings.

2. Data Description and Methodology

In this study, we focused on the financial investment returns of Turkey because she is one of the candidate countries for the European Union membership and is the fifteenth biggest economy around the world (as of 2008, by 922 billion dollars of GDP). Turkey is classified under new emerging markets and has a small-open-economy, therefore affected from international financial transactions. The rates of real profits by means of financial investment data collected and constituted from the monthly press releases of the Turkish Statistical Institute from January, 2001 to October, 2008. Month to month base (%) change of real (CPI based) profit deposit interest (D), stock exchange (S), US dollar (U), euro (E) and gold (G). We believe in that investors look at real values while taking decisions. So we used real values of profits. The reason for using CPI for relative values is that Central Bank of the Republic of Turkey (CBRT) implements inflation targeting regime on it.

In this study we use the graphical approach known as biplot to examine the relation between several economic variables described above. The biplot technique used for showing significant properties of multivariate data structure initially introduced by Gabriel (1971) and later developed by Bradu and Gabriel (1978), Gabriel and Zamir (1979), Gower and Harding (1988), Gower and Hand (1996). The biplot can be considered as multivariate version of dot scatter plots which have been used for analyzing bivariate data. This technique is based on the singular value decomposition analysis. The following subsection briefly summarizes the theoretical background for the biplot approach.

Singular Value Decomposition

A matrix is singular if its determinant is zero or not invertible. Singular value decomposition (SVD) is a generalization of the eigenvalue decomposition. This technique is used for decomposition of non-invertible and rectangular matrix. When we apply SVD to a matrix, we obtain three simple matrices. Two of them are orthogonal and the third is diagonal matrices. Singular value decomposition of a data matrix X which has a rank (($Rank(X_{nxp}) \leq \min\{n, p\}$) and $X \in \Re^{nxp}$) is shown by equation (1) (Johnson and Wichern,1998):

$$X_{nxp} = U_{nxr}\Gamma_{rxr}V_{rxp}^{T} \quad (1)$$

U_{nxr} and V_{pxr} are called as left and right singular vectors respectively. These vectors satisfy orthogonality condition, i.e. $U^T U = I_r$ and $V^T V = I_r$. The symbol I_r denotes here the unitity matrix of size *r*. The diagonal matrix Γ is given bellow:

$$\Gamma = \mathrm{diag}(\gamma_1, \gamma_2, ..., \gamma_r)\,,\ \gamma_1 \geq \gamma_2 \geq ... \geq \gamma_r > 0\,.$$

The square root of the eigenvalues ($\lambda_i,\ i = 1,2,..,r$) of the XX^T or $X^T X$ matrices give singular values. The normalized eigenvectors of XX^T are called the “left” singular vectors (U) while the normalized eigenvectors of $X^T X$ are called the “right” singular vectors (V). Singular value decomposition of a data matrix *X* is written by (2):

$$X_{nxp} = U_{nxr}\Gamma_{rxr}V_{rxp}^{T} = \sum_{i=1}^{r} \gamma_i u_i v_i^T = \gamma_1 u_1 v_1^T + \gamma_2 u_2 v_2^T + ... + \gamma_r u_r v_r^T\,. \quad (2)$$

Eckart-Young Theorem

Singular value decomposition of a data matrix X is shown by equation (1). Singular value decomposition of $X_{nxp}^{(k)}$ where ($k \le r$) is given by (3):

$$X_{nxp}^{(k)} = U_{nxk} \Gamma_{kxk} V_{kxp}^{T} . \tag{3}$$

Eckart-Young theorem finds optimal approximation of $X_{nxp}^{(k)}$ to X_{nxp} by least square approach theorem. Namely, the aim is to minimize the sum of squared of errors. According to this, we may obtain the following (Eckart and Young, 1936):

$$\min_{\mathrm{rank(B)=k}} \|\mathrm{X}-\mathrm{B}\| = \|\mathrm{X}-\mathrm{X}^{(\mathrm{k})}\| = \sqrt{\sum_{\mathrm{i=k+1}}^{\mathrm{r}} \gamma_{\mathrm{i}}^{2}} = \sqrt{\sum_{\mathrm{i=k+1}}^{\mathrm{r}} \lambda_{\mathrm{i}}} . \tag{4}$$

An Approximation to the X Matrix with Lower Ranked Matrices

Assume that, we want to approximate to the matrix of X_{nxp} of rank *r* by a matrix $X_{nxp}^{(k)}$ of lower rank ($k \le r$). For to do this, we initially define the approximation error concept. The measure of approximation error is generally given by $E = X - X^{(k)}$ as Euclid norm of error matrix. We can write squared Euclid norm matrix as a trace of internal product of matrix, therefore we can write the following equation (Bartkowiak and Szustalewicz, 1995).

$$\|E\| = \|X - X^{(k)}\| = [trace(E^T E)]^{1/2} = \left(\sum_{i=1}^{n} \sum_{j=1}^{p} e_{ij}^{2} \right)^{1/2} . \tag{5}$$

The problem is how to approach to the matrix X_{nxp} with lower rank matrices with minimum error. This problem is initially considered by Householder and Young in 1938. According to this, the best approximation of a matrix X_{nxp} of rank *r* by a matrix $X_{nxp}^{(k)}$ of rank $k \le r$, when minimizing the Euclid norm of error matrix $E = X - X^{(k)}$, is obtained by taking as the approximation matrix the first *k* component of the singular value decomposition of *X* (Bartkowiak and Szustalewicz, 1995). The singular value decomposition of $X_{nxp}^{(k)}$ approach matrix is given by the equation (3). While detecting the error of approximation, if *k*=*r* in equation (5), the error is zero.
Goodness-of-fit is defined by the ratio of squared norm of $X_{nxp}^{(k)}$ matrix to squared norm of X_{nxp} matrix.

$$\text{Goodness-of-Fit} = \frac{\|X^{(k)}\|^2}{\|X\|^2} = \frac{\lambda_1 + \ldots + \lambda_k}{\lambda_1 + \ldots + \lambda_r} , \quad k \le r . \tag{6}$$

All of the eigenvalues is equal to the variance of the data cloud given by X matrix:

$$\text{Total variance} = \|X\|^2 = trace(X^T X) = \lambda_1 + \ldots + \lambda_r . \tag{7}$$

Biplot Approach

Biplot is a technique showing the rows and columns of the matrix X_{nxp} on a single graph. Nearly in all the applications, concerning the structure of the data, a transformation has been done to the *X* matrix and biplot approach has been used. As an example to the transformation, centralization according to the mean of the variable, standardization of the variables and logarithmic transformations. Assume that the rank of the matrix Z_{nxp} after the transformation is *r*. Decomposition of the Z_{nxp} is given by the equation (8) after the transformation (Aitchison and Greenacre, 2002):

$$Z_{nxp} = F_{nxr} G_{rxp}^T \tag{8}$$

Singular value decomposition is used for decomposition of this matrix. If singular values are turn overed to the *Z* matrix's right single vectors, we can write the following equations:

$$F_{nxr} = U \text{ and } G_{pxr} = V\Gamma \tag{9}$$

On *r* dimension, the column of the G^T matrix and the row of the *F* matrix give coordinates of the *n* points for rows and *p* points for columns respectively. The biplot graphic is obtainable with this way.

Biplot is defined by the least-squares approximation of the covariance matrix $S = Z^T Z/(n-1)$ by $GG^T/(n-1)$, the matrix inner products between the row vectors of $\mathrm{G}/\sqrt{\mathrm{n}-1}$. Thus, the lengths of the vectors will approximate the standard deviations of corresponding variables. The cosines of the angles between vectors will give the correlations among the variables (Aitchison and Greenacre, 2002).

3. Empirical Evidence

As Gheva (1986) indicates, in order to apply Biplot to the corresponding series, we first checked whether there is any trend in the series or not. Table 1 reports the conventional unit root tests as Augmented-Dickey Fuller (ADF) and Phillips-Peron (PP) for the series of interest. Panel A reports the series with an intercept term, Panel B gives the intercept term and the time trend and Panel C reports the tests on the first difference of the series for the Augmented Dickey-Fuller and Phillips-Peron Unit Root tests. Table 1 suggests that we can reject the null hypothesis of a unit root at 5% of significance level so we claim that series are I(0). This suggests that the series do not include a trend so that we can apply biplot techniques for the corresponding series.

The rows (observations) of a data matrix are represented by points while the columns (variables) appear as vectors emanating from the origin in Figure 1. According to Gheva (1986), a dense of pencil of vectors corresponds to a set of positivity correlated variables, whereas when the angles among the vectors are obtuse, the correlation is negative. Perpendicular vectors specify that there is no correlation among the variables. The length of vectors and the angle between vectors summarize the ordering the standard deviation and correlations for the period we are concerned. Therefore we provide opportunity for representing the dynamic behavior of the multivariate data.

It is assumed that 80% of the total variation explained by two dimensional biplot is in the acceptable percentage (Johnson and Wichern,1998). When the three dimensional graph is used, nearly 88% of the variance is explained. We prefer to present two dimensional graph because it gives a visual advantage. Figure 1 and Table 2 present the results of biplots. First we represent the correlation relations of the assets by using angles between the semi-lines starting from the origin. Second we determine leading outliers which corresponds to the duration of two crises and one turbulence (multivariate outlier test results also detected these dates).

Semi-lines represent the returns for the assets. The angle corresponds to the degree of correlation. Euro&dollar&gold cluster exhibits high correlation (near comonotonic). The correlation between deposit interest rate&stock returns is near zero. Dollar&euro&gold cluster with deposit interest rate are around zero (on the negative side). The pairwise correlations with corresponding angles (θ) are reported in Table 2. The angle between dollar&gold is bigger than dollar&euro. There is a high negative correlation between euro&dollar&gold with stock returns. For the dates scattered around the origin, we observe a similar structure of investment returns. Central Bank implements inflation targeting regime in most of those time period and inflation starts to diminish. During the transition period to low inflation, the observations scatter around the mean, therefore we may claim that the stability of the financial market increases during those months.

The dots in the Figure 1 correspond to the times. We noticed that February-2001 crisis, May-2006 turbulence and October-2008 crisis occurred in this time span. During the economic crisis and turbulence periods, we observe that dollar, euro and gold increase. After the second month of 2001, Central Bank let the exchange rate be float, therefore Turkish Lira (TL) depreciated. This crisis was a consequent of internal economic imbalances. There was a credit crisis and some of the banks were undertaken by the government. Euro&dollar&gold also increases during the turbulence time as May, 2006 where the inflation rate has started to increase, internal political problems emerged added as a risk premium and CBRT decided to increase interest rates. The management of internal uncertainties was not successful enough to suppress the external contagion effects. The latter big economic crisis in October, 2008 was in reaction to outside economic developments. However, both crises were because of the moral hazard problem and greeds. When the deposit interest rate is very low, the stock returns decrease, however dollar&euro&gold returns increase as seen in February-2001, October-2008 crisis and May-2006 turbulence.

CBRT has started to adopt floating exchange rate regime in February, 29, 2001 and announced implicit inflation regime in January, 2, 2002. Therefore it is meaningful to catch the correlations by a lower rank. The points scattered around the origin show dates where the economic stability passed through the financial stability.

According to the scatterplot results in Figure 2, it is observed that the results of the scatter plots and biplots give a similar correlation structures among the variables. According to the scatterplot results, deposit interest rate has a correlation of near zero by gold&euro&dollar&stock. Between stock and gold&euro&dollar there is a negative correlation. High positive bivariate correlations are observed between gold&euro&dollar. This case also strengthens the results of biplot approach.

4. Discussion and Conclusion

Economic activity and rates of return of financial investment tools are keenly related. Behavior and attitude of investments have been primary affected from general structure of the economy, stability, political credibility and the harmonization ability of the financial system to the prudent man rule. At the same time, financial instruments are powerful predictor of economic activity and has a role of economic pulse.

The rate of real profits of financial investment is an impulsive force attracting investors for choosing the type of instrument to get maximum return. If the returns of deposit rates do not satisfy the risk appetite of the investors, they look through the tools of exchange rates, gold or stock. The most guaranteed tool is deposit rate so risk averse investors will choose to invest their money to deposit banks when they observe the others as major categories of risky assets. Besides when the return rate of deposits is low or not guaranteed by regulations; model of resourceful, evaluating, maximizing man will turn its way to other bundles more with a higher probability.

The foreign currency movements are very critical for understanding the market dynamics of a small-open-economy. The reserve monies as US dollar enter to a small market, appreciates domestic money. The inverse is also possible. The asymmetric information may let TL be depreciated because of capital outflows. Just before the capital outflow, we observe that the equity market goes down. CBRT increases interest rates to increase capital inflow again. At this stage effectiveness of the interest rate policy appears. The asymmetric information may have bigger effect then the interest rate announcements. If capital comes in, TL appreciates again and the sovereignty problem of the Treasury solved. When the local currency devaluates, price of stocks decrease and the gold returns increase. During the periods of economic instability, returns on stock returns decrease, however interest rate, foreign currency and gold increase. So there are huge and complicated interactions among economic variables.

Supporting our findings, the interaction among stock returns and foreign exchange rates are investigated by conventional time series analysis by several authors. Istanbul Stock Exchange is subject to the influence of both traditional and portfolio approach in the sense of Granger, Huang and Yang (2000). However the portfolio approach is dominated the latter causing an inverse relation between stock prices and exchange rates. Kolari *et al.* (2008) also examines the cross-section of stock returns and foreign exchange rates. They find that stocks most sensitive to foreign exchange risk have lower returns than others and the foreign exchange risk is priced in the stock returns and is not positive.

Our solutions indicate that when economy booms and value of the firms increase, the price of gold diminishes. That is consistent with the general view that gold has an inelastic supply curve and mostly regarded as a low-risk hedge. The price movements of gold price reflect demand-driven substitution for other assets which reflects indirect uncertainty on investment returns and sentiment (Carruth, Dickerson and Harley, 2000). According to Hammoudeh and Yuan (2008) gold can be a good tool of investment in anticipation of economic problems. Rises in gold price increases expectations of inflation which pass through interest rates also affect gold returns. They claim that the gold is not sensitive to bad news, therefore it is a good investment specially in the short run in anticipation of bad times such as economic turbulences and crises. Moreover rising interest rates have a diminishing effect on the gold market; economic policy makers can use tight monetary policy to decrease volatilities.

For the safe asset, deposit interest rate, Central Bank of the Republic of Turkey is an active player changing interbank rate which mostly affects the way of the deposit bank interest rates. If the deposit interest rate increases, the stock and exchange rate returns should be diminish and price of gold be decreased. The stock returns have a conventionally indirect relation with the foreign exchange rate and interest rate. A diminish in the interest rate should increase investment and the growth, and the value of the stock companies should increase which lets nominal values of the stocks increase. If the price of foreign currency increases, interest rate goes up and in the short run the demand for stocks decrease. Therefore the prices of the stocks diminish. The rate of return of stock market depends on the deposit interest rate. The gold prices dependent on the supply and demand conditions, however during the crisis period, the price of gold increases. We observe that the price of gold diminish during the stabilized economic conditions.

In such an environment, where there is asymmetric information and deficiencies in regulations, the risk for financial tools increases. The financial reforms are essential at this stage. We observed that during the years when the government made good financial reform the financial markets also stabilize. According to Torre (2007) the reforms such as stock market liberization, enforcement of insider trading lows, introduction of electronic trading systems, privatization programs, structural pension reform and institutional reform, helped stock markets to be developed. Following major central banks, Central Bank of the Republic of Turkey also funded the markets by the weekly repo to increase liquidity, decreased the lending interest rates on October, 22, 2008, and opened foreign exchange depo market on October, 9, 2008 with more limits to adjust the liquidity opportunities in the presence of October, 2008 crisis (see CBRT, 2008: box 2 for the comparison of precautions taken by the governments of twenty countries including Turkey during and after the October, 2008 crisis.).

In our sample the observations are only random changes over time. Therefore there is no time trend in the data. The stationarity of the data increased the robustness of the results. We observed that the return rates of financial investments are interconnected. The systematic risk or residual risk is not diversifiable. The biplot helped us to represent the correlations among the observations and variables in a single two dimensioned graph.

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TABLE 1 Unit Root Tests

	A: Intercept		B: Intercept with Trend		C: None	
	ADF	PP	ADF	PP	ADF	PP
D	-5.6103	-5.3444	-5.8043	-5.3969	-4.1859	-4.0008
S	-7.7519	-7.7085	-7.7104	-7.6656	-7.7633	-7.7192
U	-6.8802	-5.7182	-6.7729	-5.6723	-6.8460	-5.7781
E	-7.5782	-5.9810	-7.6222	-5.9633	-7.6208	-6.0136
G	-7.3108	-6.6508	-7.2557	-6.6171	-7.1038	-6.5056

FIGURE 1 Biplot Graph

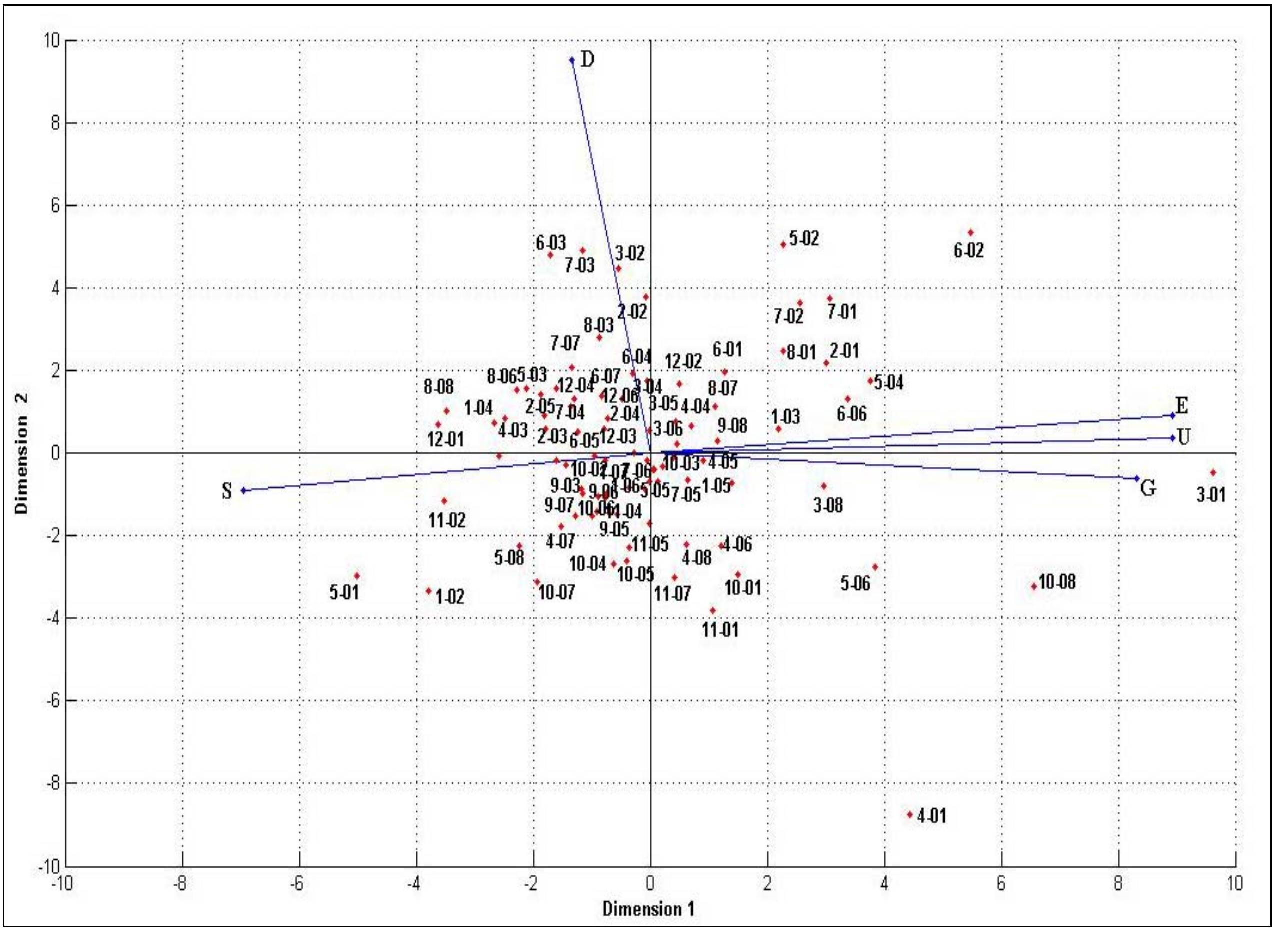
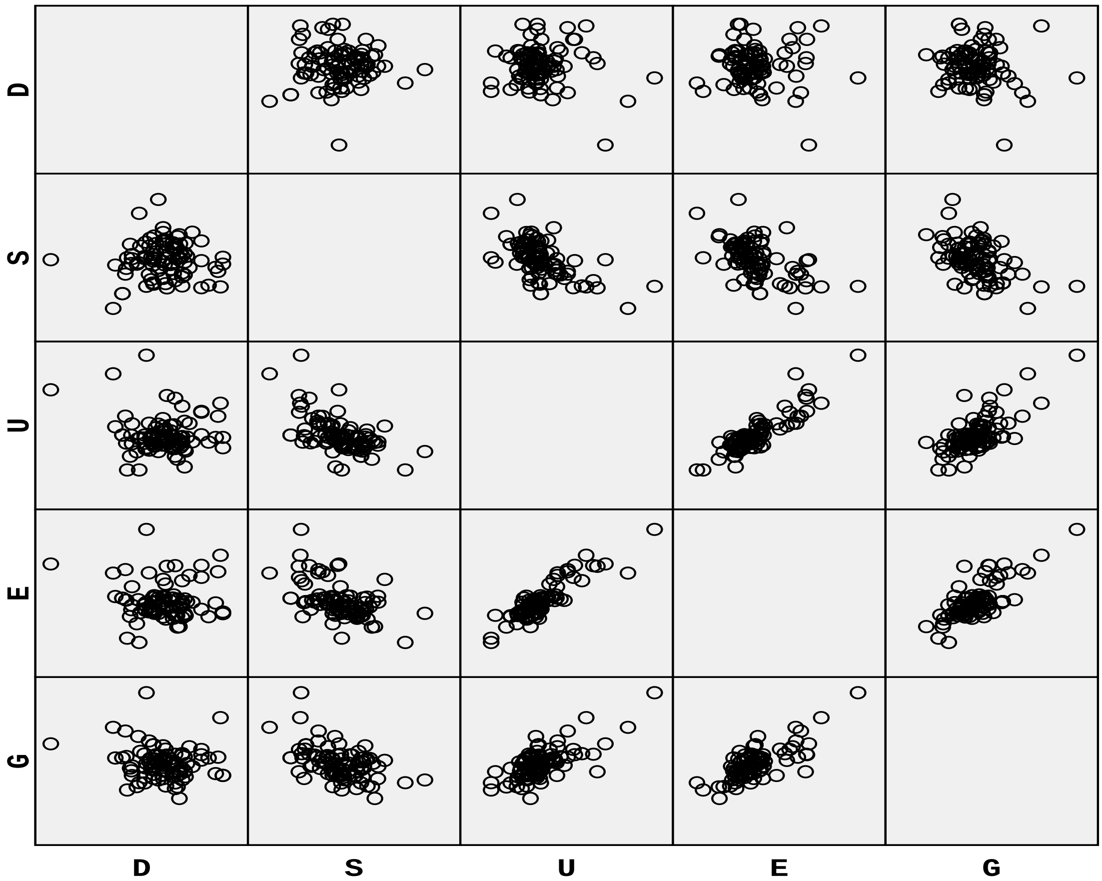


TABLE 2 Correlation Values

Variables	Correlation	Angle (θ)
E - U	0.9979	3.7138
E - G	0.9845	10.1000
U - G	0.9937	6.4348
D - S	0.0065	89.6275
D - U	-0.0999	95.7334
D - E	-0.0358	92.0516
D - G	-0.2104	102.1458
S - E	-0.9996	178.3793
S - U	-0.9956	174.6232
S - G	-0.9790	168.2372

FIGURE 2 Scatterplots of the Variables



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RECONCILING PROFIT AND SOCIAL DEVELOPMENT IN OSIGWE ANYIAM-OSIGWE'S BUSINESS ETHICS

Abstract

The idea of corporate social responsibility (CSR) emerged to reconcile the apparent tension between the primary objective of business corporations, which is profit maximization and the essential goal of the economic system, of which corporations is a component, which includes sustainable economic growth and sustainable social development, interpreted as the enhancement of the wellbeing of members of society. This paper examines how the tension described above can be reconciled from the perspective of an African sage philosopher, Osigwe Anyiam-Osigwe. The paper argues in line with Anyiam-Osigwe's cosmopolitan ideal that business corporations, as a key player in the economic sector, should transcend the "subjective or personal" and "limited vision and perception" of profit maximization as their ultimate objective and mediate their activities with an adequate consideration for the growth of the economic sector and sustainable social development.

Key words: Osigwe Anyiam-Osigwe; Profit; Social development

> Profit maximization and increase in shareholders wealth should not be our only goal. We should remain acutely aware of the problems of poverty, ignorance, neglect and corruption that characterize our sub-region of the world.
>
> We are committed to the upliftment and welfare of the average individual not only in per capita terms but also in terms of spiritual and moral values.
>
> Applying the principle of the 'group mind' we strive to make Inter-dependence, Integrity, Fidelity and Industry successful.
>
> **(The Corporate Philosophy of Anyiam-Osigwe Group)**

1. What is Business?

The word business is quite ambiguous. In its ordinary and most general usage, the term connotes what an individual or entity is concerned with or interested in. It implies a state of being busy carrying out an activity. However, it is often employed within the realm of economic discourse to denote either any activity that involves the provision of goods or services to consumers with the ultimate goal of earning a livelihood or profit. Alternatively, the term, business, might refer to an organization which engages in such activities.

In the contemporary global economic order, which is predominantly capitalist in orientation, business is mostly privately owned and formed, primarily, to earn profit that will increase the wealth of its owners and grow the business itself. Thus, the major objective of the owners and operators of business is *the receipt or generation of* a financial return*,* called profit*,* in exchange for work and acceptance of risk. This is what distinguishes business, properly called from such organizations as cooperative enterprises and state-owned enterprises that have alternative or additional goals aside from maximizing or turning a profit.

2. Transnational Corporations

Today, there are different forms of business organizations, but the one that is most prominent is the transnational business corporations (TNCs). They are defined basically in terms of the fact that their operations transcend national boundaries to cover several nations. This form of business organizations emerged as a result of internal developments in the capitalist economic order. An important aspect of this is described by Marx as the process of "the concentration and centralization of the capital" (Heilbroner, 1980, p.124). It is the process by which giant companies become the typical operational units of mature capitalism, as successful businesses generate additional capital from their sales and also acquire the assets of weaker competitors during periods of crisis. As businesses compete for the factors of production and also markets for their finished goods and services, they struggle to expand their activities beyond national boundaries, with this resulting in the internationalization of capital (Heilbroner, 1980, pp.132-133). The existence of transnational corporations confirms Karl Marx's prediction that capitalist business entities would eventually take up a transnational structure as they competitively seek for new sources of the means of production and new markets for their products.

3. The State and the Global Capitalist Economic Order

Traditionally, the state was construed as sovereign, having complete control over the entire internal affairs in its area of jurisdiction. This includes the political, economic, legal and every other sphere of social existence. The state was meant to facilitate sustainable social development in its territory, with this now understood, in the final analysis, as a complex of increase in GNP per capita, the level of life expectancy, access to education, health care, housing, sanitation, drinking water and food (UNDP 1997, pp.142-143).

However, with the global expansion of capitalism through the activities of transnational corporations, the global economic order began to take its present shape of a well knitted integration of virtually all the national economies of the world (De Rivero, 2001, pp.25-26). Indeed, "today, the greater part of the goods, services, financial transactions, entertainment and publications is produced by transnational enterprises" (De Rivero 2001, pp.25-26). States no longer have a sovereign control over national economies as the activities and decisions of transnational corporations taken outside national territories define not only the economic condition but also the general social condition prevalent in virtually all nations. In the words of Rivero,

> Through the actions of these powerful enterprises, states have been losing sovereign control over economic and cultural decision making…. the world scope of the economy (that) allows decisions taken outside the national territory to determine the behaviour of interest rates, the fiscal deficit, the currency value, the price of primary products, the amount of unemployment, or the relocation of entire industries. Activities that were formerly reserved as strategic have practically disappeared. They may be taken over by companies that are located abroad, and even in states that were traditionally considered rivals. (2001, pp.26-27)

Through the process of globalisation and the operation of the free-market principles, which require states to withdraw from core economic activities through the processes of deregulation, privatization and commercialization, states have greatly lost control of their national economies. A key aspect of this process that has weakened the influence of the state in economic and developmental matters is the globalisation of the financial world. With this, "the destiny of many national economies and culture is being determined not in government offices or parliaments, but in the international financial markets of New York, Chicago, London, Singapore, Hong Kong, Tokyo, Frankfurt or Paris, and in the boardrooms of the transnational corporations" (De Rivero, 2001, pp.46).

4. The Current Global Economic Crisis and the Jettisoning of the Principle of the Free Market

As is evident in the present global economic crisis, events that occur in a specific national economy consequent of the decisions or actions of transnational corporations have ripple effects, sending shock waves through all the national economies of the world, with the state left largely helpless. The case of the collapse of Lehman Brothers on 15 September 2009 in the U.S.A is a very good example. It can be rightly described as the gong that marked the effective commencement of the current global economic crisis. With the bankruptcy of this financial institution came a financial panic that threatened to shatter the global economic order. This was, in turn, followed by an unprecedentedly expensive effort by governments on both sides of the Atlantic to stabilize their national economies and also the global economy.

It must be noted that efforts by many of the governments of the nations of the world to mediate the global economic crisis involve the jettisoning of the capitalist core principle of the unfettered market. For instance, President Bush in December, 2008, paradoxically affirmed, “I've abandoned free-market principles to save the free-market system" as trillions of taxpayer dollars was approved by different governments in different parts of the world as handouts, loans and guarantees to save the world’s largest financial institutions and major corporations from collapsing. This is indicative of the fact that at least some of the principles guiding the operations of businesses within the capitalist system are flawed, especially if we are to take into consideration the wellbeing of the national or global economy of which business entities constitute an important component.

5. The Idea of CSR

The issue of social responsibility within the context of business relates to the obligation of business entities and corporate officials to carry out their operations in ways that would maximize their positive impacts and minimize their negative impacts in society (Ferrell, Fraedrich and Ferrell 2000, p.71). This might be looked at from four perspectives that overlap in some key ways: legal, ethical, economic and philanthropic. The legal dimension of the social responsibility of business entities and their officials consists in their obedience to all the relevant laws and regulations duly established by government to set a minimum standard for responsible behaviour. Indeed, no serious contention can arise over whether or not businesses should conform to legal demands that have been duly formulated. The prevalent expectation is that business organisations have a responsibility to abide by the demands of the law.

The ethical dimension of social responsibility is informed by the social standards, the norms or expectations reflecting the prevalent concern of major stakeholders in business. These stakeholders include all that are affected, directly or otherwise, by business activities: consumers, employees, suppliers, shareholders and community. Usually, the ethical dimension of the social responsibility of business relates to questions about what moral responsibilities business entities have and also what is morally fair or just in the relationship between business and stakeholders.

The economic aspect of the social responsibility of business, traditionally speaking, is concerned more directly with how resources for production are managed in order to maximize the owners’ or shareholders’ value or wealth. It is in this regard that it is stressed that the only social responsibility that business has is to make profit. The philanthropic perspective is about the extent to which businesses should contribute to the welfare of society. This is often discussed, for example, in terms of charitable donations and contributions towards such ventures as the improvement of healthcare service delivery and education.

Practically speaking, however, these dimensions of the social responsibility of business cannot be distinguished in a rigid manner. In the final analysis, they are all about how the decisions and activities of business entities affect social wellbeing, the extent to which and how businesses should pursue social wellbeing. It is in this regard that the issue of the social responsibility of business is marked by a general controversy between those who affirm and those who deny that business has a social responsibility beyond the economic responsibility of managing the resources of production in ways that profit would be maximized for the owners of business. Commenting on this debate, Milton Friedman rightly observes that there is an increasing acceptance that business and its officials have social responsibilities beyond the profit making interest of the owners of business (1988, p.349). He, however, contends that

> this opinion betrays a fundamental misconception of the character and nature of a free economy. In such an economy, there is one and only one social responsibility of business-to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without fraud or deception.

This line of argument is quite prominent among business owners, who maintain that issues of social development are the legitimate concern of government. Indeed, various arguments have been presented in an attempt to establish that much of the social concerns that are raised in the discourse on the social responsibility of business should be and are best left for governments to handle (Freidman 1998, pp.246-251; Smith 1998, pp.252-257). The irony of this position, however, is that as business entities, especially the TNCs, enjoy increasing global powers and influence, and as the socio-economic powers of government is being eroded within the global capitalist order, business corporations remain quite reluctant to assume international responsibilities, even with regard to the problems generated consequent of their global negotiations and activities (De Rivero 2001, p.51).

A scrutiny of these contentious social concerns, at least from the moral perspective, would suggest that they are issues which, ordinarily speaking, any responsible social institution or member of society ought to be concerned about and be willing to attend to as much as is reasonably possible. Hence, a question that should be asked amidst the debate over the social responsibility of business is: why do critics of the idea of CSR deny that business has any social responsibility beyond profit maximization for its owners? This question becomes more pertinent if we consider two facts: First is that business entities, through, their activities generate or at least complicate much of these social problems. For instance, "they frequently generate unemployment, cause environmental damage or depend on complicity with oppressive regimes" (De Rivero 2001, p.52). At least, the blame of the current global economic crisis, along with all its attendant socio-political and socio-economic complications can be laid squarely at the feet of a number of business (financial) corporations.

The second consideration is that government, as it exists today within the context of the global capitalist economic order, has lost much of its traditional powers and is today handicapped to directly address some of the relevant social concerns without compromising the ideal of the free-market system. Today, in remaining faithful to the capitalist ideal of the free market system, there is the quest to minimize governmental involvement in the economic sector and any insistence that government should undertake certain socio-economic responsibilities might be inconsistent with the free-market principle as it would necessitate an increased activity of government in the economic sector. This would amount to a move away from capitalism and towards socialism. Former President Bush recognized this given his remark, earlier referred to in this paper, that in an attempt to facilitate a resolution of the global economic crisis, he abandoned the free-market principles through governmental intervention.

6. Tension between Profit Maximization and Social Development

Finding an answer to the question on why there is the denial of any business social responsibility beyond profit maximization above requires that we understand the tension between the quest for profit maximization by business and the demand to be socially responsible in ways that would facilitate an overall improvement in the wellbeing of all stakeholders in society. To start with,

> Everyone knows that men and women in business are interested in one thing: money. And, as everyone also knows, men and women in business will do anything that has to be done to make money. That is the name of the game. That's what business is really all about (Primeaux 1998, p.259).

The fundamental goal of business is to maximize profit and it demands that business is "structured, people are hired, jobs are described, managers are held accountable, raw materials are acquired and technology engaged" (Primeaux, 1998, 259) in ways that would ensure that profit is effectively maximized. Everyone and everything in a business organization is to be directed by and also expected to conform to the demands of profit maximization.

However, today, business organizations are also expected to respond positively to the demands of CSR by attempting to resolve the contemporary social problems of "pollution, adequate wages and benefits, safe, even pleasant working conditions, non-discriminatory personnel policies backed by appropriate recruitment, training and even retaining programs, careful husbanding of non-renewable resources, honest, informative advertising, production of safe and durable products" (Camenisch, 1998, p.92). This presents a complication for business as being socially responsible often involves the expenditure of additional funds that would erode profits, which as far as business is concerned, it has a fundamental responsibility to maximize.

Critics present the relationship between the quest for profit by business and the demand that it should enhance social development by being socially responsible as one of acute tension that could hardly be reconciled. They contend that any considerations of issues pertaining to social development by business entities "results in a deliberate sacrifice of profits or muddies the process of corporate decision making so as to impair profitability", which, according to them business is all about (Smith 1998, p.252). Hence, business entities are usually reluctant to respond to matters of social development as required of them by the ideals of CSR simple because they often see doing so as eroding into the core of their very essence and reason for existence: profit.

Other arguments have been presented by critics of the idea of CSR to justify the reluctance of business to use its resources in pursuit of social development. Some are discussed by Smith (1998, p.252) under the themes: competitive disadvantage, competence, fairness and legitimacy. Nonetheless, for the immediate purpose, this paper focuses on only issues bearing direct relation to the question of profit.

7. Reconciling Profit and Social Development

There have been various attempts to show that the quest to maximize profit is not necessarily incompatible with the demand on corporate organizations to pursue projects of social development. One of these attempts, that is quite convincing, thrives on two important distinctions: First is the distinction to be made between profit in the short term and profit in the long term. Although it might appear to be more profitable, in the short term, for businesses to ignore issues of social development, but addressing these issues are more likely to deliver greater and more sustainable profits in the long term. Below is a summary of an argument to show that businesses tend to record greater benefits on the long run if they concern themselves with immediate issues of social development even if doing so would entail sacrificing some immediate profits:

> Contemporary global reality is such, however, that factors like unemployment, financial speculation, currency fluctuation, poverty, and environmental disasters, which predispose people to violence, are becoming rifer, especially in developing countries with dire consequences on global peace and stability. Unless these factors are positively addressed, the global society would become increasingly unfavourable for the prosperity of TNCs. Consequently, TNCs should attend to the problems that threaten social stability and peace in order to guarantee the stable order required for their continued existence and prosperity. At least, the principle of enlightened self interest or prudence requires TNCs to promote those social conditions that are favourable to the pursuit of their preservation and flourishing (Ekanola, 2006, p.287).

The second distinction is between the profit of individual businesses on one hand and the wellbeing of the entire economic system of which businesses constitute a very important component. This distinction, in turn, depends on the mutually reinforcing relationship between specific businesses, the corporate sector and the economic sector as a whole. The widely acclaimed primary goal of business, as we have stated repeatedly, is to maximize profit, but to effectively do this, without any element of force or fraud, it must effectively meet the specific needs of its customers. The satisfaction of these needs through an efficient production and distribution of goods and services is, truly speaking, the ultimate end of any economic system, be it mixed, socialist or capitalist. Thus, business entities along with their officials must come to terms with the fact that the quest for corporate profit would only be effective and sustainable if they effectively meet human needs which, in the final analysis, is all that issues of social development are about: to ensure that society along with all its social institutions are structured in such a way that human needs are met and human wellbeing is enhanced.

From another perspective, the position that business should have no social responsibility beyond profit ignores the very important fact that their prospect of flourishing and making profit is largely determined by the flourishing of the economic system as a whole. The case of the current global economic crisis is again instructive as practically all businesses have suffered, albeit, to different degrees from the decadence of the global economy. Many companies have recorded a colossal loss with some driven to bankruptcy. Hence, it should be evident to all that the fortune of specific business entities is intricately tied to the wellbeing of not only the entire economic system, but of society as a whole.

8. Reconciling Profit and Social Development: Anyiam-Osigwe's Cosmopolitan Ideal

Anyiam-Osigwe has a clear ethical position on business, especially as this relates to the supposed tension between profit and social development. This is derived from his general ethical position that moral issues do not begin with social institutions but with individuals. In this regard, it can be said of him that he is in agreement with the position advocated by John Maxwell that a state, business entity or even a family can only prosper on a foundation of moral character, which does not start with the social organization itself but with the individuals that constitute it (Maxwell, 2003, p16).

However, while Maxwell advocates the golden rule of morality as the principle that should guide every aspect of life, including business, Anyiam-Osigwe advocates an ethical principle that is cosmopolitan in that it emphasises the overall wellbeing of society, and considers this as providing the context within which all kinds of individual interests, including the profit maximizing interest of business entities, could be effectively enhanced. His position on the relationship between the pursuit of profit and social development is given expression in the corporate philosophy of the Anyiam-Osigwe Group of Companies cited at the beginning of this paper:

For Anyiam-Osigwe, all stakeholders in society should adopt the cosmopolitan mind-set for the global society to overcome all social contradictions and develop in a sustainable manner. He contends that "the global eradication of ignorance and poverty, the attainment of holistic development for all humanity, requires the cosmopolitan expression of the group mind principle" (Charles Anyiam-Osigwe, 2002, p.8). His idea of cosmopolitanism advances the enormous advantage of community among men irrespective of all prejudicial considerations (Charles Anyiam-Osigwe, 2002, p.52). He conceives of a cosmopolitan as "one who conducts himself/herself without the limiting prejudice of religion, culture, demography or any subjective or personal interest that is not integral to the ideals of the common good and collective will of the human community" (Charles Anyiam-Osigwe, 2002, p.48). Osigwe avers that each individual, irrespective of position or profession in society, has a responsibility to contribute his/her individual potentials and attributes into a common pool for the common good of all in society (Charles Anyiam-Osigwe, 2002, pp.7-8, 48).

With specific reference to Anyiam-Osigwe's conception of economic cosmopolitanism, he affirms that a major hindrance in the path of the eradication of poverty and attainment of a sustainable social development is the "social system that is constructed to serve a limited vision and perception" (Charles Anyiam-Osigwe, 2002, p.68). Such limited vision and perception, according to Anyiam-Osigwe, is borne out of the ignorance of the fact that "we are all connected" and that "the web of life remains unbroken" (Charles Anyiam-Osigwe 2002, p.16). This limited perception is also oblivious of the reality that "poverty anywhere in the world makes the assumed wealth of a few countries illusory" (Charles Anyiam-Osigwe 2002, p.57). Consequently, Anyiam-Osigwe is of the conviction that to record genuine social development, all stakeholders in society have a responsibility to "moderate the propensity to pursue self-serving goals at the expense of the common good" (Charles Anyiam-Osigwe, 2007, p.27).

Anyiam-Osigwe's reference to the social system constructed to serve a limited vision and perception, and pursue self serving goals rings true of the global capitalist system within which it is generally accepted that the basic and direct responsibility of any business entity is limited to maximizing profit for its owners, to the exclusion of any social responsibility to pursue social development as this would encroach into its profit. This position appears myopic from two distinct perspectives: First, the generally accepted role of business within the capitalist order is based on a limited and illusory perception that the pursuit of profit by individual business entities would somehow translate, by the workings of an invisible hand, into the overall welfare of society, even though this is not part of the initial intention of business (Friedman, 1988, p.349).

In truth, no modern society has truly developed in a sustainable way by a strict reliance on the idea of the invisible hand, but by an understanding and exploitation of the interplay of a complex of social, economic and political factors. In this light, Anyiam-Osigwe maintains that holistic development, which is often referred to in contemporary terms as sustainable development, can only be recorded through an interplay of the right personal values, an adequate socio-political order and an efficient economic system (Ekanola, 2009B, p.69). The American society and many of the Western European nations did not develop by a strict reliance on the idea of an invisible hand within the free market system. They always took steps to protect their national economies even when this is contrary to the free market principle. This is quite obvious, even now, if we bother to consider the various measures governments in the Western societies are taking to mediate the global economic crisis and keep key business entities afloat.

The second perspective from which the idea that profit, to the exclusion of other social concerns, is the only essential concern of business is myopic relates to the fact that it ignores the intricate relationship between the activities of business and existing level of social development: How business is organized and executed ultimately impacts upon the level of social development (employment, social justice, social peace and environmental pollution, etc) just as the level of social development, as indicated by access to such social amenities as electricity, good water and social security, greatly influence the prospects of profit making on the part of business.

Indeed, the position of the advocates of profit to the exclusion of other social responsibilities may be well illustrated using what I call the paradox of the tick that is gradually killing itself while it thinks that it is killing a dog. Ticks are tiny parasitic insects that feed on the blood of several animals, including dogs, and in the process infect the blood. A tick infested dog might eventually be killed by the tick infection. Interestingly, however, ticks cannot survive without a host body and would also eventually die off after the death of the dog. Businesses that neglect issues relating to the wellbeing of society fail to realize that their own well being is tied to the wellbeing of society just as the continued existence of ticks is tied to the existence of the host animal. The point being made essentially is that contrary to the belief that there is a tension between profit and social development; the two are, in a significant way, mutually reinforcing and any business entity that is interested in making profit in the long term and ways that can be sustained must pay attention to issues of social development. Without this, the quest for profit by business would eventually collapse. Thus, it is important for business to realize that it cannot afford to ignore issues of social development if it is interested in long term and sustained profit.

To effectively transcend the myopic perception that the only social responsibility of business is profit and embrace a cosmopolitan mindset, Anyiam-Osigwe's notion of reorientation and intelligent re-engineering (Charles Anyiam-Osigwe, 2007, p.8) is instructive. This involves a process through which members of society, irrespective of their status or peculiar function in society are expected to internalize the appropriate values that would facilitate holistic development in society. These values, in the opinion of Anyiam-Osigwe, are also expected to guide all organizations and structures in society, as well as the pursuits and goals that are set by all political, economic and other organizations in society. These values include "honesty, dedication, simplicity, selflessness, justice, prudence, temperance and courage or fortitude" (Offor 2009, 124). According to Anyiam-Osigwe, these values, when they have become internalized and crystallized into an appropriate cosmopolitan mindset in members of society

> hold the solution to the many and varied challenges in all spheres of human existence and have through the ages provided man with the inventiveness, knowledge and understanding with which to conquer, subdue and establish dominion over the continent (Charles Anyiam-Osigwe 2004, 2).

This cosmopolitan mindset does not pursue just personal wellbeing but the wellbeing of the community. In fact, it embeds the wellbeing of the individual within the development and wellbeing of the community (Charles Anyiam-Osigwe, 2005, p.7). When this line of thought is extended to business entities, it suggests that business must recognize that its interest and wellbeing are embedded in the wellbeing of society at large and as such should realize that an effective pursuit of the profit interest of individual businesses is dependent on the effective pursuit of the overall social interest.

To cultivate and internalize the cosmopolitan mindset, Anyiam-Osigwe prescribes a process of education for all members of society that would achieve the primordial essence of education, which is to instil a moral order in the individual and facilitate the holistic development of the individual, irrespective of the position s/he would eventually occupy in society. An important component of this holistic development of the individual is to make each person a good person and a good member of society that recognizes and acts in accordance with the intricate interplay of individual and social wellbeing.

If the above is brought to bear on both the owners and officials of business, the implication of Anyiam-Osigwe' position is that when they have been instilled with the requisite moral order, they would always carry out their business activities in ways that respect and preserve the interplay of the wellbeing of their business and the overall social wellbeing. They would also engage in business in ways that would enhance economic growth and social development in society with the understanding that it is only by doing so that their own quest for profit could be realized in the long and sustainable term.

9. A Defence of Anyiam-Osigwe's Cosmopolitan Ideal

Expectedly, the attempt to reconcile profit and social development using Anyiam-Osigwe's cosmopolitan ideal would have a good number of criticisms. For one, advocates of capitalism and all it stands for would be quick to point out that it is somewhat socialist in orientation. Capitalism is generally acclaimed in contemporary times to be more acceptable than socialism because of the understanding that it has a better prospect of enhancing social development. But, indeed, even the Western societies at the forefront of the advocacy for capitalism have never been consistent in the practice of capitalism. There has never been a strict adherence to the core principles of capitalism in spite of claims to that effect. For instance, there has never been a total reliance on the invisible hand in the regulation of prices in the market place. Rather, various systems of taxation, among other instruments, have been used to regulate prices and also to protect home industries. Besides, if we consider the recent bail-out plans adopted to keep major business entities afloat in the USA and other Western countries in response to the global economic crisis, it is obvious that the notion of a free market is more of a myth than reality. Likewise, the principle of the free market is not employed when it comes to the movement of labour across national boundaries. Rather, it is subjected to strict immigration laws that reveal a paradox inherent in the so called practice of the free market system in Western societies.

What the above points at is that those societies that have attained appreciable level of social development have done so, not on the basis of a strict adherence to the core principles of capitalism but to an admixture of capitalism and socialism. Consequently, criticizing the attempt to reconcile profit and social development by an appeal to Anyiam-Osigwe's Cosmopolitanism by saying it is socialist in orientation cannot stand. As we have mentioned earlier in this paper, former President Bush of the USA was honest enough to admit that he had to abandon the free-market principles in order to stabilize the American economy and the overall wellbeing of members of society that was thrown into jeopardy in the wake of the current economic crisis. In the final analysis, what would determine the plausibility of the effort to reconcile profit and social development using Anyiam-Osigwe's cosmopolitanism is the actual extent to which it is practicable, actually facilitates business profit in the long term and enhances a viable synergy of profit and social development in the long run.

Critics might also attempt to undermine the plausibility of Osigwe's cosmopolitanism in reconciling profit and social development by a reference to the practice of TNCs to relocate their business, especially manufacturing activities, to areas where there is already on ground the kind of social environment and amenities requisite for efficiency in production and finally, profit maximization. The argument would be that rather than allow the challenge of social development in a given geographical location to undermine profit, TNCs are always quick to relocate their core activities to the areas that are more suitable. This practice, critics might say, is relatively easier and cheaper given the contemporary desperation of the world's developing nations and emerging economies to attract foreign investments. In Nigeria, for instance, the fear is rife that many of the industries domiciled there are finalizing plans to relocate to neighboring countries as a result of the insufficient and erratic supply of core social amenities such as electricity, water, good road network and good social security (http://allafrica.com/stories/200906230402.html). It appears that in the opinion of business entities, it is more profitable to simply relocate than to deplete their profit in the effort to contribute to social development.

It appears that decisions to relocate production are primarily taken on the basis of a consideration of the availability of factors of production and perhaps accessibility to the market. It also appears that not much consideration is given to the impact of such relocations on existing market for the finished products: As people lose their jobs consequent of the relocation of industries, they also lose the financial ability to purchase and consume the finished products, resulting in the shrinking of the size of the market and ultimately the level of profitability. This sequence of events is easily understood given that the massive loss of jobs in recent times consequent of the global economic crisis has greatly impaired the purchasing capacity of a great number of people and indeed the profitability of a good number of business.

The penchant to relocate businesses to areas that offer social conditions that better facilitate profit maximization is premised upon the illusion that it is possible for a business entity to maximize its profit while other sectors in a given society and other societies are bedeviled by various forms of problems. The social reality which might not be obvious to many is that humanity along with all its social institutions are ultimately all connected (Charles Anyiam-Osigwe 2002, p.16) in a way that poverty anywhere in the world makes the assumed wealth of a few countries or the prosperity of some TNCs illusory. In this age of globalisation, with the consequence of the world fast becoming "a global village", the prospects to maximize profit by a business entity would always be affected by the social conditions existing in societies other than the immediate society in which its major activities are domiciled. Again, a consideration of the current global economic downturn gives credence to this fact as what started as a financial problem in the West, specifically the USA has generated a wide range of human suffering worldwide, with the worst hit being those working in the export-producing factories, such as mining, textile and textile garments, metals and metal products, automobiles, gems and jewellery, construction, transport and information technology, as well as tourism.

10. Conclusion

We have been concerned with the effort to reconcile profit and social development using Anyiam-Osigwe's cosmopolitan ideal. The thesis of the paper is that profit and social development are not necessarily mutually exclusive but can actually be complementary. The perceived tension between the two, to employ Anyiam-Osigwe's description, is a product of a limited understanding. A comprehensive understanding of the distinction to be made between profit in the short term and in the long and sustainable term as well as the interdependence between all social structures across the economic, political and even cultural domains reveals that business would only record maximum profit and also be able to sustain this if it gives requisite attention to other social issues pertaining to social development.

At the level of theory, Anyiam-Osigwe's cosmopolitanism holds great promise to reconcile the tension between profit and social development. The challenge before his position, however, is that of how to actually facilitate a paradigm shift in the focus of business entities in such a way that their quest for profit is always moderated by an objective consideration of and a sufficient attention being given to the various social issues that affect the wellbeing of members of society and ultimately their own prospect of maximizing profit.

In this regard, his prescription for a process of education for all members of society that would instil a moral order in the individual and equip each person, irrespective of the position they would eventually occupy in society, with the capacity to balance personal interest with the common interests of all in society might be viable. However, it requires a critical examination in order to determine exactly how this process of education should actually be set in motion.

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EUROPEAN EMPLOYMENT STRATEGY AND TURKEY'S EMPLOYMENT POLICIES

Abstract

Turkey has a vital problem because of having high unemployment ratios for many years. Turkey's economy has grown for long years but it hasn't been able to create any employment opportunities. Because of that we could say the governments couldn't find any solution for the unemployment problem in Turkey. Therefore, new ways of creating job opportunities especially for the young generations should be investigated. Many qualified people who are graduated from universities couldn't find any job and also many experienced people losses their job because of economic crisis that appears periodically. According to this, some of the economists offer flexible working type for the active employment market. And a few economists offer the European Employment Strategy to make more people to join active employment market. It would be analyzed the current employment policies and labour market to evaluate the current position in Turkey. Meanwhile the European Employment Strategy would be researched. This study focus on the European Employment Strategy and how it could be applied to create new opportunities for people who couldn't find any job even they try to find.

Keywords: European Employment Strategy, Unemployment, Labour Market.

1. Introduction

After the Second World War, the reestablishment process of Europe had created the Social Welfare States. In that term, full employment was provided by governments and social rights were in secure conditions. In 1973 and 1974 two oil crisis was occurred then economic and social indicators had began to decay. The rise of the oil prices caused the increase of unemployment and the corruption of income distribution. In 1990s European countries became much more far away from the social welfare model. Because of these unfavorable situations, European countries had come together in order to fix the corruption of social structure so they decided to establish a new employment model.

2. The Content and Improvement of European Employment Strategy

In 1990s, one of the most important problems in Europe was unemployment and the employment rates were considerably declined (Kesici, Selamoğlu, 2005, p.25). The EES emerged from a crisis in social policy that came to a head in the mid- 1990s. Welfare states were under acute strain, and joblessness had risen dramatically (Trubek, Mosher, 2001, p.2).

European Union (EU) has been looking for an approach to solve the long run unemployment, youth unemployment, insufficient employment level and unequal opportunity problems which occurred from the beginning of the 1990s in labour force markets. The searching process is creating the question if EU would continue by looking for new approaches to solve those problems (Zengingönül, 2003, p.1). Rising unemployment and the associated income disparities, social divisions and threats to stability and cohesion have major policy implications (Rhodes, 1995, p. 38).

Recent actions by the European Union, especially in social policy and industrial relations, reveal an increased use of alternative approaches to governance that are more accepting of diversity and encourage semi-voluntary forms of co-ordination. This occurs under the traditional Community method, as many recent directives tend to be relatively open and flexible. But the move from top-down, uniform rules to more flexible and participatory approaches can best be seen in areas like the European Employment Strategy (EES), also known as the Luxembourg process, which departs radically from traditional regulatory approaches (Mosher, Trubek, 2003, p.63). From a system perspective, social protection is 'activated' in the sense that the distributing of services and benefits mainly targets working age people being in some sort of 'work' activities. It is also activated in the sense that funding mechanisms and the allocation of resources are designed so as to foster increased job creation, even to the point that, after the 2000 Lisbon strategy of the European Union, a revisited notion of 'full employment' has returned to the political agenda. And indeed at EU level, 'employment' or 'work' has now tended to be seen as a panacea for all sorts of social needs, certainly blurring the previous frontier existing between traditional social policy and social protection associated to the status of being employed (Barbier, 2005, p.7).

These challenges coincided with a paradigm shift in thinking about progressive social policies as Europeans began to realize that the welfare state itself could contribute in some cases to the unemployment problem, and that increasing the employment rate was necessary in many places to sustain generous benefits. Two issues helped force this shift. First, in many countries, efforts to deal with unemployment by expansion of income maintenance programmes and early retirement had led to relatively low levels of workforce participation, thus weakening the fiscal base for the welfare state. Second, methods used to finance welfare state expansion had made it harder to create low wage jobs and make work pay (Mosher, Trubek, 2003, p.65).

In 1990s the most important problem in EU was unemployment and there were concrete steps to solve this problem in EU level. White Book which was published in 1993 was focused on establishing an integrated Europe approach for employment field by determining the ideological, political and analytical bases of this approach (Ataman, 2003).

The EES is a response from the sphere of employment policy (Mundlak, 2007, p.192). The EES has been developed in order to encourage exchange of information and joint discussions by all Member States, thus trying to find solutions or best practices together which could help creating more and better jobs in every Member State. The strategy consists mainly of a dialogue between the Member States and the European Commission, on the basis of official documents like the guidelines, recommendations and the annual joint employment report. This is complemented by a dialogue between the European Commission and the social partners and also the other European institutions, including the European Parliament, the European Economic and Social Committee and the Committee of Regions. The Employment Committee, which is formed of representatives of the Member States and the European Commission, has a key role in the coordination of the objectives and priorities at the EU level. These objectives are organised along common indicators and measurable targets concerning employment (http://ec.europa.eu/social/main.jsp?catId=101&langId=en, European Commission, 12.04.2009).

The Guidelines proposed by the Commission and approved by the Council, present common priorities to the Member States national employment policies. Since 2005, the employment guidelines are integrated with the macroeconomic and microeconomic policies and are set for a three year period (http://ec.europa.eu/social/main.jsp?catId=108&langId=en, European Commission, 13.04.2009).

Recent actions by the European Union, especially in social policy and industrial relations, reveal an increased use of alternative approaches to governance that are more accepting of diversity and encourage semi-voluntary forms of co-ordination. This occurs under the traditional Community method, as many recent directives tend to be relatively open and flexible. But the move from top-down, uniform rules to more flexible and participatory approaches can best be seen in areas like the European Employment Strategy (EES), also known as the Luxembourg process, which departs radically from traditional regulatory approaches (Mosher, Trubek, 2003, p. 63). Understanding the pertinence of ‘activation’ across Europe and especially in the context of the EES leads to an exercise of balance between the diversity of national trajectories and the identification of what precisely is common to all countries. It also leads to accepting that the interactive processes of influence between EU member states cannot be captured as simple influences from one to another country, or only as a mechanical impact of the European level on the national. In the case of the EES, outcomes should also be separated in outcomes in terms of adopting similar policies, and outcomes of the said policies (in terms of employment, inequality, etc.) (Barbier, 2005, p.3).

The EES is a ‘soft law’ governance mechanism because there is no ‘hard’sanctions to ensure adherence by the Member States to the guidelines (Mosher, Trubek, 2003, p.70). The European Commission reviews national action plans of the member states and suggests recommendations which are finally adopted by the Council of the EU. The recommendations are not binding: they only express the EU’s views on national employment policies (Raveaud, 2007, p. 412). By the late 1990s, the already long-standing employment crisis worsened, and critics began to argue more forcefully that there was a link between European economic integration and layoffs. Deft lobbying and maneuvering by the Commission put subtle pressure on Member States to use the EU to respond to the crisis. Under German pressure, the Member States agreed to sign the Stability and Growth Pact. Some leaders believed that this move could further alienate the public from the EU unless counterbalanced by action on the jobs front. This dovetailed with the need to respond to increasing criticism that the EU was not relevant to ordinary citizens (Mosher, Trubek, 2003, p.67).

Progress has been made in recent years in the employment policy area. Unemployment has come down considerably, and the overall employment rate has been growing strongly, on average by about 1 per cent per year since 2005. Analysis suggests that there is evidence of structural improvement in the functioning of labour markets. However, the economic outlook has changed markedly over the last half year, owing to the financial, banking and credit crises. Despite the emerging economic downturn, the impacts on EU labour markets have been limited so far, at least in part due to greater adaptability of the labour markets coming from recent years' structural reforms. With the exception of a small group of Member States where employment fell, in all other Member States employment continued to grow in 2008. Although the effects of the downturn on EU labour markets remain very uncertain, most evidence suggests that the situation is expected to deteriorate sharply in 2009. Business surveys in late 2008 pointed to a considerable weakening of employment prospects across sectors. The economic climate indicator registered the largest decline in its history and consumer confidence is at its lowest in 20 years (Council of the European Union, 2009, p.3).

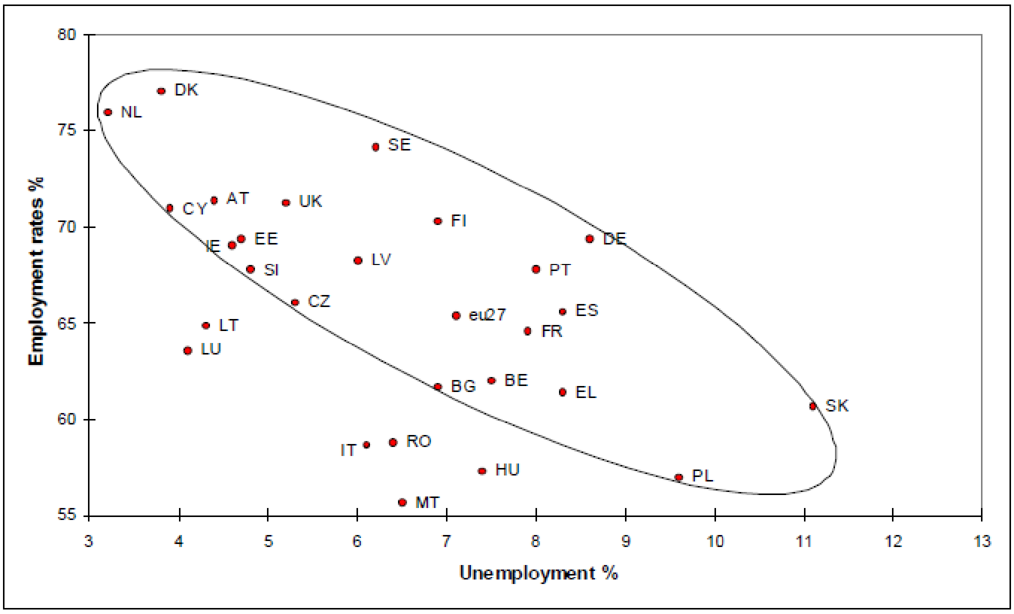
3.European Labour Market

Two illustrations of the continued structural problems are youth unemployment and relatively low participation in lifelong learning. Despite the significant reduction in youth unemployment in 2007 in most countries, young people remain more than twice as exposed to unemployment as the overall work force. Many Member States fall short of the new EU-wide activation targets. Despite an increased focus in Member States, the levels of adult participation in lifelong learning have barely increased between 2006 and 2007 and follow a worrying declining trend in some Member States. These figures are a worrying sign for the future since a substantial rise in investments in human capital better targeted towards labour market needs is essential to close the productivity gap with our key global competitors (European Council, 2009, p.6). The raise of unemployment especially for young people needed to be solved urgently especially for the countries which have a large young population like Turkey. Besides we shouldn’t forget that young people have full of working potential and it is easy to educate them according to needs of the labour markets.

Governments need to exercise more qualified programmes for young people in order to make their adaption to work life and increase their job satisfaction and work life quality. The result of that sort of approaches would be ended by the decrease of the labour force turnover and increase of the efficiency and the productivity of the labour force.

After the beginning of global finance crise, the flexurity of the labour force has become much more popular “activation” than before. EU countries like Germany has began to use it to solve the unemployment problem especially increased after the financial crisis. The aim of the model is to discount the payments and working hours so as a result there would be no fired employee.

Figure -1: Employment versus Unemployment 2007

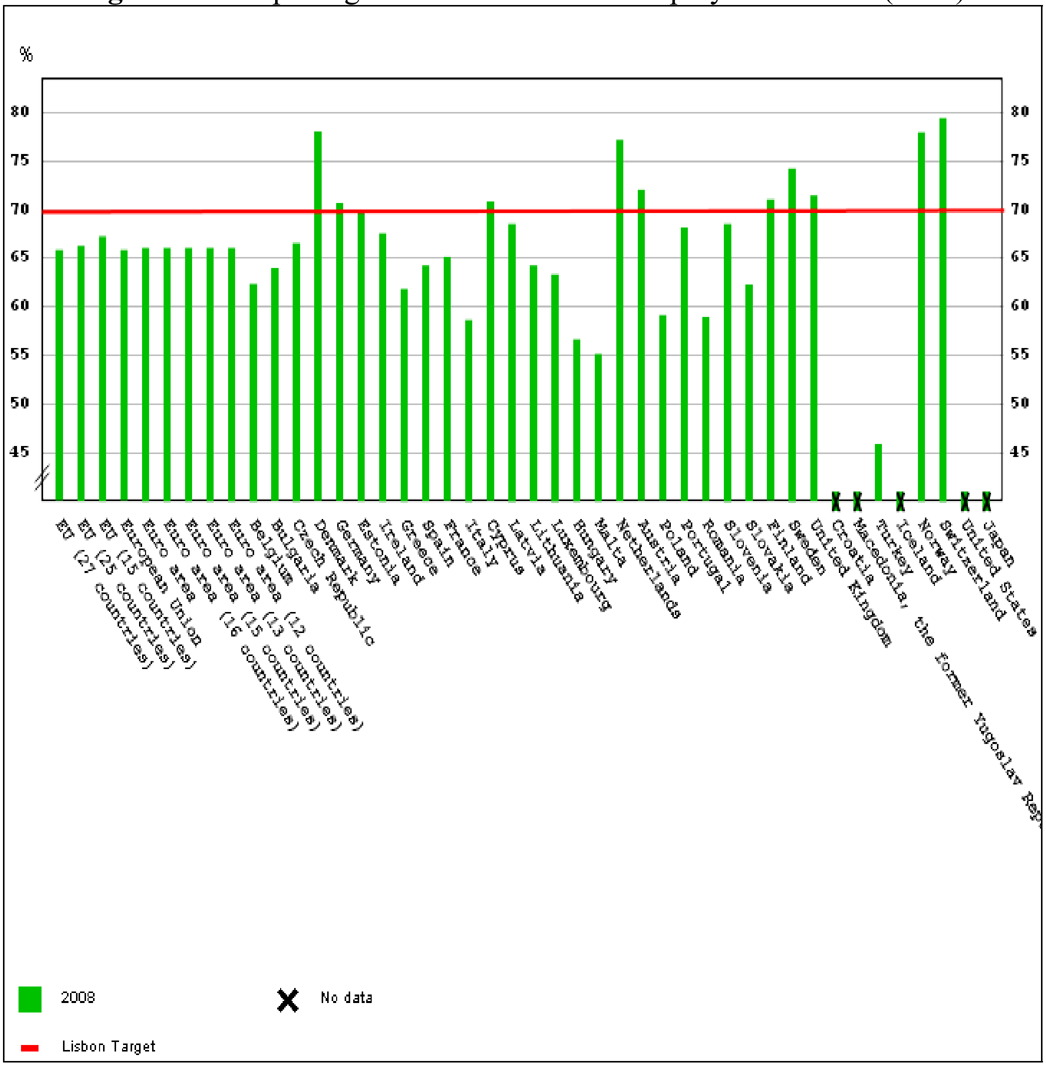


Source: Joint Employment Report 2008/2009, European Council, 2009, p.6

EUROSTAT estimates that 20.154 million men and women in the EU27, of which 14.158 million were in the euro area, were unemployed in March 2009. Compared with February, the number of persons unemployed increased by 626 000 in the EU27 and by 419 000 in the euro area. Compared with March 2008, unemployment went up by 4.061 million in the EU27 and by 2.816 million in the euro area (EUROSTAT, 2009, p.1).

When we examine the employment data of Europe for 2008, it seems that Turkey is the lowest country to establish employment opportunities for its labour force. Sweden, Denmark, Holland and Norway are the ones which could be able to create the most employment ratios in Europe. They have been able to exceed the Lisbon target which indicates that these countries still continue to be welfare states. It precisely point out that Turkey should create a new employment strategy which would help to increase the job opportunities especially for young people and also to adapt its labour market to the Europe labour market.

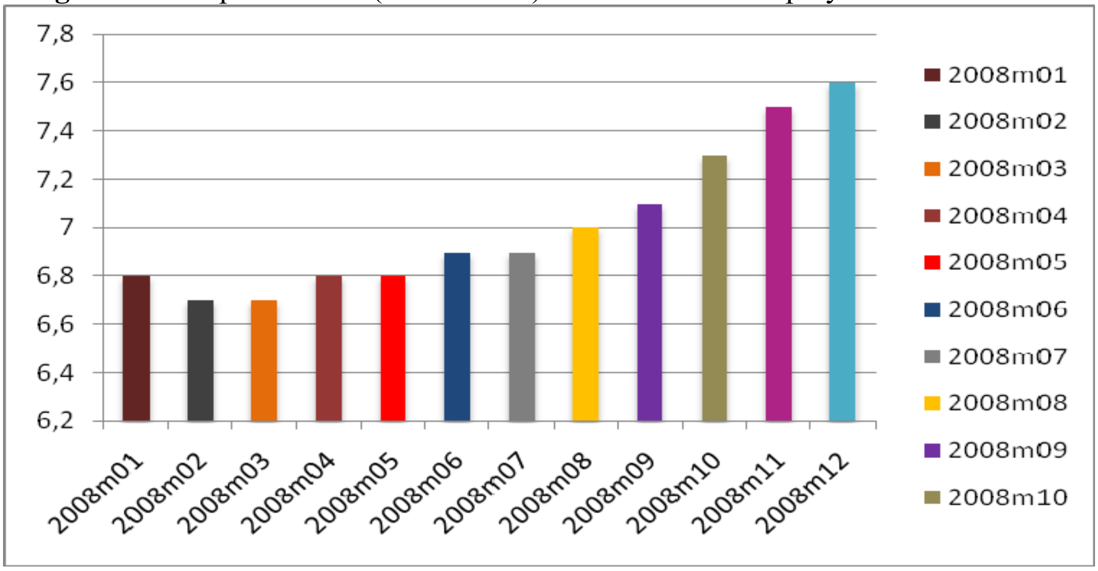
Figure-2: Europe Region and International Employment Ratios (2008)



Source: EUROSTAT Database, 2010

As a result the labour force integration to EU would be smoother than expected. While making the activation according to EES, Turkey has to consider that the main problem is the economy has been growing without creating new employment opportunities. One of the main reason is foreign entrepreneurs generally preferred deposit its money to local banks of Turkey which offers high ratios of interests. And local and foreign investments to mass production sectors has been made so limited and also by privatisation of the governments the public companies becomes part of private sector without their real assets which also effect the labour market negative.

Figure-3: European Union (27 Counties) Harmonised Unemployment Rates - 2008



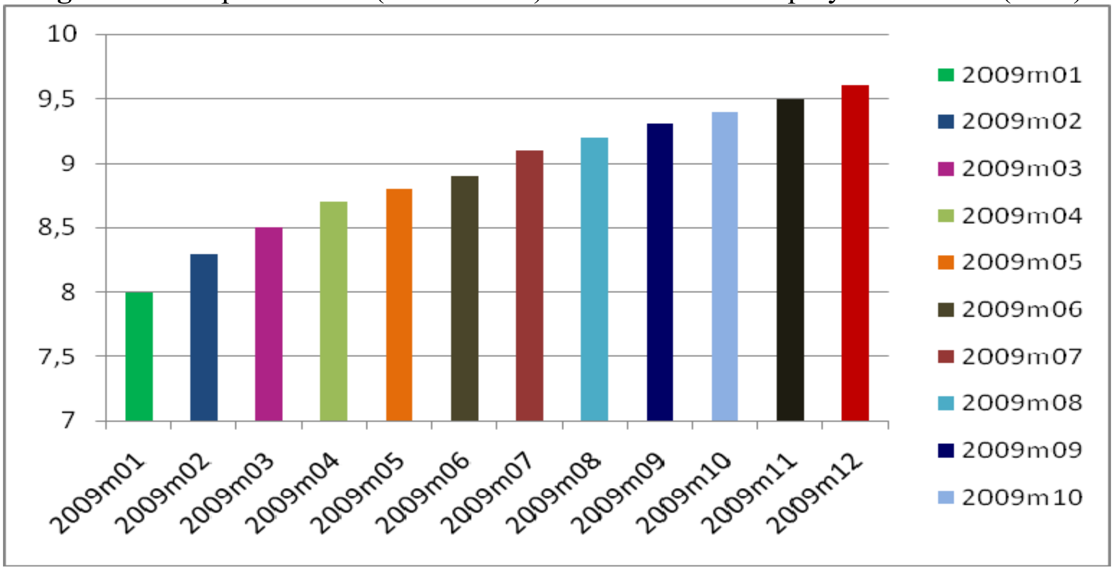
Source: Eurostat Database, 2010

When we examine the EU, it clearly seems that the unemployment rates continue to increase in the region. According to Eurostat data, the unemployment rates increased % 1, 7 from June 2008 to March 2009. Especially the global financial crisis effect the labour markets and many employees lost his job. Therefore it is necessary to get the precautions which offer activations like local employment applications to prevent economies from high unemployment ratios. The EES displays soft activations for governments. By this way it is easy to form a local strategy for each country according to needs of its own labour market needs.[1]

The euro area (EA16) seasonally-adjusted unemployment rate was 9.2 % in April 2009, compared with 8.9 % in March. It was 7.3 % in April 2008. The EU 27 unemployment rate was 8.6 % in April 2009, compared with 8.4 % in March. It was 6.8 % in April 2008. For the euro area this is the highest rate since September 1999 and for the EU 27 since January 2006 (EUROSTAT, 2009, p. 1).

[1] The euro area (EA16) consists of Belgium, Germany, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland. The EU27 includes Belgium (BE), Bulgaria (BG), the Czech Republic (CZ), Denmark (DK), Germany (DE), Estonia (EE), Ireland (IE), Greece (EL), Spain (ES), France (FR), Italy (IT), Cyprus (CY), Latvia (LV), Lithuania (LT), Luxembourg (LU), Hungary (HU), Malta (MT), the Netherlands (NL), Austria (AT), Poland (PL), Portugal (PT), Romania (RO), Slovenia (SI), Slovakia (SK), Finland (FI), Sweden (SE) and the United Kingdom (UK). (EUROSTAT, 2009:2)

Figure-4: European Union (27 Counties) Harmonised Unemployment Ratios (2009)



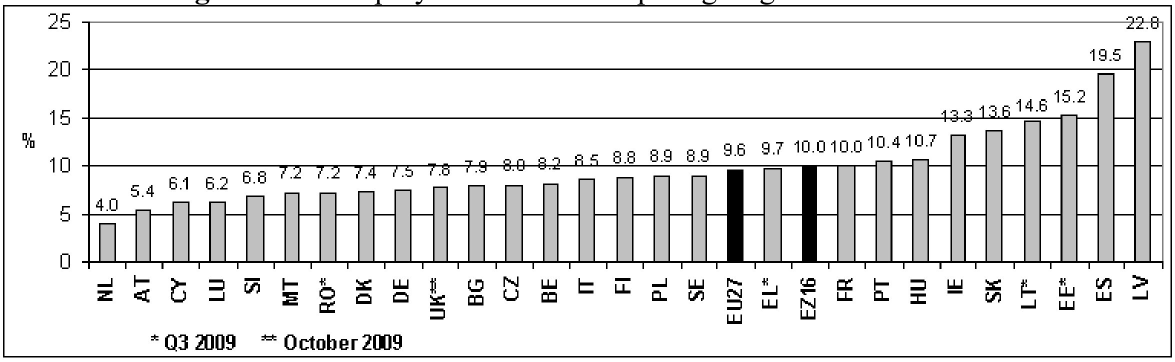
Source: EUROSTAT Database, 2010

The increase of unemployment rates from 2008 to the present time continue to grow especially after the financial crisis occurred in USA and then effect the world including Europe. The EU 27 region the unemployment rate was increased up to 9.6 % in December 2009. According to the current EUROSTAT data, the unemployment rates were increased 1.6 % in a year from January to December 2009. The euro area (EA16) seasonally-adjusted unemployment rate was 10.0 % in December 2009, compared with 9.9 % in November. It was 8.2 % in December 2008. The EU 27 unemployment rate was 9.6 % in December 2009, compared with 9.5% in November. It was 7.6 % in December 2008. For the euro area this is the highest rate since August 1998 and for the EU 27 since the start of the series in January 2000 (Eurostat News Release Euro Indicators, 5/2010).

EUROSTAT estimates that 23.012 million men and women in the EU27, of whom 15.763 million were in the euro area, were unemployed in December 2009. Compared with November, the number of persons unemployed increased by 163 000 in the EU27 and by 87 000 in the euro area. Compared with December 2008, unemployment went up by 4.628 million in the EU27 and by 2.787 million in the euro area (EUROSTAT, 2010, p.1).

When we examine the employment data of Europe for 2008, it seems that Turkey is the lowest country to establish employment opportunities for its labour force. Sweden, Denmark, Holland and Norway are the ones which could be able to create the most employment ratios in Europe. They have been able to exceed the Lisbon target which indicates that these countries still continue to be welfare states. It precisely point out that Turkey should create a new employment strategy which would help to increase the job opportunities especially for young people and also to adapt its labour market to the Europe labour market.

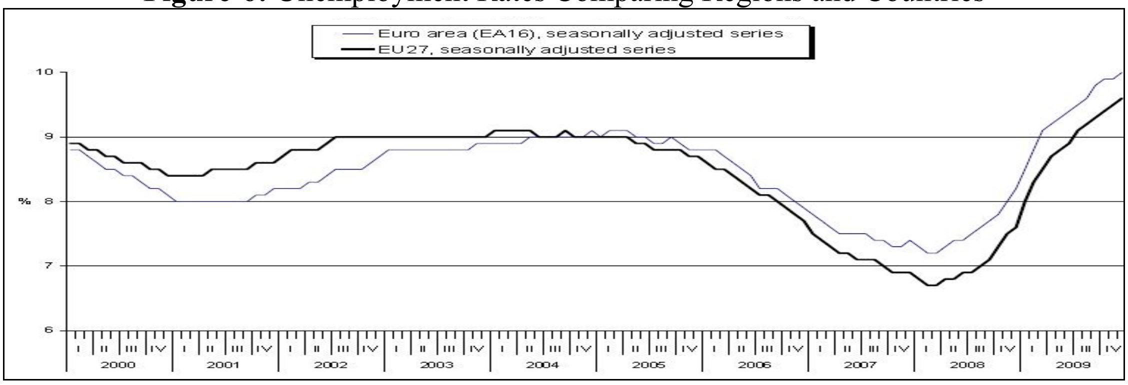
Figure-5: Unemployment Rates Comparing Regions and Countries



Source: EUROSTAT, 2009

In April 2009, the unemployment rate was 8.9 % and in December 2009 it was 10.0 % in the USA. In Japan the unemployment rate was 4.8 % in March 2009 and it was 5.2 % in November 2009. It seems that not only in Europe but also in Japan and USA the unemployment rates continue to increase. In December 2009, the youth unemployment rate (under-25s) was 21.0% in the euro area and 21.4% in the EU27. In December 2008 it was 17.0% and 16.9% respectively. The lowest rate was observed in the Netherlands (7.6%), and the highest rates in Spain (44.5%) and Latvia (43.8% in the fourth quarter of 2009). Among the Member States, the lowest unemployment rates were recorded in the Netherlands (4.0%) and Austria (5.4%), and the highest rates in Latvia (22.8%) and Spain (19.5%) (EUROSTAT, 2010, p. 1).

Figure-6: Unemployment Rates Comparing Regions and Countries



Source: EUROSTAT, 2010

In European Region the unemployment rates fluctuate after 2000. The unemployment rates which range between 8 % - 9 % decreased to 6.5 % in 2005. After the second half of the 2008, the unemployment rates began to increase and still continue. It points out that 2005 and after, the success caught by the governments against the unemployment were temporary. The financial crisis occurred in 2008 effected all Europe countries economics and it could be predict that the unemployment rates would continue in long run if new activations couldn't find for the solution of unemployment. When we compare the EU and EA, the EA 16's unemployment rates are more than EU 27. This could be analyzed as the effects of the crisis have seen less when the number of examined countries increases for Europe.

European Union Council has succeeded against unemployment when we consider the three years passed from 2005 until the financial crisis. Meanwhile in this term the employment rates continue to increase.

4. The Local Employment Programmes Applied in EU

The European Employment Observatory (EEO) contributes to the development of the European Employment Strategy through the provision of information, comparative research and evaluation on employment policies and labour market trends in the countries covered by the EEO. The EEO improves the information base for policy makers of the European Employment Strategy and other stakeholders (http://www.eu-employment-observatory.net/en/about/index.htm, EEO, 29.04.2009).

In Bulgaria, the 2009 Plan for Employment was approved and included measures to overcome the anticipated employment slowdown due to the economic crisis (EEO, 2009, p.2). In Bulgaria, the Council of Ministers adopted the National Lifelong Learning Strategy on 30 October 2008. It defines the vision, purpose, principles, and measures for development of lifelong learning at different stages of the lifecycle, and priority directions and main indicators for progress evaluation. It could be assumed that the strategy will have an overall positive impact on adult learning development, the workforce and the recognition of experience skills and knowledge (EEO, 2009, p.22).

In Poland, the provision of possibilities for development and a high living standard for citizens are aimed. The NRP reforms aim mainly at the creation of a foundation for stable socioeconomic development and improvement of living standards.

In Portugal, the Initiative for Investment and Employment (IIE) was presented in the last quarter of 2008. Nearly EUR 580 million will be allocated to temporary measures to support employment. In order to reduce the negative effects of the downturn on employment and economic growth, the IIE articulates measures to support national firms, mainly through credit lines and specific training programmes for their employees and employment policies that expand incentives to firms to hire new workers, and increase the number of internships for young people (EEO, 2009, p.4).

In Sweden, in December 2008, the Autumn Budget Bill has been approved by the Swedish Parliament. In order to counteract the effects of the weaker economic environment, the impact of the financial crisis and to sustain employment a package of measures amounting to SEK 32 billion (EUR 2.9 billion) will be implemented. It includes a number of reforms aimed at further enhancement of work incentives and strengthening of the labour market integration of vulnerable group (EEO, 2009, p.4):

- A third step in the already implemented in-work tax credit and a reduction of state income tax took effect in January 2009.
- The Government proposal to further reduce corporate taxation and improve conditions for small and growing enterprises has also been adopted (the tax reduction for businesses amounts to SEK 16 billion – EUR 1.45 billion).
- Further measures to strengthen integration for non-natives have been launched, allocating SEK 900 million (EUR 81 million) to help newly arrived immigrants to become established in Sweden.
- As far as measures targeted at young people are concerned, the employers' social security contribution for young people has been lowered to 15.49 % and the age group has been broadened to cover everyone under the age of 26 at the beginning of 2009.
- As far as education policy is concerned, measures are introduced for increasing the educational component in preschool by an expansion of universal preschool to include three-year-olds, a childcare voucher system, and a clarification of the preschool curriculum and enhanced further training for preschool teachers and childcare workers.
- Furthermore, the government will take measures to reinforce basic skills, such as reading, writing and arithmetic as well as to expand apprenticeship programmes at high school level and vocational training.
- As far research and development is concerned, extra resources have been allocated (around SEK 15 billion – EUR 1.36 billion) over a four year period with a special focus on research in medicine, technology and environmental sciences.

In the UK, the Prime Minister convened an Employment Summit in London on 12 January 2009 to bring together key stakeholders to underline the government's concern over the effect of the recession on the labour market and to set out extra support measures – as well as to encourage employers to help tackle joblessness. The emphasis was on reaffirming the government's commitment to helping the unemployed and young people entering the labour market and announcing some additional funding to the more general £10 billion (EUR 10.76 billion) fiscal stimulus announced in the November 2008 Pre-Budget Report. More specifically, the extra funding of £500 million (EUR 537 million) would be spread over a two year period and focused on people out of work for over six months and includes measures such as 'Employer's Golden Hellos', whereby incentives of up to £2.500 (EUR 2.689) would be paid to employers who recruit and train unemployed persons. There would also be new training places created to help the unemployed match their skills to the half a million vacancies currently in the labour market. Other actions within the package include work-focused volunteering options and help with setting up a business (EEO, 2009, p.5).

National policies are considered under the following Integrated Guidelines as EEO concerns for the Europe according to the EES for attracting more people to enter and remain in the labour market (EEO, 2009, p.5):

Promoting a lifecycle approach to work, which calls for action in attracting to, and retaining in, the labour market young people, women, older workers, as well as reconciling work and private life, providing affordable childcare facilities and modernising social protection systems;

- Ensuring inclusive labour markets, and especially, implementing active labour market measures to help jobseekers and those furthest away from the labour market, reviewing incentives to work and developing new sources of jobs;
- Improving the matching of labour market needs, and especially modernising labour market institutions, encouraging geographical mobility and managing economic migration.

To decrease the unemployment of young people there are several projects which arranged by governments in Europe. For instance in Spain the government decided to apply an education programme which involves the education of youth between 18 – 24 years old according the needs of labour market. That will allow young people to combine enrolment in official professional training with part-time work. In Australia to increase the number of employed young people and apprenticeship trainings places; the government decided to establish apprenticeship places in the special training institutions in which apprentices may serve their whole apprenticeship (EEO, 2009, p.6).

To increase the participation of women in labour market, there are several projects in Europe. In Poland, the amendment of the Labour Code (the so-called 'Family Act') has introduced wider rights for employees in relation to parenthood. In particular, maternity leave has been lengthened and will be divided into two parts from 2010: basic and optional. The optional part is to be extended in the coming years. The Act, among other provisions, introduces: paternity leave; the possibility of financing childcare from the Company Social Benefits Fund resources; and lengthens (to 270 days) the period of receiving the benefits for pregnant women who are on sick leave (EEO, 2009, p.8). In Turkey, in December 2008, the Turkish Quality Association KALDER published an agreement between businesses and NGOs, entitled 'Management is a right for women, too.' KALDER has already signed up Türkonfed (Confederation of Industrialist and Businessmen (sic) Associations) and some large corporations to its cause. At the time of the news article, KALDER was aiming to secure the signatures of influential businesswomen in Turkey (EEO, 2009, p.7). The Personnel Management Association PERYÖN established a partnership with Prime Ministry, Social Services and Child Protection Agency and Turkey Employment Agency according to a project which has been focused on increasing the participation of young women between 18-24 ages. The purpose of the project has been explained as below:
(http://www.peryon.org.tr/nartaneleri.asp, PERYÖN, 09.07.2009)

- Defeat poverty of women
- The increase of women employment
- Prevent women violence against women
- Create self confident young women
- Increase the partnerships between civil society, public and private sectors

There is, of course, a pressing need not only to understand what has happened and why, but also to act so as to prevent the worst scenarios from coming about. Furthermore, for those who have for years advocated more far-reaching structural reform agendas there is a sense that current circumstances constitute a rare opportunity that should not be wasted (Blankenburg, Palma, 2009, p.532).

In Belgium, unemployment benefits have been increased. In Romania, to help enterprises to maintain the workers laid-off temporarily as a result of the global economic downturn, the new government will exempt all payments made by enterprises under the so-called “technical unemployment” schemes from social insurance contributions for a period of three months.

In UK, The Department of Innovation, Universities and Skills (DIUS) announced in October 2008 that extra funding would be made available to those facing redundancy as a result of the economic crisis. The focus is on helping them retrain and develop new skills so that a replacement job can be found as quickly as possible in the same enterprise or another one. Activities to be funded include gaining new qualifications or on-the-job training.

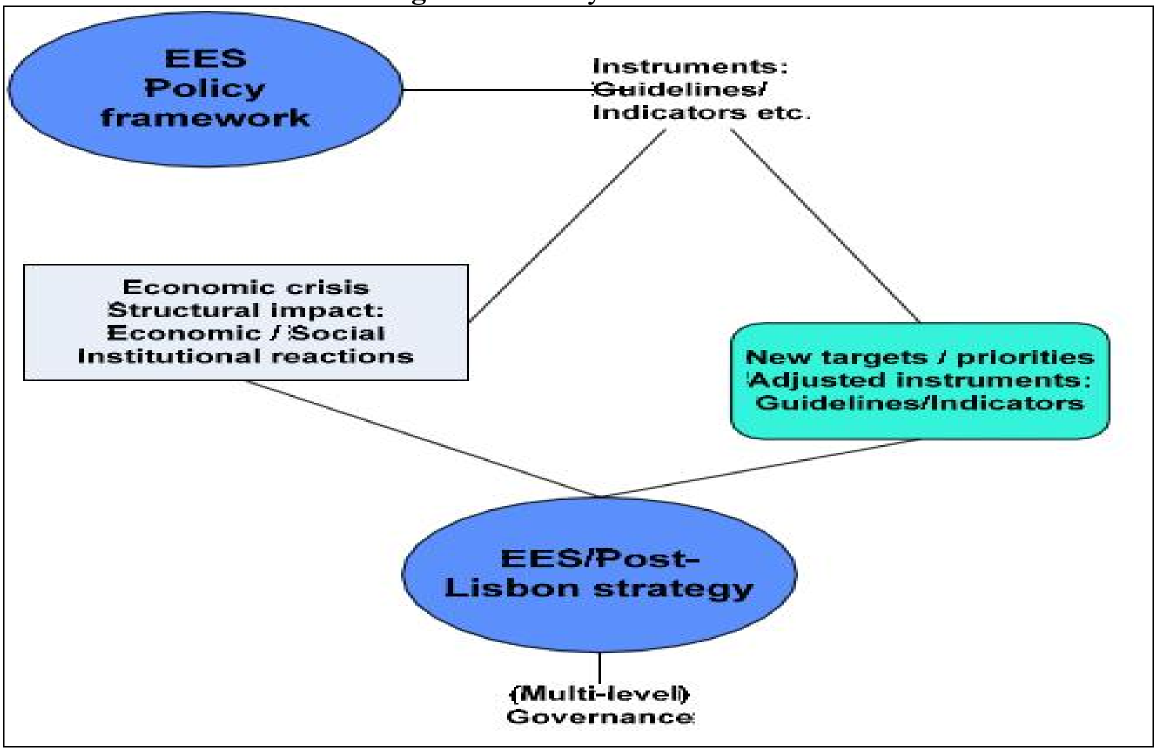
National policies are considered in relation to the following EU Integrated Guidelines (EEO, 2009, p.19):

- Expanding and improving investment in human capital, especially improving access to vocational and higher education, and developing efficient lifelong strategies and structures to increase participation in training throughout the working life of the individual
- Adapting education and training systems to respond to new competence requirements, and especially, improving the definition and transparency of qualifications, easing the access to education and training and raising the quality of provision to ensure flexibility in learning.

In Austria, to make existing further training leave more attractive, regulations were modified for a new model of ‘Further training leave plus’. Employees can take leave of between three and 12 months and receive an allowance equal to the amount of the unemployment benefit to cover the cost of living. The new aspect of this model is company-based training. To comply with the regulations, companies have to organise training according to their particular skill needs and it has to be provided by external training institutions. Half of the training costs are funded by the provincial government. This model is intended to encourage companies to invest in the training of employees and give them an incentive to keep their employees during the economic crisis.

In France, in relation to the reform of vocational training, trade unions and employer organisations agreed that lower-qualified workers and jobseekers should benefit from vocational training opportunities. A dedicated fund to secure professional paths will be established in 2010. Trade unions and employer organisations agreed that an additional 500 000 low qualified workers and 200 000 jobseekers should benefit from vocational training opportunities each year. However, the reform of high school education has been officially suspended, after opposition from students, teachers and parents (EEO, 2009, p.19). The Meeting of State Secretaries in Latvia reviewed the attractiveness of the professional education, and the participation of social partners in ensuring the quality of professional education. The aim was to enhance the attractiveness of vocational education and promote cooperation between employers and the state in the development of vocational education and employment policies (EEO, 2009, p.21).

Figure -7: Policy Context of EES



Source: EEO, 2009, p. 32

The European Community have revised the EES indicators according to the current needs of Europe countries. However unemployment rates still continue to increase in Europe. On the one hand it has been known that the EES has a flexible structure which makes it difficult to guide member countries to produce more laws and regulations to protect social rights of labours and create equal opportunity for social exclusion groups. On the other hand as we analyzed here the current studies have done by the member countries of the Community according to the EES, Europe couldn't be able to decrease the unemployment rates. Therefore the EES couldn't be a solution to make the labour market healthier with its current structure. But it might be used to protect the current situation of the labour market.

5.Turkey's Labour Market

Turkish Employment Organisation, İŞKUR has been working for the improvement of the labour market and establishment of a national employment policy. Meanwhile the organisation is responsible for the integration of the national labour market according to the Europe Union decisions and applications. Therefore İŞKUR has been supporting NGOs which establish projects for the active labour market. These projects are generally established by the participation of NGOs and other organisations like local trade chambers, universities. Turkish Employment Organisation is an affiliated organisation of the Ministry of Labour and Social Security and is an administratively and financially autonomous public institution, which is subject to special law provisions, and has a legal entity (Official Gazette, 2003).

The Turkish labour market is characterised by low labour force participation rate. Labour Force Survey data for 1988-2006 reveal that the population between 15-64 years of age increased by 48 % whereas employment rate increased only by 24 %, reflecting nearly 50 % of labour force participation throughout the period. The average labour force participation rate for the EU25 in 2006 was 70.5% compared to 48.0 % in Turkey (The Active Labour Market Measures Grant Scheme, 2008, p.4).

In 2008 annual unemployment rate is 11 % which is 1.8 % more than 2007 annual employment rate. When 2009 unemployment rates are examined, it seems that the unemployment rates begin to increase from January to April. Especially in October 2008 the unemployment rate become to 15.5 % which is 11.6 % in October 2008. When it is examined more current data, in April 2009 the unemployment rates begins to decrease. 0.9 % decrease in April and in May 2009 1.3 % decrease in a month. But the current unemployment rates which is 13.6 % in May 2009 still higher than 2008 unemployment rates which is 9.2 % in May 2008.

There are several indicators which explain that participatory democracies provide enable higher-quality growth which means they allow greater predictability and stability, are more resilient to shocks, and deliver superior distributional outcomes. (Rodrik, 2000, p. 3) Some of the economists says that the negative effects of financial crisis occurred in 2008 begins to dismiss. But it is clear that still unemployment rates are higher than 2008. In the beginning of 2009, only two months (January and February) there was a decrease of unemployment rates. And then it has begun to increase again. So it is early to predict whether the Turkish labour market would be healthier than the past two years in 2010.

Figure-8: Labour Force Status by Non-Institutional Population and Years

(Thousand person, 15+ age) TURKEY

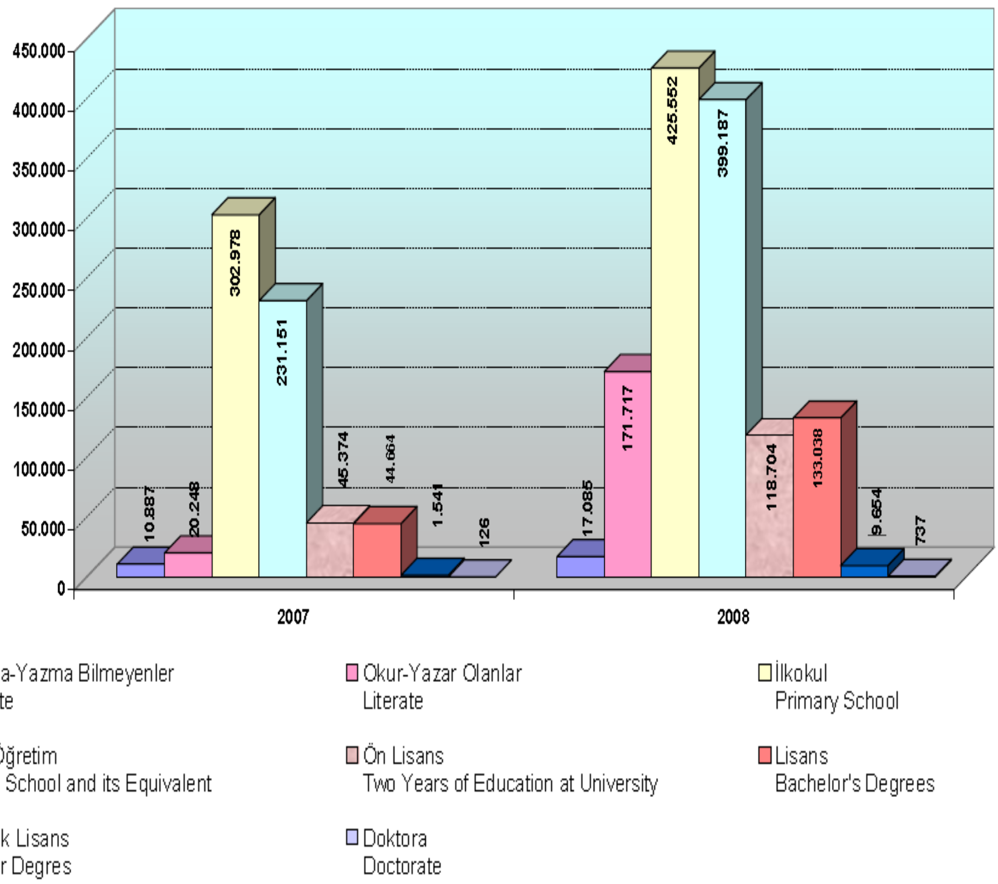
Yıllar - Years	Kurumsal olmayan nüfus Non-institutional population	15 ve daha yukarı yaştaki nüfus Population 15 years and over	İşgücü Labour Force	İstihdam edilenler Employed	Eksik istihdam Under-employed	Zamana bağlı eksik istihdam Time-related underemployment	Yetersiz istihdam Inadequate employment	İşsiz Unemployed	İşgücüne katılma oranı Labour force participation rate (%)	İşsizlik oranı Unemployment rate (%)	Tarım dışı işsizlik oranı Non-agricultural unemployment rate (%)	İstihdam oranı Employment rate (%)	İşgücüne dahil olmayan nüfus Not in labour force
TOPLAM - TOTAL													
2007 **YILLIK** - ANNUAL (*)	68.901	49.994	23.114	20.738	689	-	-	2.376	46,2	10,3	12,6	41,5	26.879
2008 **OCAK** - JANUARY (*)	69.346	50.435	22.388	19.798	657	-	-	2.591	44,4	11,6	13,7	39,3	28.046
ŞUBAT - FEBRUARY(*)	69.416	50.500	22.541	19.864	755	-	-	2.677	44,6	11,9	14,2	39,3	27.959
MART - MARCH (*)	69.479	50.564	22.921	20.389	772	-	-	2.532	45,3	11,0	13,4	40,3	27.643
NİSAN - APRIL (*)	69.549	50.627	23.561	21.228	792	-	-	2.333	46,5	9,9	12,3	41,9	27.066
MAYIS - MAY (*)	69.617	50.700	24.045	21.842	798	-	-	2.203	47,4	9,2	11,5	43,1	26.655
2008 **YILLIK** - ANNUAL	69.724	50.772	23.805	21.194	779	-	-	2.611	46,9	11,0	13,6	41,7	26.967
2009 **OCAK** - JANUARY	70.166	51.323	23.523	19.873	(**)	-	-	3.650	45,8	15,5	18,5	38,7	27.799
ŞUBAT - FEBRUARY	70.236	51.360	23.582	19.779	-	787	442	3.802	45,9	16,1	19,3	38,5	27.778
MART - MARCH	70.299	51.426	23.924	20.148	-	772	402	3.776	46,5	15,8	18,9	39,2	27.501
NİSAN - APRIL	70.368	51.507	24.316	20.698	-	728	400	3.618	47,2	14,9	18,2	40,2	27.191
MAYIS - MAY	70.435	51.575	24.837	21.455	-	647	406	3.382	48,2	13,6	17,0	41,6	26.738
HAZİRAN - JUNE	70.505	51.644	25.216	21.947	-	588	405	3.269	48,8	13,0	16,4	42,5	26.428
TEMMUZ - JULY	70.571	51.714	25.480	22.213	-	544	392	3.267	49,3	12,8	16,3	43,0	26.234
AĞUSTOS - AUGUST	70.639	51.789	25.537	22.108	-	578	370	3.429	49,3	13,4	17,0	42,7	26.252
EYLÜL - SEPTEMBER	70.707	51.862	25.416	22.020	-	615	374	3.396	49,0	13,4	16,9	42,5	26.446

Source: TURKSTAT, The results of Household Labour Force Survey, 2009

Primary school graduates are the largest group that are unemployed. The second unemployed group is junior school graduates. The order is same for both years 2007 and 2008. But at the third unemployed group, literate passes bachelor's degree (fourth) and two years university education (fifth) groups. It shows that the financial crisis effects unqualified labour force than qualified labour force. For both years illiterate is the sixth, unemployed master degree graduates and doctorates are last workless groups according to education. It has already known that the percentage of Master or PHD graduates is very few. So it is normal to receive few unemployed ratios from these groups.

Majority of people admitted to İŞKUR are qualified labour force but the majority of the demand is for unskilled labours. Therefore the majority of the placements have been done for unskilled labour force (İŞKUR, 2009).

Figure-9: Applications to İŞKUR for Job in 2007-2008 Distribution by Educational Levels



Source: İŞKUR, 2008

According to TÜİK, Turkey has limited time to take the advantage of its high youth population because the population growth rate has decreased. Therefore TÜİK suggests that the investment should be done to solve the youth unemployment (Promoting Youth Employment Grant Scheme, 2009, p.4). It is clear that new investments and policies must be done to solve the unemployment problem. But it shouldn't be forgotten that Turkey's population growth if still continue as fast as before, the financial crisis would be much more destructible than now. Because Turkey's economy couldn't be able to create job opportunities for its work force even it grows.

6.Turkey's Employment Policies

There are 101 projects which are accepted for the measure of active labour market programme. The biggest budget of these projects has been applied by Ankara Maturing Institution and the grant amount was determined as 320.758,69 €. The goal of this project is "an effective move from education to the employment with the cooperation of education institutes and the enterprises". The accepted projects would be organised by Non Governmental Organisations (NGOs) like labour and employer's unions, foundations; and also high schools, universities, mayoralties and other public institutions. (http://statik.iskur.gov.tr/tr/ihale/AB_ihale/101%20proje.pdf, 17.07.2009) The durations of these active labour market programme projects have been limited to 12 months. The locations have been chosen from different regions of Turkey.

There are also vocational education courses for the citizens whish has been given by İŞKUR. These courses involve many types of education programmes depending on the occupational needs of the labour force. Some of these courses also guarantee job after the end of the education.

"Promoting Youth Employment" (PYE) and "Promoting Women's Employment" (PWE) had been announced by Central Finance and Contracts Unit (CFCU) and applications had been done according the schedule. İŞKUR announced the accepted projects. The fund of the projects has been supported by the European Union Funds. Therefore only small percentages of these projects are founded by Turkish Government. Generally % 15 of the grants is founded from the budget. For each project, CFCU has been announcing the deadlines and schedule that the NGOs and other partners should obey to accomplish the goals. The agreements of the accepted projects have been done by Central Finance and Contracts Unit. In these projects İŞKUR is responsible for the technical monitoring and implementation of the Grant Scheme.

Majority of the projects supported by İŞKUR and EU are short run term and focused on education. But according to TÜİK Statistics (TURKSTAT), university graduates also unemployed in Turkey. Therefore it is not enough to educate labour force.

In addition, a law allowing temporary employment agencies to employ temporary workers, dependent on demand in the labour market, has "again" been proposed in the parliamentary assembly, amid strong criticism from the social partners (EEO, 2009, p.10).

Conclusion

Turkey needs to prepare a comprehensive women employment policy and a national Employment Strategy (Ataman, 2008, p.6). While Turkey establishes its own employment strategy, it could be integrated with EES which would be benefit for the country. By a national employment strategy, labour market improvement and entrepreneurship support could be settled. A comprehensive national employment policy including a national employment strategy is urgently needed. The strategy would be for long run and it should be supported by necessary social policy applications for the success of the employment strategy. Turkey couldn't be able to succeed against unemployment. One of the reasons of this unemployment problem still continues is social policies up to now have not been established for long run term.

Turkey needs to produce economic policies which would give priority to investments and protect current productivity. The majority of current employment policies support the education of labour force. But we have already known that educated people also couldn't find job especially in Turkey. It is clear that educate the labour force, increasing the consumption of citizens, supporting the import of goods and services and high interest rates given by banks wouldn't be enough for the solution of unemployment. The main point is the establishment of a national policy for employment. A national employment policy could help to organise the local policies which has been already supported and eliminate the ones which consumes the valuable assets for insufficient results.

Therefore it is necessary to create a national policy which would aim to create job opportunities for unemployed people in Turkey by establishing suitable conditions for entrepreneurships like arrangements of laws, economic or infrastructure supports. The privatisation of profit making public institutions like Ziraat Bank, Halk Bank, PTT (Public Postal Service Institution) and non profit making but strategic institutions like Machine and Chemistry Industry Institution (MKEK) wouldn't be a good decision to support employment or increase the power of economy. The privatization of profit making organisations gives only short run financial source and privatisation of strategic institutions creates disadvantage for national security. We have already known that there is a huge unemployment insurance fund accumulated in Turkey. It could be use to support the national employment strategy which gives priority for entrepreneurs.

Decreasing the social rights of workers and applying neo liberal policies to Turkey's labour force market which is already flexible won't be a solution for unemployment. Neo liberal policies create a dual effect on labour market and increase the division of labours. As a result labour's unions losses its endurance and collective bargaining power against employers and employer's unions.

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THE INFLUENCE OF EXPRESSWAY CONSTRUCTION SCALE ON TOLL FARE FROM THE VIEW OF ECONOMICS

Abstract

The toll fare can be seen as the market price of the service of expressway construction, which reflects the relation of voluntary transactions between the consumer transportation and expressway, this paper regards the service of expressway as Quasi-public Goods and also constructs a model of its market price. We can make further discussion about the toll fare based on the L-model and U-shaped curve existed between the toll fare and the expressway construction scale, as well as the supply and the demand between them.

Keywords: Model of Market Price, Quasi-public Goods, L-model and U-shaped Curve.

1. Introduction

The question of toll fare is related to those who use expressway transportation as well as their families, which is a sensitive and complex problem. Higher toll fare will make a lot of complaints stemming from customers but lower toll fares will not guarantee the quality of the services on the expressway because of insufficient financial resources, so it's of great significance to do research into this topic. This paper set up an appropriate mathematical model to make deep discussion on the relationship between the toll fare and expressway construction scale.

2. Model of Market Price

According to the America's economist Paul A.Samuelson's public goods theory, the service of expressway belongs to quasi-public goods, which means it has a certain extent competition, but exclusive, it's also known as semi-public goods.

On the one hand, see from the respect of consumption, service of expressway is competitive, one person affected by the expressway will reduce the chances of others's access. On the other hand, see from the respect of consumption, service of expressway is also exclusive, because the consumption of road is non-integrated, and it is technically easy to intersect, some people can be excluded from the consumption of expressway. Therefore, the expressway service has the two characteristics as follows:

- The cost of providing the good increases less than proportionately to the number who benefit from it.
- There are some difficulties in excluding those who do not pay from the benefit of the good.

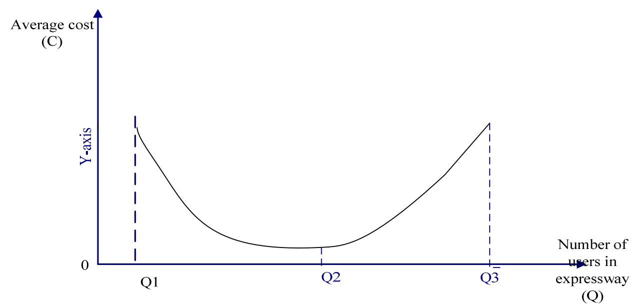
So the expressway belongs to quasi-public goods.

Toll fare's price should be determined by market as quasi-public goods. And it has the characteristics of the general commodity's price formation mechanism; in addition, it also has some common ground with public goods and monopoly goods' price formation mechanism.
Expressways are the providers of transportation, the market price is determined by the relativities of supply and demand under market economy. If the demand maintains a relatively stable condition, according to the basic principle of economics, it can be concluded that the more supply of transportation, the more opportunities of transportations will be provided for the market, as a result, the competition will be more intense and the price will be correspondingly reduced. On the opposite the price will rise; and if the supply of transportation services remains relatively stable, the greater demand for transportation, the more intense competition will be when people use expressways, and the price will rise, on the contrary, the price will reduce.

Here we use a quadratic function to study moderate scale of expressway, at the same time we can introduce the concept of scale economy to expressway scale, which means the proportion of the number of people who use transportation increase is higher than the proportion of the unit cost of people who use transportation, and the average cost of a unit will be reduced with the increasing number of people who use transportation..

We can take the investment process of transportation resources as a long-term investment process. According to economics theory, it is assumed that the long-term average cost is LAC and its function is a "U-type" shape, that is, in the framework of low production, LAC is declining, in the framework of higher production it is raising. The figure can be seen as follows:

Fig.1: Long-term average cost curve of investment in education



From Q_1 to Q_2 we can see that there exists scale economy; from Q_2 to Q_3 there exist diseconomy of scale. The peak in the "U-type" curve means the smallest LAC, which is lowest point of the average cost of the users, and the number of users corresponding can be regarded as the optimal size of the number of users which is the best economy of scale.

The long-term average total cost function expression as follows:

$$LAC = b + cQ + dQ^2$$

Marginal cost as follows:

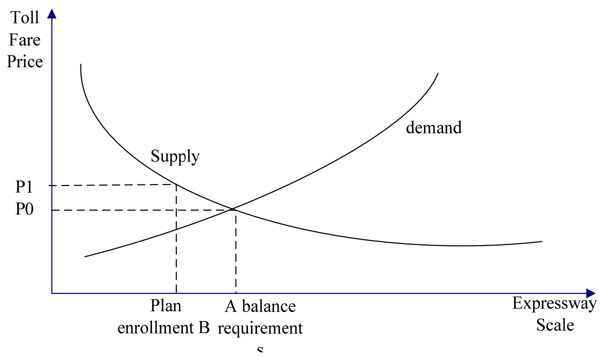
$$MC = \frac{dLAC}{dQ} = c + 2dQ$$

Define MC=0, then $Q = -\frac{c}{2d}$

So, it is the best economy of scale of expressways when the number of students in school is $-\frac{c}{2d}$.

It can be seen that after introducing the price mechanism, the regulate role that the toll fare plays in transportation can be exerted completely, we have to set different toll fare standards for expressway to promote the rational allocation of resources according to different transportation supply (that is, the scale of expressway), so that we can meet the needs of all sectors of social demand to promote sustainable development. The figure can be seen as follows:

Fig.2: The relationship between the toll fare price and the expressway scale

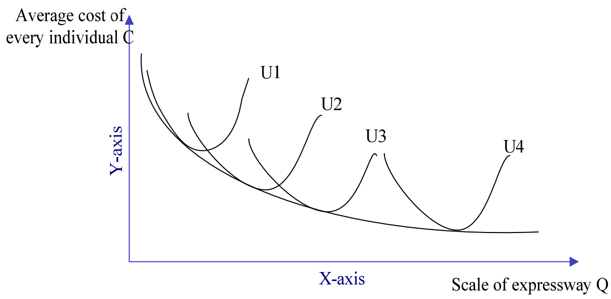


From the demand we can see that when the scale of Suppliers and demanders reach in balance then the toll fare prices will be the lowest.

3. L-model and U-shaped Curve

The economic value of L-model is that after resources are fully utilized, it can still cause economy of scale if investment is continuing. The curves exist between the average cost of every individual who uses expressway and the number of people is linked by many U-shaped curves, it can be seen as the highest cost of every individual when the expressway started among all the U-shaped curves. After that, with the number of individual users increasing, the average cost of every individual will fall. The figure can be seen as follows:

Fig.3.The curve between the average cost of every individual and expressway scale



U_1 is the U-shaped curve when the school started, the average cost of every individual has a rapid decline with the expansion of scale . $U_2 - U_5$ is the U-shaped curve that when the continuing investment reach a certain amount, the increased resources will have only a little influence on the average cost of every individual when the number of individuals reached the largest, and the average cost of every individual will have a downward fluctuation. Therefore, after the expressway went through a minimum size with making full use of the resources when it started, then the average cost of every individual will be maintained at a minimum level with continuing investment and expanding size, which is maintained at scale economy. And we can obtain the hyperbolic model- L-model after having regression analysis on the data about the average cost of every individual and the number of individuals.

The standard type of hyperbola is: $\frac{Y^2}{\alpha^2} - \frac{X^2}{\beta^2} = 1$,that is□

$$\frac{C^2}{\alpha^2} - \frac{Q^2}{\beta^2} = 1$$

the relation can be concluded as follows:

$$C = a + b / Q \,, \quad \frac{dC}{dQ} = \frac{-b}{Q^2}$$

define $\frac{dC}{dQ} = 0$ □ the answer is $\frac{-b}{Q^2} = 0$

Define $\frac{b}{Q^2} = 0$, and the value of Q is infinity, which means the larger, the better. But actually it can't find the number of individuals that in optimum size. In other words, the scale of the expressway can not be unlimited expanded, or it will cause the diseconomy of the scale of transportation

4. The Solution to the Model (take china as an example)

Take China as an example; take the scale of enrollment, the average GDP and the average cost of education as the research objects, the data in 2000-2005 can be seen at table 1:

TAB.1: THE DATA OF CHINA EDUCATION IN 2000-2005

year	scale of enrollment(people)	average GDP (dollar)	average cost of expressway(dollar)
2000	22060	1122.525156	181.546964
2001	26827	1231.672317	184.820891
2002	32049	1342.579208	191.294657
2003	38217	1505.995877	187.422359
2004	42000	1762.225377	194.112154
2005	504000	2014.760869	209.235696

The growth rate can be calculated at table 2:

TAB.2: GROWTH RATE

Year	growth rate of the scale of enrollment	growth rate of average GDP	Growth rate of average cost of expressway
2001	21.61%	9.72%	1.67%
2002	19.46%	9.00%	3.93%
2003	19.24%	12.17%	-1.98%
2004	9.90%	17.01%	3.65%
2005	20.00%	14.33%	7.55%

Through the analysis we can conclude that with the continuing expansion of the scale of enrollment, besides the influence of the average GDP, the average cost of expressway transportation is also reducing, which can be seen from above. From 2000 to 2005, the growth rate of average cost of expressway transportation reduced from 1.67% to -1.98%, and then raised to 7.55% in 2005, but except the influence of the average GDP, the cost is reduced relatively, and the scale of expressway transportation is also tend to optimize. So the only way to make the average cost of education minimum is to control the scale of expressway appropriately when expanding the number of individuals.

Conclusions

From above we can get that the service of expressway is taken as quasi-public goods and its toll fare obeys the market discipline. The cost of expressway can be minimize with appropriately control of the scale of expressway transportation and good allocation of resources, which can reduces the toll fare.

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AMBUSH MARKETING: A RESEARCH TO SPECIFY CONSUMER'S KNOWLEDGE ABOUT AMBUSH MARKETING

Abstract

Sponsorship is an important advertising tool. Because of the high fees of sponsorship and also effect of crisis, most of the firms incline ambush marketing activities. Although the number of the firms that incline ambush marketing is increasing, consumers haven't sufficient information about this subject. So, the aim of this research is to specify the consumers' knowledge about ambush marketing. Data is acquired by the way of conducting survey to 414 customers of face to face is subjected to factor analysis. The data analyzed shows that important part of the consumers have no information about sponsorship rights and ambush marketing strategies.

Keywords: Ambush Marketing, Sponsorship, Parasitic Marketing.

1. Introduction

The concept of sponsorship has appeared in our lives in many ways from past to present. The sponsorship previously for charitable purposes is thought today as an important vehicle for advertising. According to Asna, (1995, p.4) "the sporsorship is an activity whose efficiency is able to be evaluated and which both assists in human being and the society and benefits to the sponsorring organization." It has developed more and more and the numbers and investment amount of organizations investing in the sporsor-ship have been on increase in paralel with this development. With the increase of the sporsor-ship expenditures, the companies not bearing any titles have found creative ways and headed towards the concept called as ambush marketing in order to associate themselves with the organization.

The concept of ambush marketing was firstly experienced between Fuji and Kodak in 1984 Olympics and became a strategy began to be used widely in the organizations after that date. Ambush marketing is a concept coming to light with other companies becoming the rival of official sponsors to try to attract the spectators' attention to themselves. According to Sandler and Shani (1989, p.10), ambush marketing is a planned activities which provide a business enterprise indirectly to associate itself with an organization for the purpose of benefit and recognition about official sponsor-ship.

There are many reasons directing the companies to ambush marketing. One of the most common reasons at the present day is that sporsor-ship expenditures are too much. The expenditures of sponsor-ship have reached the huge figures year after year and the opportunist firms which do not want to pay million even billion dollars so as to get sponsor-ship rights have caused consumers to get confused by trying variously to associate themselves with the organization. As a result of the application of ambush marketing activies, the opportunist firm can be remembered much more than sponsor. For example; the spectators were asked about the official sponsor of Summer Olympics in a survey a month after 1996 Atlanta Olympics. While American Express was remembered at a rate of %54 among credit cards, Visa (official sponsor) was remembered at a rate of %74. One of the most crucial reasons in ambush marketing activities to reach the desired result is that consumers have not information enough about sponsor-ship rights and ambush marketing activities. Consequently, it is firstly referred to the sponsorship and ambush marketing conceptually and theoretically and then the methodolody of the research is mentioned comprehensively.

2. Theoretical Frame

According to Meenaghan (1998), the researches of ambush marketing are focused on two subjects: description and analysis of the process (Mckelvey, 1994; Meenaghan, 1994, 1996) and examination of first-level effects on consumers in terms of recall and recognition studies (Crimmins & Horn, 1996; Kinney & McDaniel, 1996; Sandler & Shani, 1989; Shani & Sandler, 1998). Other Works researched on ethical dimension (O'Sullivan & Murphy, 1998; Daoust, 1998; Chen & Rylander, 2007) and legality (Townley and others, 1998) of ambush marketing.

Sandler & Shani (1989) mentioned that there is a difference between male and female; as for other demografic changeables, there is no difference in point of remembering official sponsors; also the firms applying the ambush marketing strategies are more successful than other firms not applying these strategies as a result of long-term workings aimed at remembering, recalling the official sponsors and determining the consumers' attitudes towards sponsors and opportunist firms. Shani & Shani (1998) stated in their work about 1996 Olympic Games that the consumers had enough information about the use of the olympic logo, but not enough about the advertisements during television broadcasts. In addition to these, they reached the result that the consumers had a difficulty in distinguishing the sponsors and their attitudes towards ambush marketing are generally without a difference, too. In McDaniel and Kinney's (1998) experimental works, no statistically significant differences are observed between males and females in their pretest sponsor recall or recognition levels, whereas recency of ad exposure is found to be a significant influence on posttest sponsor awareness in the aggregate. Significant gender differences are detected, however, in attitude towards the brand and purchase intentions for two of three product categories investigated, as females have higher mean scores for those two measures. Meenaghan (1998) stated in his work that %80 of the consumers think olympic logo ought to be used only by official sponsors. Besides, two of three consumers claim that it is not proper the firms don't pay the official sponsorship fee. Lyberger and McCarthy (2001) set forth in their works during 1998 National Soccer Shampionship Competition that the level of information about the sponsorship of competition was low and this wasn't influenced from the consumers' interest level to sport, football or organization. According to research, the consumers are unaware of ambush marketing strategies and consider ambush marketing activities as acceptable. McKelvey and Gladden (2003) researched the efficiency of ambush marketing and thanks to the activities of efficient ambush marketing, it was seen that %90 of the consumers perceived wrongly whom the official sponsor was and couldn't have distinguished the sponsor firm from opportunist firm. Also, the consumers were seen to think that sport properties are not efficient in the struggle with ambush marketing. On the other hand, Seguin et al. (2005) mentioned in their research in Canada, France and USA during 2000 Olympic Games that the ambush marketing activities were not found ethic by the consumers. However, in spite of that they were against ambush marketing, they were unaware of ambush marketing strategies.

3.Conceptual Frame

3.1. Sponsorship

In early times, noble or royal families were known to support a person or an activity without any expectation except for being well-known (Peltekoğlu, 2007, p.363). In the course of early olympic games, it was a widespread state that wealthy people supported the athletes for their education and provided them neccessary equipments (McMahon, 1996, pp.15-18). In these years, it was completely effect of afeeling of charity that sport activities, clubs and athletes were sponsored. The developing industry took the place of charitable people in those years in the sponsorship applications which industrial organizations showed interest in (Peltekoğlu, 2007, p.363). *"Today, while sponsorship is thought less as a kind of social relationship attitude gradually, it is considered more as an important ad tool and an activity expenditure which needs to be adjusted."* (Sandler-Shani, 1989, pp.9-14). As for Barıy Ball's sponsorship definition, it is to provide the financial aid or in kind to support an individual, organization, event or activity by a commercial organization or government for the purpose of commercial benefit accepted mutually. The development of sponsorship as a communication tool is the cause of sponsorship expenditures, too. According to sponsorship report of IEG, the sponsorship expenditure being 22 billions $ in the world in 2002 increased to 25 billions $ in 2003, 28 billions $ in 2004. In 2005, this figure reached 30 billions $. As for 2007, the sponsorship expenditures rase 37,7 billions $ with %11.9 increase in comparison with 2006 (www.sponsorluk.gov.tr/sponsorluk.htm). The sponsorship has some advantages such as form good intention feeling, increase the workers' motivation, awareness of brand, sales and reach the target group. Nonetheless, it has many disadvantages, some of them wasting time, using for own benefit and ambush marketing (Meenaghan, 2001, pp.199-200).

3.2 Ambush Marketing

The ambush marketing used also as Insidious, Parasitic and Gurreilla marketing in the literature is a concept appearing because of other firms being rival of official sponspors to call spectators' attention to themselves from the sponsors. Ambush marketing comprises of all activities showing a firm as if it had a connection with an organization, indeed, in spite of that it have no connection (Payne, 1998, p.324).

Ambush marketing appeared with the successful ambush marketing activities which Kodak firm did against Fuji firstly in Los Angeles in 1984 Olympic games. Although it was a concept firstly appearing, ambush marketing was seen to become widespread so much in 1984. In 1988 Winter Olympics, Wendy's against McDonalds, American Express against Visa and Quality Inns against Hilton did ambush marketing activities (Sandler-Shani, 1989, p.11). One of the most important reasons in the development of ambush marketing is huge organizations including deceptive ad activities just like The World Cup and FIFA (Shah, 2004, p.1). Ambush marketing having ability to do almost every organization in its own favor appears in front of us with creative ambush ideas that organizations have usually developped against their sponsor or huge sport organizations. For example, while Converse was the official sponsor of Los Angeles Olympics in 1984, Nike displayed athletes' pictures wearing Nike uniforms opposite the Olympic stadium where the games were played (Vassallo et al., 2005, p.1338). Again, Nike handed out free T-shirt in order to affect spectators although it was not sponsor in 1992 Barcelona Olympic Games (http://www.richelet.com.ar/eng/pdfs/Ambush%20Marketing.pdf). Due to ambush marketing activities like these, opportunist firms can get awareness and brand ad at high rate. Sony sponsorred ITV broadcasting the organization while there were a lot of sponsor firms in 1991 Rugby World Cup. Finally, in spite of that Sony wasn't official sponsor, % 61,8 of organization spectators knew the brand. In also 1984 Olympic Games, even though Converse was the official sponsor, Nike planned a creative advertisement campaign and designed posters. After Olympics, % 42 of American people were seen to have thought that Nike was the official shoe sponsor (Meenaghan, 1994, p.83). By keeping all of these examples in mind, ambush marketing can be defined as " well-planned efforts causing the wrong perceptions in spectators about whom the official sponsor is (Sandler-Shani, 1989, p.11).

3.4. The Strategies of Ambush Marketing

Widespread strategies of ambush marketing are the folllowing:

- **Sponsor the broadcast not organization:** The sponsorship rights in some organizations do not include media rights. Therefore, the competitor firm not having an official sponsorship contract with the organization sponsors the media broadcasting it (Crow-Hoek, 2003, p.3).
- **The sponsorship of subcategories and the exploitation of these investment:** The organization owner enters into a sponsorship treaty only with a firm in a certain product category. For this purpose, the competitive firms not able to sponsor that product category turn towards the sponsor-ship of subcategories and exploit the investments aggressively, too (Meenaghan, 1998, p.311).

- **Purchase the ad time and field in and around the organization field:** The firms might apply large-scale promotions such as purchasing advertisement time and field in the organization field. They call consumers' attention to themselves by using purchases like billboards, posters and local media **(**Lyberger-Mccarthy, 2001, p.132)
- **Synchoronic ad and promotions with the organization:** Ambush marketing applies ad and promotions happenning upon consciously in terms of timing with the organization which the official sponsor supports. The firms try to create awareness and attract attention to themselves from sponsors by using the images or slogans which will show them as if they were related to the organization (Argan, 2004, pp.232-233)
- **Do sponsorship by assisting in the players:** Competitive firms establish relations with organization, team and players by sponsorring the teams or individual athletes (Meenaghan, 1996, p.107).
- **Be in or around the organization field**: Setting up the points of purchase and putting billboards and posters near the fields where organizations occur can be ambush marketing activities (İnal-Baysal, 2008, p.167).
- **Prepare the advertisements including congratulatory messages:** The firms prepare ad including congratulatory messages directed towards the winner team or players in order to be able to establish relations with the organization (Mckelvey, 2006, pp.117-118).

4. Ambush Marketing: A Research To Designate Consumers' Knowledge About Ambush Marketing

4.1. Methodology of the Research

4.1.1. The Aim of the Research

The aim of this research is to display and state consumers' knowledge about sponsorship and ambush marketing. Consequently, it is purposed to provide the business managers and academicians interested in this subject insight and foresight, too.

4.1.2. The Scope and Constraints of the Research

The population of the research consists of many different occupational groups such as civil servant, worker, retired, housewife, tradesman, self-employed and others in Trabzon. Because it is too difficult to reach all of the population financially and technically, the sampling frame was determined as 414 among the incidental non sampling methods by being assimilated the conveniency sampling method. So, the findings obtained are acceptable only for such a sampling and can not be generalized, but they might give information about overall of the consumers at a certain extent. In the research, it was benefitted from the primary data collection and face to face questionnaire methods.

4.1.3. The Hypotheses of the Research

H_1: There is a connection between demographic characteristics and ambush marketing knowledge.
H_{1a}: There is a relationship between gender and ambush marketing knowledge.
H_{1b}: There is a connection between age and ambush marketing knowledge.
H_{1c}: There is a relationship between education and ambush marketing knowledge.
H_{1d}: There is a connection between income and ambush marketing knowledge.
H_{1e}: There is connection between occupation and ambush marketing knowledge.
H_{1f}: There is a relationship between marital status and ambush marketing knowledge.

4.1.4. The Analysis of Knowledge and Data

In the analysis of the obtained findings in the research, it was benefitted from the frequency distribution and nonparametric X^2 (chi-square) analysis.

4.1.5. Results

The findings relating to the demographic characteristics of the consumers taking the survey are presented in Table 1.

Table 1: The Demographic Characteristics of Consumers Taking the Survey

GENDER	**Frequency**	**Percent (%)**	**OCCUPATION**	**Frequency**	**Percent (%)**
Female	146	35,3	Civil Servant	85	20,5
Male	268	64,7	Worker	52	12,6
TOTAL	*414*	*100*	Retired	29	7,0
MARITAL STATUS	**Frequency**	**Percent (%)**	Housewife	34	8,2
Married	276	66,7	Tradesman	55	13,3
Single	138	33,3	Self-employed Meslek	113	27,3
TOTAL	*414*	*100*	Others	46	11,1
EDUCATION	**Frequency**	**Percent (%)**	*TOTAL*	*414*	*100*
Elementary Education	32	7,7			
High School	89	21,5	**AGE GROUP**	**Frequency**	**Percent (%)**
University	252	60,9	18 - 24 years	74	17,9
Master/Doctorate	41	9,9	25 - 31 years	126	30,4
TOTAL	*414*	*100*	32 - 38 years	90	21,7
INCOME	**Frequency**	**Percent (%)**	39 - 45 years	55	13,3
0 – 700 TL	103	24,9	46 years and 46+	69	16,7
701 – 1500 TL	123	29,7	*TOTAL*	*414*	*100*
1501 – 2300 TL	90	21,7			
2301 – 3100 TL	45	10,9			
3101TL+	53	12,8			
TOTAL	*414*	*100*			

The distribution according to gender, marital status, academic background, income, occupational group and age group of the consumers taking the survey is presented in Table 1. The women form %35,3 of the consumers while the men form %64,7 of them. In addition, while %66,7 of them are married and %33,3 single, %7,7 of them are elementary education graduates, %21,5 high school, %60,9 university and %9,9 post graduate/doctorate graduates. While %24,9 of the consumers have 0-700 TL monthly net income, %29,7 of them have 701-

1500 TL monthly net income, %21,7 1501-2300 TL monthly net income, %10,9 2301-3100 TL monthly net income, %12,8'i 3101 TL and 3101+ monthly net income, %20,5 of them are civil servant, %12,6 worker, %7,0 retired, %8,2 housewife, %13,3 tradesman, %27,3 self-employed and %11,1 of them are included in other occupational groups. Finally, %17,9 of the consumers are between the ages of 18-24, %30,4 between the ages of 25-31, %21,7 between the ages of 32-38, %13,3 between the ages of 39–45 and %16,7 of them are between the ages of 46+.

The distributions related to the consumers' knowledge about ambush marketing are presented in Table 2.

Table 2: The Distributions Related to the Consumer's Knowledge About Sponsorship and Ambush Marketing

	Yes		No	
Statement	Frequency	Percent (%)	Frequency	Percent (%)
The official logo can be used only by the official sponsor of the organization.	328	79,2	86	20,8
The organizations can't be carried out without sponsor.	169	40,8	245	59,2
Only official sponsors of the organization can broadcast the advertisement during TV broadcast of organization.	187	45,2	227	54,8
The sponsorship symbols can be in the field of organization.	339	81,9	75	18,1
The (ambusher) firms not sponsoring officially, sponsor the media broadcasting the organization.	66	15,9	348	84,1
The (ambusher) firms not sponsoring officially, set the points of purchase near the organization field.	252	60,9	162	39,1
The (ambusher) firms not sponsoring officially, apply synchronous ad and promotions with the organization.	243	58,7	171	41,3
The (ambusher) firms not sponsoring officially, sponsor the individual athletes.	143	34,5	271	65,5

As seen in Table 2, %79,2 of the consumers taking the survey confirmed the decision that "the official Logo can be used only by the official sponsor of the organization" by choosing "Yes". As for %20,8, they chose "No". %59,2 of them verified the decision that the organizations can't be carried out without sponsor by saying "No". On the other hand, %45,2 of them said "Yes". Again, %81,9 of these consumers confirmed the decision that the sponsorship symbols can be in the field of organization by choosing "Yes". %18,1 of them said "No". %15,9 of them verified the decision that the (ambusher) firms not sponsoring officially sponsor the channel broadcasting the organization by saying "Yes". %84,1 of them chose "No". %60,9 of again these consumers confirmed the decision that the (ambusher) firms not sponsoring officially set the points of purchase near the organization field by saying "Yes". %39,1 of them chose "No". %58,7 of these consumers confirmed the decision that the (ambusher) firms not sponsoring officially apply synchronous ad and promotions with the organization by saying "Yes". %41,3 of them said "No". %34,5 of these consumers confirmed the decision that the (ambusher) firms not sponsoring officially sponsor the individual athletes by choosing "Yes". As for %65,5 of them, they said "No".

The results of chi-square anaylsis related to gender and ambush marketing knowledge are presented in Table 3.

Table 3: The Crosstab Results Related to Gender and Sponsorship, Ambush Marketing Knowledge

Statement	**X²**	**D.F**	**A.S**
The official logo can be used only by the official sponsor of the organization.	,459	1	,498
The organizations can't be carried out without sponsor.	,086	1	,769
Only official sponsors of the organization can broadcast the advertisement during TV broadcast of organization.	,702	1	,402
The sponsorship symbols/flags can be in the field of organization.	,014	1	,904
The (ambusher) firms not sponsoring officially, sponsor the media broadcasting the organization.	,004	1	,950
The (ambusher) firms set the points of purchase near the organization field.	1,053	1	,305
The (ambusher) firms apply synchronous ad and promotions with the organization.	,317	1	,573
The (ambusher) firms sponsor the individual athletes.	,276	1	,599

It was determined that there was not a relationship between the consumers' gender and knowledge about sponsorship and ambush marketing for all decisions. In other words, there is not a difference between female and male in respect to knowledge. Consequently, the hypothesis of H1a is refused at the level of 0,05 importance.

The results of X^2 (chi-square) anaylsis related to gender and ambush marketing knowledge are presented in Table 4.

Table 4: The Crosstab Results Table Related to Age and Sponsorship, Ambush Marketing Knowledge

Statement	**X²**	**D.F**	**A.S**
The official logo can be used only by the official sponsor of the organization.	5,702	4	,222
The organizations can't be carried out without sponsor.	3,977	4	,409
Only official sponsors of the organization can broadcast the advertisement during TV broadcast of organization.	1,303	4	,861
The sponsorship symbols/flags can be in the field of organization.	2,982	4	,561
The (ambusher) firms not sponsoring officially, sponsor the media broadcasting the organization.	,929	4	,920
The (ambusher) firms set the points of purchase near the organization field.	3,328	4	,505
The (ambusher) firms apply synchronous ad and promotions with the organization.	2,328	4	,676
The (ambusher) firms sponsor the individual athletes.	5,109	4	,276

It was ascertained there was no connection between answerers' age and knowledge about sponsorship and ambush marketing for all decisions. In other words, there are not any differences between age groups in terms of knowledge. Accordingly, the hypothesis of H1b is rejected at 0,05 importance level.

The results of chi-square anaylsis related to education and ambush marketing knowledge are presented in Table 5.

Table 5: The Crosstab Results Related to Education and Sponsorship, Ambush Marketing Knowledge

Statement	X^2	D.F	A.S
The official logo can be used only by the official sponsor of the organization.	6,320	3	,097
The organizations can't be carried out without sponsor.	15,071	3	,002
Only official sponsors of the organization can broadcast the advertisement during TV broadcast of organization.	2,802	3	,423
The sponsorship symbols/flags can be in the field of organization.	8,809	3	,032
The (ambusher) firms not sponsoring officially, sponsor the media broadcasting the organization.	2,868	3	,412
The (ambusher) firms set the points of purchase near the organization field.	8,531	3	,036
The (ambusher) firms apply synchronous ad and promotions with the organization.	,845	3	,839
The (ambusher) firms sponsor the individual athletes.	1,501	3	1,682

It was determined that there was an expressive connection between the decision that "The opportunist firms sponsor the individual athletes" and the answerers' education. For example, it was noticed in the detailed research that %75,6 of post graduate/doctorate graduates, %60,3 of university graduates, %58,4 of high school graduates and %31,3 of elementary education graduates said "No" for the decision mentioned. It was clarified that there was also a meaningful relation between the decision that "the sponsor-ship symbols can be in the field of organization" and the answerers' education background. For example, When the results were analyzed in detail, %87,8 of post graduate/doctorate graduates, %84,9 of university graduates, %71,9 of high school graduates and %78,1 of elementary education graduates gave "Yes" answer to the decision mentioned. Lastly, it was stated that there was an expressive connection between the decision that "the opportunist firms set the points of purchase near the organization field" and their academic background. As an example, it was noticed in the detailed research that %80,5 of post graduate/doctorate graduates, %59,9 of university graduates, %58,4 of high school graduates and %50,0 of elementary education graduates said "Yes" for the decision mentioned. So, the hypothesis of H2c was partially accepted at 0,05 significance level.

The results of chi-square anaylsis related to income and ambush marketing knowledge are presented in Table 6.

Table 6: The Crosstab Results Related to Income and Sponsorship, Ambush Marketing Knowledge

Statement	X²	D.F	A.S
The official logo can be used only by the official sponsor of the organization.	1,906	4	,753
The organizations can't be carried out without sponsor.	4,925	4	,295
Only official sponsors of the organization can broadcast the advertisement during TV broadcast of organization.	3,849	4	,427
The sponsorship symbols/flags can be in the field of organization.	3,632	4	,458
The (ambusher) firms not sponsoring officially, sponsor the media broadcasting the organization.	,321	4	,988
The (ambusher) firms set the points of purchase near the organization field.	4,948	4	,293
The (ambusher) firms apply synchronous ad and promotions with the organization.	4,426	4	,351
The (ambusher) firms sponsor the individual athletes.	3,722	4	,445

It was established there was no connection between answerers' income and knowledge about sponsorship and ambush marketing for all decisions. In other words, there are not any differences between income groups in terms of knowledge. On account of that, the hypothesis of H1d is rejected at 0,05 importance level.

The results of chi-square anaylsis related to occupation and ambush marketing knowledge are presented in Table 7.

Table 7: The Crosstab Results Related to Occupation and Sponsorship, Ambush Marketing Knowledge

Statement	X²	D.F	A.S
The official Logo can be used only by the official sponsor of the organization.	6,836	7	,446
The organizations can't be carried out without sponsor.	14,430	7	,046
Only official sponsors of the organization can broadcast the advertisement during TV broadcast of organization.	7,141	7	,414
The sponsorship symbols/flags can be in the field of organization.	6,515	7	,481
The (ambusher) firms not sponsoring officially, sponsor the media broadcasting the organization.	5,605	7	,587
The (ambusher) firms set the points of purchase near the organization field.	20,662	7	,004
The (ambusher) firms apply synchronous ad and promotions with the organization.	16,894	7	,018
The (ambusher) firms sponsor the individual athletes.	4,721	7	,694

It was estimated that there was a meaningful relationship between the answerers' educational levels and the decision which "the organizations can't be carried out without sponsor".For instance, it was seen in the detailed research that %75,0 of self-employed workers, %65,9 of civil servants, %58,8 of housewives, %51,9 of workers, %51,7 of retired and %49,1 of tradesmen answered this decision mentioned "No". Also, It was identified that there was a connection statistically between their education and the decision "the opportunist firms set the points of purchase near the organization field." For instance, it was seen in the detailed research that %71,8 of civil servants, %70,9 of tradesmen, %69,6 of self-employed workers, , %55,9 of housewives, %51,7 of retired and %42,9 of workers answered this decision mentioned “Yes”. In addition, It was decided that there was an expressive relation between their education and the decision that “the opportunist firms apply synchronous ad with the organization”. For example, %71,4 of self-employed workers, %65,5 of tradesmen, %60 of civil servants, %58,8 of housewives, %55,2 of retired and %44,2 of workers said to this decision mentioned “Yes. Thus, the hypothesis of H1e is partially accepted at 0,05 importance level.

The results chi-square anaylsis related to marital status and ambush marketing knowledge are presented in Table 8.

Table 8: The Crosstab Results Related to Marital Status and Sponsorship, Ambush Marketing Knowledge

Statement	X^2	D.F	A.S
The official logo can be used only by the official sponsor of the organization.	8,483	1	,004
The organizations can’t be carried out without sponsor.	,605	1	,437
Only official sponsors of the organization can broadcast the advertisement during TV broadcast of organization.	,289	1	,625
The sponsorship symbols/flags can be in the field of organization.	,000	1	1,000
The (ambusher) firms not sponsoring officially, sponsor the media broadcasting the organization.	,081	1	,776
The (ambusher) firms set the points of purchase near the organization field.	2,835	1	,092
The (ambusher) firms apply synchronous ad and promotions with the organization.	,000	1	1,000
The (ambusher) firms sponsor the individual athletes.	1,121	1	,290

It was estimated that there was a meaningful relationship between the answerers’ marital status and the decision that “the official Logo can be used only by the official sponsor of the organization”. It was seen that %83,3 of married people, %71 of single ones said to the decision mentioned “Yes”. So, the hypothesis of H1f is partially accepted at 0,05 significance level.

5. Conclusion and Evaluation

The firms have turned towards sponsorship as an alternative way due to increase of competition and of excess of the ad cost. The popularity of sponsorship have increased with each passing day and the number of business enterprise investing in the sponsorship and amount of investment have rose as paralel to this development. The sponsporship has been an effective communication means for the firms. The concept of ambush marketing has appeared because of realization of sponsorship’s increasing importance as a communication means.

Ambush marketing is not able to be a successful tactic in an well-informed market. It is able to be successful tactic only if the consumers have no information about who sponsor is, what their rights are and the role of sponsors in organizations. When there is a lack of knowledge, the firms not being official sponsor accomplish to associate themselves with organization by means of various strategies and mislead the consumer about this matter. It is researched the consumers' knowledge about sponsorship and ambush marketing in this work.

There was no meaningful and significance connection between gender and knowledge of sponsorship and ambush marketing as the analysis result of data obtained. In other words, there isn't any differences between male and female in terms of knowledge.

It was proved that there was no significance difference between age and the knowledge about sponsorship and ambush marketing. That shows there was not any differences between age groups in knowledge.

According to the decisions-"the organizations can't be carried out without sponsor" , "the sponsor-ship symbols/flags can be in the field of organization" and "the (ambusher) firms not sponsoring officially set the points of purchase near the organization field in order to make people think that they associate with the organization"-, there are a significance relationship between the education and knowledge of sponsorship and ambush marketing.

There is not a meaningful and significance association between income and knowledge of sponsorship and ambush marketing. In other words, there is no difference between income groups in terms of knowledge.

According to the decisions-"the organizations can't be carried out without sponsor", "the (ambusher) firms not sponsoring officially set the points of purchase near the organization field in order to make people think that they associate with the organization" and "the opportunist firms apply synchronous ad and promotions with the organization", there is a significance relationship between occupation and knowledge of sponsorship and ambush marketing.

Finally, when the relation between marital status and the knowledge of sponsorship and ambush marketing was searched, it was revealed that there was a significance relation in accordance with the decision-"the official Logo can be used only by the official sponsor of the organization".

When all demographic variables were analyzed, the level of knowledge related to TV broadcast of olympics was too low while the level of knowledge about the use of olympic logo, sponsorship symbols located in the organization fields and whether or not the sponser is in need for olympics was rather high. That's to say, a major part of the spectators believes that those broadcasting ad during television broadcast are the official sponsor. This shows that broadcasting advertisement is a very effective ambush marketing for organization during television broadcast, too. Furthermore, it was understood that a significant part of the consumers is unaware of ambush marketing strategies.

By taking all these results as a base, it can be said that the owners of organization and sponsor firms ought to inform the consumers about sponsorship rights and the strategies of ambush marketing. Because, one of the most crucial reasons for success of ambush marketing is lack of knowledge. The consumers should be informed about whom the official sponsor is and which rights they have with various trainings, instrustions and information programs. So that, they is able to distinguish the official sponsor from the opportunist firms. If the sponsor firms and the owners of organization do not take precautions, they will be sentenced to lose their most important communication tool and source of income.

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INFLUENCES OF ORGANISATIONAL COMMITMENT ON QUALITY OF WORK LIFE: AN EMPIRICAL STUDY

Abstract

Commitment is thought to be generated through a process of social exchange whereby being involved in an organization also comes to involve other interests of the employee in such a way that his or her behaviour is constrained to some extent. These can include cultural expectations which involve a penalty for their violation. Quality of work life is a dynamic multidimensional construct that currently includes such concepts as job security, reward systems, training and career advancement opportunities and participation in decision making. As such quality of work life has been defined as the workplace strategies, operations and environment that promote and maintain employee satisfaction with an aim to improving working conditions for employees and organizational effectiveness for employers. The study has been carried out on managers and non-managers employed in consumer durable industry in India. Perusal of the findings reveals that the non-managerial cadre exhibited higher level of organisational commitment as compared to the managerial cadre. Subordinates scored higher on the affective and continuance dimensions of the organisational commitment whereas managers scored higher on the normative index. The findings also reveal that the subordinates perceive their quality of work life to be much better than the perception of the managers. Thus, subordinates rate organizational culture and work environment to be much more conducive than the managers who do not express higher scores on the quality of work life index. Those employees have more commitment towards their organisation who feels that quality of work life in their organisation is good, irrespective of whether they are the managers or the subordinates.

Keywords: Organisational Commitment, Quality of Work life, Continuance and Normative Commitment.

1. Introduction

Organizational commitment refers to "the relative strength of an individual's identification and involvement in a particular organization” (Fierman, 1994). Committed individuals identify with the company and are loyal to it. Organizational citizenship is the willingness of employees to engage in behaviors that help the organization achieves its goals. Such behaviors include helping co-workers with job-related activities, accepting orders willingly, tolerating temporary impositions without fussing and making sacrifices for the good of the company.

Organizational commitment is at the heart of human resource management and is a "central feature that distinguishes HRM from traditional personnel management" (Guest, 1995). Commitment is an internalized employee belief, often associated with 'soft HRM' and a high-trust organizational culture. It is thus, necessary that issues concerning employees must be integrated into core business activities, bringing changes in systems, work practices and expectations from the employees. Organisations have to ensure that the best people are employed and receive opportunities for advancement. Employees pay particular attention to management behaviour linked to respect, fairness, support etc. These are key drivers of their own commitment and loyalty to the organisation. It is often said that an employee leaves a (bad) boss, not an organisation. Research shows that when managers demonstrate commitment, these get reflected in higher levels of organisational commitment among the subordinates. Managers need to understand the considerations that are most important for each employee and each employee group, in order that they can create a relationship that meets the employees' needs and hence create the basis for commitment. Behavior is a function of an individual's underlying *motives* and the *situation* they find themselves in. Stress and dysfunctional, unproductive behaviors arise when there is fundamental mismatch between the two.

Organisational commitment is a multidimensional concept that has been interpreted in a variety of different ways. The main approaches appear to be affective, or attitudinal (Buchanan, 1974; Mowday et al, 1982; Porter et al, 1974), normative (Allen & Meyer, 1990; Wiener & Vardi, 1980), behavioural (Staw & Salancik, 1977) and calculative (Becker, 1960; Ritzer & Trice, 1969).

Meyer & Allen (1991) described three forms of organizational commitment: commitment as an affective attachment to the organization; commitment as a perceived cost associated with leaving the organization; and commitment as an obligation to remain in the organization. These three forms are termed as affective (i.e. individuals stay in the organization because they want to), continuance (i.e. individuals stay in the organization because they need to) and normative commitment (i.e. individuals stay in the organization because they feel they should), respectively.

QWL is the description of working conditions and facilities where workers have to work. It aims at giving human shape to working condition as QWL is often described as 'humanization of work place.'

It also explains the relationship between a worker and his work settings. It creates a sense of belongingness with work place. It describes work not merely in terms of technical or economic dimensions rather in terms of human dimensions.

QWL is an individual's views about every dimension of his work encompassing economic and other fringe benefits. Cooperative or partnership relationships in business organizations can have a symbiotic impact that increases financial performance; competitiveness and mutually benefits all groups. Thus fostering of partnership relationships between employee organizations such as unions and management may result in increasing employee and company security and well being.

Davis (1981) defined QWL as favorableness or unfavorableness of a job environment for people. The purpose of QWL is to develop jobs that are excellent for people as well as for production. It provides careful balance of human imperative and the technological imperative. QWL efforts are required for these reasons:
1. Employees are now becoming more aware of their needs and rights. They want empowerment in work place.
2. Taylor principles of work design are no more acceptable to new generation employees. They want creativity and innovation and prefer that environment which is conducive for growth and advancement.

2. Research Methodology

The study investigates the relationships between perceived QWL besides several important job-related variables for organizational commitment. Systematic evaluation of QWL and its impact on organizational commitment in the consumer industry has not occurred. Furthermore, it was deemed desirable to understand which components of working life were perceived as important within different employee groups and with which aspects satisfaction existed.

Objective of the study is to examine the impact of Organisational Commitment on Quality of Work Life among the subordinates. For the present study, the descriptive research method was considered appropriate as the focus was on studying human behaviour which can be better studied through descriptive rather than experimental research. Moreover, the parameters to be studied, viz, quality of work life and the organisational commitment develop over a period of time and may not be appropriately studied under experimental conditions.

The data was collected on the basis of convenience-cum-quota sampling wherein 425 employees working in consumer durable industry were contacted. The method of contact was personal visits/mailing. The managers supervising these employees in each organisation were also contacted to elicit their views. 398 response sheets were found complete in all respects and were finally analysed.

The domain of the study was restricted to employees serving in the geographical area of North India. The break up of the responses finally analysed is as under:
Managerial Cadre comprising of Branch Managers, Regional managers, Territory Managers, Zonal Managers, Assistant General Managers and above.
Subordinates comprising of Salesman, Sales officers, Regional Sales officers, Sales Executives, Regional Sales Executives etc.

Total Managerial cadre and subordinates who responded to the survey and whose responses were finally included in the analysis was 151 and 247 respectively.
The information was obtained through two research instruments:
1. Organizational Commitment Questionnaire (OCQ) developed by Meyer, Allen & Smith (1993).
2. Quality of Work Life Inventory developed by Sinha & Sayeed (1980).

3. Results and Discussions

This section summarizes the findings of the inter-relationship between the two variables. Table 1 highlights the various statistical parameters of the total Organisational Commitment index as well as its constituent components, viz, affective, continuance and normative indices. Perusal of these findings reveals that the non-managerial cadre exhibited higher level of organisational commitment as compared to the managerial cadre. Subordinates scored higher on the affective and continuance dimensions of the organisational commitment whereas managers scored higher on the normative index. Thus, it could be said that the non-managers felt obliged to the organisation and/or felt that the opportunity cost of leaving the organisation may be higher. It could also be due to lack of perceived better opportunities in other organizations. Managers by exhibiting higher scores on the normative index showed their concern toward moral aspects of continuing with the organisation.

Table 1: Statistical Parameters of Organisational Commitment Index (OC) and its constituent Components (Affective Index, Continuance Index and Normative Index) as perceived by Managers and their Subordinates

	Sample		Affective Index	Continuance Index	Normative Index	Total Org. Comm. score
Managers	151	average	29.906	23.130	28.992	76.978
		stdev	3.931	5.638	9.668	9.102
		median	29.000		29.000	78.000
		max	33.000	39.000	91.000	97.000
		min	17.000	11.000	19.000	57.000
		skewness	0.172	-0.386	0.367	-0.027
		kurtosis	-0.105	-0.576	-0.159	-0.682
Subordinates	297	average	26.000	25.881	27.333	79.219
		stdev	9.889	5.617	9.898	11.196
		median	26.000	25.500	28.000	80.000
		max	37.000	39.000	36.000	100.000
		min	8.000	11.000	11.000	93.000
		skewness	-0.233	-0.083	-0.588	-0.758
		kurtosis	1.053	-0.081	0.679	0.583
Total	398	average	25.281	29.691	28.059	77.980
		stdev	9.359	5.779	9.819	10.333
		median	29.000	25.000	28.000	78.000
		max	37.000	39.000	91.000	100.000
		min	8.000	11.000	11.000	93.000
		skewness	0.039	-0.209	-0.199	-0.995
		kurtosis	0.976	-0.165	0.589	0.069

Effort was also made to statistically analyse whether there is any significant difference in the organisational commitment levels of the managers and the subordinates. The findings reveal that the difference in the total organisational commitment scores is not statistically significant. (Table 2) The organisational commitment level among the consumer durable industry jobs could be attributed to the higher levels of intrinsic and extrinsic rewards including salary and entail more extensive boundary-spanning activities and greater role stress than the jobs held by employees of other durable industries with low and/or moderate involvement. These experiences are also differentially related to career expectations and indicators of the quality of work life among individuals in this high involvement industry. Moreover, these high-involvement employees display greater commitment to their employing organizations than other industries as reported in the other studies using the same scale. Furthermore, jobs high in both intrinsic (e.g., autonomy, challenge) and extrinsic (e.g., opportunities for recognition) rewards have progressively stronger positive effects on the job satisfaction and career satisfaction of individuals with high job involvement.

Table 2: Test of Significance (t-test) on the Difference between Managers and their Subordinates' perceptions on the Total Organisational Commitment (OC) Index

	Sample Size	**Mean**	**Std. Deviation**	**t value**	**Tabulated Value**	**Significance**
Managers	151	76.9783	9.102	-2.5633	2.576	Insignificant
Subordinates	297	79.2193	11.196			
Total	398	77.9809	10.333			

It appears that high levels of job involvement can exacerbate the negative effects of role conflict on quality of work life. These findings are analogous to those documented in the literature (Greenhaus & Beutell, 1985) that high levels of job involvement and family involvement heighten the level of work-family conflict experienced by individuals and its aversive effects on individuals' well-being.

Table 3 summarises various statistical parameters on the quality of work life index as computed for the managers and their subordinates. The findings reveal that the subordinates perceive their quality of work life to be much better than the perception of the managers. Thus, subordinates rate organizational culture and work environment to be much more conducive than the managers who do not express higher scores on the quality of work life index.

Table 3: Statistical Parameters of Quality of work life (QWL) Index as perceived by Managers and their Subordinates

	Cadre	
	Managers	Subordinates
average	378.623	1002.560
Stdev.	72.612	79.883
median	408.000	417.000
max	532.000	5101.000
min	140.000	153.000
skewness	-1.829	-1.526
kurtosis	3.659	2.839

A moderate correlation has been observed between organisational commitment and the quality of work life among both managers sand the subordinates (table 4). Thus, those employees have more commitment towards their organisation who feels that quality of work life in their organisation is good, irrespective of whether they are the managers or the subordinates.

Organizational change also affects employment relationships. It has been noticed that downsizing reduces commitment and trust. Similarly, organisation restructuring negatively affects organisational commitment.

Since the advent of liberalization in India, there has been an increase in the take-up of flexible work practices aimed at improving work and family balance. Despite the increased interest and debate about work and family balance, the survey found that when it comes to balancing work and family life and managing stress levels, organizations need to provide working arrangements that are flexible enough especially for younger age workers. Our survey has shown the relatively high percentage of workers over the age of 35 who indicated dissatisfaction with the level of stress they felt and with their ability to adequately balance work and family time.

Table 4: Correlation Coefficients to determine Correlation between Organisational Commitment (OC) Index and Quality of Work Life (QWL) index as perceived by the Managers and their Subordinates

	Sample Size (n)	Standard Deviation		Correlation Coefficient (r)
		QC	QWL	
Managers	151	9.102	72.617	0.190
Subordinates	2117	11.1116	79.88311	0.065

However, those managers who exhibit higher affective commitment i.e. attachment with their organisation also have higher quality of work life. Thus, moral bindings lead to higher perceived quality of work life. In case of subordinates, such correlation between affective commitment and the quality of work life is not very strong, albeit positive (table 5).

It has been reported that strong employment relationships depend on a healthy and supportive work environment wherein there is interesting work and need based continuous training and development, besides job security.

Table 5: Correlation Coefficients to determine Correlation between Affective Component of Organisational Commitment (OC) Index and Quality of Work Life (QWL) index as perceived by the Managers and their Subordinates

	Sample Size (n)	Standard Deviation		Correlation Coefficient (r)
		Affective	QWL	
Managers	151	3.1131	72.617	0.130
Subordinates	2117	11.889	79.88311	0.086

Table 6 highlights the correlation between Continuance Component of organisational commitment (OC) index and quality of work life (QWL) index as perceived by the managers and their subordinates. This correlation is very moderate in case of managers and is negative in case of non-managers. Subordinates feel that the costs associated with leaving the organisation are not a major factor in perceiving the quality of work life. There are visible effects that work conditions can have in the individual welfare like manifestation of satisfaction in the workplace, growth and development of the employees, etc. Eight items that could enhance quality of work life include wages and benefits, career opportunity, freedom of communication between managers and employees, security in the managers, pride of work and company, interpersonal openness, training and development and innovation in the work system.

Workers often perceive training as a reward providing self-actualization and the motivation to learn; career development with increased responsibility, autonomy and likelihood of advancement; and personal psychosocial benefits, including increased confidence, new friendships and better functioning in non-work life (Noe & Wilk 1993).

Table 6: Correlation Coefficients to determine Correlation between Continuance Component of Organisational Commitment (OC) Index and Quality of Work Life (QWL) index as perceived by the Managers and their Subordinates

	Sample Size (n)	Standard Deviation		Correlation Coefficient (r)
		Continuum	**QWL**	
Managers	151	5.638	72.617	0.075
Subordinates	2117	5.617	79.88311	-0.0115

The correlation between normative component of organisational commitment and quality of work life was also analysed (Table-7). A moderate positive correlation exists between these two variables. The relationship is stronger for the managers than the non-managers. Thus, moral obligation towards the organisation also leads to higher perceived quality of work life for the managers. However, such a moral obligation is not that strongly correlated with the quality of work life.

Many authors have identified three contributions of autonomy in work to positive self-esteem: 1) autonomy via self-perceptions-allows individuals to take responsibility for their own actions and success; 2) autonomy via reflected appraisals-autonomy is experienced as a reward for demonstrated competence and reliability; and 3) autonomy via social comparison-autonomy as a status indicator in the workplace culture is used for social comparison with other workers. Results of the present study also indicate that, in order for autonomy to have a positive effect on self-esteem, it must be valued by the worker.

Table 7: Correlation Coefficients to determine Correlation between Normative Component of Organisational Commitment (OC) Index and Quality of Work Life (QWL) index as perceived by the Managers and their Subordinates

	Sample Size (n)	Standard Deviation		Correlation Coefficient (r)
		Normative	QWL	
Managers	**151**	11.668	72.617	0.185
Subordinates	**2117**	11.8118	79.88311	0.1111

4. Managerial Implications

Critical analysis of the existing literature supplemented by the findings of the present study has helped to identify factors employees use to evaluate companies as better places to work. Organizations which have higher perceived QWL and instill organizational commitment have following characteristic features:

a. Generating pride in work and company through its innovative products and ethical orientation.
b. Freedom of communication between managers and employees, relying more on inter-personal skills.
c. Career possibility and ample chance of professional ascension.
d. Interpersonal openness and developing group cohesiveness.
e. Security related to the tenures and transparent evaluation systems.
f. Training and development and continuous need assessment.
g. Innovation at work system and providing opportunities for "constructive destruction"
h. Payment and benefits based on merit so as to attract and retain the best talent.

Based on my findings, following recommendations could be offered for building commitment to high quality work environments which instill organisational commitment and develop higher quality of work life:

a. Making high quality work environments central to corporate values and mission, confirming that employees are assets.
b. Negotiating roles and responsibilities of professional associations, unions, management and government.
c. Benchmarking job quality and analyzing impact on results
d. Diagnosing areas of strength and weakness and develop suitable strategies.
e. Continuously evaluating the impact of organizational change on employees and service outcomes.
f. Building quality work environment goals into business plans, showing links to results.
g. Providing incentives for managers to contribute to specific job quality goals.
h. Communicating to general public how high quality work environments improve the quality of their lives so as to attract and retain the best talent

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THE FINANCIAL IMPLICATIONS OF GLOBALIZATION ON THE ISLAMIC BANKING SYSTEM: FACTS AND THE EVENTS

Abstract

This study entitled "the financial implications of globalization on the Islamic banking: the facts and the events" attempts to highlight the most important aspects of the impact of globalization on Islamic banking, by clarifying the nature of globalization and its dimensions and manifestations, and focusing on the economic dimension thereof; because the concept of Globalization – to start with - has a close relationship with the economy and capitalism. These features are embodied in international trade liberalization, free movement of capital and the transition between the States. The direct foreign investments flow to developing countries and the dominance of multinational companies, and the growth of economic blocs like the European Union, the bloc of Southeast Asia ASEAN. This study demonstrates that despite the challenges facing Islamic financial transactions at the present time, however, the Islamic financial and banking institutions laid a solid foundation for itself in international financial transactions. The Islamic banks are deemed to have a new experience proved largely successful in a prevailing capitalist system where conventional banks are based on the basis of interest rates. The study attempts to address the negative impact of globalization on Islamic banking sector, since the liberalization of trading in banking services has created a kind of unequal competition between international banks and Islamic banks for their limited size and the weakness of their economic potential. furthermore, foreign banks have the ability to move funds according to their own advantage as a result of fast decision-making, without regard to controls that Islamic banking is committed to, in addition, the liberalization of trade in banking services, sharply reduces or eliminates support to infant industries from the Islamic financial institutions, which undermines the role of financial institutions and Islamic banking in investment and development. The positive effects of globalization on Islamic banking is that the liberalization of trading in banking services would improve the efficiency and effectiveness of Islamic banking and financial institutions to prove their presence, as well as the development of banking methods and practices using the latest technology available in the world, and to identify the best administrative and accounting techniques and benefit from the accumulation of experience with foreign banks and others. The study discusses the major challenges facing the Islamic banking in the context of globalization, most notably the Legislative challenges represented by the lack of Counsel and lack of recognition of central banks towards Islamic banks and the inadequacy and unsuitability of the laws of trade, banks and companies for the activities of the Islamic Action. The economic challenges are represented by the prevention of financial and banking institutions from exercising the trade, and possessing the equipment and real estate and renting and renting them out notwithstanding that those of the core business activities, and the scarcity of long-term investments and the relatively small size of Islamic banks. The study concludes with several recommendations to address these challenges as necessity for economic integration and partnership and to gain access to the application of the comprehensive bank and the integration and merger among Islamic banks.

Keywords: Globalization, Islamic Banks, Financial Institutions.

1. Introduction

Globalization is a relatively new phenomenon, and of a multi-directional nature imposed by very complicated trends on the economic, cultural and social domain for all communities (1). The term globalization is one of the most common terms used at the academic level since the early twenty-first century devoid of any reference to race or a certain specific region or even affiliation to a religion. This term has been used at more than one level in particular in the cultural, economic and political areas. This term globalization is meant for something to become global or the development of increasing integration of systems and relationships beyond the borders of countries (2).

These systems and relationships are beyond the economic character to the political, cultural and technological ones (3), and in short, this term means that the "world is becoming a common social area by economical and technological pressures, where developments may shed light in a particular part of the world over bringing about changes in the lives of individuals or communities on the other side of the world (4).

The world is witnessing an infinite series of developments, including economic crises, privatization, and the openness of markets and free trade, all came to reflect on the so called phenomenon of globalization, which led to the emergence of a strong commercial powers and private companies having the resources and tools stronger than what states possess (5). Globalization has negative effects on the economies of countries due to the fact that it dominates the global economy through transnational corporations, and represents a threat to privacy and cultures of local people as a result of its technical excellence in the presentation of its liberal culture and contributes to state weakness and reduce their functions. In order for States to maintain their unity and survival in the era of globalization, this requires positive interaction with globalization, and have the tools and methods used by the globalization for domination and control, and this requires development of a civilization model derived from the philosophy of the Islamic nation and its cultural identity, and to benefit from the scientific progress and modern technological advancement.

There is a difference between the intellectuals around the historic Growing of globalization, Some associate it to improvements "in the nature of production and the declining importance of natural resources, and the predominance of forms of financial revolution" (6), which is inconsistent with Japanese scholar "Fukuyama (7), since all mankind developments and all sciences have left its marks on the patterns of human thinking and the system of values related to human sciences.

On the other hand, Robertson determines stages of evolution of the concept of globalization, including the following (8): "embryonic stage, which extends between the fifteenth century until the middle of the eighteenth century, and the stage of evolution from the middle of the eighteenth century until 1870 and beyond, and start-up phase, which lasted from 1870 until the twenties of the twentieth century, and the struggle for hegemony, this stage extends between the twenties until the mid-sixties, and the stage of uncertainty, which started in the sixties and led to trends and crises in the nineties ". In his view, another trend takes the view that globalization is an extension to the hegemony of Western thought, which began since the fall of Granada and the growing trend of trade in the seventeenth century, and the colonization of most of the Arab world and the third world (9).

2. The three key variables to the global economy

I. The Power of Knowledge:

The wealth of nations is based on knowledge, which is in education and scientific research. There is no culture that can create an impact or build civilization of value only if they have the power of education and the quest for knowledge and this calls for better education and to provide schools and students with the skills they need through biotechnology and the computer in addition to the identification of cultures of the world and its political systems so that they can move successfully among the global environment. The knowledge is of paramount importance in today's world and will remain the same in the world of tomorrow. In human history progress has had distinctive features, in an era of the agricultural revolution which took place at immemorial time; the greater reliance was on physical infrastructure «muscle». But in the era of the industrial revolution, the greater reliance was on the individual «skills» which was essential to advance industrialization operating trains and engines. The world we live in now its first magnitude power is the knowledge power, the power of human «reason» (10).

The strength of the human mind is the cornerstone of all cultures, but this does not mean that cultures are identical or must be united; in Egypt, it is not the same in Ireland or in China. So I think that we must not understand Thomas Friedman's theory on that «The World is flat», that cultures are equal in the era of globalization. Cultures vary and barriers exist. Interests are those that can drive for the understanding and coherence and progress. Crystallization of the use of human mind in its best form will be possible only if there is an environment of knowledge and scientific thinking and faith based on enlightenment and diligence (11).

Investment in nanotechnology as a prelude to control the world market, and improvement of economic performance, will from now on focus on "new war" called the "war of knowledge '[THE WAR OF KNOWLEDGE]' and' ingenuity, skill and THE KNOW HOW. As goes the American Thinker [Alvin Toffler]: who has the information and knowledge that can control the world through the production of high performance things, low costs, and is completed.

In light of this massive accumulation of knowledge, civilization dimensions have been created and related to the next economy born in the embrace of capitalist globalization, that is (the knowledge economy or information economy), which information constitutes the basic pillar and a tradable commodity in terms of value and sense. Here we have to stand in front of a reality which is that science itself has become a direct productive force, and became integrated organically in the process of material production, highly expanding production in terms of content, and science itself has become a direct economic process, accelerating growth rates, and increasing efficiency productivity. What the technological revolution has given to the mankind of the tremendous achievements and what it can offer in the future does not bear the desired fruit for all of mankind, unless relying on a just international order dominated by the values of equality, and this is totally incompatible with globalization and its goals, which are based mainly on that 20% of people rules the remaining 80% of people as the ongoing series of colonization continues to drain the wealth of the peoples since the emergence of capitalism and to this day in an increased frequency (13).

II. The change in the nature of international trade:

The concept of International Commerce differs from domestic trade, in that the first is conducted between international parties separated by an international political border, and anti-negotiable, and regulations, and laws, and mechanisms, not existing between trading parties in the national trade market. Consideration could be given to international commerce as a kind of trade, which is focused on the commodity foreseen mass flows (exports and imports), which comprise the total output of commodity traded in tangible material channels of international commerce between the trading parties on the one hand and the mass flows (exports and imports) foreseen service which is composed of different kinds of international transport services, and insurance services, international travel, tourism, and international banking services, and rights to intellectual property transfer, especially technology transfer on the other (14).

However, in light of the current globalization, commodity movement is no longer the engine of the global economy, but the movement of capital and we note that the current financial crisis, which exposed flaws in the global financial system, which requires international regulation of global financial markets in order to achieve stability in the flow of international finance and maintain the stability of finance markets (15). The trade exchange results in the use of products, tools and different methods in the affairs of life, and this exchange requires communication between members of the community and other communities with the passage of time lead to the transfer of lifestyles and skills and certain habits between different communities. Currently the existing international exchange under the existing globalization is afflicted by fundamental flaws that affect the interests of developing countries mainly, and damage their economies. Given the importance of international commerce in general and those States in particular, the group of the South developing countries suffer from the problem of unequal exchange between them and the Nordic countries. As there is a difference between the prices of exports from developing countries to developed countries of the North and the industrial export prices en route from the latter in terms of changing the movement of prices of exports and imports by the monopoly and inequality in the elasticity of supply and demand to the contrary of developing country exports.

Globalization has changed the nature of international commerce through the release of free market systems away from the tariff protections and official interventions by the State, hauling in the economic process in the first place is between supra-national corporations that hold the lion's share in total world production. Globalization is to impose a specific pattern on the peoples and nations in culture, politics and economy as well as in technology and media. This imposition is associated with the rule of force in international relations, meaning that the State tries or group of States try by virtue of what they own of power and strength and ability to influence in the international relations course, to issue a specific pattern to the world for its interests in the first place (17).

III: -multinational companies:

In light of modern globalization a merger has happened there for the world markets in the fields of trade, direct investment and transfer of funds, manpower and cultures within the framework of capitalism, free markets, and consequently the world is subject to global market forces, leading to a breach of national borders and to the Great Depression in the sovereignty of the state. The key element in this phenomenon is the huge capital multinational companies (18). And multinational enterprises have become one of the largest economies in the world as 51% of the major economies in the world is to multinational companies, while only 49% for States. The political power has grown of these companies, which required the need to develop legal norms accepted and implemented in all parts of the world economy, as the attempts of national governments to deal with these companies have limited success. Most of the direct foreign investment is achieved through activities of the major international companies (multinational), which control the production activities in more than one country and don't control the financial resources for investment only but control the other components of the package included in foreign investment.

The globalization exercises its different policies through multi-international institutions via international companies operating to undermine the ability of the traditional state in its powers and functions which is a threat to the national sovereignty and interfering in the affairs of States, and in fact the discussion of the researcher prior to the concept of globalization shows that there is a significant negative impact of globalization on national cultural identity and cultural belonging, which the peoples of the Third World currently experience seriously. The researcher here points that globalization is not merely a set of policies imposed on the Third World, but a certain stage in the evolution of capitalism in the developed imperialist, the current trend of the new international order and undermining the national states, loyalty and national culture, especially in the third world, came at a certain point of the capitalism development stages to reflect on one hand the strategic interests of the dominant forces of the system, that is international capital, and reflected on the other hand as a remarkable development in the productive forces and then in the relations of production that become now globalize or not national.

In fact, during the nineties of the last century, the role of giant business and financial companies has grown. These are the companies that control the short –term capitals movement, hot money" and carry on financial intermediaries for the benefit of large countries and companies in the world, both in the issuance of stocks and bonds, private or public loans float in the world market and other financial services activities, particularly as evidence of financial capital, dating back more than a hundred years, at the beginning of the twentieth century it was predicted the rise of global capital, and control all the suites to industrial capital, agricultural, commercial and service sectors and at all levels of life.

Control will give rise to creating a kind of new imperialism that expands and controls the world economies and that operations of financial positioning will lead to delegating the ideals of economic liberalism (19).

3. The Importance of Islamic banks

Despite the many challenges facing Islamic finance at the present time, there is no doubt that the Islamic financial institutions and Islamic banking has firmly established a solid foundation in international financial transactions, which is undergoing a period of remarkable growth and still pending the aspirations of many and broad prospects.

Islamic banks have become a reality in the banking and international life after it made its way in the banking environments quite different in terms of foundations and rules and mechanisms from those of Islamic rules and spirit.

Islamic banks are a new experiment proved largely successful in a prevailing capitalist system where traditional banks were based on one foundation that is the interest rates. While Islamic banks have taken Islam to be the source of practicing the banking and have also taken the Islamic investment modes to guide it but complied with the legal provisions to face banking updates.

The total number of Islamic banks by the end of 2000, was approximately 187 banks, after the mergers took place between a number of them, compared with about 200 banks and institutions in 1998 and 25 Foundation in 1985, operating financial assets larger than $ 400 billion versus 215 billion in 1999, and 150 billion in 1989, with a turnover ranging between 120 to 170 billion.

The distribution map of banks and Islamic financial institutions in the world on four areas:

First, the Middle East and the Arabian Gulf: it includes 43 Islamic financial institutions account for 70% of the financial magnitude of all Islamic banks and the value of their deposits amount to about $ 70 billion and the value of its assets up to $ 85 billion, and total capital of $ 3.5 billion, and profits at an annual rate of more than one billion dollars.

Then the Asian region: comprising 80 Islamic financial institutions in the value of total assets amount to 8.3 billion dollars, deposits $ 5.1 billion and profits of about 531 billion dollars.

And Africa, that includes 35 Islamic financial institutions, value of assets of $ 9.1 billion, profits of up to $ 39 million. Finally, Europe and America, which involves 8 Islamic financial institutions, the value of the assets 952 million dollars, and reserve $ 93 million and profits up nearly 53 million.

There are currently more than 170 Islamic financial institutions operating in 62 countries in the world, and their assets reach 7500 billion dollars.

4. Options Available to Banks Under the Age of Globalization

There are three options, first option "is the full liberalization of the banking and financial services sector to foreign competition, and the second option: is the restrictions that may be contained in the schedules of commitments in accordance with laws, regulations and policies governing the work of the banking and finance in Muslim countries, the third refers to non-commitment to liberalize the banking sector.

The first option:

This indicates not to impose any limitations in the schedules of commitments that are introduced in this sector, or more precisely to allow foreign presence in all forms as set out in the schedules of commitments as stated in the draft agreement. It is expected under this scenario for the impact on Islamic banks to be as follows.

(1) to accept deposits in all forms (ongoing - future – saving), and liberalization here allows dealing in interest rates for local and foreign traditional banks (for term deposits and saving deposits), while Islamic banks are working on the distribution of return actually realized for the investment deposits, which depends on the basis of what profits are actually realized.

(2) to allow lending in all its forms, de facto refers also to the dealing of traditional banks, local and foreign banks in interest rates, credit and debit, and thus the credit operations and credit are based on the taking term-benefits while Islamic banks deal with and in accordance with the Islamic modes of financing that have been approved by Shariah Supervisory Boards, and the funding revenue is often based on advantage vs. disadvantage rule, which represents the basis upon which the Islamic banks operate.

(3) The other services performed by banks, which are detailed in the schedules of commitments, like payments and services, money transfers, guarantees, commitments and trafficking for the bank account or customers, etc., there is no difference or a conflict in the providing them if not committing a legitimate breach.

The effect of full liberalization of Islamic banks is to increase the competition between them and traditional banks, local and foreign, may lead to improving the climate in which Islamic banks operate.

Some views in the Islamic countries indicate that the liberalization of banking services has already been in the banking market, where foreign banks are allowed and given the right to open branches in those countries and had the freedom to deal in local currency as well as the foreign exchange.

One of the most positive secretions for this option is for foreign banks to seek to offer Islamic banking services to attract customers of Islamic banks (as is the case with banks that have opened windows for Islamic banking), and the immediate liberalization of banking services increases the degree of competition domestically and the ability of Islamic banks to compete remains in the cost reduction and provision of Islamic banking services in a better way, in addition to the need to develop associated activities that require the use of sophisticated methods and techniques.

If we look at this liberalization from another angle, it may result in that Islamic banks may shift to provide their Islamic banking services to Member States in the WTO, leading to the expansion of Islamic banking activities and help them achieve their goals, but actually it refers to the weakness of the external representation of the Islamic banks, which reduces the mutual benefit from trade liberalization in services externally.

Second Option:

This option is based on the restriction of certain banking services through laws, regulations, policies and resolutions in force in this sector, which have been issued by the legislative and monetary authorities, and associated guidance relevant to the banking sector and financial support to Islamic countries. However, these restrictions will be for a temporary period, after which full liberalization of banking services will take place, and then Islamic banks will enjoy a period of temporary protection (and some banking activities) so that they can strengthen themselves institutionally and organizationally and technically in order to prepare for foreign competition in all forms.

The third option:

According to this option, the state does not undertake to open the banking sector to foreign competition in real time taking advantage of the grace period offered by the Convention to developing countries (including Muslim countries), and based on that, the conventional and Islamic banks are protected for a period of time to come.

This option may be in favor of Islamic banks as modern institutions compared to traditional ones, however states shall take advantage of this option and benefit from the protection by organizing and arranging their positions locally and externally so that they become fully qualified to compete in time.

The option has negative effects, in the absence of the creation of Islamic banks and their willingness to withstand foreign competition as a result of lack of interest or inability to keep up, thus Islamic banks will face fierce competition due to technological developments applied by conventional foreign banks during the granted protection period and that will at the end of the day give rise to demise and the weakness of Islamic banks which are not able to compete in the international banking market.

The researcher finds that adopting the option of gradual liberalization is appropriate for the States and Islamic banks, so it can liberalize some banking services where the Islamic banks have the absolute or relative advantage at the present time, provided there shall be graduation in liberalizing other services that Islamic banks are still in need of doing more effort in the future.

5. The Negative Effects of Globalization on Banking Sector

The liberalization of trading in banking services has created a kind of unequal competition between international banks and local banks, including Islamic banks, which are still unprepared to deal with this competition; due to the limited size, and the weakness of their economic potential, modest services compared to services in foreign banks. The international foreign banks did not find difficulties in the kidnapping of the large Financial Operations from the mouths of local banks; conventional and Islamic banks, because of the difference potential and the availability of modern advanced technologies.

The presence of foreign banks in countries where Islamic banks are, enables foreign banks move money, according to their own advantage as a result of the speed decision-making, without regard to the controls the Islamic banks commit to, while financial and banking institutions, often need a sufficient time until the issue is finalized with the Shariah Supervisory Board; the fact that the decision-makers in those institutions can not decide on what's happening until consultation with Shariah supervisory board, which requires a full-time work for the body to be connected permanently.

The liberalization of trade in banking services sharply reduces or eliminates the support of infant industries from the Islamic financial institutions, which undermines the role of Islamic financial and banking institutions in investment and development.

Positive effects of globalization on the banking sector:

The liberalization of trading in banking services will raise the adequacy and effectiveness of Islamic financial and banking institutions to prove their existence.

Developing methods and banking practices using the latest technology available in the world.

Identifying the best management and accounting techniques and to benefit from the accumulation of experience with foreign banks.

Islamic banks can take advantage from reciprocity, and ask for similar facilities in the countries of foreign banks, either by establishing complete banks or branches, which convey the idea of Islamic banks and financial institutions to the developed countries. Here comes the role of Islamic awareness in the proper dissemination of sound thought, thereby enhancing the role of Islam and civilization in leading the world.

The organized Western campaign against the Islamic banks and despite the negative impact, it has positive impact on the level of development of Islamic banking, funding them with returnable capital by way of investing them in the banks and namely western capital markets. The positive impacts increase in case the Islamic banks succeed in creating investment tools of more efficiency and if they can manage to attract the Arab and Islamic private sector in the recruitment of its funds by providing advanced banking services competing the services rendered by the usury banks (for example, Gulf wealth invested abroad is worth $ 1200 billion).

The challenges facing Islamic banking:

in the Historical reading of the Islamic banks, it can be said that: The sixties decade of the twentieth century was the era of the theoretical talk on the establishment of Islamic banks. The seventies decade came to witness the establishment phase of Islamic Banks at the grassroots level, formal and still ongoing. The eighties decade was the era of consolidation and proof of status and merit. The nineties decade witnessed the international breakthrough of Islamic banks, with the beginning of the twenty first century, the decade of enormous challenges facing Islamic banks began with the increasing trend towards the globalization of finance and economics.

Islamic banks across the world are facing in recent months after the events of 11 September 2001, the most serious challenges since inception more than thirty years.

Perhaps the events of September were the piece of hair that broke the camel's back, as a favorable opportunity came before the interest-based system to tarnish the image of Islamic banks. Banks and all Islamic economical institutions are deemed to be a practical competitor to the interest-based system through the continuous success of these banks and the rates of high profits annually achieved.

6. Future Strategic Determinants of the Islamic banks

It is expected that Islamic financial institutions including banks may encounter difficulties and heavy losses reflected in a decline in market share and pressure on the levels of profitability, given the modest capabilities and capacities of some banks as compared with traditional financial institutions that have a significant comparative advantage, particularly in the banking services (21). In order for Islamic banks to benefit from the positive aspects of banking services trade liberalization agreements, they will need to plan for this by identifying features of the strategy, which is as follows:-

6.1. to provide comprehensive banking services:

The comprehensive bank is that bank which provides integrated banking and financial and investment services at the global level. The mega bank is a global financial institution owns at least $ 150 billion of international assets, and has usually a tier one capital of not less than $ 12 billion. The goal to create mega banks is to make use of economies of scale and rationalization of expenditures and the ability to compete on several fronts as well as control to impose conditions and restrictions. Although Islamic banks do not have this size of capital and assets, yet, they are considered comprehensive and in accordance with the functions and objectives, and therefore could play a greater role in the future under the Convention.

6.2. coping with technological development:

The quest to keep pace with technological development must be a key target for Islamic banks to be configured to compete locally and abroad, provided that this be done, according to a deliberate strategy and a clear vision and appropriate technologies for the economic realities of the Islamic banks. One of the pillars the strategy should be based on in this regard is the following:

First: to increase investment in technology so as to make a real breakthrough in Islamic banks use of modern technologies.

Second: a focus on electronic banking services that Islamic banks find a competitive advantage in, such as Islamic banking services.

Third: the preparation and training and development of human resources skills in dealing with the modern mechanisms in order to increase the prospects for growth and profitability of Islamic banks.

6.3. fulfillment of international banking standards

That is represented in compliance with the financial and regulatory rules and attention to the financial position of the Islamic Bank, and good management to ensure the safety of its financial position and skeptics lose any pretext to liquidate it.

In the area of organization and development of standards, it is not possible to ignore the principles and international standards such as those recommended by the Basel Committee and are being applied to traditional financial services industry, it must be studied and considered in its application and dealing with issues and risks faced by Islamic banks and without the omission of basic requirements of these institutions (22).

There is no doubt that a genuine market for borrowing between Islamic banks will be an important step towards enabling them to maintain the appropriate level of liquidity without having to maintain a large number of short-term assets, through fulfilling procedures and meet standards issued by competent international institutions with.

6.4. to provide Islamic banking schedules of commitments:

The central banks in Islamic countries may adopt a consolidated views on the Islamic banks, through their governments, and also the international Islamic financial institutions , which have received wide acceptance and recognition by international organizations (the Islamic Development Bank - Jeddah, and the Accounting and Auditing Organization for financial institutions in Bahrain, and Financial Services Board and the General Council for Islamic banks) may play an important role in the provision of threshold protection for Islamic banks through deep understanding of the obligations set forth in the Convention and the need to advise the Islamic countries that are negotiating to accede the current period and those which were admitted as observers and other countries seeking to join.

6.5. to consolidate closer relations with correspondent foreign banks with branches and Islamic windows:

Those relationships can be consolidated through the services exchanged between Islamic banks and corresponding foreign banks that maintain branches and windows designed to provide Islamic banking services.

So that the larger objective of Islamic banks is to expand in the dissemination of Islamic Banking through the traditional banks, which can increase the size of Islamic transactions at the global level, and enhance the ability of Islamic banks in influencing the bargaining power of the States that these banks belong to, thus widening the circle of financial institutions (The list includes Islamic countries and other non-Muslim), which call for granting privacy to Islamic banks in the schedules of commitments concerning banking and finance, until it is taken into account during the negotiation rounds and meetings for the next financial services agreement.

6.6. of integration & merger between Islamic banks:

Said agreement on the liberalization of financial services has added a new dimension to the need for integration, due to opening of the financial services markets (banks - insurance companies - the stock market and institutions working in the field of securities) in the countries signatories to this Convention, which owns about 95% of the market for financial services in the world, and thus the internationalization of banking and financial services and expand across borders through subsidiaries abroad or through branches of financial institutions in the mother country (23).

However, the increase in the size of the entity has drawbacks that should be taken into account and represented by the administrative difficulties of the sheer size and follow-up, audit and accounting and interdependence between departments, as it may result in weakening of its position, and therefore it is inevitable to adopt integrated vision of necessary reforms in the structure and functions of Islamic banks Under the merger (24).

The aim of this integrated vision is to increase the competitiveness of Islamic banks, by reducing the average productive unit cost and achieving internal savings resulting from reduced administrative services and strengthen the ability to invest in human resources and development of their skills and expertise through training allocation (25).

Consideration could be given to the benefits of integration of Islamic banks by achieving self-sufficiency of Islamic financial resources to achieve economic development in the Islamic world, and establish trade exchange between the countries that have integrated replacing foreign commercial exchange with other countries to some extent (26).

The determinants of Islamic banks strategy must take into account all the variables global or local, so that those Islamic banks can survive and deal in the international banking market under the Convention on International Trade in banking services.

Recommendations

This study resulted in a number of recommendations relating to the Islamic countries, we quote briefly in the following paragraphs:

(1) Reduce and remove the barriers imposed by some governments on Islamic banks, so that Islamic banks may gain a priority of providing services to clients across the Islamic countries.

(2) To adopt the option of gradual liberalization of banking services to be compatible with the current situation of Islamic Banks, and liberate some of the terms of the agreement where Islamic banks are gaining a comparative advantage.

(3) Consolidation of efforts between the Islamic countries to come out with gains through rounds of negotiations and meetings convened for the future World Trade Organization.

(4) the need to include services provided by Islamic banks in the schedules of commitments on banking services of Islamic countries in particular to countries that apply the dual banking system.

(5) Vigorously pursue the establishment of banking and financial and an Islamic common market on purpose to increase the competitiveness of all Islamic banks.

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MARKETING MANAGEMENT DURING CRISIS

Abstract

Crisis is any unplanned event that can cause death or significant injuries to employees, customers, or the public; shut down the business; disrupt operations; cause physical or environmental damage; or threaten the facility's financial standing or public image. In order to deal with crisis, crisis management and marketing management should be used. In a crisis condition consumers tend to demand less or not at all. Demand is the key to success of a marketing management. Therefore whether there is an any kind of crisis or not, marketing managers must understand consumer needs, wants and demands. In each demand state, marketing men must identify the underlying cause(s) of the demand state and then determine a plan for action to shift the demand to a more desired state. Especially three different ways are sentenced in literature to shift demand in crisis. These are strategical planning, pricing and promoting. Although these three instruments are also used in non-crisis times, their usages in times of crisis are to be taken differently.

Keywords: Marketing management, crisis.

1. Definition of crisis

The US Institute for Crisis Management defines a crisis as: 'A significant business disruption which stimulates extensive news media coverage. The resulting public scrutiny will affect the organization's normal operations and also could have a political, legal, financial, and governmental impact on its business.' The advice of crisis consultants (such as Douglas Hearle) is that the corporate executives need: to act fast; to be the ones to reveal facts first; to spell it all out fully; to be factual; to be frank and forthright; to remain focused; to ensure the appropriate facilities are available; to seek feedback; to be prepared to express feelings and compassion to any people hurt (Warner, 2003, p.6).

Another definition for crisis is, any unplanned event that can cause death or significant injuries to employees, customers, or the public; shut down the business; disrupt operations; cause physical or environmental damage; or threaten the facility's financial standing or public image (Clark 1995/1996).

There is no “if” that a business will face a crisis; it is, rather, a question of “when,” “what type” and “how prepared” the company is to deal with it (Mittroff *et. al.*, 1996).

In his article Stephen Brown (2003) argues that crisis is a temporary state of heightened anxiety, whereas marketing is semi-permanent representation. With a right representation of marketing tools crisis can be solved, achievements can be reached.

Crisis needs to be addressed by ‘a turnaround’, by a process of ‘transformational change’. The management literature suggests that the features of such a change process include (Warner, 2003, p.6):

- an emphasis on open and honest communication;
- a willingness to listen to employees and draw upon their expertise;
- offering constant feedback; setting conservative, limited goals at first;
- only later, and building on initial modest success, try more aggressive goals;
- start small and win often;
- experiment, and learn from failure;
- constantly review, revise and enhance;
- provide staff with a vision, a manifesto;
- act as a team, as a coalition;
- win people over;
- don’t demean and humiliate

2. Crisis Management

An obvious, exciting dimension of crisis management for the marketing expert is the unpredictability of the inquiry: any potential crisis could spawn a financial and production nightmare for the company, yet the warning signs of an emerging crisis can be used to take proactive steps that avert a costly gaffe. Risk mitigation is critical for entrepreneurial success; the ignorance of the damage that risk could inflict is a myopic tendency that must be countered. Crisis management technology constitutes a new and potentially revolutionary prescriptive remedy. Marketing experts must play an increasingly responsive role in this mission (Barton, 1994, p.45).

A crisis can consist of four different and distinct stages (Fink, 1986). The phases are:

1. prodromal crisis stage
2. acute crisis stage
3. chronic crisis stage
4. crisis resolution stage

In the field of medicine, a prodrome is a symptom of the onset of a disease. It gives a warning signal. In business organizations, the warning lights are always blinking. No matter how successful the organization, a number of issues and trends may concern the business if proper and timely attention is paid to them. Whether the acute symptom emerges suddenly or is a transformation of a prodromal stage, an immediate action is required. Diverting funds and other resources to this emerging situation may cause disequilibrium and disturbance in the whole system. It is only those organizations that have already prepared a framework for these crises that can sustain their normal operations. During chronic stage, the symptoms are quite evident and always present. It is a period of “make or break.” Being the third stage, chronic problems may prompt the company’s management to once and for all do something about the situation. It may be the beginning of recovery for some firms, and a death knell for others (Kash & Darling, 1998, pp.181-182).

In an approximately resembled view Dominic et. al. 2005 also defines crisis management process; as a basic guiding framework, a crisis management approach conceives of crisis as occurring in a minimum of three phases:

1. A pre-crisis of management
2. The focal operational crisis
3. A post-crisis phase of recovery and a learning feedback loop to the next crisis of management.

3. Marketing management and demand relationship

The marketing man must try to understand the target market's needs, wants, and demands. *Needs* are the basic human requirements. People need food, air, water, clothing, and shelter to survive. People also have strong needs for recreation, education, and entertainment. These needs become *wants when* they are directed to specific objects that might satisfy the need. An American needs food but may want a hamburger, French fries, and a soft drink. A person in Mauritius needs food but may want a mango, rice, lentils, and beans. Wants are shaped by one's society. *Demands are* wants for specific products backed by an ability to pay. Many people want a Mercedes; only a few are willing and able to buy one. Companies must measure not only how many people want their product but also how many would actually be willing and able to buy it (Kotler, Keller, 2006, p.24).

Marketing men are criticized that "marketing men create needs" or "marketing men get people to buy things they don't want." Marketing men do not create needs: Needs preexist marketing men. Marketing men, along with other societal factors, influence wants. Marketing men might promote the idea that a Mercedes would satisfy a person's need for social status. They do not, however, create the need for social status (Kotler, Keller, 2006, p.24).

Marketing men are skilled in stimulating demand for a company's products, but this is too limited a view of the tasks they perform. Just as production and logistics professionals are responsible for supply management, marketing men are responsible for demand management. Marketing managers seek to influence the level, timing, and composition of demand to meet the organization's objectives. Eight demand states are possible (Kotler, Keller, 2006, p.10):

1. *Negative demand*- Consumers dislike the product and may even pay a price to avoid it.
2. *Nonexistent demand* - Consumers may be unaware or uninterested in the product.
3. *Latent demand* - Consumers may share a strong need that cannot be satisfied by an existing product.
4. *Declining demand* - Consumers begin to buy the product less frequently or not at all.
5. *Irregular demand* - Consumer purchases vary on a seasonal, monthly, weekly, daily, or even hourly basis.

6. *Full demand* - Consumers are adequately buying all products put into the marketplace.
7. *Overfull demand* - More consumers would like to buy the product than can be satisfied.
8. *Unwholesome demand* - Consumers may be attracted to products that have undesirable social consequences.

In each case, marketing men must identify the underlying cause(s) of the demand state and then determine a plan for action to shift the demand to a more desired state.

In a crisis condition consumers tend to demand less or not at all. Demand is the key to success of a marketing management. Therefore whether there is an any kind of crisis or not, marketing managers must understand consumer needs, wants and demands. A marketing manager must find a way to shift the demand into a more desired state.

4. Dealing With Crisis in Marketing Management Concept

Economic crises hit consumers psychologically as well as economically. During such times, they say that they feel less secure in their employment and argue more about financial matters; they feel the need to work more just to maintain their lifestyle, and that they no longer find any enjoyment in being a consumer. Consumers also adapt their shopping behaviour and habits, to be able to adjust to the changing economic conditions (Köksal, Özgül, 2007, p.327).

Lessons learned from the past 25 years show that companies are also affected in many different ways by economic crises. Some are forced to close down and others to drop their production capacity because of insufficient consumer demand for their products and services combined with fierce competition in the marketplace. Along with the economic crisis, input prices go up and result in higher costs for companies, which inevitably increase their prices to customers. All these negatively affect their competitiveness in the marketplace. Companies are also forced to lay off some of their personnel, and reduce wages, posing considerable managerial challenges. Managers are furthermore urged to delay or abandon investment projects (Köksal, Özgül, 2007, p.327).

In 1936 John Maynard Keynes published a book titled "The General Theory of Employment, Interest and Money" which attempted to explain short-run economic fluctuations in general and The Great Depression in particular. Keynes's primary message was that recessions and depressions can occur because of inadequate demand for goods and services. Keynes's message was aimed at policymakers as well as economists. As the world's economies suffered with high unemployment, Keynes advocated policies to increase aggregate demand, including government spending on public works (Mankiw, p.425). It can be understood that in situations like global or domestic economical crisis marketing managers are restricted in some ways to shift the demand into more desired state. The aggregate demand of a whole market shall be shifted by governmental policies such as particular incentives and reductions in tax rates. On the contrary in economically micro markets, demands are to be managed by marketing managers.

Different markets and market segments consist of different consumers. Consumers have different values, culture, lifestyles and so different buying behavior. Therefore whatever tool to be used to shift the demand into a more desired state, these tools can be shaped to fit the consumers values, culture, lifestyle and buying behavior. There is no magic demand managing tool to work in every market. Marketing men can adapt the tool they are using to the market structure.

Companies react to changes in the marketplace by taking the appropriate measures to adjust their corporate behavior, as consumers adapt their consumption behaviour. The best-known general measures include reducing costs, cutting production, reducing investment, entering foreign markets, working more with equity capital, improving efficiency, re-structuring debt, these can have no positive impact on company performance unless they increase sales (Köksal, Özgül, 2007, p.328).

In times of crisis there are severals ways to deal with the situation. Some important ways to shift the lesser demands are:

1. Strategical Planning

Strategic planning as a discipline has been concurrently taught and exercised in the past 40 years. This relatively new concept has been the major thrust in the management of US corporations. The art of strategic planning has helped the planners to forecast and cope with a variety of forces, issues and problems beyond their operating control. The strategic planning literature shows an experience curve in such forecasts, i.e. as mistakes are made, we learn from them. That is how contingency planning, scenario analysis and surprise management have evolved (Kash, Darling, 1998, p.179).

Mitigation steps such as crisis marketing planning can minimize the negative impact on cash flow (Barton, 1994, p.41).

In terms of general strategy, companies need to withdraw from those markets in which they are not the main players and concentrate their resources on those in which they are strong. However, this is not a marketing strategy that can be accomplished immediately or rapidly. It is suggested that increasing marketing expenditures, or at least maintaining the same level as before the crisis, will increase company performance (Köksal, Özgül, 2007, p.328).

Selecting the right markets for products and positioning them in markets are main issues of strategical planning. It is said that the most basic company strategy related to product policy during periods of crisis is to withdraw weak items from the market. Since, consumers place emphasis on the durability of products at such times, characteristics such as economy, durability, and functionality should be given high priority in the development of new lines (Shama, 1981; quated by Köksal, Özgül, 2007). It will further be advisable to allocate extra effort to research and development, in support of new products (Williamson, 2001, p.31). Therefore innovations must be supported in order to maintain sustainability.

2. Price

Decreasing prices too much can effect organization's image negatively and can make customers anticipate lower prices permanently (Öztürk, 2003, p.125).

Shama (1978, p.50; quated by Köksal, Özgül, 2007) explained that an economic crisis forces a significant change in the price decisions of companies, mostly in the direction of reductions. The rationale is to increase sales volume in the short term, but this strategy can cause serious damage to a company in the long run by lowering profitability. It could also harm the brand image, and customers might resist moves to return to former price levels when the crisis is over. Ang et al. (2000, p.113; quated by Köksal, Özgül, 2007) suggest two quality strategies related to pricing in conditions of crisis: to apply the same prices for higher quality products, or to offer the same quality product at lower prices. In the light of these insights from the literature, pricing strategy should be integrated with other marketing mix initiatives during the period of the crisis.

3. Promotion

The changes companies make in promotion strategies during a crisis are also of great importance. It has been shown that those increasing or maintaining their level of advertising will increase sales, income and market share during and after a recession (Kim, 1992, p.15; quated by Köksal, Özgül, 2007). DeDee and Vorhies (1998, p.58; quated by Köksal, Özgül, 2007) found that firms responding by reducing sales staff and cutting advertising expenditure fared worse, in terms of return on common equity, than those that had maintained or increased their promotional efforts. Since, consumers can be expected to shop more rationally when experiencing a decrease in their purchasing power during a crisis, advertising campaigns should emphasize such rational motives as safety, reliability, and durability, rather than image and status (Shrager, 1991, p.5; quated by Köksal, Özgül, 2007).

Öztürk (2003, p.126) pointed out that advertising and sales messages can be used in different demand periods and right usage of promotions can manage demand. Therefore companies must keep at least the same level of promotions before crisis, and if the there is enough capital more promotions must be used.

5. Conclusion

Marketing managers' main responsibility is to manage demand. In this view whether there is any kind of crisis or not, marketing managers must shift the demand into a more desired state. Marketing men must know how a crisis can occur and what must be done to prevent it. Therefore shifting the demand becomes more necessary in times of crisis. In order to accomplish this, marketing men must use tools of marketing such as strategical planning, pricing and promoting in a right way. A marketing man must never forget to always chase market situations and signals of crisis.

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THE RELATION BETWEEN PERFORMANCE-BASED BUDGETING AND COST MANAGEMENT

Abstract

Performance based budgeting increases the ability of decision makers to evaluate executive budget requests with informing managers and policy makers of better information about plan's results and outcomes. Performance based budgeting gives information about results of spending and answers questions as follows: Do the benefits of spending resources excess the cost? Do the managers have ability in achieving expected results? this paper first, discusses the background and implementation of performance based budgeting in Trade organization, Then the effect of cost management methods on cost decreasing, service rendering enhancing and customer satisfaction is discussed. Because we are at the beginning of using this system in Iran, Finding and result of this research can help to improve performance and decrease the problems.

Keywords: Performance based budgeting (PBB), Efficiency, Cost management.

1. Introduction

By the expansion of governmental duties and the swift increase in Governmental expenditure and its association with the general economic condition of the country, controlling the expenditure got unimportant and the requirement of improvement in programming systems, control and management in general portion of sources got into consideration. The management for general portion of sources needs to determine the objectives and emphasize on outcomes and then utilize cost management and novel management accounting methods for decreasing the expenses and increasing the quality of services. The emphasis on outcomes causes the decision makers to get a wider perspective and information about the outcomes and the cost of performance. This matter causes governors and politicians to consider the cost effectiveness, efficiency and economy of the governmental sources. In order to encounter this situation, not only we need to improve the methods and budgeting procedures to increase the coordination in systems, but a new dimension for evaluating the governmental management activities is needed. The feature and difference between this system and the traditional one is in the emphasis on objectives, outcomes and calculation for cost activity and decreasing expenses and increasing the quality of services for people.

2. Related literature

Through the researches performed inside the country on the theses, we concluded that presently there are few writings, researches and theses about the implementation of performance-based budgeting in organizations and the majority of these researches are not directly related to the performance-based budgeting and cost management, on the other hand some of them are about theoretical evaluation of performance-based budgeting and challenges to perform it including:

1- Studies by the assistance of management development and ministry of health on 2003 as “designing the performance-based budgeting in assistance of management and source development range”. This plan is performed with the information gathered in the first 6 months of the year and the method of implementing the performance-based budgeting in the organizations mentioned above is evaluated.

2-The MS theses of Mr. Zeynali in accounting in the BAHONAR university in 2006 entitled “implementing performance-based budgeting system in governmental organizations in Kerman province” which for these organizations a practical model of calculating the cost of activities and programs has been offered.

3-The MS theses of Ms. Mahmoodi in AZAd university in 2005 entitled “evaluating the problems for implementing the performance-based budgeting in weather forecast organization and offering the methods needed to decrease obstacles”.

4- A. Toloie, R.Mohammadipor, M. Zeynali in 2008 did a research entitled “Implementation of performance based budgeting and its challenges in IRAN” accepted for the presentation in the applied international business conference in MALESIA.

5- M. Jordan and Merl Hackbart in 1999 did a research entitled “The Goals and Implementation Success of State Performance- Based Budgeting”. Their findings suggest that program accountability as a goal, rather than budget allocation, makes a stronger foundation for determining performance-based budget success (Jordan, Hackbart, 1999).

6- W. Mark Grain, J. Brain O’ Roark in 2002 did a research entitled “The Impact of Performance- Based Budgeting on State Fiscal Performance”. Their findings indicate that performances- based budgeting curtails state spending per capita by at least two percentage points. However, not all state government programs are affected equally; some budget categories experience spending increase after the implementation of performance budgeting (Grain, Brain, 2002).

7- Don sung Kong in 2005 did a research entitled “Performance- Based Budgeting: The US Experience”. The research attempted to 1) provides a brief historical context of PBB in the US. 2) Identifying some challenges associated with the theoretical underpinnings and operational principles of PBB; 3) Document current Practice and research pertaining to designing and implementation and 4) discuss the prospect of PBB.

3. Research Method

For this investigation we scrutinized PBB system of Trade organizations of Iran. Research team mainly used field studies which they gathered required data by means of direct observation, interview and tests. As well they analyzed documents, records and financial reports of the organizations. In view of the fact that Iran’s financial and planning management system is based on concentrated method and also with regard to similarity of activities and duties in governmental organizations. it is expected that this research’s result could be generalized to the whole country. In support of having exact information about existed situation of budgeting system and governmental policies in relation to PBB implementation, all the regulations and notes e. g. fourth and fifth economic, social and cultural development program regulations, budget law and official letters of Organization of Programming and Management were gathered and analyzed.

4. Performance-based budgeting

By the evolution of governments and complication of governmental duties, concept of budgeting has changed. This evolution can be divided into 4 stages: In the first stage, approximately since 1920 to 1935, there has been great emphasis on creating a perfect system to control expenditure, and the cost accounting and association between accounting and budgeting was discussed. Second stage which emerged during the expansion of performance-based budgeting was about budget application as financial management tool.

The third stage began with the association of budget and program as a criterion for analyzing the economical welfare and it focused on some developments which had occurred in decision and information technology.

The forth stage which was created through the complication of organization, was about using the zero-based budgeting as a tool for strategic planning.

Considering the mentioned definitions, we can put the performance-based budgeting as a process to provide budget which enables us to decide to allocate the sources to some extent, based on effectiveness and efficiency of the services rendered with the emphasis on activities, programs and performance management.

Most researchers and governmental budgeting experts agree on performance-based budgeting as allocating the amounts to achieve the programmed objectives and also reaching some working indices, effectiveness and efficiency.

In 1994, US congress has defined performance-based budgeting as follows:

Performance-based budgeting uses words such as duty, goal and objective to explain why money is being spent. This is a way to allocate the resources to achieve special objectives based on program goals and calculated outcomes. There is a difference between performance-based budgeting and traditional methods because this new method focuses on cost outcomes more than spending money (2006, p.39).

By definitions mentioned about performance-based budgeting, it is clear that all these definitions are about two points: the relationship between budget and performance index and evaluation, relationship between budget and outcomes.

The lack of sources and distinctive relationship between sources and results have caused a disconnection between providing budget, supervising cost efficiency, the vagueness in budgeting process and lack of financial reporting system in governmental financial system to evaluate and have a strong concentration on data caused some problems in adjusting governmental budgeting.

The most significant policies adopted by the government of Islamic Republic of Iran are services rendered to society in the best quality, taking all responsibility and being held for them and the most important one, keeping people satisfied. As it turns out achieving the policies mentioned above is impossible unless we revise and make some improvements in procedures and systems. The policy mentioned in third five year development program emphasized on this point. Therefore all the related organizations are forced to make their strategic orientation based on efficient use of sources and considering the results, meanwhile they must increase the quality of services.

In regard to the substance of article 138 of forth development program act, implementation of PBB was suggested as follow: Organization of Management and Programming is ordered to reform budgeting system to a rational, operational and based on total cost system. For these objectives, it should perform the following duties up to the second year of the fourth development program:
A: identifying the activities that the executive organizations should do.
B: determining cost of each activity.
C: arranging budget proposal according to activities volume and their cost.
D: allocating credits according to annual performance and result of activities
According to cost.

Findings

In general we can divide the PBB process into 4 parts as below:

- Determining the objectives.
- Determining the quantitative indices for estimating the expenditure and performance of every program.
- Estimating the expenses of required programs for meeting objectives.
- Determining the budgeting deviation and controlling the budget throughout the period.

For determining and estimating the cost of activities and outputs, we can use activity based costing and budgeting.ABC is a system which determines and reports the activities, expenditure and features of activities and the income for every unit, every cost center or a group of employers in an organization. In order to improve expenditure and management and allocate expenses based on activity and program, the activity accounting information must be provided. To estimate the programming and activity cost and allocate the cost, we can apply ABC based on PBB. Applying such system may cause to increase accuracy in costing and management of expenditure.

Performance budgeting is being completed through both budget legislation and implementation as below:

1- Displaying performance budgeting: In this system only the related forms are being provided, organizational services are being recognized and the cost is being determined and a display of performance budgeting is being formed. In the implementation of this kind of budgeting, sources are not being allocated based on performance.
2- Output-oriented performance budgeting: In this performance budgeting system, the organization would identify the outcomes (productions and services) and also the activities which cause these productions to be produced. In other words they determine the annual objectives and not just long term ones. Cost accounting methods are also used for calculating each output unit. In this stage of budgeting, sources are being allocated based on realization of annual quantitative amount of purposes (amount of productions and services) in time periods through periodical performance and based on cost of every unit of production or service.
3- Outcome-oriented performance budgeting: In this performance budgeting system, the organization tries to identify outcomes (long term objectives). (For instance, the leftover management organization does a series of activities to cycle one million tone of garbage (long term objectives)so that they can reach the outcome of "increasing the general sanitation"(long term objective)). In this system, allocating budget is based on the realization of long term objectives.

The stages for implementing performance budgeting system based on ABC include:

1- Determination of organizational objectives and identifying the required activities and programs to realize the purpose(identifying outputs)
2- Determination of quantitative objectives for every program and activity.
3- Identification and classification of governmental organization expenditure.
4- Identification and classification of cost into direct and indirect parts.
5- Describing the internal activities of company for indirect cost.
6- Determining the cost driver for indirect cost to allocate them into activities.
7- The accumulation of cost in activity pools.
8- Determining the activity drivers and allocating activity cost pool into outputs.
9- Accumulation of direct and indirect cost to the cost of outputs.
10- Calculating the cost of outputs for every unit.
11- Determining the cost of programs and outcomes. According to the researches that have done at commercial organization it could be explain the implementation of this system as follow:

Table 1: The outputs and measure of their evaluating and the performing section of activities

outputs	Measurement index	the internal activities of its perform
Plan of regulating the foreign commercial policy		
Activity of control the rendering and extension of trade card	Object	Commercial activity and improving the business services
Activity of issuance certificate and control the foreign fairs establishment	Number	Market improving activity and commercial services
Activity of supervision for export committee	Object	Commercial activity and improving the business services
Plan of regulating the internal markets		
Activity of providing and distribution the goods and services	Good items	Activity of controlling the executive affairs of economic mobilization staff
Activity of control the guilds and guild system law enforcement	object	Activity of guilds affairs
Activity of issuance certificate and control the local fairs establishment	Number	Activity of improving market and commercial services
Activity of services and production price inspection	object	Activity of control the production and services price, inspect and detect the contraband and also the affairs of general participation and infringement indignation office
Activity of pricing the staple goods and study and research market	number	Activity of regulate the goods and services market
Activity of providing information related to export and improving the export culture	number	Marketing and export improving activity
Activity of informatics network implementation and other require reports	number	Informatics and electronic commerce activity

We recognize the group of internal activities that are as a cost consumer after defining the cost subjects and outputs. The activities of this organization divide in to supportive and operational activities as it is shown in below.

Table 2: Supportive activities

Item	Supportive activities	Base
1	Management control and inspection activity	**Number of employees**
2	public relations activity	**Number of employees**
3	Safe-guard activity	**Number of employees**
4	Financial and accounting activity	**Number of employees**
5	Supportive and official affairs activity	**Number of employees**
6	Typing and office activity	**Number of recorded letters**
7	Transport activity	**Time spent**
8	welfare services activity	**Number of employees**
9	Archive activity	**Number of archived letters**
10	Telecommunication activity	**Number of employees**
11	Computer activity	**Number of computers**
12	Storage activity	**Number of goods requisition from storeroom**
13	Supply department activity	**Number of purchase requisitions**
14	publishment activity	**Amount of the used services**

Operation activities that are the main activity of organization includes:

Table 3 : Operational activities

item	Operation activities
1	Controlling goods and services activity
2	**In**spec**tion** and detec**tion of** contraband **activity**
3	**I**nfringement **investigation** office
4	Activity of controlling the executive affairs of economic mobilization staff
5	Activity of guilds affairs
6	Activity of improving market and commercial services
7	Activity of regulate the goods and services market
8	Commercial activity and improving the business services
9	Informatics and electronic commerce activity
10	Marketing and export improving activity
11	Activity of general participation affairs and accountability of complaint

After specify the internal activity of organization, the incurred expenses by these activities will be as follow table. In this table at first all expenses according to supportive and operational activities have divided in two direct and indirect parts. To be notice that the small amount of expenses is directly tracing to outputs.

Table 4 : The list of direct and indirect expenses and their cost driver and allocation bases

Expenses	Kind of expenses	Allocation bases	Tracing subject
Salary expenses	direct	--------	According to labors of each activity trace to the same activity
Overtime work	direct	--------	According to labors of each activity trace to the same activity
New year's gift	direct	--------	According to labors of each activity trace to the same activity
Education	direct	--------	According to labors of each activity trace to the same activity
Internal mission	direct	--------	According to labors of each activity trace to the same activity
Wedding and burying subsidy	direct	--------	According to labors of each activity trace to the same activity
Education rewards	direct	--------	According to labors of each activity trace to the same activity
Financial assistance	direct	--------	According to labors of each activity trace to the same activity
Kindergarten subsidy	direct	--------	According to labors of each activity trace to the same activity
Food	direct	--------	According to labors of each activity trace to the same activity
Contracted Services	direct	--------	Trace to the non operation activity of payments and to lay labors off
Brilliant students' reward	direct	--------	According to the used activity
Expenses related to war handicapped	direct	--------	According to labors of each activity trace to the same

			activity
Expenses related to public relations	direct	--------	Trace to the non operation activity of payments and to lay labors off
Housing subsidy	direct	--------	Trace to non operation activity related to the retired labors
Internet	direct	--------	Trace to the computer activity
Supply	direct	--------	Trace to the storage activity
Computer repairs	direct	--------	Trace to the computer activity
Vehicle insurance	direct	--------	Trace to the transportation activity
Retirement reward	direct	--------	According to labors of each activity trace to the same activity
Official reforms	direct	--------	Trace to the users according to their use
Print and copy	indirect	--------	allocation to the users according to their use
Vehicle maintenance	direct	--------	Trace to the transportation activity
External mission	direct	--------	Trace to the office activity
Posting expense	direct	--------	Trace to the public relations department activity
Traveling expense	direct	--------	According to users of activity
Vehicle depreciation	direct	--------	Trace to the transportation activity
Building depreciation	indirect	square meter	----------------------------
Land improvement depreciation	indirect	Number of employee	----------------------------
furniture depreciation	indirect	square meter	----------------------------
Installation depreciation	indirect	square meter	-----------------------------
Juridical expense	direct	--------	To the juridical activity
Telephone expenses	direct	--------	According to users of activity
Gas	indirect	square meter	--------------------
Electricity	indirect	square meter	--------------------
water	indirect	square meter	--------------------
Maintenance	indirect	square meter	--------------------
Vehicle fuel	indirect	square meter	--------------------

5. Cost Management System

By wonderful development in technology accompany progressive increase in international markets competition; the managers of enterprises are forced to produce the high quality product and rendering better services to customers with the lowest cost. These expectation , make more convincement to supply information's that are essential to management accounting .Day by Day, lots of enterprise tend to change their procedure from traditional cost accounting to create a cost management system. Cost management system is a planning and controlling system that follows purposes such as:
1. Estimate the spent resources for the main activities of enterprise.
2. Recognize and omit expenses with no added value.
These expenses are the expenses of activities that they have same performance with omitting these activities but without decreasing the quality of products.
3- Determining the efficiency and effectiveness of all main activities.
4- Recognizing and estimating new activities those help to improving the future performance of enterprise. As it turns out cost management's emphasis is on the activities of organization. This sometimes called Activity Accounting that is vital for manufacture with lowest cost, and high quality .It is unavoidable and necessary to analyze the activity of organization and omit the activities that have none added value for realizing the targets of cost management and increasing the quality of products. For omitting the none added value activities it's essential to recognize the organization's value chain.

Value chain includes value creation activities from providing materials until delivering product or rendering services as follow:

Providing materials	**Research and development**	**Designing**	**Producing**	**Marketing**	**Distribution**	**Rendering services to customers**

To acquire the objects effectively in an organization, it's suitable and important that the managers identify the whole value chain and it help the managers to ask or answer question about the guideline of their organizations.

Considering the relation between performance based budgeting and cost management is the attitude of this essay and also this budgeting system is used often by none- profit organization and governmental agencies , so the question is " How can we join cost management and performance budgeting?

At first to make the subject clear we ask questions as follows:
_ Is it possible to identify the value chain in the governmental agencies?

_Is the term increasing the customer/s satisfaction is the same concept as value creation?
_Do the emphasis on the results of spending causes the better quality of give services to the people.
_Do the specification of objects and activity's quantity cause the economy in governmental expenses?
_finally, does the performance based budgeting system cause the decreasing the expenses and increase the quality of services (cost management system).Successful accomplishment of performance budgeting system require to evaluate cost and creation cost management system.

In the performance based budgeting system by convincement of executive organizations to considering the outcomes of programs, It/s tried to improve the effectiveness, efficiency and accountability of governmental plans.

This system with providing better information about the expenses effectiveness and governmental programs helps to Improving the plan's performance and governmental performance information to the parliament for making policy and supervising the plans and making spending decisions.

Creating more clear and closer relation between the resources and out comes is the object of this system. Performance budgeting is a current process that involves all the managers of organizations, from the (top managers) to each one of the program managers and subsidiary managers. This process includes a feedback cycle that gives correct information to the top level managers for managing the activities.

Eventually, performance based budgeting with suitable costing system and cost management system cause the best productivity of organization's resources. Managers will be able to use available resources to achieve the planned targets effectively. This system is foundation of comprehensive cost management system in the strategic program of an organization and could take the advantage of services delivered by people with discussing the new subjects of accounting such as, activity based costing, total quality management, value engineering, continuous improvement, benchmarking .

Managers of organizations introduce the term "continuous improvement" as a nonstop activity to decrease the cost during the production cycle or rendering services. Continuous improvement means achieving the preplanning reduction in cost driver in the process of delivering services. Using the continuous improvement in the performance based budgeting system effects to gradual decline in expenses. This system with use of total quality management in the whole value chain and it/s activities is able to improve the quality of rendering services to people. In this system each part of organization analyses its performance and they try to cover the objects. Total quality management pays no attention to quality cost, but they are able to emphasize on non financial measure performance that is useful and effective for routine controlling of aims. Organizations for being informed of their performance and finding the best approaches search continuously the most effective perform by comparison between the extent methods and performance levels with other familiar organizations. performance based budgeting system can create specific standards of quality and performance by value engineering. In this procedure, specialist and experienced employees analyze the processes and activities one by one and opine about the executive methods. In this phase management accountants can help managers to decrease the cost of activities.

Outcome oriented and customer-oriented and market axial approach is the main axis of 4th and 7 program of evolution in the country′s official system and also will guide the management Performance in the governmental agencies. The main appearance area of 3 mentioned Approaches is depended to Organization's Performance and the manner of resources allocation.

The Organizations that can have logical relation between resources and outcomes will have effective device for their Performance, document the annual results and advocate appropriate budget.

It′ is obvious that the base of this work starts with these three approaches and finishes with accountability of authorities and Organizations. This achievement is impossible without doing exact adjustments in current expenses, so, it needs more attention to do the rules of budget for evaluating cost of activities. Cost management system is a part of Performance based budgeting system and beside evaluating cost of activities, both of the cost management and omitting the none added value activities are necessary for better Performance. Using activity based costing, bench marking, continuous improvement, total quality management cause progressive decline in government expenses and increase the quality of rendering services and it make customer satisfaction, and on the other hand, greater transparency in information increases ability of government accountability.

Conclusion

Performance based budgeting implementation and creation of a suitable cost management system is a cooperative job.

Because the government emphasizes on the outputs and calculation of cost , decision makers can evaluate government's performance in the better way. It can't be expected that implementation of PBB is only related to the budgeting and financial entity. It requires participatory operations to estimate preplanning activities volume and determine cost of every activity and also omitting the none added value activities for customer and cost management.

So there is a need to create a new job culture in accounting, budgeting and organization activity areas, which do the serious role of management and other part of Organization during this process. Performance based budgeting with cost management causes better outcomes when it is used skilled and efficient employees because the best laws may affect conversely in program outcomes. Totally, Performance based budgeting by skilled or professional employees and also with recognizing the quantity of the plans, objects, cost and using the newest management accounting system such as total quality management, bench marking, value engineering and activity based costing induce customer satisfaction and rendering quality enhancement with less cost.

Finally, increase the efficiency and effectiveness of governmental resources , making the activities transparency , state accountability are the consequence of this system.

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SUSTAINABLE DEVELOPMENT, OFFSHORING AND SUPPLY CHAIN MANAGEMENT IN DIFFERENT ANGLE AT A GLANCE

Abstract

Two different economic systems, economic theory under the group title. One is the capitalist economic model, while the second one is the socialist economic model. Both very different aspects of the system, as is common for a while there are areas where. For example, in both models and the emerging use of resources in less developed countries are joining in. This topic can be given the best example is the cotton production in Uzbekistan. Uzbekistan also produced cotton, raw materials in factories moved to Moscow were treated. This is because the central government, central as well as other countries depends on the final (complete) in terms of goods and services can be controlled to prevent the possibility of independent action was the desire. Indeed, in the process of disintegration in the next period, cotton produced in Uzbekistan for a while as raw material continued to be sent to Moscow. After the disintegration process of winning their independence one by one, start a new process for community countries were. This process, the countries that adopted the capitalist market model (USA, Canada, UK, Germany, France, Italy and Spain) to come to this land through the company and also is the process of creating pressure on raw material sources. The next process of the socialist system, capitalist system with a similar time as the process is out of our face. Still produced cotton textile production formerly done capitalist countries with raw material purchased by, and again after it has been transformed into products in these countries with more choice and a range of products under the brand impose re-entry to the country has been.

Keywords: Sustainable Development, Offshoring, Supply Chain Management.

1. Introduction

Sellin a community economic, social and legal ways to organize the economic system is called. In other words, the economic prosperity of the society adopted to make the maximum economic, social and legal organization is a way. Two different economic systems in the theory of economics under the group title. One is the capitalist economic model, while the second one is the socialist economic model. General definition of capitalism with the production of goods by the person or persons is to a large extent the organization of production. This person or persons, their accumulated capital to purchase raw materials and machinery and labor are rented. With them, spending more than one, generates wealth and thus provide profits. Merged with the basic features of capitalism constitute a system (Talas,1999, pp.51-52). These features are (Bremond, Geledan;1984, p.8):

- Basic production and exchange of ownership of the means is special. Thus the system of capitalist economic structures and decision on the motion is granted authority.
- Capitalism in the path of economic activity, and the economy showing the main direction of the target set is a type of motive. This is the basic profit motive.
- Most of the produced goods are objects. The goal of production, direct consumption, but is the change. Goods in the market to be sold are produced.
- The role of entrepreneurial capitalism, the means of production have an economic system founded upon. The market mechanism and capitalism, a price formation system based on this mechanism is available. Individuals in the system to sell, get the best deal for their own interests and is free to
- Capitalism's role is important in the capital. Just as capital but also the presence of the effects of this capital and must give direction to the economy. Also a source of income status under capitalism is capital (profits, rant, interest).
- An important part of the population in the capitalist system of labor is sold for a fee.
- Capitalism in itself will create conditions favorable to the processing logic in a legal-economic organization available (liberalism, individualism, private property, inheritance, freedom of contract, etc. ...).

Socialism in a general way, the society's ownership of the means of production will be put into individual production facilities of the society benefit equally from the production of service to the community with the goal of a classless planning and the realization of personal freedom in order provides for an idea can be described as flow.

Production of goods and tol me a socialist or socialism itself on producing a model of central authority in control of economic affairs of society or the private sector, not the means to belong to the public. Socialism's fundamental principles;

- Socialism is totally against the capitalist order.
- Needs of individuals in society are met in the best way, but in a layout that is based on collective ownership conditioned.
- Especially in the soil and the production of the goods can not be private property.
- Individuals in the economy, not the interests of society must be decisive.
- To improve the possibilities of the society, everyone must work within the bounds of their own and society should take equal shares in the revenue.
- Should be no class distinction in society.

Both very different aspects of the system as well as space for a while that also is common. For example, both models are developed and underdeveloped countries are joining in the use of resources. This topic can be given the best example is the cotton production in Uzbekistan. Between the years 1917-1991 was the implementation of the socialist economic system the Soviet Union (USSR) countries, which is one of Uzbekistan (1925-1991), for the production of cotton cloth has a very broad and fertile ground. During this period, the Soviet Union in countries of production methods are visible in the following way. Uzbekistan also produced cotton, moved to Moscow in raw materials are traded in factories. This is because the central government, central as well as other countries depends on the final (complete) in terms of goods and services can be controlled to prevent the possibility of independent action is desirable. Uzbek people, the land by planting, processing and product of an intensive effort by collecting much of the cotton has become how the finished product is not even never. Indeed, in the process of disintegration in the next period, cotton produced in Uzbekistan as a raw material continued to be sent to Moscow for a while. Uzbekistan may become raw material products because infrastructure and facilities not available.

There are other communities with similar raw material sources in the country at the center of the technology that has been established in Moscow. Kolodko also made of the Turkish Republic of dependence on a single (Azerbaijan, Kazakhstan and Turkmenistan-hydrocarbons, Uzbekistan-cotton), brought the collapse COMECON'un external shocks and poor macro-economic management and regional hot conflicts in the period after the dissolution to the economic crisis of the main reasons that constitute is considering (Kolodko, 2000).

Even worse is that this process of transforming into the products of a single product even in these countries perform. Process of political and economic independence after the disintegration of the country for the winning community is starting a new process. This process, the countries that adopted the capitalist market model (USA, Canada, UK, Germany, France, Italy and Spain) through international companies to come to this land and also create pressure on raw material supply process. But the capitalist economic model for the region has brought some differences that are visible in the title. Completely independent and free country that they need to do to the economy in transition stages within specific plans have been taught. Become open to foreign countries and country of foreign capital inflows could have been made for the necessary arrangements. Table 1 Examples of these arrangements can give in the title.

Table 1. Direct Equity Investment to the Czech Effective Policies

Incentive measures
Effective administrative procedures and rules, a minimum of bureaucratic process
Appropriate labor and wage policy
Privatization Policy
Stability (economic and political)
Taxation Policy
Membership in Economic Integration
Membership of the World Trade System
Competition Policy

Governments, investment allowance, customs duty, or immunity of the installment plan, incentive measures, such as cheap credit and foreign capital to invest may care. However, these applications often encounter issues such as environmental protection and raw material resources is not possible.

The next process of the socialist system with the capitalist system as a process that resembles the face for a while we are out. In the example that we have provided raw material, cotton, textile production made by the capitalist countries is the purchase and again in these countries into the product after it has been much more choice with a range of products and a trademark case under coercion (the ad through) the country has made re-entry. Can be seen in both systems are the following principles are common. And value-added raw materials to be supplied from the region to create the finished product much more in the process of foreign dependence, nitekim for the newly independent countries do not have any change. Especially after 1980 until the 1997 Rio Summit, the same process than the process has been unchanged. This difference should be explained before why change is necessary to have a look.

2. Historical Transformation

1929 economic crisis and bring the shocks lasted for about thirty years, and the capitalist economic model applied in countries that should not be a factor, the state's role and intervention in the economy came to a very high level. This downturn in the economy allows the state's role was re-questioning. Seeking escape from the Depression in 1929, technological advances, II. The destruction brought by World War II efforts to repair, enhance international capital production process, and after the pre-war factors such as increasing capital-labor conflict to make new arrangements has forced the capitalist system. II. In the aftermath of World War II Keynesian demand policies has become an important position in the economic field. Economic stability to the state in ensuring an active role in these policies which, at that time of budget revenues and expenditures to be manipulated by increasing the level of aggregate demand at the same time also increasing employment opportunities solves the problem of unemployment (Başkaya, 1999, p.86).

This government budget deficits along with intensive intervention, and this requires giving the government budget deficit by printing money is trying to go through. During that period the most money of the United States pressed countries to be one of the world monetary system is applied (Bretton Woods, from 1946 to 1971) to lose effect over time has caused.

After 1960, developed new economic currents more effectively in the private sector to exist and the need for any intervention in the state's economy was not envisaged. Because the literature in the 1970s, the economy added a new concept, the concept of stagflation, the Keynesian policies of the regulatory logic is not functioning anymore. Capitalism, dragged into a new crisis, and this process is seeking to escape from neo-liberalism under the name of laisser-faire philosophy will revive. Advanced capitalist countries, particularly to developing countries recognized by these currents (Moneterist Ideas and New Classical School), capitalist growth model for countries re-opened the front.

Table 2. Mean Growth Rates (%)

	1960s	**1970s**	**1980s**	**1990s**
Rich Countries	4,7	3,1	2,3	2,2
Participants Emerging Countries	1,4	2,9	3,5	5,0
Participants Non-Emerging Countries	2,4	3,3	0,8	1,4

Source: World Bank Trade, Growth, and Poverty, David Dollar and Aart Kraay

Capitalist system, the crisis conditions to recover the theories emerging "new" and "original", not industrial capitalism emerged since the first period when necessary "new identities" who offered the old things (Başkaya;1997, p.296).

Table 3;the governments of tax revenue they collect the lavish use has been shown to. The main idea of people belonging to another table and do not have to give back to spend a comfortable income, is a rational logic can not act. Notice that it is our own money we will use rational for ourselves, someone else will for our tight-fisted, somebody else's money will be owed a refund for our still need to use rational is claimed. After 1960 this relationship we started to be interested in ideas of economist Milton Friedman has shown. Therefore After 1960 was vehemently opposed to government intervention in economic thought. Demand side policies in the economy of the re-supply will be essential to return to the way policy of the country's economy to grow rapidly again, and already scarce resources that has lead to the excessive use again.

Table 3. Extravagance relationship

Monetarist sight	Your own money	Someone else money
For yourself	A Rational	B Borrower (Rational)
Else for	C Stingy	D State

3. Definitions and Contents

Are now known events reinterpretation, on one side of the developed countries, on the other side there are countries that are trying to develop. Developed countries 17 the end of the century, until today, the production had a very intense, especially from the 1980s until 1900, all the resources ruthlessly seized and are beginning to consume. To identify the location of all energy sources, and these areas had less developed countries, they find the new terms used in these countries do not have to do all they can. Mentioned before, this point source is the process of change. Ie "the emergence of a new term obligation" that the concept of Sustainable Development, and the one Offshoring (Outsourcing) express the concept. Different definitions of sustainable development have been made. A description in terms of economic instruments "in the best way of scarce resources management" can be shaped. To maintain the quality of our natural resources and services based on "economic development, we maximize net benefits" can be interpreted as also. (T.C.S.V;1989) Another definition that "future generations of resources from lower-income use of" can. But the most common and general definition published in 1987 and briefly called the World Commission on Environment and Development Brundtland Commission's definition is to be made. Report, the concept of "future generations to meet their own needs without endangering able to meet the needs of today's generations of development" is defined as. If we look at the details, the developing countries of the developed countries do not make mistakes and sensitive to the environment of these countries to use the techniques of production requirements, attention is the concept, especially in developing countries, emphasis is made.

Offshoring is the concept, as well as activities of the firms manufacturing or partially taken out of the country and moved to the production process is continued in the country. Globally, Offshoring few examples of applications, known as the Nike company, no longer produced shoes only product design and marketing in the U.S. portion to be doing, yet the famous S & M (Sweden) textile company manufacturing process of a portion of Uzbekistan to be doing, Nokia (Finland) of the battery company and plastic production to China can give to scroll. Table emerging countries 4.de of direct foreign capital flows between 1973 and 1998 are able to see the increase.

Table 4. Direct Foreign Capital Flows to Developing Countries in

Terms& Regions	1973–76	1977–82	1983–89	1990–93	1998
Africa	1,1	0,8	1,1	1,4	5
Asia	1,3	2,7	5,2	19,8	65
Middle East and Eastern Europe	1,0	2,5	2,6	1,6	25
Latin America	2,2	5,3	4,4	11,0	70
Total	3,7	11,2	13,3	34,2	165

Source: 1998 Business Week data, November 2000.

Environmental threats requires the process of change in the economy. A period of two similar models of the capitalist economic model, again unlike the socialist model of production processes, products which are necessary for developing countries that supply raw materials to begin the migration process is partially or completely. On the same samples continued to explain that we, in Uzbekistan's cotton is produced in that region living for citizens, reducing unemployment, industrialization process, opening to the outside, the welfare level such as increasing with some elements for the first time how the production can be made into finished products are described to convert. Because environmental costs in the production process for the country no longer buys raw materials is too much. Someone else's country to a less polluting means the environmental costs.

New dimension is the inspection of the table 4.de extravagance; your own country and protective measures taken for the production of rational, while in another country to do for your production could say you can be extravagant.

Table 4. Change (developed countries)

	Own Country	Someone else'scountry
DomesticProduction	A Rational	B Rational
Production Abroad	C Protective	D Extravagant

The production process where the raw material but can not be performed by the domestic industry to foreign investment in these countries can withdraw their name by making every sacrifice is entering into competition with each other. To shift production to these countries constitutes a great opportunity for developed countries. Foreign direct investment, so between the raw material resources to provide, produce the different activities of a single administration under the assembly, production-related can not be transferred to information, business secrets and names preserve the importer country's imposed tariffs and quotas and transportation costs to avoid domestic restrictions (environmental protection standards, etc.) to escape , to provide flexibility in production, transportation and information technology and cheaper foreign production factor (labor, natural resources, etc.), there are factors such as usage (Seyidoglu, 2001). For example, the European Union countries with the most growth in the case of the Finnish environmental sustainability index consistently has ranked first, this is the biggest reason for almost the entire production process, developing countries are being shifted.

Table 5. Environmental Sustainability Index

Countries	**2002**	**2005**
Finland	1. order	1. order
Norway	2. order	2. order
Sweden	3. order	4. order
Canada	4. order	6. order
Switzerland	5. order	7. order
USA	45. order	45. order
Turkey	62. order	91. order
UK	91. order	65. order
Total	142 Countries	146 Countries

Source: E., Kalder, Environmental Specialist Group, Istanbul, 2004.

Examples of production in foreign countries, we can model has many brands. Developing countries who live in this brand has been growing by learning the privilege to be able wear. However, even the manufacturing is done in our own country, although the reasons are still owners of famous brands in the welfare level of the center of the firms in the country are trying to understand that the increase in living up to.

In terms of supply chain management experience And now that try to summarize recent developments. Supply Chain Management; business process which is necessary for the production of raw materials to supply, inventory control and distribution of providing the most effective way to ensure understanding of management is developed. In this process companies to find the most suitable raw material, be able to control him and his opponent for the big effort will keep one for companies. Now these two great countries of identifying and then the United States and China, as well as a collection of companies in the EU for a moment let's consider and analysis carried out by one company let. Only companies, in addition to the supply of the countries we consider not only production for consumption purposes also neglected to discuss what they consider not. As known, the United States, 20 March 2003 a military intervention in Iraq has done.

Over the past six years, although the exact cause of the movement still is not known. In fact, the main reason for the U.S. to the region it is only available in this region may be oil? Or so at first by just for show, and everyone can be accepted, there is already a priority for development was that? To investigate the actual causes of intervention than before in the history of military intervention and the main reason to go there to search for the source as needed, will be more meaningful for the future of the region.

U.S. today the only country in foreign trade surplus of China has been unable to. U.S. imports from China since 1994 have increased by 400%, and the situation of the United States against imports was 13%. United States and their trade volume of China's 343 billion dollars. China, U.S. products exported 287.5 billion dollars, while U.S. exports to China of the total 55.2 billion dollars. In this case, approximately 233 billion U.S. dollar against the trade deficit is emerging. No application will prevent the rise of China is known, unfortunately all the economic measures (quotas, customs duties, quantity restrictions, standards, etc.). Is not found within. In this case, the back remains only one way to do that, it is to take control of China's raw material resources. China's oil imports in 2005 is around 127 tons. China's total oil consumption is up 317 million tons. China in the world with this value is the second largest oil consumer. China is more important for close to half of this oil was imported, in other words, except for China's energy needs is that the dependent. The availability of oil supplies are African countries (Cameroon, Liberia, Sudan, Zambia, Namibia, Mozambique, Seychelles). But this is not easy for China to work with suppliers. The first is to bring oil from African countries, in addition to already high oil prices and a high transport costs that will not load and increases the cost of production conducted in China. However, energy costs in a region much closer to the supply of which is already cheaper than the costs of production decline will recognize the opportunity. The second of these countries the supply of oil to be used during the Malacca Strait to China's oil route road map represents a key point of the throat and this too risky and take place in an unstable region of China provides worry about in terms of supply. Indeed, Malaysia and Indonesia have problems between them, constitute the two sides of the throat. U.S. to Indonesia, his proximity, they are likely going to China will cause the oil path is in jeopardy. Because of this danger new and more secure energy supplier for China is required. As a third reason that the oil supply in Africa in the process of entering the United States and the intense competition is increasing much more than passing day. Africa currently the world's most needy areas of development, in the case.

This situation of the developed countries of this region for the development of the capital increases will put out. However, the development process, albeit less completed states existing suppliers, while intense competition occur and require large capital to a region that in that region in the future much more uncertain, is likely is striving to China's long-term strategic plan is forcing. Elimination of these three cases and to find new suppliers of priority issues for China represents.

China's best strategy ever increasing for the production and in the future will need much more than the supply of Russian energy resources, Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan (the Shanghai Cooperation Organization-SCO) and within the framework of an agreement with Central Asian countries will have to shift.

According to predictions of future U.S. scientists, the Central Asian republics and Turkey in this region have rich energy resources of the world's dominant power is said to be mean. This is really the first move to their destinations as the U.S. source for the control of the targeted region and the region have entered Iraq, now Iran has increased over the statements. Later the connection between China and Russia are targets completely break OATC 'dir. He does control the region's energy resources to China and even the EU countries would mean the control of energy resources.

Aware of these developments in terms of regional countries to act fairly is important. So, the EU countries are following the China-Russia close to how the healing?

The EU's 2004 and 2007 have been built in the last enlargement If we are to look at all except one of the Baltic countries (Estonia, Lithuania, Latvia), Czech Republic, Poland, Slovakia, Slovenia, Malta, Hungary, Bulgaria and Romania have been. EU to expand the boundaries of this region has created a sense of border security. A second reason is that the free movement of capital within the framework of the manufacturing process in a more comfortable position and efforts that are rich in natural resources, this region is to move. To be aware if some of these countries in the EU Maastricht Treaty criteria required that all the qualities that we did not move. But were still in alliance are. In a similar situation for Turkey will be able to. U.S. accelerates and mobility in the region threatening the EU enlargement policy that if a new movement should be expected. EU enlargement policy, the last with the union to include Turkey, the only limit is open in the region also will want to ensure all.

Because in the process of full integration is thought to be most needed for the EU countries, central Turkey's army will be. Turkey, as usual for this situation constitutes both a threat and an opportunity. Because the above assumptions we can better manage the negotiation process in case of no validity without the need for union members could be compromised. However, a possible result of the wrong foreign policy monitoring, which will warm up much more unity in the region from falling into a country that protects only limits to our cause. Turkey's foreign policy will follow a more rational and sustainable without compromise. Our supply chain processes in a more rational policy followed by the European Union needed to provide control of energy resources is possible.

Indeed, in 2002, the Nabucco pipeline project, launched by Turkey in the framework of supply chain management control of the process of procurement has been included. Unfortunately, uncertainties and occurring against Iran OATC'nde attitudes (embargo) to start the project delays. The Nabucco pipeline is a major investment project realization will allow to find new suppliers of the EU and Russia, offers an alternative way to break the monopolistic power.

The European Union is one of the biggest disadvantages of a stand-alone rather than deal with Russia, or can not gain control of each country hold their own initiative within the framework of the request, for example, Germany's agreement with Russia also make or Bulgaria, Hungary's verbatim to enter into separate negotiations with Russia, so perhaps there may be much higher prices for natural gas contracts will be canceled.

We need to be careful with this external dynamic that has an internal dynamics. European Union's own within a monotony, no consensus. Radical approach in themselves are fighting each other. Especially Germany and France in the European Union are trying to increase his share in the energy market and each country in a sense, their "energy champion" is trying to create. For example, in France it is an indicator of recent merger events (Bagdadioglu, 2008).

Conclusion

Unfortunately we live in the environment is not passing day. However, because developing countries' development efforts, but so far they are doing in their own countries, and today with new concepts emerging mass-production activities in countries showing the capitalist model are powerful multinational companies. Underdeveloped or developing societies of developed countries in any period of history, none have lived up to the environment has not betrayed. There are currently spending millions of dollars in developed countries for the environment if they only reason that can be experienced in the depths of space could not find another planet not yet come forward. Developing the concept of community as presented to us in the bottom of the facts need to see who is lying.

More detailed analysis of these concepts need to discuss and without fear. However, developing countries as a whole could make already delayed as we follow the west at the center of the topics (information) printed on the articles, books and reports to make translations and is transferred to the masses. Actually, we need to do the opposite ideas on these issues is a manufacturer of these ideas and thoughts to be discussed with the wider academic circles as to ensure as soon as possible should be passed on to future generations. Our country and other developing countries that their future depends on how sensitive are these shape.

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ESTIMATING THE DEMAND FOR MONEY IN LIBYA USING AUTOREGRESSIVE DISTRIBUTED LAG (ARDL)

Abstract

This paper examines the long-run demand for money of Libya using the unrestricted error correction model (UECM) and the bound test (pesaran, shin & smith 2001) to determine if the demand for money is cointegrated with real income, exchange rate prior to the cointegration analysis. The study used annual data from 1975 to 2007. The bounds test revealed that the demand for money is cointegrated with its determinates at the 5% level of significance. Thus, the long –run demand for money was found to be stable. In addition, the CUSUM test confirms the stability of the money demand function.

Keywords: Money demand, co integration, ARDL.

1. **Introduction**

The empirical investigation of the demand for money in Libya has received little attention. A small number of studies were conducted on the demand for money in Libya. The purpose of this paper is to estimate the demand for money in Libya during the period (1975/2007) using econometrics technique, namely Autoregressive Distributed lag (ARDL) to cointegration.

Many of the previous studies did not find strong evidence that all variables in the system have the same order of integration. Therefore to solve this problem in this paper we employ ARDL approach to co integration, a relatively recent econometric technique developed by pesaran et al (2001) to estimate the long-run relationship among variables. The outline of this paper is as follow: Section 2 provides the explanation on theoretical framework. In section 3, we present the empirical analysis. In particular, the estimation model, methodology process. And the estimation result. Finally, in section 4, some conclusions are drawn.

2. Theoretical framework

Based on the conventional macroeconomic framework, the money demand function is assumed to take the following form:

$$(M\backslash P)=F\ (RGDP, EXR, U_t) \rightarrow (1)$$

Where M represented money demand; P is domestic price level; RGDP is real gross domestic product; EXR is the exchange rate (number of unit of domestic currency per us dollar), and U is error term.

In this study we estimate money demand equation using the log- linear forms. The cointegration relationship for the money demand equation is estimated using the bounds test, which is based on the following unrestricted error correction model (UECM):

$$\Delta LN(RM_t) = A_0 + \sum_{i=0}^{n} A_1 \Delta LNRM_{t-1} + \sum_{i=0}^{n} A_2 \Delta LNRGDP_{t-1} + \sum_{i=0}^{n} A_3 \Delta LNEXR_{t-1}$$
$$+ \lambda_1 LNRM_{t-1} + \lambda_2 LNRGDP_{t-1} + \lambda_3 LNEXR_{t-1} + U_t \rightarrow (2)$$

Where ΔLN(RM_t) , ΔLN($RGDP_t$) , Δ LN(REX_t) , are the first difference of the logarithms of real money demand , real gross domestic product , the exchange rate.

Before testing the model, we present a brief discussion of the ARDL approach to cointegration. As mentioned in pesaran and pesaran (1997), there are two steps for implementing the ARDL approach to cointegration procedure.

First, we test the existence of the long-run relationship between the variables in the system. In particular the null hypothesis of having no co integration or long-run relationship among variables in the system, (H_0: $\lambda_1=\lambda_2=\lambda_3=\lambda_4=0$), is tested against the alternative hypothesis H_1: $\lambda_1\neq\lambda_2\neq\lambda_3\neq\lambda_4\neq0$) by judging from the non standard F- statistics. Since the distribution of this F- statistics is non-standard irrespective of whether the variables in the system are I(0) or I(1) , we use the critical values of the F- statistics provided in pesaran and pesaran (1997) and pesaran et al (2001) . In there , there are two sets of critical values , when all variables are I(0) or I(1) the two sets provide the band covering all the possible classification of the variables into I(0) or I(1) ,or even fractionally integrated ones . If the computed F- statistics is higher than the appropriate upper bound of the critical value, the null hypothesis of no integration is rejected; if it is below the appropriate lower bound, the null hypothesis can not be rejected, and if it lies within the lower and upper bonds, the result is inconclusive.

Secondly, after the existence of the cointegration between variables is confirmed, the lag orders of the variables are chosen using Akaike Information Criteria (AIC). After the lag order is selected, the error correction representation and log-run model are estimated. Then, the stability tests, namely Cumulative Sum Recursive Residuals (CUSUM) test are conducted.

3. Estimation results

Following the processes of the analysis methodology, by using the microfit 4.1 (oxford university press) for computation, the estimation results are presented as follow. In the first step, the computed F- statistics is (5.62) that found to exceed the bounds upper critical value of (4.85) at 5% significance level. This implies that money demand and its determinants are cointegrated. In the second step, we estimate the equation (2) and select the lag orders of the variables in the system based on (AIC).

Table 1: provides the results of the lag order selection of the variables, which is ARDL, and the results of diagnostic tests of the short run model. In table 2: all the estimated coefficients have the expected signs statistically significant at 5%. From the result of adjusted coefficient of determination ($\bar{R}^2$=0.95009) it is clear that over all goodness of fits of the estimated equations is very high. Moreover the diagnostic test results indicate that the short-run model passes all of the serial correlation, functional form, and heteroscedasticity tests, the model is well specified without any problem of serial correlation and heteroscedasticity. Therefore, we can argue that the estimated short-run model performs well. Table 2 provides the result of the error correction representation of estimated ARDL model. The result indicates that the error correction term ECT (-1) has the right sign (negative) and is statistically significant. Particularly, the estimated value of ECT (-1) is (-0.57), implying that the speed of adjustment to the long-run equilibrium in response to disequilibrium caused by the short-run shocks of the previous period is 57%. To test the stability of the model, in this paper we employ the test of CUSUM test. From the figure1, it is obvious the plot of CUSUM is within 5% of critical bands. This implies that the estimated model is stable over the study period.

Conclusion

In this paper, the demand for money in Libya has been estimated using Autoregressive Distributed lag (ARDL) approach to cointegration analysis of pesaran et al (2001). The (ARDL) method does not generally require knowledge of the order of integration of variables. In this paper, we found that the income elasticity and exchange rate coefficient are positive. This indicates that depreciation of domestic currency increases the demand for money. Our results suggest that long-run equilibrium relationship exists between money demand and real gross domestic product, and exchange rate. The error correction term is strongly significant with the right sign (negative); this means that there is cointegration relationship (long-run relationship) among variables of estimated model. Our results also after incorporating the CUSUM test reveal that the M2 money demand function is stable between 1975and 2007.

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Table 1: (ARDL) coefficient of the money demand equation

Dependent variable is lm2

Regressor	coefficient	T- ratio[probe]
Intercept	2.64	3.04 [0.005]
Lm2(-1)	0.428	2.5 [0.018]
LRGDP	0.223	3.3 [0.002]
LEXR	0.155	3.04 [0.005]

Note: figures in parentheses denote the significant level,
all variables expressed in logarithm form.

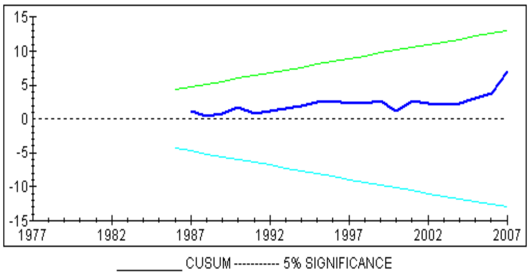
Diagnostic Tests
R-Squared = .95508 R-Bar-Squared = .95009
F-statistics = 191.3449[.000]
Serial Correlation F-statistics = 1.7294 [.200]
Functional Form F-statistics = 1.5400 [.221]
Normality CHSQ (2) = 1.2149[.545]
Heteroscedasticity F-statistics = 1.2379[.349]

Table 2: Error Correction Representation for Money Demand Equation.
Dependent variables DLM2

Regressor	coefficient	T- ratio [probe]
Intercept	2.64	3.04 [0.005]
DLRGDP	0.223	3.34[0.002]
DLEXR	0.156	3.8[0.001]
ECT(-1)	-0.57	-3. 4[0.002]

List of additional temporary variables create:
dLM2 = LM2-LM2(-1) , dLRGDP = LRGDP-LRGDP(-1) , dLEXR = LEXR-LEXR(-1)
ECM = LM2 -.39075*LRGDP -.27274*LEXR -4.6212*C

Figure 1: CUSUM Stability Test



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CUSTOMERS' CREDIT CARD SELECTION CRITERIA IN PERSPECTIVE OF AN EMERGING MARKET

Abstract

The credit card market has expanded radically in Pakistan, both in terms of cards variety and usage. A wide variety of local and international cards is available in the market issued by different domestic and foreign banks. Despite of recent financial crisis still huge potential for future growth and further penetration exists in Pakistan. The purpose of this study is to explore and investigate various attributes that customers consider of importance while selecting a credit card in Pakistan. The sample of this study was 800 credit cardholders. The information was collected from existing cardholders through a self-administered questionnaire. It contained questions related to credit card market, cardholder's profile and the relative importance of the main attributes that play a role in card selection. The data collected then analyzed to find out the important factors that influence the credit card selection. The results show that convenient and economical use both local and abroad and sense of security are important attributes that customers consider while selecting a credit card. The findings of this study can be helpful for financial institutions to focus on the features, which customers consider important while selecting credit cards and can be used for optimal marketing mix allocations in prevailing economic situation in the country.

Keywords: Credit card, Important Attributes, Cardholder's Profile.

1. Introduction

Access to information, globalization and changing role of regulatory authorities have increased the level of awareness of the general public, business community, and various stakeholders about the financial markets and their performance. It is worth mentioning here that the privatization exercise has also helped in creating public awareness and stimulating investment in the financial market. A number of factors has impacted positively on the growth of the financial market especially advancement in information technology, which has brought the world much closer together with expeditious and significant cross border movement of goods, capital and labor.

For a little over a decade now, the Pakistani banking sector has been undergoing a profound transformation. The future of the industry is likely to be earmarked by increasing competition, further consolidation and continued growth in consumer financing. Burgeoning non-performing loan portfolios, antiquated infrastructure and poor customer service had created a dire need, during recent years, to reform the nationalized commercial banks. Thus, in order to resolve these problems the government initiated a flurry of activity on the privatization front, whereby it offloaded its interests in a number of banks. Privatization of nationalized banks, as well as the establishment of separate private banks, is likely to continue to give the sector a more shareholder base, and hence more efficient, orientation. Individual banks will thus need to rely on better planning, increased operating efficiency and improved customer service to survive, let alone thrive, in such an environment. This process has already led to a marked increase in competition and hence efficiency in the sector over the last few years.

For last few years the share of consumer financing in overall banking financing has increased quite substantially in Pakistan. Credit card is one of the most rapidly growing areas of consumer financing and aggressively marketed by the banks. Numerous credit cards are available to the customers issued by the national (both private and public banks) and foreign banks. Credit cards can be very useful as they facilitate convenient access to money for a variety of everyday activities. It is important, however, to discipline and optimize credit card spending to avoid any financial difficulty.

2. The Pakistani Credit Card Market

The Pakistani card market has recently expanded dramatically both in terms of credit cards and of card usage (Credit card loans were outstanding Rs. 33,538 million (US$ 560 M) at end of June 2006, Rs. 42,822 million (US$ 700 M) June2007 and Rs. 45,689 million US$ 740 M) at the end of Apr 2008 approx). A wide variety of cards is available in the market issued by number of private and public banks. Plastic Money business is going big time in Pakistan. In a country where few years back people have hardly heard the word credit card, it has been estimated that there are likely to be around 5 million potential card users in the near future. This forecasting derives credibility from the fact that more and more local and international financial institutions are exhibiting enthusiasm in this direction. This in turn reflects prospects in Pakistan market in accommodating number of credit card competitors operating on the circuit, ensuring healthy and competitive card business deals. Although most of the banks have achieved a certain number of customers based on their reputation and position in the target market, still a huge potential for further penetration exists. The expansion in the credit card market is based on many factors including privatization of nationalized banks, establishment of private banks, introduction of advance technology and friendly regulatory environment. ATMs are a revolution in the Pakistani banking sector and banks are promoting their cards by connecting them with ATMs and it is proving an additional advantage towards credit card marketing. Banks are relying on heavy advertisement through electronic and print media by using various slogans targeting the welfare and prestige of their potential customers to differentiate their products from the competitors.

Though the cardholders are increasing everyday due to strong marketing campaign by the banks still a large part of the market is unexplored and un-served especially in small cities and rural areas. Majority of the credit cardholders belongs to large cities and very few from remote areas. Both customers and banks are responsible for this situation. The banks are paying less attention to this unexploited market and people are not fully aware and also frighten to use such complicated source of credit according to their perception. There are number of factors behind this perception including inappropriate pursuance by the banks.

The history of credit card in Pakistan was started when Habib Bank introduced its gold card, but people had hardly known about this card because of its very limited issuance. Foreign banks especially the Citi Bank have done a tremendous job in educating people of Pakistan and financial industry about credit card and its importance for modern day business. Following are the credit cards largely issued by various banks in Pakistan. Master Card-One of the most widely acceptable cards in the world carrying features like financial flexibility, economy, security and of course prestige offered by various banks in Pakistan with almost similar features. The well established Master Card issuer banks are Standard Chartered Bank, Allied Bank, National Bank, HSBC Bank, Citibank, ABN- AMRO, Askari Bank, Bank Alfalah and Bank Al-Habib. Visa Card-One of the most growing and popular credit cards in Pakistani market having common features like cash advance, shopping, discounts and promotions and many more offered by many banks including United Bank, Habib Bank, Standard Chartered, Citibank, National Bank, MCB Bank and Bank Alfalah with brands like Green, Golden and Classic etc. American Express- One of the most established credit cards in the world both in terms of credibility and usage with various features like unmatched power, prestige, financial flexibility, convenience in use and economy etc. American Express has very narrow customer base in Pakistan as compared to Master and Visa due to its limited availability as only few banks offered it like Standard Chartered Bank and Union Bank.

Although banks are using extensive marketing strategies to expand their customer base in credit card, still a large population is not using this source of credit even in literate urban areas. Therefore the objective of this study is to analyze various attributes of credit cards that customers consider important while selecting a credit card especially in current difficult economic conditions. These factors are convenience of use, source of prestige, sense of security, economy and worldwide acceptability further explained by various items.

3. Literature Review

Since the time of its inception in 1950s credit card market has grown remarkably (Durkin and Price, 2000). Credit has been an attractive instrument for the general public as well as for the business community that facilitate them in their financial obligations. It is not only helping them to discharge their liabilities, also provide them a leverage in their financial resources by providing various benefits like enhanced credit limit, payment in installment, cash advance, promotions and discounts, acceptance at reputable and modern establishments, protection and insurance etc. Credit card market has also provided a new dimension for business researchers; they are always keen to know why people use credit cards and the number is increasing everyday, what driving force behind this decision and what are different features of credit cards that influence them while selecting a particular card. Many of these questions have been explored and answered by the researchers related to developed part of the world and a lot of literature on credit cards usage available but very limited published research is available on Pakistani credit card market.

Kinsey (1981) conducted a study on credit card determinants and found that high income is the most contributing factor in increasing the number of credit cards. A study focusing on credit card usage behavior was conducted in America and Canada by Kaynak and Ugur (1984) and they found that people consider credit card as a useful product and presume it more secure than cash. Kaynak (1986) and Laroche et al. (1986) conducted studies on selection criteria for banking services and found that convenience in using banking services at more locations and hours of operations are the most important factors while selecting banking services. Canner and Cyrnak (1986) supported the results of these studies and established that one of the major reasons of using credit card was the convenience of use which was positively related with income, age and financial position of the cardholders. Lunt (1992) found that enhanced credit limit, low interest rates and fair charges are noticeable factor for a credit card selection. One of the significant studies conducted on credit card selection criteria by Meidans and Devos (1994) on Greece credit card market and they suggested that the convenience of use in local and international market, safety and economy were the dominant factors that influence customers' decision while selecting a credit card. Many studies determined that with an increase in education level and customer awareness about the credit card, its usage frequency enhanced (Barker and Sekerkaya, 1992, Kaynak et al., 1995). Chan (1997) conducted a study on Hong Kong credit market and found that long interest free repayment period and low annual fee were the most important factor for selection and use of credit card. Worthington (1998) recognized that credit cards were providing excellent opportunities and facilitating banks in the distribution and delivery of a wide range of financial services.

Lee and Hogarthe (2000) showed that consumers preferred to have credit cards that convenient to use and have no annual fee and other encroachments. Durkin (2000) observed that consumers used credit card not just as alternate to cash and cheques, they also considered it as a revolving credit and preferred to use credit cards with more credit limit. Kaynak and Harcar (2001) argued that ease of use is the most vital feature for credit card use along with large acceptability and access to cash. Meidans and Devos credit card selection criteria developed for Greece market was replicated by Maysami and Williams (2002) in Singapore credit card market and they found that the convenience of use and level of acceptability in both domestic and international market were the most important factors of card selection. Gan and Maysami (2006) examined the credit card selection criteria among Singapore cardholders using ANOVA and Factor Analysis and the results of the study revealed that the convenience of use, protection, economies and flexibility were the most important factors and reputation was the least important factor in determining the credit card selection. Moreover they also concluded that there were considerable differences among the respondents with respect to card preferences with in demographic variables like gender, age educational level and income groups. However, credit card selection criteria among Singaporeans were not much different from other developing/developed nations. Devlin and Worthington (2007) carried out a study on main and subsidiary credit card holding and spending and suggested that banks should market their credit cards with superior discounts, promotions and other features than their competitors which will help them to increase the number of customers.

4. Method

Data

Credit card selection needs to be done very carefully before applying for a credit card. Many factors have to consider at the time of credit card selection. The most common features offered by companies need to be weighed against the overall cost of owning a credit card. The objective of the study is to find out the importance of various features that customers consider important while selecting a credit card. A questionnaire consisted of 15 items adapted from the study of Meidan and Devos (1994), further divided into 5 major attributes that influence customers' choice of credit card. The questionnaire was an effort to identify the importance attached to each attribute by the customers for credit card selection, measured on a 5-point Likert scale anchored by “least important”-1, “less important”-2, “important”-3, “much important”-4, “very much important”-5. Before carrying out the analysis, reliability of the instrument was determined and the Cronbach's Alpha was .781. The target population for this study was the existing credit cardholders living in different parts of the country. To make the sample more representative data was collected from some major cities of Pakistan as most of the cardholders belong to this heavily populated urban area. The sample of the study consisted of 800 credit cardholders from the cities of Rawalpindi, Islamabad, Lahore, Faisalabad and Karachi. The questionnaire was distributed conveniently among 1,200 credit card holders out of which 890 were returned and only 800 completed in all aspects were included in the study for analysis.

Procedure

The data collected through questionnaire was analyzed using the same procedure mentioned in the studies of Meidan and Devos (1994) and Gan and Maysami (2006). However items in the questionnaire were adjusted according to the features offered by the domestic credit card market. Moreover demographic questions were also added according to the local conditions. Mean scores of each attribute was calculated along with their relative importance to find out the importance of each attribute and importance of each major variable of selection criteria, Table-1 (Where the sum of relative importance of all items is equal to 1). Factor Analysis was also carried to measure the contribution and importance of each attribute and some of the most important features of credit card selection criteria as Factor Analysis help out to differentiate between contributing and non contributing factors in terms of their importance to overall criteria (Table-II). The relative importance of each variable was calculated by dividing the mean score of each item with the sum of the means of all 15 items, e.g.

$$A1 = \frac{A1}{A1+A2----+A5+B1---+B3+C1--+C3+D1--+D3+E1}$$

The relative importance of each main attribute was calculated by adding the relative importance of sub items of these attributes e.g. A= A1+A2+A3+A4+A5

5. Results And Discussion

The results of the study reveal the demographic characteristics of the credit cardholders in Pakistan along with their importance given to each attribute that can influence their choice of credit card selection. It is evident from the results that 83% of credit cardholders are male and 17% are female which is quite expected keeping in mind the socio economic conditions of the country where the male gender is dominating part of the working force and they are the main users of credit cards. On the other hand respondents belong to different professions including business, private and public sector, almost 90% of them having income more than Rs. 20,000. About 91% of respondents having age above 25 years and only 7% of them having 10-years of schooling whereas approximately 74% having education level Graduation or higher.

[Insert Table 1&2]

ANOVA and Independent Sample T-Test are applied to find out any significant difference among various groups of respondents with respect to their demographic characteristics like gender, age, income and education. No significant differences are found between the genders and among various level of education of the respondents in terms of importance attached to 15 attributes of selection criteria. However people of different age and income groups' exhibit significant differences relating to some of the factors like large acceptance in Pakistan, installment facility, acceptance at modern establishments, supplementary cards, protection when the card is lost/stolen, world wide service availability, discount and promotions /low service charges, no joining/annual fee and large acceptance abroad. These results show that at different age and income levels people have different perspectives and their consideration for a particular attribute can change with the increase in age and income.

[Insert Table 3&4]

Tables 3 and 4 illustrate the results of cardholders' consideration of importance given to each attribute of selection criteria that influence their choice at the time of selecting a credit card. This importance is explained in terms of mean scores, relative importance and factors loading. The results are suggesting that five components together are responsible for around 77% variance in the data. The results of individual attributes are showing that in terms of mean scores and relative importance the most important attributes are (1) Large Acceptance in Pakistan (2) Enhanced Credit Limit (3) Installment Facility and (4) Large Acceptance Abroad where as the least important attribute is Status Symbol. The results are also analyzed on the basis of five main variables of credit card selection criteria and they are exhibiting the following pattern of importance.

A. Convenience of Use (36% of Importance): As credit card is becoming very hard to differentiate financial product so banks are facilitating their customers in card utilization by opening more branches, acceptance at other banks and organizations, repayment in installments, enhanced credit limit and cash advances to get the competitive advantage. This is also helping them to increase the number of credit cardholders. The results are supporting their efforts as the convenience of use is having 36% importance of credit card selection criteria with high factor loading. It also suggests that how influential this feature to credit card selection. **B. Indication of Prestige** (18% of Importance): This attribute is consisted of items like acceptance at modern and reputed high class establishments, supplementary cards and status symbol which indicate the prestige attached to the product. However this image has declined over the period of time due to increase in a number of credit cards and cardholders, also credit card is becoming more of a common product. The Indication of Prestige has an importance of 18% in credit card selection criteria with heavy loading but less as compared to the convenience of use. Moreover these credit cards with different features to somewhat are issued by various banks with different image and reputation among the customers that also reflect in the image of these credit cards. Credit cards issue by the banks like Citibank, Standards Chartered, MCB bank and Bank Alfalah are carrying better image than cards offered by some nationalized banks.

C. Sense of Security (20% of Importance): This variable is explained by factors like Protection when the Card is Lost, Provision of Insurance and Worldwide Services Availability. It gives a sense of security and safety to customers for card utilization in terms of operation and financial aspects at the time of the transaction and later payment of bills. This attribute has an importance of 20% in credit card section criteria with a heavy factor loading. **D. Economy** (19% of Importance): This is an important attribute especially in the arena of high inflation and strict financial limitations. People are interested to buy the cards with less charges and more economical usage. Most of the credit cards these days offered by the banks in Pakistan carrying such features like No Deposit/Account, Discount and Promotions and No Annual or Joining fee making it more common attribute of every credit card. Still the most imperative area of concern for the customers and banks in present intricate economic conditions with the relative importance of 19% and high factor loading. **E. Shopping Abroad** (7% of Importance): This factor consists of only one item i.e. Large Acceptance Abroad with 7% of importance and high factor loading in credit card selection. It is one of the most important attributes in terms of mean score and relative importance so people want to use which is largely acceptable abroad. Due to globalization, faster and enhance access to information and increasing trend in foreign purchase making this feature more important in credit card selection. Banks are also aware of this situation advertising it as an important part of their package.

From the results it is also evident that Visa and Master cards are the most growing cards in Pakistani market due to their large acceptability and economical utilization. Moreover these cards are offered by the banks with large branch network and established reputation. The results of this study are similar to some previous studies conducted on credit card selection criteria. Kaynak (1986), Meidan and Devos (1994), Lee and Hogarthe (2000), Durkin (2000), Kaynak and Harkar (2001), Maysami and Williams (2002) and Gan and Maysami (2006) also found that the convenience of use in national and international market, protection and economy were the most important factors for credit card selection.

Conclusions and Recommendations

This study focuses on one of the important product of financial sector facing stiff competition both in terms of variety and usage. Companies are following aggressive marketing campaigns to attract customers by highlighting various features of their product with very little room for differentiation. This study intends to find out the importance of various factors in credit card selection. Results demonstrate the mean scores and relative importance of each attribute of credit card selection criteria alongwith their factor loadings. From the results it can be concluded that Convenience of use is the most important factors that customers consider important while selecting a credit card. Sense of Security, Economy and Acceptability abroad are other essential and important areas for cardholders. Though Indication of Prestige variable has been decreasing over the period of time but still it is having a noticeable importance according to the credit cardholders.

The attributes when compared on an individual basis, presenting a very clear picture about the customers' proclivity, though they have given contemplation to almost all 15 attributes but it can easily be deducted that large acceptance in Pakistan, enhanced credit limit, installment facility and large acceptance abroad are the most important factors and status symbol is the least important factor of the credit card selection criteria. These results also indicate a change in customers mind and advancement towards marketing growth and stability in Pakistan. Though cardholders have concerns about the prestige, security and economical features of the credit cards but they are more inclined towards the operation ability and acceptability of their instrument. They are ready to give preference to those credit cards which can be used and acceptable anywhere in domestic and international market with appropriate security and reasonable economy.

Keeping in view the above conclusions drawn from the results, it is suggested that banks should be more innovative and proactive in their offerings to gain the competitive edge in this sheer pace changing environment. They have to introduce such perceptible features to attract the customers towards this barely differentiable product. They should extend their network and relations with other stakeholders to enhance the utilization and acceptability of their cards as existing and potential customers are more engrossed in it. Banks should develop an appropriate marketing mix to promote credit cards by highlighting the prominent attributes unlike to existing product and from their competitors. Most importantly they have to realize their potential customers how essential and beneficial these new features for them. Last but not the least banks should remain on their toes to be flexible and innovative in offering new incentives, attractive features and economical utilization of their product to intact their existing customers and to magnetize the potential ones.

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Table I: Significant Findings of the ANOVA by Income Group in Pakistan

Factors for Card Selection	**Mean Scores**					**F-Value**	**P-Value**
	10000-20000	**21000-30000**	**31000-40000**	**41000-50000**	**>50000**		
Acceptance in Modern Establishments	3.0870	3.4032	3.0552	3.0535	2.8299	4.004	.003
Supplementary Cards	3.0435	3.4677	3.0414	3.0145	2.7823	5.736	.000
Worldwide Travel Services Available	3.4348	3.2016	2.9517	3.3551	3.1088	2.562	.038

Table 2: Significant Findings of the ANOVA by Age Group in Pakistan

Factors for Card Selection	**Mean Scores**					**F-Value**	**P-Value**
	16-25	**26-35**	**36-45**	**46-55**	**>55**		
Large Acceptance in Pakistan	3.3000	3.8988	3.9086	3.6216	3.6731	3.343	.010
Installment Facility	3.1000	3.7440	3.7716	3.5676	3.5673	2.572	.037
Supplementary Cards	2.3000	3.0238	3.0203	3.0360	3.3654	3.832	.004
Protection When the Card is Lost/Stolen	2.7500	3.4702	3.0812	3.0631	3.3750	3.629	.006
Discount and Promotions /Less Service Charges	2.5000	3.3155	3.3553	3.0721	2.8750	4.824	.001
No Joining or Annual Fee	2.6000	3.3631	3.4619	3.2613	3.0962	3.199	.013
Large Acceptance Abroad	2.8500	3.6548	3.6954	3.3964	3.3462	3.997	.003

Table 3: Mean Scores and Relative Importance of 15 Attributes

Selection Criteria-Factors	**Mean Scores**	**Relative Importance**
A: Convenience of Use in Pakistan		
A1: Large Acceptance in Pakistan	3.7917	0.076499
A2: Enhanced Credit Limit	3.5750	0.072127
A3: Installment Facility	3.6683	0.07401
A4: Acceptance Anywhere	3.3550	0.067689
A5: Cash Advance/Balance Transfer Facility	3.2900	0.066377
		.3567
B: Indication of Prestige		
B1: Acceptance in Modern Establishments	3.0717	0.061973
B2: Supplementary Cards	3.0600	0.061737
B3: Status Symbol	2.8133	0.05676
		.18047
C: Sense of Security		
C1: Protection when the card is lost/stolen	3.2267	0.0651
C2: Provision of insurance	3.3267	0.067118
C3: Worldwide travel services available	3.1717	0.063991
		.196209
D: Economy Variables		
D1: No deposit/Account	3.1900	0.06436
D2: Discount and Promotions/Low Service Charges	3.1800	0.064158
D3: No joining or annual fee	3.3050	0.06668
		.195198
E: Shopping Abroad		
E1: Large acceptance abroad	3.5400	**0.071421**

Table 4: Attributes Loadings and Factors Relative Importance

Factors for Card Selection	**Convenience of Use**	**Indication of Prestige**	**Sense of Security**	**Economy**	**Shopping Abroad**
Large Acceptance in Pakistan	.878				
Enhanced Credit Limit	.799				
Installment Facility	.784				
Acceptance Anywhere	.793				
Cash Advance/Balance Transfer Facility	.817				
Acceptance in Modern Establishments		.700			
Supplementary Cards		.774			
Status Symbol		.676			
Protection when the Card is Lost/Stolen			.633		
Provision of Insurance			.706		
Worldwide Travel Services Available			.792		
No deposit/Account				.740	
Discount and Promotions /Low Service Charges				.802	
No Joining or Annual Fee				.862	
Large Acceptance Abroad					.839
Eigenvalue	4.342	2.445	2.102	1.481	1.225
Percentage of Variance	28.948	16.303	14.013	9.874	8.167
Cumulative % of Variance	28.948	45.250	59.263	69.137	77.305
Factor Relative Importance (%)	36	18	20	19	7

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SWOT ANALYSIS OF HOMO ECONOMICUS THROUGH GLOBAL FINANCIAL CRISIS

Abstract

SWOT Analysis is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieving that objective. However, we apply SWOT analysis to the identify Strengths, Weaknesses, Opportunities, and Threats of Homo Economicus, who has specific behavior during Global Financial Crisis. There are many aspects, which cause consumptions behavior pattern. Paper doesn't provide complete scale possibilities, but on the other side shows on different social class in Slovakia and their response on Global Financial Crisis.

Keywords: SWOT analysis, Income, Households.

1. Introduction

Aim of this paper is discuss about behavior of consumers, who are comprehended such a Homo Economicus. Considerations are mostly scholastic and subjective from the view point of evaluator. Firstly, we would like to describe concept of Homo Economicus or Economic human.

Some economic theories of humans are presented as rational and broadly self-interested actors who have the ability to make judgments towards their subjectively defined ends. Economists tend to disagree with these critiques, arguing that it may be relevant to analyze the consequences of enlightened egoism just as it may be worthwhile to consider altruistic or social behavior. Others argue that we need to understand the consequences of such narrow-minded greed even if only a small percentage of the population embraces such motives. However, economists' supply and demand predictions might obtain even if only a significant minority of market participants act like Homo Economicus. In this view, the assumption of Homo Economicus can and should be simply a preliminary step on the road to a more sophisticated model.

Defenders of the Homo Economicus model see many critics of the dominant school as using a straw-man technique. For example, it is common for critics to argue that real people do not have cost-less access to infinite information and an innate ability to instantly process it. However, in advanced-level theoretical economics, scholars have found ways of addressing these problems, modifying models enough to more realistically depict real-life decision-making. For example, models of individual behavior under bounded rationality and of people suffering from envy can be found in the literature. It is primarily when targeting the limiting assumptions made in constructing undergraduate models that the criticisms listed above are valid. These criticisms are especially valid to the extent that the professor asserts that the simplifying assumptions are true and/or uses them in a propagandistic way.

2. Methodology

The SWOT analysis is an extremely useful tool for understanding and decision-making for all sorts of situations in business and organizations. SWOT is an acronym for Strengths, Weaknesses, Opportunities, and Threats. Information about the origins and inventors of SWOT analysis is below. The SWOT analysis headings provide a good framework for reviewing strategy, position and direction of a company or business proposition, or any other idea. Completing a SWOT analysis is very simple, and is a good subject for workshop sessions. SWOT analysis also works well in brainstorming meetings. Use SWOT analysis for business planning, strategic planning, competitor evaluation, marketing, business and product development and research reports. You can also use SWOT analysis exercises for team building games. See also PEST analysis, which measures a business's market and potential according to external factors; Political, Economic, Social and Technological. It is often helpful to complete a PEST analysis prior to a SWOT analysis. See also Porter's Five Forces model, which is used to analyze competitive position.

A SWOT analysis is a subjective assessment of data which is organized by the SWOT format into a logical order that helps understanding, presentation, discussion and decision-making. The four dimensions are a useful extension of a basic two heading list of pro's and con's (free pro's and con's template here).

SWOT analysis can be used for all sorts of decision-making, and the SWOT template enables proactive thinking, rather than relying on habitual or instinctive reactions. The SWOT analysis template is normally presented as a grid, comprising four sections, one for each of the SWOT headings: Strengths, Weaknesses, Opportunities, and Threats. The free SWOT template below includes sample questions, whose answers are inserted into the relevant section of the SWOT grid. The questions are examples, or discussion points, and obviously can be altered depending on the subject of the SWOT analysis. Note that many of the SWOT questions are also talking points for other headings - use them as you find most helpful, and make up your own to suit the issue being analyzed. It is important to clearly identify the subject of a SWOT analysis, because analysis is a perspective of one thing, be it a company, a product, a proposition, and idea, a method, or option, etc. Be sure to describe the subject for the SWOT analysis clearly so that people contribute to the analysis, and those seeing the finished SWOT analysis, properly understand the purpose of the SWOT assessment and implications.

3. Discussion

Household is considered such a very important issue in economics, which consist of one or more economics subjects – Homo economics'. We will try to describe thinking of different households. However, we have three groups of households, which are typical in Slovakia.

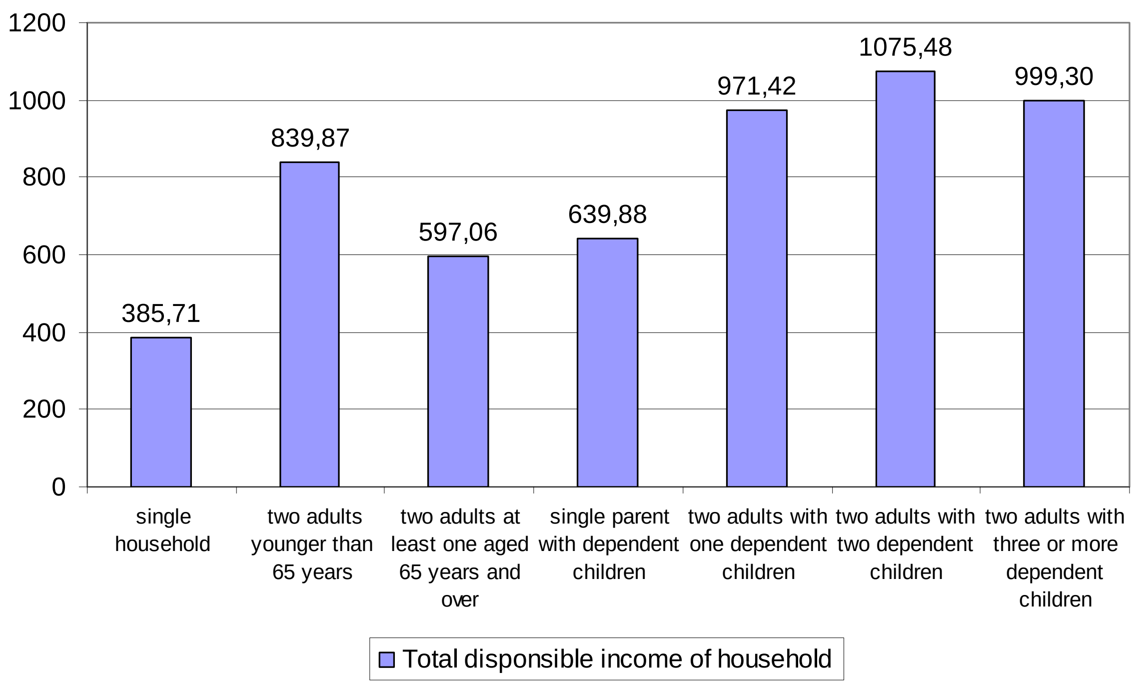
Single households consist of followed people:

- one adult younger than 64 years,
- one adult older than 65 years
- single parent with dependent children
- single female
- single male

Households with two adults include:

- two adults younger than 65 years
- two adults at least one aged 65 years and over
- two adults with one dependent children
- two adults with two dependent children
- two adults with three or more dependent children

Chart 1 Disponsible income in euro of household



Source: www.statistics.sk (online 29.09.2009)

We analyzed three social classes, which were divided according to average income on household. As you can see in chart 1, society in Slovakia is separated into households according to number of children. We can take a notice, that single household has lower disponsible income than households with adolescents. Lowest disponsible income is represented households with one adult and one child. Initiate situations is caused income and gender inequality. Mostly, there are woman represents household with one adult with one child. Someone's are divorced, someone's are widows. It is not easy to foster child with one lower income.

Followed, we tried to analyze SWOT analysis from the view point of each social class, represented concrete type of household. Analyzed issue related to impact behavior of households on the global financial crisis. If they feel financial threat, so people begin to think about their reserve, savings, which are needed for their families.

Firstly, we analyzed single households. Singles are typical Homo Economicus, who follow own targets. They have many hobbies and spent more money- that is the positive aspect of solution financial crisis.

Table 1 SWOT analysis of Single household

Strengths None children.	**Weaknesses** Only one income. Low income. Social unstable system.
Opportunities One full time job and simultaneously part time job. New better job.	**Threats** Unemployment Serious medical condition

However, single households are danger social class similarly such other classes. There exists threat of unemployment, which is more difficult for single households than for other households. In the final consequence financial crisis causes many areas of life and to consider about it from the one side is shortsightedly.

Table 2 SWOT analysis of Household with one adult and one child

Strengths Family relations. Social fees.	**Weaknesses** Only one income. Low income. Social unstable system.
Opportunities One full time job and simultaneously part time job.	**Threats** Unemployment. Serious medical condition.

Table 2 is focused on households represented one adult with one child. That type of household is common in the contemporary society. Equally, in that social class, there are similar threats of unemployment and serious medical conditions. In spite of social fees for these households, it is not sufficient help for their situation.

Table 3 SWOT analysis of Household with two adults and more children

Strengths Two high incomes. Social fees.	**Weaknesses** Two low income. Social unstable system.
Opportunities New better job. One can find part time job.	**Threats** Unemployment. Serious medical condition.

Last social class is presented of household with two adults (parents) and two and more children. There are increasing expenditures for more children, but on the other in this family may be two incomes. Financial crisis cause on this family followed: decreasing expenditure, saving, help from next member of family. In SWOT analysis, part Opportunities is initiated "One can find part time job", but through financial crisis is not likely.

Conclusion

Finally, we can observe, that strengths side of households is income, which is depends of job and salary. If people don't have job and appropriate salary, so they have problems with common expenditures related to family and children. Singles spent more money and they are better fighter again financial crisis, than families with two or more children.

However, each social class has similar threats: unemployment and serious medical condition. In the final consequence financial crisis causes many areas of life and to consider about it from the one side is shortsightedly.

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GLOBAL FINANCIAL CRISES: IMPACT AND RESPONSES FROM INDIA

Abstract

Economists and financial experts are looking to put forward various theories and assessment for which financial crises has occurred and find means to prevent and solve the regular occurrence in coming years. Asian economies are not much exposed and largely do not have direct risk to its assets and lending. Indirectly, the impact of the financial crises on growth has split over Asian market in one or the other form. India being a relative closed economy and differs in various norms as of West which has turned indirect impact of the global financial crises. India has addressed the global financial crises taking highly proactive measure in its monetary and fiscal policy reducing the intensity of financial crises impact. This paper will highlight various impacts of financial crises and responsive measure taken from India which has reduced the impact.

Keywords: Financial Crises, India, Impact and response.

1. Introduction

With the start of the financial crises in advanced economies which has lead to the loss of confidence in the financial system and assets causing the sharp downturn in all sector. The financial crisis has made an impact turn to a collapse of much financial institution drying the credit, questioning the financial policies and strategies of the system. the financial crises has its impact on both developed and developing economies dominating its presence in manufacturing, real estate and other industries throughout the world, followed by the crash of stock market and currency crises in some.

Economists and financial experts are looking to put forward various theories and assessment for which financial crises has occurred and find means to prevent and solve the regular occurrence in coming years. The US financial crisis has been explained with the countries sub-prime mortgage market lending in terms of loans with happens to be weaker. The lenders have insufficient financial resources to get bank which leads to high level of defaults. The banks were laying huge bets with each other over loans, assets and other issues. Various complex transaction have turned into high risk causing severe slide in value of assets, With the collapses of the Lehman Brothers low confidence continue to be deepen and further deepen the credit crunch in the US financial market. The major failure happens due to the fact 1) managing risk and allocating capital. The activity being adopted in the financial system has been turned to risk and highly suppressed the growth which made the economies to rethink and do serious structured improvement in the system.

2. Significance of Financial Crises on India

India being one of the largest developing economy moving forward is facing major challenges and seen its worst time with the outbreak of global financial crises. The industrial sector followed by the real estate and other has been affected of all times. With the fall of stock price, inflow of capital, reducing foreign reserve, tightening domestic liquidity has been the major affected in the recent financial turmoil. Consequently, export and domestic demand largely remain silent as compared to past. Other sector like housing, IT, Construction etc has been greatly hit by the US financial crises tsunami. Sharp fall in the export and manufacturing sector with the consequently, downturn made the citizen jobless by the end of 2008. It has been estimated that the sharp fall in GDP growth and export as compared to 2008 and expected to further fall this year, 2009.

Indian stock market: Indian stock market has been experienced worst after the panic followed the collapse of major banking institution in US and Europe. Great turbulence has gone into the Indian stock market with the global financial scenario dipping at its lowest. The foreign investor has started rethinking causing major worry for Indian market.

Information technology sector: with the down turn of the stock market the IT sector has seen major crunch, low in their price. IT majors has not been able to enhance the business with investors inside and major outsider adopted the retrenchment at mass. Apart from the financial crises affecting major IT companies, resulting turnover and created a fear for survival. Result of the turmoil at individual feared job security and great turnover at different level.

Banking: With the failure of the big banks in US has given negative impact on developing countries. The developing countries are rethinking on extended contamination of sub-prime mortgages, holding assets and causing greater concern on credit available. The ongoing financial crises affected the Indian banking system being invested in derivatives exposed to risk and subsequently under scan.

Real estate: the sector has been affected by the financial crises as reparation of credit crunch from bank. Many large construction projects have been delayed and some stopped due to backup investment banking leading to slump in real estate with downturn graph in the sector.

Export: the export sector has getting dip in foreign orders from its two large markets of US and Europe. It has been estimated to be 70% fall in Indian export (Madhuri Malhotra, 2008). The major export sector composes of handicrafts, textiles, leather, engineering goods etc. which is largely affected. The depreciation of rupee against US dollar also leads to an increase in the rupee realization of the export earnings. Engineering goods exports are expected to grow marginally lower than 2007-2008 i.e. less expected to hit by the slow down. Export sector like textiles will likely to have mixed input. Specialized production like yarn, readymade garments not seen growth and getting lesser order. the agro, steel, tea, steel and also in the line to be affected. International Monetary fund (IMF) expects the growth in world trade to decline from 9.4% in 2006 to 2.1% in 2009 due to the combination of various factors like reduction in demand and pricing.

3. Exposure to Asian Economies

Asian economies are not much exposed and largely do not have direct risk to its assets and lending. Although the economies has transmitted some impact of the slowdown in the growth rate due to the financial crises which can be seen in massive reversal of capital flow, decline trade volume, decreasing demand in industrial output, lower remittance, increasing demand on domestic investment, larger growth of unemployment, real estate downturn, stoppage of major development projects, fall of stock price and other indicators. Indirectly, the impact of the financial crises on growth has split over Asian market in one or the other form.

4. Impact of Financial crises on India

India faces two ways repercussion based on financial crises which include: Economic and Social impact.

Economic Impact

1. Indian Economic growth declined to more than 7% in 2008 which is about 2% less than 2007. The adverse effect of the trade losses have subsequently slowed down the economic growth affecting deep macroeconomic equilibrium and increasing pressure on domestic initiatives.
2. Resulting on the financial credit crunch affecting economic downturn directly affected job market rising unemployment and downward reversal to the income. Furthermore, the growth in the small and micro enterprises has been deeply hit.
3. Adverse effects on capital flow from FDI's as been reverted to domestic contracting the economic growth.
4. Reduce stock price and flow of capital form the foreign investors affecting the inflation in the recent times.
5. The global financial downturn resulting in other parts of the world reverse migration to India has been increased in which Southern part of the country has been affected with unemployment.
6. With the start of the collapse of major banking and financial institution around the world affected the credibility of banks and other institutions in the market. The unavailability of credit in the banks also leads to loss of confidence and questions the banking system itself especially transacting from the outside financial institution.
7. The value of share in terms of stock prices falls making a bubble which needs time and techniques to burst for providing the bridge for economic growth. The stock of real estate falls in value resulting losses.
8. The reserve immigration has reduced the inflow of capital through remittance. The foreign reserve is shrinking with time which directly affects the economy. Reduction on export order also has great impact on economic downturn which has directly affecting in last quarter of the previous year and start of this year.
9. Foreign direct impact on the specific sector like IT has deepened the economic impact.

10. Corporate to rely relatively more on domestic sources of financing for which the investment is short for the projects.

Social impact

1. With the economic impact on the financial crises emerging unemployment has lead to poverty, increase in domestic demand etc. the reverse immigration has extended high demand in goods and services with the increase in price of various goods and shortage of services.

   There is already a indication of financial crises in IT and export sector report of downsizing and other measures of cost cutting. Large number of other sector firms implies significant drops of new hiring and along with retrenching the existing that makes in change more complex and imbalance in the job market as a consequence affect reduced household income/ wages in both urban and rural market.

2. Project based on development, millennium goals, rural development etc has been severely affected with the delayed process and sometimes extended o terminating the projects. More than half of the overall investment in social services and development like planned highways other infrastructural projects including transportation facilities etc could be delayed. Government budgets face hard constraints as the results of economics slowdown.

In review, the impact can be highlighted as:

- Corporate to rely relatively more on domestic sources of financing
- Domestic investment is largely financed by domestic savings
- Domestic primary capital market issuances have suffered
- Downside risks from these international developments
- External commercial borrowings of the corporate sector declined
- Foreign institutional investors (FIIs) witnessed a net outflow
- Potential reversal of capital flows on a sustained medium-term basis
- Predominant domestic financing of investment
- Projected slow down of the economy
- Simultaneous effects on the domestic forex market and liquidity conditions
- Slow stock market conditions
- Total net capital flows fall in April-June 2008
- Volatility in portfolio flows felt in the equity market

Nevertheless, India is considered as a relative closed economy and differs in various norms as of West which has turned indirect impact of the global financial crises. Impact of the present global financial crises is not limited mainly to urban and suburban areas extended to tourism, outsourcing as closely integrated to international market which has been deeply affected. Integration of Indian financial sector other than the FDI is more based on domestic investment rather than external which also reduce the direct impact of the global financial crises. Also social planned development need government spending rather than foreign investment or it lies beyond stimulus package.

5. India's Response to Global Financial Crisis

The Government of India has addressed the global financial crises taking highly proactive measure in its monetary and fiscal policy reducing the intensity of financial crises impact. Reserve Bank has also successively imposed additional prudential measures in respect of exposures. The measures to stabiles the financial sector, available of liquidity and maintaining the demand is considered to be primary concern. The RBI has taken measure to keep domestic money and market functioning normally and checked liquidity in exchange. Banks were directed to formulate specific policies covering exposure limits, sanctioning authority/level to be financed. With respect to the rapid increase in real estate sector raising, risk on bank exposure was increased. Other than this, tightening of regulation and supervision of Non-banking Financial Companies (NBFCs) and excessive leverage in this sector has been restricted. Various policy package (Duvvuri Subberae, 2009) has been announced as:

1. Reduction of policy interest rates
2. Expanded and liberalized refinance facilities for export quantities
3. Upward adjustment of the interest rate ailing on foreign remittance
4. Relaxing external borrowing
5. Allowing non banking financial companies for borrowing
6. Rupee dollar swap facilities for Indian banks
7. Refinance window for special purpose vehicle
8. expanded lend able resources to credit to SME's and export

Financial Stimulus

The emergency provision under FRBM Act targeting fiscal relaxation launched two fiscal stimulus packages. The fiscal stimulus package includes: public spending, capital expenditure, infrastructure spending, and cut in taxes, credit to micro and small enterprises, rural development, waiver package and stimulating demand.

According to the Prime Minister, Dr. Manmohan Singh speech on Oct. 20, 2008, Indian Banking system is not directly exposed to sub-prime mortgage assets. Both public sector and private sector banks have low risk, well capitalized and financially sound. With the shrink in the external commercial borrowing overall credit availability has reduced. Various steps to overcome the problem:

1. RBI cut Cash Reserve Ratio
2. The SLR (Statutory Liquidity Ratio) remain loosen.
3. Window enabling bank to draw funds to provide liquidity
4. Debt wavier and debt relief schemes
5. RBI cit the Rapo Ratio (100 basis point)
6. Increase borrowing ratio
7. RBI and government has make certain the flow of credit ensuring liquidity in the market
8. Supporting banks by lower Capital Adequacy Ratio

9. Committee for assuring global financial impact and to make recommendation
10. Monitoring closely stock market and dealing with fluctuation.

Outlook

The basic outlook of financial crises arranged from developed countries following the consequences to developing countries at different stages and level is seen very carefully. The major outlook emerges as developed economies financial crises are based on financial sector to non financial or real sector. But in developing, it may be reverse or differently. The countries have turned the policies respond to match the country needs based on responding to timing, sector, and implementation. Developed economies emphasis on the revival of the financial sector while Asian economies addresses on other indirect impact of the crises like export, outsourcing etc. India, on the need basis developed the policy to emphasis on economic growth and improving demand.

Conclusion

The India has addressed the global financial crises taking highly proactive measure in its monetary and fiscal policy reducing the intensity of financial crises impact. The reserve Bank of India has taken various measures to ensure continuous support to the industrial sector maintaining liquidity and cash flow in the market. The paper highlights the features of global financial crises affecting India being a developing country and the consequence on the growth. The India's response to address the crises has been very positive which has reduced the impact. This paper clearly highlights the developmental measures which have been taken by India for deal with the financial crises.

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SUSTAINABILITY OF FINANCE ADVANTAGE TO ACHIEVE COMPANY COMPETITIVE STRATEGY UNDER THE FINANCIAL CRISIS: HAIER AS A CASE STUDY

Abstract

Terms such as the competitive strategy, finance advantage and finance crisis have been used over the past decade to describe the changing global competitive environment(Thompson *et. al*, 2004, pp.26-36; Ghobadian *et. al*, 2004, pp.15-18; Porter, 2006). Evaluation company finance performance have been used to enable firms to gain sustainable competitive advantage, with varying degrees of success (Petty *et. al*, 2008, pp.211-215). Yet we remain in uncertainly finance crisis with strategic preparation for the future becoming a critical activity. Here we try to learn case from Haier how to sustainability of finance advantage, which will provides some idea for academics and practitioners with a highly focused approach to competing in the global marketplace.

Keywords: Competitive Strategy, Finance Advantage, Haier.

1. Introduction

The financial crisis of 2007–2009 has been called the most serious financial crisis since the Great Depression by leading economists, with its global effects characterized by the failure of key businesses, declines in consumer wealth estimated in the trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity. Many causes have been proposed, with varying weight assigned by experts. The term financial crisis is applied broadly to a variety of situations in which some financial institutions or assets suddenly lose a large part of their value (WTO Job Net). Yet we remain in uncertainly finance crisis with strategic preparation for the future becoming a critical activity. Here we try to learn case from Haier, so we must know how to sustainability of finance advantage and what had happened from this manufacturing company case study, and try to find out how keeping company competitive strategy under the financial crisis.

2. Background of Haier Company

Haier is the fourth biggest home appliance producer in the world. The brand Haier is one of the most valuable Chinese brands. Through 24 years (1984 until now) struggle, Haier becomes the first Chinese multinational enterprise. "Until 2007, the Haier group has established 64 trading companies (19 overseas), 29 manufacturing plants (24 overseas), 8 design centres (5 overseas) and 16 industrial parks (4 overseas)[1]. " There are over 50,000 employees through the world. Sales 2008 was RMB 30.41 billion (3.15 billion Euros[2]). 2008 Haier took 26.2% of home appliance market share in China, especially high-tech area and white home appliance industry Haier took over 30% market shares.

The branding strategy makes Haier go to the global market in advanced of other Chinese competitors. Since 2005, Haier was a multinational company with "19 categories of products", including refrigeration, air conditions, washing machines, television, water heaters, personal computers, mobile phones, and kitchen appliances. All of them have been rated as top brands in China. Especially the core business refrigerators and washing machines are the main source of revenue every year.

Haier group consist of one parent company (Qingdao Haier Co.) listed on Shanghai exchange and two main subsidies, Haier Electronics Group Co. Ltd. listed on Hong Kong exchange and Haier America. Hong Kong is one of the most mature international finance markets in the world. Haier went to that market because of its global strategy. Haier wants to enlarge its business by using that international stage which has more open, more transparent, and more liquid capital environment. Since 1999 April 30 Haier entered into the US market. Haier tried twice to list in that market but both of them were not successful. The financial strategy is clear that Haier can choose borrowing money from multi-financial markets, meanwhile increasing its reputation in global market. It sounds good, but the real situation is not the same.

News coming from Bloomberg on the day March 18 2009 said "China plans to pay 15 billion yuan ($2.2 billion) in subsidies for home appliance purchase in rural areas this year to spur 100 billion yuan in additional demand." Qingdao Haier Co. is one of the biggest winners in this plan. In the end of 2008, Haier products are recognised as high-tech products by Chinese government. It will provide many priorities (like tax) for the company's development. Haier group shows some state-owned character even it is a private company. Haier Electronics Group Co., Ltd. (Stock code: 01169) is a wholly owned subsidiary of Haier Group, which is listed on the main Board of the Stock Exchange of Hong Kong Limited. Since 2000, Haier Group started to enter into Hong Kong China (the much more mature financial market) to implement its global strategy for finding out more space to develop. Two joint venture companies (cooperated between Haier Group and CCT Telecom Holding Limited) named Pegasus Telecom (Qingdao) and Pegasus Telecom (Hong Kong) has been established in Qingdao and Hong Kong respectively.

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[1] Introduction to the Haier Group, http://www.haier.com/AboutHaier/HaierWorldwide/haier.asp.
[2] with the exchange rate 1Euro=9.659 RMB which is the exchange rate on the 31st December 2008.

2001 CCT Telecom has injected its 41% stake of Pegasus Qingdao and 51% stake of Pegasus Hong Kong into the company Haier-CCT Holdings Limited (2005 the company's name has changed into Haier Electronics), meanwhile Haier Group has injected 49% of Pegasus Qingdao into the same company. After transferring stocks within the group Haier Electronics was fully owned subsidiary of Haier Group. For the next 4 years Haier Group continues to inject Pegasus Qingdao stock and sell its business to "Haier Electronics". Until December 2006 "Haier Electronics" completed the acquisition of washing machine business and water heater business from Haier Group. Here stated to calculate NPV of the two businesses in Haier Electronics from that year.(as Chart 1)

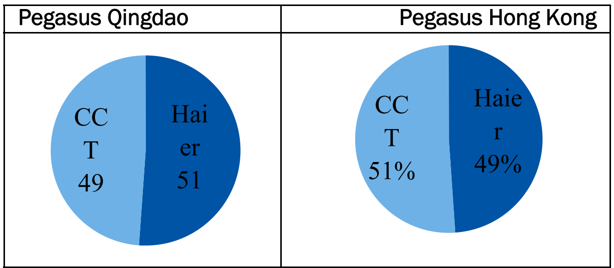

Chart 1: Pegasus Telecom in two places
(*Source*: Haier Group.)

3. Literature Review

Firms that are in a strong financial position can respond authoritatively to new opportunities, weather environmental threats, and withstand pressure from stakeholders, as compared to competitors who suffer financial constraints. Analyzing financial reports and statements requires a fundamental understanding of where numbers come from, how they are organized and presented, what they mean, what they measure, and how they are used.

3.1. Financial analysis and company financial performance

There are many theoretical sources covering financial analysis available both in English and in Chinese. The first part of bibliographical sources of the thesis consists of hard-copy materials and the most deserved attention books are reviewed below. The "Financial analysis: tools and techniques. A guide for managers" by Erich A. Helfert (2001, pp.1-485) describes a system approach to financial analysis, helps to interpret financial statements and shows every technique and measure. Another book – "Financial management and analysis" by Fabozzi and Peterson (2003,pp.1-10) deals with principles and tools of financial analysis around the globe. Its authors also contribute to understanding of financial statement analysis, which includes analysis of financial ratios, evaluation of earnings and cash flow analysis. A very good approach to accounting and statement analysis could be found in "Financial statement analysis: a practitioner's guide" by Fridson and Alvarez (2002, pp.105-115).

On the real life examples, the authors illustrate the financial statement analysis. A great self-study book "Financial analysis with Microsoft Excel" by Mayes and Shark (2006, pp.1-476) integrates financial performance with spreadsheet analysis using Excel. It helps to create a template for making financial analysis faster and convenient. Another part of the used bibliography includes the Internet sources such as web pages and online articles.

Foundations of accounting practices of China are based on the state financial policy, which is governed by the Ministry of Finance of China. For this reason, the law and subordinate regulatory acts determine them. Because of their rapid change, the Internet is the only provider of actual legislative data for the thesis.

3.2. Financial analysis and Competitive advantage

Having a competitive advantage usually means that the firm can perform a service, manufacture a product, or offer a bundle of benefits that competitors cannot match (Porter,1985). While it is extremely difficult to sustain a competitive advantage, especially in the electric and electronic industry, firms work to create advantages through differential development of resources and capabilities. Superior resources or capabilities are those that have value in the market, are possessed by only a small number of firms, and are not easy to substitute. If a particular resource is also costly or impossible to imitate, then the competitive advantage may be sustainable. Porter and Millar (1985, pp.149-160), states that a business is profitable if the value it creates exceeds the cost of performing its value activities. In order to gain a competitive edge over rivals or in a fierce market, a company must either perform these activities at a lower cost or perform them in a way that leads to differentiation and a higher business value. Michael Porter (1985, pp.11-15) work on competitive strategy suggests that organisations should re-evaluate their value chain and concentrate on the operations that they can do best. Other processes should 'out-sourced' to specialists. There are four main areas of support activities: procurement, technology development (including R&D), human resource management, and infrastructure (systems for planning, finance, quality, information management etc.).

According to a study by Deloitte Consulting some reports, in which they conducted interviews with 230 managers in 85 global companies. It revealed that benefits of financial system on organizations are categorized into two types namely; 'tangible' and 'intangible' benefits. The tangible benefits include cost savings when it comes to human resources and inventory reduction, productivity improvements and faster processing. Davenport, Harris and Cantrell (2002, pp.16-26) , go on further stating that competitive advantage in organizations is apparent when adopting an financial system in terms of better management decision-making, cost-savings in headcount reduction, more efficient and faster transactions and thus cycle time reduction. Also, improved customer service and retention and improved financial management (Seddon, 2005, pp.283).

4. Analyses And Finding

4.1. Revenue

The growth rate of revenue in Haier Electronics keeps high growing speed. Even in 2008 the turbulent financial crisis period it also has 33.5% growth rate. (as Table1)The main reason for the high growth rate comes from the positive policy given by Chinese government which is used to enlarge the consumption capacity internally and pick up the confidence of consumers. Such like the policy "Rural Area Subsidized Electrical Appliances Purchase

Policy" gives great impetus for Haier's development. 80% of population in rural area gives unlimited potential market to home appliance makers. Haier is the biggest winner.

Table 1: The growth rate of revenue in Haier Electronics

HK$ million	2006	2007	2008	2009E	2010E	2011E	2012E
Sales	6,901	8,549	11,409	14,832	19,281	24,102	28,922
Growth rate	*24.5%*	*23.9%*	*33.5%*	*30%*	*30%*	*25%*	*20%*
Source: Haier company							

Additionally the subsidiary of high-tech. products also given by the government will help Haier to eat the market of front loading washing machine which is usually hold by foreign competitors like BSH. The target of market share for front loading washing machine in China is 50% announced by Haier Group. Based on the positive factor in Chinese market, here we chose 30% as growth rate for next 2 years. From 2011 to 2012 the market is assumed to achieve saturation. The growth rate will be slow down a bit into 25%.

4.2 EBITDA[3]

Forecasting of EBITDA is based on the percentage of revenue. From 2006 to 2008, the percentage of revenue was 2.8%, 3.6%, and 1.6% respectively (as Table2). The decline of percentage is because the increasing of COGS and administration expense due to the enlargement of the business in rural area. We increased the EBITDA percentage out of revenue by 0.5% year by year.

Table 2: Forecasting of EBITDA

HK$ million	2006	2007	2008	2009E	2010E	2011E	2012E
EBITDA	193	311	183	297	482	723	1012
% revenue	*2.8%*	*3.6%*	*1.6%*	*2%*	*2.5%*	*3%*	*3.5%*
Source: Haier company							

4.3 Depreciation

We use percentage of sales to forecast depreciation in Haier Electronics. We have data from 2006 to 2008, and get the percentage of depreciation out of sales around 1%. We use this 1% as the benchmark and get our depreciation from 2009 to 2012 (See as table 3). We also need to have a test to judge whether our numbers are reasonable or not. Another method is used to forecast depreciation: the relationship with CAPEX[4].

[3] EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization.
[4] CAPEX means Capital Expenditure.

Table 3：Forecast depreciation in Haier Electronics

In thansand	2006	2007	2008	2009E	2010E	2011E	2012E
Sales	6,901	8,549	11,409	14,832	19,281	24,102	28,922
% of sales	*1.5%*	*0.9%*	*0.8%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Depreciation	101.4	80	96.6	148.3	192.8	241.0	289.2
Source: 2009 – 2012 wash machine industry forecasting report							

Here CAPEX is only the investment on fixed assets (we ignore intangible assets, because compared with fixed assets it is tiny). The investment is related to depreciation for each year. They are in directly proportion. The relationship is the formula as follow:

Depreciation = Investment on fixed assets - Change of fixed assets

No matter which method you choose, the results should be similar or little difference. If there were some big difference we need to change our other numbers to converse the final results. We use the percentage method is used as benchmark, and the other is used as a test to judge our investment is reasonable or not, and also test the forecasting on sales. When decrease sales, it means decrease its depreciation (the benchmark) as well. We change both CAPEX and sales to make sure the results are approaching the same direction. When the results are convergent, the forecasting is linked with each other by the same time.

4.4 CAPEX

Forecasting CAPEX on fixed assets is based on the change of production. Generally the idea of forecasting CAPEX is that we need to find out the index which equals to CAPEX divided by change of production. Here we assume that the same factor happened for water heater industry. Under that condition, we use wash machine business as the only business Haier have to simplify our model.

Table 4：Forecasting CAPEX on fixed assets

In million	2006	2007	2008	2009E	2010E	2011E	2012E
Total production	29.4	34.8	39.0	44.8	51.5	58.2	65.2
Growth %	15.93%	13.93%	12%	15%	15%	13%	12%
Haier China	11.2	13.6	15.6	18.8	23.2	27.4	30.7
Market share %	38%	39%	40%	42%	45%	47%	47%
Haier abroad	2.8	1.5	0.8	2.1	4.1	6.8	10.2
Sales of Haier China %	20%	10%	5%	10%	15%	20%	25%
Haier total	14.0	15.1	16.4	20.9	27.3	34.2	40.9
Change in production	2.8	1.1	1.3	4.5	6.4	6.9	6.7
Source: 2009 – 2012 wash machine industry forecasting report							

According to Table 4, *2009-2012 wash machine industry forecasting*:

- The average growth rate for wash machine industry is 14%. In 2007, the total production of wash machine in China was 34.8 million. Based on that information we could forecast the total production for the wash machine industry in China;

- Haier takes nearly 40% market share in Chinese market. The percentage tells us how much wash machine Haier sold or will sell in China;
- Plus the production sold abroad, the total production sold by Haier Electronics from 2006 to 2012 is from table 4. The percentage of abroad sales in 2008 is really low due to financial crisis. For the next 4 years it will go back to the same percentage as in 2006, even higher.

After knowing the total production, we can have numbers about change in production. We have really number for 2006, 2007 and 2008 three years. We use CAPEX divided by change of production for the three years get the index: 46, 85.6 and 32.4 respectively. See as table 5, the index for 2009 to 2012, if ignored the number 85.6 and chose the number between 32 to 46, that it is reasonable for the case.

To calculate depreciation by using the formula:

Depreciation = Investment on fixed assets - Change of fixed assets

There are some change in fixed assets each year is a little higher than the test results. So we should low down the growth rate for fixed assets from 10% to 5% to satisfy the test requirement.

Table 5 Production change from 2006 to 2012

	2006	**2007**	**2008**	**2009E**	**2010E**	**2011E**	**2012E**
Capex	128.5	95.4	43.1	157.7	242.1	277.2	299.8
Change in production	2.8	1.1	1.3	4.5	6.4	6.9	6.7
Index	46.0	85.6	32.4	35	38	40	45
Change in Fixed assets	-324.0	58.0	-16.0	37.1	62.3	42.1	44.2
Caculated depreciation	452.5	37.4	59.1	120.6	179.8	235.2	255.6
Difference	351.2	-42.6	-37.5	-27.7	-13.0	-5.8	-33.6
Source: 2009 – 2012 wash machine industry forecasting report							

4.5 Change in Working capital

Here we narrow definition for working capital. According to balance sheet of Haier Electronics:

Working capital = inventory + A/R – trade payables – other current liabilities

Table 6: Working capital change

In million	**2006**	**2007**	**2008**	**2009E**	**2010E**	**2011E**	**2012E**
Inventory	208.0	658.0	307.0	445.0	771.2	1,205.1	1,446.1
% to sales	*3.0%*	*7.7%*	*2.7%*	*3.0%*	*4.0%*	*5.0%*	*5.0%*
Account receivible	1619.0	1347.0	2398.0	3114.7	4049.1	5061.3	6362.8
% to sales	*23.5%*	*15.8%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*22.0%*
Trade payables	1210.0	1032.0	1047.0	1483.2	1928.1	2410.2	2892.2
% to sales	*17.5%*	*12.1%*	*9.2%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Other payables and accruals	861.0	1013.0	1543.0	1779.8	2313.7	2892.2	3470.6
% to sales	*12.5%*	*11.8%*	*13.5%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*

Working capital	-244.0	-40.0	115.0	296.6	578.4	964.1	1,446.1
% to sales	*-3.5%*	*-0.5%*	*1.0%*	*2.0%*	*3.0%*	*4.0%*	*5.0%*
Change in working capital	NA	204.0	155.0	181.6	281.8	385.6	482.0
Source: 2009 – 2012 wash machine industry forecasting report							

We have actual numbers for 2006, 2007 and 2008 (Table 6). For forecasting the four items related to working capital, we use the ratio according to sales. Because working capital is so liquid and sensitive to sales. By using the same method, we use actual numbers as benchmark to calculate the percentage to sales for each item. Then we give our forecasting percentage numbers based on calculated numbers. In the end we use sales multiple the percentage to get our final numbers.

Haier Electronics had negative working capital in 2006 and 2007. In 2008 even working capital is positive but it only takes 1% of sales. Compared with BSH[5] and Haier Group(as Table7), working capital in Haier Electronics is really low. So for the next 5 years, it will enlarge the investment on working capital. The percentage of sales has increased from 1% in 2008 to 5% in 2012, the inventory will be increased from 2.7% of sales to 5% of sales. But the level of inventory in Haier Electronics is still much lower than BSH and Haier Group.

Table 7: Comparing working capital with BSH and Haier

Working capital to sales	2004	2005	2006	2007	2008
BSH	10.8%	11.3%	12.3%	12.5%	12.3%
Haier Group	10.9%	14.8%	8.7%	4.5%	3.3%
Source: BSH company and Haier company					

4.6 Liabilities analysis (Leverage Ratio)

Haier Group has unusual financial debt from financial liabilities, other liabilities, net debt, and debt to equity, and so on. It is not just much less liabilities in Haier Group, but also much less long-term liabilities(see Table 8). Besides that, net debt and debt to equity are also discussed here to analysis the position of liabilities in both companies.

Here we can find out that in Haier Group, net debt is positive. That means the group has much more cash than its financial debt. Obviously that financial leverage in Haier Group is little. A few financial debt leads a low ratio in debt to equity. Besides the high percentage of equity out of assets, debt to equity ratio is less than 3% (except the year 2004).

Table 8: Liabilities analysis compared with BSH and Haier

Current ratio	2004	2005	2006	2007	2008
Net debt BSH (€)	-94.4	-100.0	-540.0	-299.0	-136.0
Net debt Haier (€)	5.9	54.9	132.4	210.7	228.3
Debt to equity BSH	33.0%	36.3%	41.1%	31.7%	26.7%
Debt to equity Haier	10.6%	2.1%	3.1%	1.6%	2.4%

[5] BSH: Bosch Siemens Hausgräte, a joint venture between Robert Bosch GmbH and Siemens AG since 1967, the third largest home appliances manufacturer in the world.

Conclusions

Based on the above case analysis, we know that Haier company has the competitive strategy by the finance advantage under the finance crisis. Haier group is still a very young company that the growth rate keeps over 25% (except 2008 the growth rate was only 3.2%, but the performance in 2008 was the best for last 4 years). The Group still needs to improve its grow margin and EBIT[6] margin. Controlling the cost is the way for bigger profit in the future. Exchange lose in 2007 and 2008 has increased a lot due to RMB appreciation. Choosing the correct and suitable finance deviation is very important for Haier Group. Stable financial rates are hard to be done by a fast growing company. But it does not mean the company can ignore satiability of among numbers. Especially working capital and the efficiency of cash and inventory are the top issues for a manufacture company. Stated oriented company is easy to lose the sensitive of market oriented. The low percentage of equity and the high percentage of current liabilities are not the healthy structure for a multinational company.

There also have some other competitive advantage for Haier. First, everything produced inside the company is good for the company development because the company do not need to depend on any other suppliers. Second, the cost of machine components is also lower than other competitors if everything is provided by associated group. Third, reducing the percentage of equity is also important not just for Haier Group, but also for other Chinese companies. Haier's domestic competitors like Gree and Hisense, both of them have high range of equity out of total liabilities. They should know that suitable liabilities will low down the cost of capital. The efficiency of equity is also important for companies.

We always say that "the opportunity only gives human who has the preparation, the opportunity also only gives has the preparation country", the international finance crisis have impacted on the entity economy, the Chinese Enterprise resists the international economy risk ability is the strengthening greatly, hopefully much more company like Haier will under the press to find out the opportunity to implement its competitive strategy, and get its advantage to develop after-finance crisis.

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[6] EBIT: Earnings Before Interest and Tax

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HOW EMERGING ECONOMIES REBOUND FROM THE GLOBAL FINANCIAL CRISIS: EVIDENCE FROM CHINA AND INDIA

Abstract

China and India are recovering from the financial crisis more rapidly than industrialized countries. Because of differences in their economic, cultural, historical, social and political backgrounds, China and India have exhibited noteworthy differences in terms of the impacts of the global financial crisis (GFC) and their resposes to the GFC. The proposed article identifies very clear contexts, attendant mechanisms and processes associated with an emerging economy's rebounce from the GFC.

Keywords: Global financial crisis, subprime debt, emerging economies.

1. Introduction

China and India are recovering from the financial crisis more rapidly than industrialized countries (Kane, 2009). In August 2009, the PC maker, Dell, announced that increasing demand from China and India would lead to a growth in the company's revenue starting 2010 (Reuters.com, 2009). Growth rates have accelerated in both economies.

Because of differences in their economic, cultural, historical, social *and* political backgrounds, China and India have exhibited noteworthy differences in terms of the impacts of the global financial crisis (GFC) and their resposes to the GFC. For instance, Arvind Subramanian of the Washington, DC-based Peterson Institute for International Economics attrbutes India's resilience and rebounce to what he refers as the "goldilocks globalisation" (Economist, 2009a). Compared to many economies in Eastern Europe, India's dependent on foreign capital has been relatively low. Likewise, compared to some East Asian economies, it relies less on foreign trade. China is more globalized than India (Table 1).

Prior research indicates that developed economies rise and fall around the same time, and emerging markets also reach a peak or a trough almost simultaneously (Kose et al., 2008). However, emerging and developed nations' business cycle phases are not in necessariyl concord. Notably lacking from this literature, however, is explicit attention to the process associated with the effects of GFC on an emerging economy. Little theory or research exists to explain how structural and business cycle dynamics affect the rise and fall of emerging economies. The goal of the proposed article is to identify very clear contexts, attendant mechanisms and processes associated with an emerging economy's rebounce from the GFC.

2. The effects of GFC on China and India

China's current account[1] surplus dropped from US$191.72 billion in the first half of 2008 to US$130 billion for the first half of 2009 (Wu, 2009). This was the first decline since 2004. Likewise, in the first half of 2009, the capital and financial account surplus declined to US$33.14 billion compared to US$71.93 billion in the same period in 2008. Most of the decline can be attributted to net direct investment, which reduced to US$20.57 billion in the first half of 2009 from US$40.75 billion in the same period of 2008 (Wu, 2009). It is estimated that 22 million migrant workers lost their jobs in China (Jia, 2009). Note that migrant workers in China account for most of the workforce in the labor-intensive industries.

India's exports to its major exports markets such as the US and EU have declined substantially after October 2008 (ibtimes.co.in, 2009). According to an estimate of the Government of India's Labor Bureau which conducted a survey in January 2009, half a million jobs were lost during October-December 2008 in the country. Subsequent surveys by the Bureau in January-March and April-June, 2009, reiterate the overall declining trend in employment. Obviously, India's export sectors were more affected than other economic sectors. About 167,000 workers lost jobs in the export sectors during April-June 2009 (Prabhu, 2009).

Government measures

China's stimulus package was worth US$586 billion (four trillion yuan), which has stimulated bank lending and led to an increase in prices of shares and commodities. Analysts, however, debate over what proportion of China's stimulus package is new money (Klein and Cukier, 2009). The country also raised the rebate on the export tax for labor-intensive products. Most of that bank lending in China has been spent in commodities, construction and other assets that are vulnerable to falling prices (Fisher, 2009).

Likewise, Indian Finance Minister Chidambaram announced his country's plan to speed up market overhauls, construction, and infrastructure improvements (Narasimhan, 2009). Indian government also a announced new foreign trade policy, which focuses on expanding exports to the emerging economies in Africa, Latin America, Caribbean, East Asia, Oceania and the Pacific. These economies are less affected by the GFC (ibtimes.co.in, 2009). The government knew full well that it is difficult to increase exports to the US and Western Europe. The new policy gave incentive of 2.5-3 per cent on exports to countries such as Algeria, Egypt, Kenya, Nigeria, South Africa, Tanzania, Brazil, Mexico, Ukraine, Vietnam, Combodia, Australia and New Zealand (The Economic Times , 2009a).

Are China and India Rebounding from the Economic Crisis?

A number of indicators point to the fact that China and India are rebounding from the economic crisis. In August 2009, Hewlett-Packard reported a double-digit revenue growth in China (Schwartz, 2009). The U.S. exports to China increased to US$5.5 billion in June 2009 from US$4.1 billion in January 2009. In the first half of 2009, new loans issued by Chinese

[1] It includes trade in goods and services.

banks amounted US$1.1 trillion (Schwartz, 2009). The Shanghai stock market increased by 86% in the first half of 2009 (Fisher, 2009).

While there were concerns about a decline in electricity demand in many parts of China (Fisher, 2009), more recent data indicate that electricity consumption has increased (Altman, 2009). Overall, retail sales in the country increased by 15 percent in the first half of 2009. The growth in the sales of consumer goods, which slowed to 11.6% in February 2009, increased by 15.2% in July 2009 (Cheng, 2009). Especially, sales of textiles, cement, soft drinks, tractors and automobiles grew at double-digit rates (Fisher, 2009). Citigroup's recent increase in its estimate for Chinese economic growth to 8.7% for 2009 (from 8.2 percent), and to 9.8 percent for 2010 (from 8.8%) reflects this optimism.

India's economy is also rebounding (Table 1). According to a survey of the global consultancy firm, Nielsen, consumer confidence (in terms of job prospects, personal finances and willingness to spend) in India registered a 13-point rise during March-June 2009 to reach at 112. India was the world's second most optimistic nation after Indonesia (Xinhua, 2009).

3. Possible Channels of the GFC's Impact on Emerging Economies

According to Gersbach (2002, p.209), globalization can be measured " by the intensity of contacts through trade and foreign direct investment". More broadly, the Globalization Index (GI), developed by Foreign Policy and A.T. Kearney provides a helpful perspective to understand factors contributing to global integration of economies (Foreign Policy, 2007). Specifically, the GI has four dimensions: economic (trade and FDI), personal (telephone calls, travel and remittances) technological (number of Internet users, hosts and secure servers) and political (foreign aid, treaties, organizations, and peacekeeping). Overall, possible channels of the GFC's impact on economies like China and India can be examined in terms of three challenges: *Financial and investment related* challenges, trade related challenges and consumer confidence related challenges (Foreign Policy, 2007; Gersbach, 2002; Jha, 2009). Figure 1 compares China and India's responses to these challenges associated with the GFC.

Financial and investment related challenges

The degree of cross-border capital flow is probably the most important measure of financial globalization (Lowe, 2007). During the pre-GFC era, "an unusually benign economic climate" became an important driving force behind a rapid growth of the cross-border investment *capital* markets (The Economist 2007).

In this regard, it is important to note that America and Europe account for an estimated four-fifths of the world's investment-banking revenues (The Economist 2007). While banks in Western European countries are exposed to the risky subprime U.S. debt (Schwartz, 2009), major Indian banks did not have direct exposure to such debt (Jha, 2009; Thomas, 2007). Likewise, China's financial system is fairly insulated and bank-financed investment growth has dominated GDP growth in the country (Prasad, 2009; Altman, 2009). However, in 2007, Bank of China confirmed that it was holding US$9.7 billion of securities backed by

American subprime loans. Two other Chinese banks, Industrial and Commercial Bank of China and China Construction Bank also reported such exposure of a billion dollars each. The three Chinese banks' US$12 billion exposure to subprime was 6% of the US$199 billion in private foreign securities they held (Thomas, 2007). In March 2008, the Central Bank Governor of China, Zhou Xiaochuan noted that there will be a limited effect of US led subprime debt crisis on the Chinese banking system. He, however, pointed out that there will be an indirect effect the US led subprime mortgage crisis on the Chinese economy (York, 2008*)*. The Chinese government also confirmed that its foreign reserves hoard is not directly exposed to the subprime debt (Thomas, 2007).

Capital flows tend fall when world economic growth is lower (Lowe, 2007*)*. India's growth is largely based on domestic investment (Jha, 2009). Indian businesses are receiving loans from India's state banks, which account 70% of bank assets in the country (*Economist*, 2009a). State Bank of India is the country's largest lender. According to the July 2009 issue of *The Banker*, a *Financial Times publication,* SBI is the world's 64th largest bank (76th by asset). As of March 2009, SBI had 12,100 offices worldwide, over 150 million customers, a capital reserve of more that US$ 12 billion and a total business of US$ 273.61 billion (including deposits and advances) (Ramavarman, 2009). Domestic savings have also been an important source of investment.

Trade related challenges

Comared to Hong Kong and Singapore, which are the top two performers in the economic category in the GI (Foreign Policy, 2007), India's economic globalization has been at a smaller scale. Singapore's external trade (import plus export) is 360% of GDP and Hong Kong's 350% of GDP (Yew 2009). Indeed, India's export as a percentage of GDP (14.5%) is lower than that of *China (*33.0%*)* Indonesia (26.8%), Japan (16.0%), Malaysia (89.6 %) Singapore (185.2%), South Korea (45.4%), Taiwan (64.8%) and Germany (39.9%) (Yew 2009). India's growth is largely based on domestic consumption (Jha, 2009). China has introduced programs to encourage a transition from an export-led to a consumption- led growth.

According to Goldman Sachs' estimates, a 1% drop in US consumption growth, China's growth will decline from 12.3% per annum to 10.9%. In the case of India the corresponding impact would be even lower, estimated to be a GDP drop of between 0.15% to 0.25%.
Industries in a developing economy, however, differ in terms of their exposure to industrialized countries (Gersbach, 2002). In this regard, India's outsourcing industry is more directly affected by the GFC. That being said, it is also the case that the IT sector accounts for only 5.4% of the country's GDP and thus the impact of offshoring on the overall economy would be limited (Thomas, 2007).

Consumer confidence related challenges

In a discussion of consumer confidence related challenges in emerging economies such as China and India, remittances deserve special attention. A commonplace observation is that than compared to other kinds of financial flows, *r*emittances are less affected by economic conditions in a recipient country. According to this view, remittances are sent mainly to support the sender's family instead of expectation of economic returns. On the whole, anecdotal evidence suggests that remittances tend to fall less in response to economic downturns in the receiving country than investment flows do. (Economist.com, August 17 2009).

In this regard, it is important to note that India receives more remittances than any other country in the world (The Economic Times, 2009b). Nobel Laureate James Mirrlees noted: "As things stand, India receives a huge quantum of remittances from Indians living and working in the Gulf region. And, the Gulf area has still not been impacted hugely by the recession. Therefore, one doesn't expect remittances into India to drop immediately from Gulf Indians" (Nag, 2009). Likewise, remittances from from overseas Chinese grew in 2007 by 35.2% and in 2008 by 23.2% (ChinaStakes.com, 2009). Remittances in China are about 1% of the GDP.

There are, however, reasons to believe that economic and financial risk and return-related considerations such as expectations in domestic asset markets, expectations related to exchange rate fluctuation and benefit from interest rate arbitrage opportunities may have driven the big jumps in China's and India's remittances in 2008. It is suggested that factors such as a weak rupee and higher interest rates in India compared with industrialized countries are driving force behind the dramatic increase in the flow of remittances to India (Economist.com, August 17 2009). Likewise, the rapid increase in remittances inflow to China can be attributted to factors such as expectations for Renminbi appreciation, higher interest rates in China, and investors' optimistic expectations about the Chinese asset markets (ChinaStakes.com, 2009).

4. Discussion and Implications

In this paper, we identified the contexts, mechanisms and processes associated with India's and China's rebounce from the GFC. Obviously, economies such as Israel that heavily depend on the U.S. have been more affected by the GFC (Economist, 2009b). Both economies are less affected by the GFC compared to many industrialized economies. China's unique blend of capitalism and socialism has helped the country deal with the GFC effectively (Altman, 2009). Note that in China, the state owns 76 percent of the country's wealth (Klein and Cukier, 2009). The government controls the banking and financial sector, oversees state-owned enterprises, which account for about one-third of the national GDP. This has allowed China to direct a recent surge in lending for stimulus purposes.

Important questions remain regarding the global implications, welfare effect and long-term sustainability of the two countries' approach. For instance, lending is disproportionately oriented toward powerful economic and political interests such as state-controlled companies in China and family-owned groups in India. In China, small and midsize firms account for 70% of GDP but have access to only 20 percent of the country's financial resources (Klein and Cukier, 2009). In both countries, the effects of crisis-led spending are clearly skewed towards the big enterprises.

During 2000-08, household saving rates rose in China and India (Prasad, 2009). Indeed, some analysts argue that the "global savings glut" mainly from China led to the the crisis in the U.S. including the current account deficit, capital inflows, and low interest rates (Choi et al., 2008). Formal salary and wage employment as a proportion total compensation is 15% in China compared to 40% in Indonesia, the Philippines, and Thailand and 90% in G-7 nations (Klein and Cukier, 2009). As is the case of other Asian economies, the high savings rates in China and India can be attributted to to income insecurity associated with mostly informal jobs. The high saving rates thus may not automatically translate to a higher investment rates.

Less than 4% China's spending goes to education and health care (Klein and Cukier, 2009). While the stimulus budget has a plan to investing in social programs, the majority of the spending is on infrastructure projects, which mainly employ unskilled workers. Such a pattern of spending would help very little in China's attempt to slip into a higher gear and move beyond low-margin contract manufacturing.

Table 1: A Comparison of some economic indicators in India and China

	China	India	Remarks
Exports to the U.S.	2005: US$243.5 billion 2006: US$287.8 billion 2007: US$321.5 billion 2008: US$337.8 billion[◊]	**2008:** $39.9 billion (a 65% increase from 2007)[∃]	
Imports from the U.S.	2005: US$41.8 billion 2006: US$55.2 billion 2007: US$65.2 billion 2008: US$71.5 billion[◊]	**2008:** $32.4 (a 85% increase from 2007) [∃]	
Total exports	2005: US$762.0 billion 2006: US$969.1 billion 2007: US$1,218.6 billion 2008: US$1,428.5 billion[◊]		April-December 2008: the US had a 12.8% share in India's exports and the EU had 22%[θ]
Total imports	2005: US$660.0 billion 2006: US$791.6 billion 2007: US$955.8 billion 2008: US$1,133.1 billion[◊]		
Exports to GDP ratio	33% [∀]	14.5% [∀]	
Trade to GDP ratio	2005-2007: 71.3%	1990: 15 % 1997–98: 21.2% [§]	

		2007–08: 34.7%[§]	
Capital inflows (% of GDP)	5%	2007–08: 9%[§]	
Globalization Index rank (2007)[Ћ] Economic Trade FDI Remittances and Personal Transfers	66 43 44 35 55	*71* *66* *62* *67* 32	A lower number indicates a higher degree of globalization.
Recipt of inward remittances	US$52 billion (2008) US$27 billion (2007) #	US$40.63 billion in 2008[Π], US$26 billion (2007) #	
Household saving	1995: 17% 2008: 28% (of disposable income, urban household) Ψ	FY 2007-8: 38%.[ℵ]	
GDP growth	9.0% (2008)[∀] 6.5% (forcast for 2009)[∀] 7.1% (first half of 2009[ɜ]	7.3% (2008)[∀] 4.5% (forcast for 2009)[∀] 7.5% (2001-2008)[⊕] FY 2007-8: 9.0%[⊕]	

[§]Jha (2009); Ψ(Prasad, 2009); [∀]IMF World Economic Outlook. April 2009; [Ћ]*Foreign Policy*, (Nov/Dec2007); # Economist.com Aug 17th (2009); [Π]ChinaStakes.com (2009); [⊕]Narasimhan 2009); [ℵ]*Economist*, 6/20/2009); [ɜ]Estimates of the China National Bureau of Statistics (cf. Fisher, 2009); [◊]The US-China Business Council (2009); [∃]buyusa.gov (2009); [θ]ibtimes.co.in 2009.

Figure 1: Managing the challenges of GFC: A Comparison of India and China

Channels of the GFC's impact	China	India
Financial and investment related challenges	• China's financial system is fairly insulated. However, three Chinese banks had US$12 billion exposure to subprime U.S. debt.	• Indian banks did not have direct exposure to the subprime U.S. debt. • Indian businesses are receiving loans from state banks.
Trade related challenges	• China has introduced programs to encourage a transition from an export-led to a consumption- led growth.	• India's export as a percentage of GDP is smaller than most country. • Outsourcing industry is more directly affected by the GFC
Consumer confidence related challenges	• A weak rupee and higher interest rates are driving force behind the dramatic increase in the flow of remittances to India.	• The rapid increase in remittances inflow to China can be attributted to expectations for Renminbi appreciation, higher interest rates in China, and investors' optimistic expectations about the Chinese asset markets.

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ANATOMY OF CRISIS MANAGEMENT: A CASE STUDY FOCUSING ON MAJOR CRISIS WITHIN INDIA

Abstract

This article explores the issue of various crisis that have accumulated within India and the respective measures to handle the crisis. The paper focuses on the Economical, Financial, Food, Water and various other crisis that India is facing in the developing world The Financial crisis is affecting the IT sector and the Banking sector of the Nation which in turn is increasing the unemployment ratio in the country. Although more than 70% of our population directly or indirectly depend upon Agriculture as their primary source of income yet our nation is suffering from Malnutrition. These crisis are mainly due to the excessive development which we have achieved at the cost of our Environment. The paper lays emphasis on how to tackle these crises by successful Crisis Management so that we can preserve the Environment for our future generations.

Keywords: Crisis management , Anatomy of crisis , Model and Evolution.

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Definition And Anatomy Of Crisis

A crisis (plural: crises) may occur on a personal or societal level. It may be a traumatic or stressful change in a person's life, or an unstable and dangerous social situation, in political, social, economic, military affairs, or a large-scale environmental event, especially one involving an impending abrupt change. More loosely, it is a term meaning 'a testing time' or 'emergency event'. Although crisis events are unpredictable, they are not unexpected. Crises can affect all segments of society – businesses, churches, educational institutions, families, non-profits and the government and are caused by a wide range of reasons. Although the definitions can vary greatly, three elements are common to most definitions of crisis:

(a) a threat to the organization

(b) the element of surprise
(c) a short decision time.

Sudden Crises, such as fires, explosions, natural disasters, workplace violence, etc; Smoldering Crises, problems or issues that start out small and could be fixed or averted if someone was paying attention or recognized the potential for trouble.

What Is Crisis Management?

The practice of crisis management involves attempts to eliminate technological failure as well as the development of formal communication systems to avoid or to manage crisis situations, and is a discipline within the broader context of management. Crisis management consists of skills and techniques required to assess, understand, and cope with any serious situation, especially from the moment it first occurs to the point that recovery procedures start.

Crisis management consists of methods used to respond to both the reality and perception of crises such as a Crisis Management Plan. Crisis management also involves establishing metrics to define what scenarios constitute a crisis and should consequently trigger the necessary response mechanisms. It consists of the communication that occurs within the response phase of emergency management scenarios.

The related terms emergency management and business continuity management focus respectively on the prompt but short lived "first aid" type of response (e.g. putting the fire out) and the longer term recovery and restoration phases (e.g. moving operations to another site). Crisis is also a facet of risk management, although it is probably untrue to say that Crisis Management represents a failure of Risk Management since it will never be possible to totally mitigate the chances of catastrophes occurring.

Irrespective of the size of an institution affected, the primary aims or benefits of crisis management would normally include:

1. Ability to assess the situation from inside and outside the Institution as all stakeholders might perceive it.
2. Techniques to direct action(s) to contain the likely or perceived damage spread.
3. Better institutional resilience for all stakeholders.
4. Compliance with regulatory and ethical requirements, e.g. corporate [social responsibility].
5. Much better management of serious incidents or any incident that could become serious.
6. Improved staff awareness of their roles and expectations within the institution.
7. Increased ability, confidence and morale within the institution.
8. Enhanced risk management insofar that obvious risks will be identified, mitigated (where possible) and through crisis and business continuity management - as prepared for.
9. Protected and often enhanced reputation a much reduced risk of post event litigation.

Models & Theories Associated With Crisis Management

Crisis Management Model

Successfully diffusing a crisis requires an understanding of how to handle a crisis – before it occurs. Gonzalez-Herrero and Pratt created a four-phase crisis management model process that includes: issues management, planning-prevention, the crisis, and post-crisis (Gonzalez-Herrero and Pratt, 1995).

Management Crisis Planning

No nation looks forward to facing a situation that causes a significant disruption to their mass especially one that stimulates extensive media coverage. Public scrutiny can result in a negative financial, political, legal and government impact. Crisis management planning deals with providing the best response to a crisis. (12Manage, 2007)

Contingency Planning

Preparing contingency plans in advance, as part of a crisis management plan, is the first step to ensuring a nation is appropriately prepared for a crisis. Crisis management teams can rehearse a crisis plan by developing a simulated scenario to use as a drill. The plan should clearly stipulate that the only people to speak publicly about the crisis are the designated persons, such as the nation spokesperson or crisis team members. The first hours after a crisis breaks are the most crucial, so working with speed and efficiency is important, and the plan should indicate how quickly each function should be performed. When preparing to offer a statement externally as well as internally, information should be accurate. Providing incorrect or manipulated information has a tendency to backfire and will greatly exacerbate the situation. The contingency plan should contain information and guidance that will help decision makers to consider not only the short-term consequences, but the long-term effects of every decision. (12Manage, 2007)

Structural-Functional Systems Theory

Considering a nation as an organization for a while when the crisis stuck…………..Providing information to an organization or nation in a time of crisis is critical to effective crisis management. Structural-functional systems theory addresses the intricacies of information networks and levels of command making up organizational communication. The structural-functional theory identifies information flow in organizations as "networks" made up of members and "links". Information in organizations flow in patterns called networks (Infante, Rancer, & Womack, 1997).

Diffusion of Innovation Theory

Another theory that can be applied to the sharing of information is Diffusion of Innovation Theory. Developed by Everett Rogers, the theory describes how innovation is disseminated and communicated through certain channels over a period of time. Diffusion of innovation in communication occurs when an individual communicates a new idea to one or several others. At its most elementary form, the process involves: (1) an innovation, (2) an individual or other unit of adoption that has knowledge of or experience with using the innovation, (3) another individual or other unit that does not yet have knowledge of the innovation, and (4) a communication channel connecting the two units. A communication channel is the means by which messages get from one individual to another (Infante et al., 1997).

Types Of Crisis

Crises have many sources, some of which are common to all organizations. Others are specific to certain industries. For directors, it may be helpful to consider them as fitting into one of three groups, based on their severity, frequency and timing:

Operational crises are the day-to-day, minor crises of running the organization and serving individual customers. With good management these can be avoided or promptly resolved.

Sudden crises are events that occur unexpectedly and have a major effect on the organization or a nation as a whole. These include natural disasters, sabotage and outages of vital services such as power, water or computers. The CEO should have plans for managing crises and business continuity and test the plans through realistic scenario-based simulations.

Potential crises are serious problems that grow larger over time and become critical if they are not addressed. They include declining sales, profits and share prices, failure to respond to new competition, investigations by regulators, and financial difficulties. These problems effect the long-term viability of the entire organization and should be addressed by the CEO through the strategic planning and risk management processes. These groupings of crises are linked. For example:

- Operational crises may be symptoms of
- Operational crises can build or blow up into sudden crises.
- Potential crises may weaken an organization to the point that it cannot cope with a sudden crisis.

This briefing focuses on what directors can do when their organization faces sudden and potential crises. Directors are not normally involved in operational crises unless they are symptoms of problems in executive performance or strategic planning.

Financial Crisis : Impact On India

The New Year is opening on a sombre mood. The world is passing through a difficult time. More so, the developed world. The industrially advanced countries are now officially in recession, having had two consecutive quarters of negative growth. It is not known at this stage how long will this recession last and how deep will it be. This will be perhaps the deepest recession in the post-World War II period. The impact of the financial crisis is felt by the developing economies as well. Growth is slowing down in all these countries. India's growth rate in the current year will be around 7% as compared to 9% in the previous year. Prospects for 2009-10 do not appear to be better than that for this year. While in the current year, the first half escaped the impact of global recession, in the next year the impact will be felt throughout the year. Globalization spreads both prosperity and distress. The contagion works both ways.

Evolution Of The Crisis

The international financial crisis originated in the sub-prime mortgage crisis which surfaced nearly two years ago in the US. With interest rates rising and home prices falling, there was a sharp jump in defaults and foreclosures.

However, this would have remained as a purely mortgage market crisis but for the fact that these sub-prime mortgages were securitized and packaged into products that were rated as investments grade. Once doubts about these assets arose they turned illiquid; it also became very hard to price them.

As a result, it started affecting a host of institutions which had invested in these products. These institutions were not confined to US alone. Financial institutions in Europe and to a much lesser extent in East Asia had such assets on their books.

With the failure of a few leading institutions and most notably Lehman Brothers, the entire financial system was enveloped into an acute crisis. There was mutual distrust among the financial institutions which led to freezing up of several markets including the overnight inter-bank market.

Many think today that letting the Lehman Brothers to fail was a great mistake. The crisis in the financial system has now moved to affect the real sector in a significant way. Regulatory Failure: What stands out glaringly in the current episode is the regulatory failure. The regulatory failure was threefold.

Innovation , Regulation Gap

First, the regulation was soft and unfocused on segments of the market which should have been closely regulated. Second, some parts of the financial system were either loosely regulated or were not regulated at all, a factor which led to "regulatory arbitrage" with funds moving more towards the unregulated segments.

The third failure lies in the imperfect understanding of the implications of various derivative products. In one sense, derivative products are a natural corollary of financial development. They meet a felt need. However, if the derivative products become too complex to discern where the risk lies, they become a major source of concern.

India Facing Decades Worst Job Crisis

Debunking claims by experts and the government that India may still ride through the global economic meltdown without much pain, the grim reality of a downturn has finally hit India where it hurts the most: jobs.

Studies released by the Associated Chambers of Commerce and Industry and TeamLease Services, the country's largest headhunter, say the cautious stance seen in business sentiments and hiring until the last quarter has suddenly taken a decisive downturn, as an acute job crisis is facing India.

In a sudden announcement Wednesday, ASSOCHAM said that even as corporate enthusiasm has taken a beating in the midst of the "prevailing economic negativity," a more serious and alarming situation is emerging. Under severe pressure to reduce costs, corporate India is likely to lay off as much as one-quarter of its work force in the next ten days. Although ASSOCHAM's prediction is the most pronounced warning yet, it is not the first. Earlier in the week, just as the country was getting ready to celebrate Deepawali, the annual festival of lights, TeamLease Services dampened the holiday mood by revealing the results of its country-wide survey of CEO's, which said that India Inc. is in for a hiring freeze starting in the next quarter.

The survey also predicted the business outlook for the quarter at an all-time low of 56 index points compared to 65 in the last quarter. The employment outlook has taken a similar beating, sliding by 9 index points to 10, it said.

"The start of a job slowdown in India started with the subprime crisis in the U.S. last year," said Sampath Shetty, vice president of TeamLease Services, "and the first signs of a slowdown in hiring were noticed in the information technology sector. But that slowdown virus is now spreading fast, with most companies and industries scaling down their exuberant hiring plans."

For the Indian workforce these announcements are a sudden jolt. Until a week ago, there was little inkling that the economy was going downhill. Almost everyone, from industry leaders to the chief of the Reserve Bank of India and even the finance minister, had maintained that India was not heading toward recession.

Last Saturday, a day after the Reserve Bank of India announced its midterm credit policy that saw no change in interest rates, D. Subbarao, the bank's chief said, "India's growth will continue and even if there is some moderation, it will only be a modest moderation."

A few days earlier, Finance Minister P. Chidambaram sought to allay fears by insisting that the Indian economy had the capacity to weather the global financial meltdown. "In the first quarter of 2008-09, the growth of gross domestic product was 7.9 percent. On current trends, we expect that the growth rate for the whole year will be close to 8 percent," he said. He added that the industry's growth outlook looked robust, with "ample evidence that cumulative investments in the pipeline continue to be high and huge capacities are being added in a number of sectors."

"Going by the extent the hiring slowdown is spreading, we can safely assume that the decade's worst job crisis is now staring at India," said Koteshwar Prasad Dobhal, director of ASSOCHAM. "In fact, I would say that the overall environment looks shaky enough to threaten implementation of India Inc.'s future plans." According to ASSOCHAM, the lay-offs are expected to start immediately in seven key industrial segments: steel, cement, back-office outsourcing, financial and stock brokerage services, construction and property and aviation, and may easily spread to other sectors.

Indian employers are left with "no other alternative for sustaining their operations, with squeezed margins even after drastic cost-cutting measures," says industrialist Sajjan Jindal, a steel tycoon and current president of ASSOCHAM. "The majority of Indian companies have already taken drastic cost-cutting measures earlier, but those are not helping."

However, there is some comfort in the fact that the axe may not fall across the board just yet. "Most companies are looking at the slowdown and the expected recession as a way to separate themselves from the masses and build new muscles," said Ashok Reddy, managing director and co-founder of TeamLease Services. The job cuts could remain restricted to the non-performing workforce, while there's still a demand for the efficient and productive to turn the industries around. Still, almost 93 percent of jobs in the Indian economy are in the unorganized sector, which includes vendors, hawkers, fruit and vegetable sellers, agricultural workers, small shop owners, and many other small business operators. A persistent and long-term slowdown would have a far more disastrous effect on this segment. "Most employment creation – and destruction – over the past few decades has been in the unorganized sector, which is not represented by any organization or chamber," said Reddy.

Prime Minister Manmohan Singh said that the global crisis had impacted Indian corporates, banks and investor sentiment, but assured that the banking system and deposits were safe and the government would take more steps to protect economic growth."A crisis of this magnitude was bound to affect our economy and it has. International credit has shrunk with adverse effects on our corporates and banks. Global uncertainty is also tending to dampen investor sentiment," he said during a meeting with India Inc to review the state of the economy in the face of the global meltdown.

Water Crisis In India

The per capita water availability in India is projected to decline to about 1,140 cubic metres per year in 2050 from 1,820 cubic metres per year recorded in 2001, the Intergovernmental Panel on Climate Change (IPCC) has stated in a report released recently. While the figures are not new, the IPCC has put out a warning specifically on the impact on freshwater sources for the world by culling all the scientific data it has earlier assessed. The warning comes at a time when the country is already recording a spate of water wars between different states. India's huge and growing population is putting a severe strain on all of the country's natural resources. Most water sources are contaminated by sewage and agricultural runoff. India has made progress in the supply of safe water to its people, but gross disparity in coverage exists across the country. Although access to drinking water has improved, the World Bank estimates that 21% of communicable diseases in India are related to unsafe water. In India, diarrhea alone causes more than 1,600 deaths daily—the same as if eight 200-person jumbo-jets crashed to the ground each day. Hygiene practices also continue to be a problem in India. Latrine usage is extremely poor in rural areas of the country; only 14% of the rural population has access to a latrine. Hand washing is also very low, increasing the spread of disease. In order to decrease the amount of disease spread through drinking-water, latrine usage and hygiene must be improved simultaneously

India's Malnutrition Crisis

The World Bank has said malnutrition affects huge numbers of people in India, especially women and children, despite decades of often effective government action. Its report "Wasting Away - The Crisis of Malnutrition in India" blames poverty and low status of women for some of its most shocking statistics - half of all children under four are malnourished, it says, and 60% of women are anaemic.

Mothers and sisters often forego food in poor families to give husbands and sons more than their share, the report says. One of the authors of the report, Mira Chatterjee, says malnutrition on such scale means money invested in education is not used effectively as hungry children cannot study.

Economic Cost

The report estimates that malnourished workers mean an annual loss of $10 billion in lost productivity. It praises India's effort to feed its people through agricultural innovation and poverty alleviation schemes, but says population growth, high prices and unemployment often offset well intentioned government programmes. The country's huge force of migrant labour suffers acutely from malnutrition according to the report. It recommends putting an end to malnutrition as a major policy objective of the government.
India has been justifiably proud of its self sufficiency in food since the so-called green revolution in agriculture in the 1960s and 70s. But this report will add to growing feelings of unease that a new attempt to end hunger once and for all is an urgent need.

Terror Attacks Add To Global Crisis Woes For India's Outsourcers

India's $52 billion outsourcing industry, battered by a global financial crisis that is squeezing its business clients, faces more short-term challenges in the wake of attacks on Mumbai that killed more than 100 people.Industry officials said that the prospective overseas clients were likely to put off planned visits to India because of the attacks, even though most software and back-office services firms were operating normally. "This will surely introduce some sort of concern among clients," said Krishnakumar Natarajan, CEO of mid-sized software and R&D services provider MindTree Ltd.

“There was some expectation clients would start visiting India from January after the end of the annual holiday season. That will now get pushed away for some more time,” he said. The software and back-office services sector, which earns billions of dollars from exports, is reeling from a global slowdown and turmoil in the financial sector, one of its major markets. The chief financial officer at Wipro Ltd, the software services exportersaid that he expected a pickup in growth in the first quarter as companies firm up outsourcing plans, though many businesses will likely delay decisions and tighten costs.

India’s large pool of English-speaking engineering workers and cheaper wages have helped attract outsourcing from western firms ranging from Citigroup and Goldman Sachs to Cisco Systems Inc and Nortel. India’s outsourcers compete against larger IT services firms such as IBM and Accenture.

“We have to wait for things to settle. This is a temporary aberration,” said T.V. Mohandas Pai, a board member at Infosys Technologies, software services exporter.“If countries issue advisories, it means some travel will be deferred. I think people will use technology or we’ll go and visit our clients. Business will go on,” he said adding: “We have seen terrorist attacks happen in different parts of the world. It’s unfortunate it has happened in Mumbai and I think business is confident the government and authorities will get to the bottom of it.”

In July, eight small bombs hit the city of Bangalore, which is home to more than 1,500 Indian and multinational software and back-office firms. They increased security as a result.

“I think now more and more customers will be looking at what the Indian companies are doing to manage risk. They will ask what their disaster recovery and business continuity plans are,” said Avinash Vashistha, chief executive of consultancy Tholons Inc.“In the short-term, companies will see an impact as their clients stay away from travelling to India,” he said.

Food Crisis In India

Agriculture was and is one of the largest employment sectors in the world, especially in India. More number of workers is employed in agriculture in compare to other sectors. In India, 70 percent earn their livelihood through agriculture. Although there has been a large number involved in agriculture, still there is a food crisis. In India, agriculture got its dimension during green revolution. This introduced several new scientific methods, which increased food production several folds. But still, In India, 26 percent live below poverty line and several hundreds die due to malnutrition.

The main reason for food crisis in India and the world is increase in population. India is the second populated state with more than billion living in it. It is projected that the population will increase to 1.3 billion in 2020, and would leave behind China in 2050 if the population growth remains unchanged. To feed the large population we require millions of tons of food grain. It is estimated that India would require 343.0 million metric tons of food grains in 2020 to feed the whole population. There are only two ways to increase the productivity- by increasing the land under agriculture and by using scientific methods of agriculture. As we cannot increase land under agriculture as it is saturated, so we should head toward scientific method to boost the productivity. Scientific methods include better quality of fertilizer, genetically modified seeds (which are resistant to pests as well as have high productivity), better methods irrigation and lots more.

The prices of important commodities are rising. Two-digit inflation rate has affected agriculture. Prices of commodities such as fertilizers and others used in agriculture have considerably gone up. So income from agriculture has been reduced and farmers are forced to leave agriculture.

Environmental scientists believe that our climate is changing very fast. IPCC (Intergovernmental Panel for Climate Change) warned us that climate change could cause change in the pattern of rainfall. The report says that Northwestern part would receive more rainfall rather that eastern part of the country. Just imagine that desert states such as Rajasthan would be flooded, whereas the land of clouds-Meghalaya would face water scarcity! This would affect agriculture. Uneven distribution of rain can convert agricultural land into barren. 70 percent of agricultural land in India is dependent on rain for irrigation. Climate change can cause Himalayan glaciers to melt, due to which there would be no existence of rivers such as Ganges or Yamuna, which originate from Himalayas. So, there will be severe drought in northern India and special arrangement must be taken in order to make agriculture possible.Today, prices of fossils fuel is raising drastically. Increase in prices of fossil fuels have not affected agriculture directly, but have affected it indirectly by reducing the production of food grains. Considering high demand of fossil fuel, farmers rather than cultivating food crops, they are now cultivating cash crops, which can produce bio fuel. Farmers get profit by cultivating crops such as Jatropha, which can produce bio fuel. So, production of food grains has considerably reduced.

As discussed earlier, to increase food production, area under agriculture should be increased. But rather than increasing, agricultural land is now being converted into industrial land. The recent example is of Singur, where thousand acre of agricultural land is converted into a car factory.

Urbanization is another problem. Agricultural lands are now being converted into housing plots and are converted into cities and towns. This has increased the pressure on agriculture. Not only India, food crisis is now being worldwide. It’s a serious problem and it should not be over looked. However, United Nation’s Food and Agricultural Organization (FAO) has provided fund of billion dollar to recover the crisis. But still it’s not enough. Food crisis is not a short-term crisis. Its like a chain, several factors are responsible for food crisis.

India Faces Hiv/ Aids Crisis

India Inc could face a mid-management crisis unless the government intervenes urgently to stop the spread of the human immuno-deficiency virus (HIV) among the ranks of young managers, according to an Australian expert.

According to Dr Suzanne Crowe, a board member of Australia India Council, although there is no government report detailing the economic profile of AIDS patients in India, trends indicate that the disease is spreading across the economic strata.

Dr Crowe, who is also head of AIDS Pathogenesis & Clinical Research Program of Australia's Macfarlane Burnet Institute, was here for an interactive session organised by Confederation of Indian Industry (CII).

In India, the majority of those affected by HIV/AIDS are in the age group 15-44 years, which also forms the core of the workforce and its consumer population.

According to the National AIDS Control Organisation (NACO) India had 5.1 million HIV-infected persons as of October 2003. "An HIV-infected patient at the age of 25 years now could face problems 10 years later, when he is at the peak of his productivity. The company relying on him will tend to lose productivity then," said Dr Crowe. The loss of skilled workers and managers could threaten the capacity of nations to deliver essential goods and services later on. The sub-Saharan African experience has shown that, in a number of countries, the speed and virulence of the spread of HIV/AIDS threaten to destroy the local labour force and cause life expectancy to come down from 60-40 years within a single generation.

According to International Labour Organisation (ILO) figures, 90% of the 40 million people worldwide who are living with HIV/AIDS are in their productive and reproductive prime (ages 15-49). By 2020, HIV/AIDS is expected to cause a 10%-30% reduction in the labour force in high-prevalence countries, which includes India. "Of the factors responsible for migration natural disasters, conflict situation in countries and economic transition the last one has been a major driver as economy is changing towards market based capitalism.

Crisis Response

Public relation plays are critical role in crisis responses by helping to develop the messages that are sent to public various public. Initial crisis response is what Government does and says after the crisis hits.

Arpan and Korko-Ewoldren (2005) conducted a study that documented how a quick early response allows an organization to generate greater credibility than a slow response.
Crisis management will make it easier for crisis management to respond quickly. Government should be ready to provide stress and trauma counseling to victims of the crisis and their families.

Master List of Reputation Repair Strategies

1) Attack the accuser: crisis manager confronts the person or group claiming something is wrong with the organization.
2) Denial: crisis manager asserts that there is no crisis.

3) Scapegoat: crisis manager blames some person or group outside of the organization for the crisis.
4) Excuse: crisis manager minimizes organizational responsibility by denying intent to do harm and/or claiming inability to control the events that triggered the crisis.
5) Provocation: crisis was a result of response to some one else's actions.
6) Defeasibility: lack of information about events leading to crisis situation.
7) Accidental: lack of control over events leading to crisis situation.
8) Good intentions: organization meant to do well.
9) Justification: crisis manager minimizes the perceived damage caused by the crisis.
10) Reminder: crisis manager tell stakeholder about the past good works of the organization.
11) Intragation: crisis manager praises stakeholders for their actions.
12) Compensation: crisis manager offers money or gifts to victims.
13) Apology: crisis manager indicates the organization takes full responsibility for the crisis and asks stakeholders for forgiveness.

Conclusion

It is difficult to distill all that is known about crisis management into one, concise entry. I have tried to identify the best practices and lessons created by crisis management researchers and analysts. While crisis begin as a negative/threat, effective crisis management can minimize the damage and in some case allow an organization to emerge stronger than before the crisis. However, crisis are not the ideal way to improve an organization. But no organization is immune from a crisis so all must do their best to prepare for one. This entry provides a number of ideas that can be incorporated into an effective crisis management program.

The world is not undergoing a crisis in the system but a crisis of the system in which the real economy has become subservient to financial economy. All solutions must be based on this underling truth. Nothing less than a Global Round on a Reconstructed Economic Order is required to address an integrated reform and restructuring of the global economy- including finance, trade, investment, production, corporate codes of conduct, labor standards, systemic risk and environmental regulation. The efforts of the G20 are puny compared to the comprehensive and serious process appropriate to the scale of these converging crises of the 21^{st} century.

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STRENGTHENING OF OPERATIONS AND CONTRACTS IN ISLAMIC FINANCE IN THE MIDDLE EAST REGION

Abstract

The objective of Islamic financial system law is to create a capable and comprehensive Islamic financial system, which contributes significantly to the usefulness and efficiency of the Islamic FIs sector. Nevertheless, similar to any usual financial systems (conventional systems), an Islamic financial system requires three vital elements to be eligible as a strong and flexible; (1) a large number of global financial institutions; (2) a wide diversity of financial products and services (investment tools); and (3) a comprehensive of financial communications and infrastructure. Therefore, this paper aims to provide information to the financial expertise and specialists who are concerned about the extent of strengthening of operations and contracts in Islamic financial systems. In addition, this paper represents the related scientific literature about the perceptions of the managers in the Financial Institutions (FIs) related to Islamic investments tools. In addition, there is shortage of systematic examination and studies of descriptive of operations, investment tools and contracts in Islamic financial systems. Hence, this paper intends to discuss the Islamic financial system operations, investments tools and contract. Also, it represents the differences between the conventional and Islamic finance activities and operations. This paper adopts a descriptive and theoretical method.

Keywords: Islamic Finance, Islamic Operations, Islamic Financial Institutions

1. Introduction

The appearance of Islamic finance is often related to the recommencement of Islam and the aspiration of the Muslims to live all aspects of their live in accordance with the knowledge of Islamic law or “Shariah”. Islamic finance is doing financial operations and services under Islamic law (Shariah) contracts or principles. Separate Islamic legislation and Islamic financial institutions (IFIs) regulations be real side-by-side with those for the usual non-Islamic financial institutions (conventional FIs). The basic sources of Islamic law and contracts (Shariah) are the Quran[1]and the Sunnah[2], which are followed by the agreement of the jurists and predictors of Islamic law. In addition, the foundations of an Islamic finance must also reflect the socio-economic justice and values in Islam, as well as must be Islamic in both matter and structure. The objective of Islamic financial law is to create a capable and comprehensive Islamic financial system, which contributes significantly to the usefulness and efficiency of the Islamic FIs sector. Nevertheless, similar to any conventional system, an Islamic financial system requires three vital elements to be eligible as a strong and flexible; (1) a large number of global financial institutions; (2) a wide diversity of financial products and services (investment tools); and (3) a comprehensive of financial communications and infrastructure. “The central feature of Islamic finance system is the prohibition in the Quran of the payment and receipt of interest (or Riba). The strong disapproval of interest by Islam and the vital role of interest in modern usual financial systems , lead Muslim thinkers to explore ways and means by which usual FIs and financial systems could be organized on an interest-free basis” (Khan, 1986 p.19).

The first Islamic FI was a mutual savings bank formed in the Egyptian town of Mit Ghamar in 1963. Today, according to the IMF, there are over 300 of Islamic FIs in more than 75 countries with total assets worldwide exceeding $25 billion and growth rates exceeding 15 percent a year. In addition, there are more than hundreds of Islamic financial products and services (investments tools) which are currently offered by the Islamic FIs around the world using various Islamic concepts such as; Mudharabah, Musharakah, Murabaha, Ijarah, Salam, Qard, and Istisna[3]. However, despite this development and growth on global economy, Islamic finance remains poorly understood at both the theoretical and practical level. Also, despite a number of recent optimistic trends, Islamic finance faces several of structural challenges to full integration in the globalized economy. Therefore, this paper aims to identify the extent of strengthening of operations and contracts in Islamic finance in the Middle East (ME); also, exploring the related scientific literature about the perceptions of the managers in the conventional FIs related to Islamic financial investments tools. In addition, this study represents the variations between the conventional and the Islamic financial systems (conventional and Islamic FIs’ activities and investment tools). Furthermore, there is a shortage of systematic examination and studies of descriptive of operations, investment tools and contracts in Islamic finance in the ME. Hence, this paper intends to discuss the Islamic financial system operations, investments tools and contract. Therefore, by using descriptive method, the collected data through international related literatures are representing the extent of Islamic finance implementation in the ME region. Also collected data through the literature review provides the history, background, development and operations of Islamic financial investment tools.

1 Muslims holy book, the transcription of God message to the Prophet Muhammad

2 The living tradition ,Principles and advices from Prophet Muhammad

3 There are additional Islamic financial products and services such as; Wadiah Yad Dhamanah (savings with guarantee, Bai’ Bithaman Ajil (deferred payment sale), Bai’ al-Dayn (debt trading), Bai’ al-Inah (sells and buys back), Ijarah Thumma al-Bai’ (leasing and subsequently purchase), Bai’ Istijrar (supply contract), Kafalah (guarantee), Rahnu (collateralized borrowing), Wakalah (nominating another person to act), Hiwalah (remittance), Sarf (foreign exchange), Ujr (fee), Hibah (gift).

2. Islamic Financial Law (The Shariah)

The Shariah is not a codified body of law. It is a conceptual from of the law capable of adaptation, development and interpretation. The Shariah doesn't set general principles of law instead it maintains to deal with specific cases or transactions and sets out rules that direct them" (Hourani, 1998). Hence, the body of Islamic law is known as Shariah, accurately meaning a clear path to be followed and observed. On the other hand, one of different feature of modern Islamic FIs movement is the role of the Shariah board, which forms an integral part of an Islamic bank. A Shariah board monitors the functions, activities and working of Islamic FI and every new transaction that is doubted from Islamic law standpoint has to be cleared by it. Hourani (1998) mentioned that the Islamic law or Shariah developed through four main Islamic methods and schools[4] and it's derived from two primary sources, Quran and Sunna[5]. In this regard, there is no practical guide as to what comprises acceptable Islamic finance and FI instruments. A document or structure of contract may be accepted by one Shariah board but rejected by others. However, the International Association of Islamic Bankers (IAIB), as an independent organization, which supervises the transactions, operations and working of individual Shariah boards while its highest religious board, explore the decision (or Fatwa)[6] of the Shariah board of member FIs to determine whether they confirm or not to Islamic law (Shariah).

3. Islamic Finance in the Middle East

Muslim people comprise over 20% of the world's population. Also, as a group they generate over 10% of global GDP and constitute 10 to 11 members of POEC. One member of this group, Turkey, also belongs to NATO (Karasik et al. 2007). The remarkable growth prospects of Islamic finance in global financial systems have been extensively discussed in the past years and are now recognised globally (Lau, 2008). This new wave of capital flows began with the oil-rich nations in the Middle East (ME) seeking financial products and services elsewhere in the world that comply with the views of Islam. In recent years, such flows have become increasingly associated with the ME. In addition, the total capital flow into the ME may not be easy to quantify, but it is obviously reflected in the growing trade relations between the ME and Asia. According to the IMF, two-way trade flows between the Gulf Cooperation Council (GCC) nations of Saudi Arabia, Bahrain, Kuwait, Oman, Qatar, and the UAE, and Asia excluding Japan, have expanded four times in the past 5 years to over US$22 billion in 2008. That represents an equivalent of 15% compounded annual growth, a reflection of the close economic connection between the GCC and Asian economies.

Lau (2008) noted that providing strong forces to the growing interaction between the ME and Asia is the rising price of oil and the resulting accumulation of wealth in the Islamic world. The growing desire for portfolio diversification away from traditional asset-management centres has also fuelled the search for local and regional investment opportunities. The sustained high growth in the ME, underpinned by Dubai as one of the region's major

4 Islamic Methods and schools; Hanafi, Maliki, Shafi and Hanbali.

5 Further two dependents sources; Ijma (consensus) and Ijtihad (individual reasoning by analogy).

6 Islamic concept related to decision made by Shariah board in Islamic bank.

economic powerhouses, has obvious attractions for foreign investors' liquidity seeking investment opportunities. According to a survey conducted by the Economist Intelligence Unit (EIU) on behalf of the Qatar Financial Centre, 59% of the ME financial-service professionals said that they expected a significant rise in Islamic financial products and services in the next three years (AMF, 2008). Also, over 20% of the correspondents to the survey expected that the ME region will attract the largest portion of equity investment among their foreign clients. These figures clearly reflect the growing interest of foreign investors in the Middle Eastern financial economy. The survey, in addition suggests that portfolio diversification benefits has become a real issue. Standard & Poor's estimates that the current size of global Shariah-compliant assets to be worth US$400 billion, which is equivalent to roughly 10% of the GDP of the nations in the Organisation of The Islamic Conference (OIC) (Lau, 2008). It also estimates that the potential market for Islamic financial products and services is close to US$4 trillion. The development of Islamic finance therefore calls for new entrants into this market and needs to take on a new dimension of promoting greater financial intermediation across authorities in different regions. This is why the ME is seeking to become an important player in the booming Islamic finance arena by providing a platform for foreign investors to access investment opportunities in the ME region.

The Organization of the Islamic Conference (OIC) is the preeminent international organization in the Muslim world, which called United Nations of Islam. The OIC and its specialized agencies are responsible for setting and monitoring industry-wide standard for Islamic FIs.

Islamic methods and scholars have assumed from the Islamic law many principles that form the benchmark of Islamic economics and that distinguish between the Islamic FIs and usual counterpart (conventional FIs). Therefore, Ahmad (1994) mentioned that the main principles of Islamic finance and FIs are included:

(1) The avoidance of taking or receiving interest (Riba). It is the essential principle of Islamic finance and FIs. Riba (Interest) literally means increase, addition, expansion or growth of principle amount of money. On the other hand, Riba technically refers to the 'premium rate' that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or for an extension in its maturity.
(2) The prevention on Gharar[7] (or uncertainty and speculation). This means a prohibition on selling something that one does not own.
(3) Investments in businesses dealing with alcohol, gambling, drugs or anything else that the Islamic law considers unlawful are deemed undesirable and prohibited.
(4) Capital must have a social and ethical purpose beyond pure and unfettered return.

Islam and Islamic law have a set of goals and values encompassing all aspects of human life, including social, economic, finance and political issues. The origin of modern Islamic finance was in Egypt. Islamic finance is relatively recent creations one of the first Islamic banks was set up in Egypt in 1963; it properly would not have developed as an important financial force without the strong support of the Saudi Arabian investors (Kantakji, 2007).

7 Uncertainty about the subject-matter and terms of contracts.

Since the creation of the Islamic Development Bank (IDB)[8] in 1975, and gave momentum to the Islamic banks movement (Kantakji, 2007). A number of Islamic FIs have been established all over the world, and some countries have taken the necessary steps to organize their banking systems and activities along Islamic lines or windows (IDB, 2001). The paper from IDB issued in 2001, asserted that it was the first time in modern Muslim history that an international FI committed itself to conduct its activities and Islamic investment tools in consistency with the Islamic law. Therefore, instead of working on the basis of interest, the bank was authorized to charge a service and activities fee to cover its administrative expenses. The first private Islamic commercial bank is the Dubai Islamic Bank, which was found in 1975 (IDB, 2001). Although in the past local banks in the ME and Malaysia held a monopoly on Islamic finance, a number of non-Muslim institutions have begun to offer Shariah-compliant products and services. The major Western banks currently engaged in this practice include HSBC, Barclays Capital, Deutsche Bank and Standard Charter. The growth of Islamic finance and FIs in the ME can be attributed to numerous factors (AMF, 2008; 2007);

(1) Attractive to capital providers. Islamic financial products and services in the ME will enjoy greater use as their effectiveness increases and the cost differential between non-Islamic and Islamic products and services narrows.
(2) Increased in the wealth of Muslim countries in the ME.
(3) Increased regional lending capacity in Muslim-populated areas has created a need for Islamic banking options.
(4) Large-scales development projects within the Gulf countries have resulted in lenders entering the market.
(5) Increase in the penetration of capitalist markets, which makes the Islamic financial products and services adoption much easier.

4. Variances between Conventional and Islamic FIs

Islamic FIs have the same purpose of the conventional FIs which is maximize the wealth of share holders; however, the most important difference between them is the prohibition of interest in Islamic finance, as they operate in accordance with the Islamic law. The basis in Islamic finance activities that the profit can only be made by trading with goods and services, and any profit comes from controlling on money itself is prohibited (That may be attributed to an Islamic role which says any profit comes without work is prohibited, and here the money comes from inheritance is excluded from that role).

There are a number of variances have been recognized between conventional and Islamic FIs' activities and operations. The most important differences are classified by the following aspects:

- The compounded interest rate is the main principle behind all of the conventional FIs' activities (in which they lend a principle amount of money to be paid back with a premium, so the time value of money (TVM) is considered). Whereas in the Islamic finance and Islamic FIs' activities, this concept cannot be found. That they will get profit just if the borrowed funds were used in a profitable enterprise.

8 Islamic Development Bank, Islamic research and training institute. Jeddah, Saudi Arabia.

- The lending procedure is different between the conventional and Islamic FIs. The conventional FIs are concentrating in the credit worthiness of the borrower; however the Islamic FIs usually focus on the viability of the project which will be done by the borrowed funds.
- The risk structure can vary between these two types of FIs. The conventional FIs as known suffer from the default risk of the borrower when he failed to meet the loan payments completely and in the due date. However, the credit risk faced by Islamic FIs is realized if the borrower's project does not succeed. It has been argued also that Islamic FIs are subject to more liquidity risk, because they are over dependent on the commodity and materialized contracts which are long termed by nature (Greuning et al. 2008). As a result of the increased liquidity risk, the maturity mismatch may affect the Islamic FIs' balance sheet. In addition, Islamic FIs are sensitive to more than the liquidity risk, that due to the incompatibility of derivative and other hedging instruments with the Islamic law (Cheerak et al. 2008). Islamic FIs' liquidity risk can be explained as funding risk that is not receiving cash flows from assets when promised under a contractual agreement, typically a loan agreement (Shanmugan et al 1992). Hence, Islamic FIs have more risk exposure to foreign exchange risk.
- The last point of difference is the risk management process in both the conventional and Islamic FIs. Unlike conventional FIs who have well defined risk factors, and their ways of justifying risks are clearly recognized, there is a kind of confusion about how Islamic FIs can manage their risks. The continual international debate argues nowadays about the survival of the Islamic FIs in this huge and complex of the globalising financial systems and the current global financial crisis (GFC), but there are still many of authors and researchers believed that each problem can be solved. For instance, when the risk management framework of Islamic FIs contains an adequate capital and loss reserve, accompanied with a clear information disclosure (Errico et al. 2002). Hence, by doing this, it helps in avoiding specific kinds of risk like the one resulted from the complexity of their financial instruments, which considered as operational risk.

The large difference between the two types of FIs is based on the variant of the financial statements' policies and classifications. Also, there are numerous of qualitative factors that differentiate the conventional and Islamic FIs. Therefore, it appropriates to focus on some managerial and strategic concepts such as the purpose of existence, the strategies priorities and the corporate governance. In regards to the purpose of existence, the conventional FIs seem to be aiming to support each one of its clients in their financial decisions which is a rather customer-centric or personalized approach. However, Islamic FI prefers to adopt a sociological approach as it focuses to the economic and social development of the community in agreement with the Islamic law.

5. Islamic Investments Tools

Islamic methods and researchers have approved certain basic types of contracts as being compliant with the principles of Islamic finance and Islamic FIs' activities, which the Islamic FIs can use to attract funds and provide financing in an Islamic way (Lau, 2008). At the same time, and because of the restriction on interest-earning investments, Islamic FIs must obtain their earnings through profit-sharing investment or fee-based returns. Therefore, when loans are given for business purposes, the lenders, if they want to make a legal gain under the Islamic law, should take part of the risk. However, if the lenders do not take part of risk, they receipt of any gain over the amount loaned is classed as interest. In addition, Islamic FIs have the flexibility to deal with and engage in leasing transactions, including leasing transactions with purchase options (Ahmad, 1994). On the other hand, the parties to Islamic contract must have knowledge of the subject matter of the contract, purposes and implications. Further, the Islamic FI where the concept interest is not found or allowed, it is assumed that the interest for a conventional FI can be reflected in the Islamic FI as amount of income generated by FI through its receivables from financing entrepreneurs “Murabahah”. It is also assumed that interest expenses can be reflected in money paid by the Islamic FI (such as Islamic bank) to investors or depositors due to investing their funds under the concept of “Mudharabah”.

The following represent the most important Islamic investment tools are used by the Islamic FIs in the ME:

a. Mudharabah (Profit-Sharing)
Refers to an agreement made between a capital provider and another party who acts as the entrepreneur. This arrangement will enable the entrepreneur to carry out business projects and profits are distributed based on a pre-agreed profit sharing ratio. In the case of losses, the losses are borne by the provider of the funds (OIC, 2008; IMF, 2008; AMF, 2008).

b. Musharakah (Joint Venture)
Refers to a partnership or joint venture for a specific business, whereby the distribution of profits will be apportioned according to an agreed ratio. In the event of losses, both parties will share the losses on the basis of their equity participation (IAIB, 2008; OIC, 2008)

c. Murabahah (Cost Plus, Future Trading, Financing and Property Financing)
Refers to the sale of goods at a price, which includes a profit margin as agreed to by both parties. Such sales contract is valid on the condition that the price, other costs and the profit margin of the seller are stated at the time of the agreement of sale (IAIB, 2008; OIC, 2008).

d. Ijarah (Leasing)
Refers to an Ijarah (leasing/renting) contract to be followed by Bai' (purchase) contract. Under the first contract, the hirer leases the goods from the owner at an agreed rental over a specified period. Upon expiry of the leasing period, the hirer enters into a second contract to purchase the goods from the owner at an agreed price (IAIB, 2008; OIC, 2008). In addition, it refers to an arrangement under which the lesser leases equipment, building or other facilities to a client at an agreed rental fees or charges, as agreed by both parties (IMF, 2008; AMF, 2008).

e. Bai’ Salam (Future Delivery)
Refers to an agreement whereby payment is made in advance for delivery of specified goods in the future (IAIB, 2008; OIC, 2008).

f. Wadiah Yad Dhamanah (Savings with Guarantee)
It refers to goods or deposits, which have been deposited with another person, who is not the owner, for safekeeping. The Wadiah is a trust; hence, the depository becomes the guarantor and, therefore guarantees repayment of the whole amount of the deposits, or any part thereof, outstanding in the account of depositors, when demanded. The depositors are not entitled to any share of the profits but the depository may provide returns to the depositors as a token of appreciation (IAIB, 2008; OIC, 2008; AMF, 2008).

g. Bai' al-Dayn (Debt Trading)
It refers to the buying and selling in the secondary markets of debt certificates, securities, trade documents and papers which are Shariah compliance (IAIB, 2008; OIC, 2008; AMF, 2008).

The Following Table 1 presents the range of Islamic financial investment tools, which introduced by the majority of Islamic FIs in the ME region.

Table 1: Range of Islamic Financial Products and Services (Investment Tools)

Product Category	Product Line	Standard Name	Islamic Concept Used (Tools)
Deposit	**General Account**	Current Account	Wadiah Yad Dhamanah
			Mudharabah
		Savings Account	Wadiah Yad Dhamanah
			Mudharabah
	Other Deposits	Commodity Murabahah	Murabahah/ Tawarruq
Investment	**Investment Account**	General Investment Account	Mudharabah
		Special Investment Account	Mudharabah
Financing	**Fund-Based**	Asset Financing	Tawarruq/ Murabahah
			Mudharabah
			Musharakah
			Ijarah
		Contract Financing	Murabahah
			Musharakah
			Mudharabah
		Equipment Financing	Bai' Bithaman Ajil
		Factoring Facility	Bai' Dayn
		Fixed Asset Financing	Bai' Bithaman Ajil

		Hire Purchase Agency	Wakalah
			Istisna'
			Variable Rate Bai' Bithaman Ajil
		Land Financing	Bai' Bithaman Ajil
		Leasing	Ijarah
		Personal Financing	Bai' Bithaman Ajil / Murabahah
		Plant & Machinery Financing	Bai' Bithaman Ajil
			Ijarah
			Musharakah
			Mudharabah
			Tawarruq/ Murabahah
		Property Financing	Bai' Bithaman Ajil
			Istisna
			Variable Rate Bai' Bithaman Ajil
		Revolving Credit Facility	Bai' Bithaman Ajil
			Murabahah
		House Financing	Bai' Bithaman Ajil
			Variable Rate Bai' Bithaman Ajil
		Vehicle/Automobile Financing	Ijarah
			Bai' Bithaman Ajil
			Murabahah
		Working Capital Financing	Murabahah
			Bai' Bithaman Ajil
			Musharakah
			Mudharabah
Trade Finance		Accepted Bills	Murabahah
			Bai' Dayn
		Bank Guarantee	Kafalah
		Bills Of Exchange	Wakalah

		Export Credit Refinancing	Murabahah
			Bai' Dayn
		Letter Of Credit	Wakalah
			Murabahah
			Bai' Bithaman Ajil
		Shipping Guarantee	Kafalah
		Trust Receipt	Wakalah
			Murabahah
Card Services		Charge Card	Qard
		Credit Card	Bai' Inah / Bai' Bithaman Ajil

Islamic home financing is now becoming an internationally-acceptable product. In the UK, for instance, the Islamic mortgage market is set to reach 1 billion sterling pound by 2009, and the Financial Services Authority now regulate Islamic mortgages under the Murabaha (cost-plus financing), Ijara (leasing) and diminishing Musharakah (co-ownership) structures. Hence, Islamic financing for property investment schemes will certainly give rise to an Islamic home insurance (Takaful) business, which in Malaysia for instance is a given wrap-around for mortgage products, encouraged by Bank Negara. In addition, the Saudi Arabia is opening up its insurance market with the issuance of 13 new licenses including about four to Takaful companies including HSBC Amanah, Salama, FW Group and Tokyo Marine. In addition, Islamic financial regulators in the ME region are confirming that there is also a huge scope for mortgage Takaful in the region. Further, banks in Saudi Arabia are very keen to provide property financing. Islamic property law will pave the way for the mortgage industry in Saudi Arabia, hence, the property markets in the Islamic world is set for a major upturn. Also, the markets in the ME region are dynamic, which show that the demand is outstripping supply.

6. Elements Enhancing the Islamic Finance in the Middle East

Financial integration in the ME, as compared to international financial integration generally, is probably less developed. Financial integration refers to the mobilisation and channelling of savings into investments across authorities rather than just domestically. Yet, more than half of the total trade in the ME is intra-regional, reflecting that the ME is becoming increasingly economically inter-dependent. The financial systems in the ME are underdeveloped compared with the economic in the same region and, in particular, the trade relationship. Given the current state of financial integration in the ME, the development of Islamic capital markets involving cross-border movement of funds is challenging as it has to address many of the existing impediments to greater financial integration in the region. But Islamic FIs could provide a strong catalyst for change and growth in the ME capital markets that many of which are now awakening to the potential for Islamic finance to leapfrog developments in the capital markets. Hence, there are both challenges and opportunities in this process.

The key elements that are needed to strengthen the Islamic FIs, developing Islamic finance and capital markets in the ME are:

1. The establishment of links between authorities across the whole spectrum of financial infrastructure – the trading, payment, clearing and settlement and custodian systems for money, debt and other financial instruments. Hence, these provide the basic infrastructure for the movement of savings between authorities and make cross-border transactions more efficient in the ME region.
2. The relaxation of non-supervisory restrictions, where they exist, on access by foreign financial intermediaries to the domestic markets in the ME.
3. The harmonisation of standards in the Islamic financial systems. Islamic finance has given new meaning to harmonisation and standardisation. Not only is there a need for market harmonisation of standards on a practical and operational perspective with regards, for instance, to product structures and legal contracts, but also another layer of harmonisation attributable to the regulation and supervision of Islamic financial products and services in the ME.
4. The strengthening of the regional co-operation in the ME. Whether on a two-sided basis or in the context of a joint initiative, strengthening discussion and stepping up regional co-operation can expose regulators to developments elsewhere in the region and create an environment encouraging to a higher degree of regulatory harmonisation.
5. The need for greater capital mobility in general. It is hard to advocate lifting all restrictions on cross-border investment as this would depend on the ability of the financial systems in individual authorities in the ME to cope with the ensuing risks.
6. The need to look after a larger pool of talent with expertise in Islamic finance in the ME. Significant steps have been made over the past few years in Islamic finance, but the talent pool is too small to meet global needs.

7. Conclusions and Recommendations

7.1 Conclusions

Increasing competition will force the new Islamic finance to become more consildation, but also more diversified to suit regional and cultural tastes. Also the growing participation of non-Muslims as managers, partners, and clients will spark recurrent debates about the core meaning and purpose of Islamic finance and its contributions to humanity. The objectives of Islamic finance and Islamic FIs in the ME are; (i) Help Muslims to perform their financial dealings in strict respect of the ethical, individual and social values of the Shariah, without contravening the prohibition of dealing in riba (interest or usury). (ii) Serve all Muslim communities in mobilising and utilising the financial resources needed for their economic development, growth and success. (iii) Serve the Islamic communities in the ME and other nations by strengthening the economic and financial cooperation for economic development. Contracts in the Islamic financial investment tools are consisted of the following three main conditions:

(1) In transactions should be permissible (Re-Sharia).
(2) Should be based on mutual agreement.
(3) Should not be based on: *riba, haram*, fraud etc.

7.2 Recommendations

The following points are representing the principles of Islamic finance and Islamic FIs' activities in the ME:

- Generally, all ways, investment tools and means are halal (except those that are clearly prohibited).
- Riba as interest (differences among Muslims).
- Interest in all forms prohibited.
- All interest-based transactions should be avoided.
- Important institutions but should not be based on interest.
- Islamic FIs should be in line with the requirements of Islamic law.
- Alternative ways of operating Islamic FIs in the ME should be found.
- Profit and loss share (PLS) contracts of *Mudharabah* and *Musharakah* will form the backbone of Islamic FIs' operations in the ME.
- PLS contracts of *Mudharabah* and *Musharakah* should be used.
- Other forms of non-PLS contracts are also used the *Murabahah*.
- Fee-based services can be provided.
- Relationship of the Islamic FIs with its investment clients based on *Mudharabah, Musharakah, and Murabahah*.

For the purpose of promoting the stability, integrity, diversity and efficiency of Islamic finance and Islamic FIs across authorities in the ME, it is crucial that Middle Eastern financial markets should work more closely together to seize the opportunities brought by Islamic finance. As a result, the ME will be in a better position to benefit from a higher retention of savings in our own region. The greater stability and efficiency in capital flows in the region will also enhance diversification and integrity of Islamic financial systems and markets in the ME. In addition, Managers in the Islamic FIs must adapt to simultaneous challenges on three fronts; (i) integration with the global financial system, (ii) coordination with the leading international organizations of the Islamic world, and (iii) penetration of mass markets in dozens of countries with conflicting cultural, political, and economic conditions.

Indeed, to attract capital providers at a rate that is competitive with conventional financing, Islamic finance structures must provide alternative incentives to Riba.

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AN EMPIRICAL STUDY INVESTIGATING THE TEACHING OF RENEWABLE ENERGY SOURCES WHICH ARE IMPORTANT IN THE GLOBAL FINANCIAL CRISIS ENVIRONMENT AT UNIVERSITY LEVEL

Abstract

In the present study, to discover how teaching of renewable energy sources in Turkey is carried out at the university level, a questionnaire was developed and administered at different universities in Turkey. The analyses conducted on the data obtained from the questionnaire revealed that education about geothermal, solar and wind energy is given at master's level, other renewable energy sources are taught at the undergraduate level within the curriculum of some engineering courses. The teaching performed about renewable energy sources is in Turkish and at encyclopaedic level. As the preparation and obtaining of the required materials are costly, some problems are encountered in the teaching of renewable sources. In Turkish universities, no degree about renewable energy sources is granted. Hence, the country must make use of the people having engineering degree to capitalize on its renewable energy sources. As there is no program specializing on providing training about the renewable energy sources, it seems to be difficult to find experts about the issue. The current state of renewable energy sources education seems to be inadequate and it should be expanded and strengthened.

Keywords: The Global financial crisis environment**;** Renewable energy sources; Teaching.

1. Introduction

Today, one of the most important indicators showing the development level of countries is the adequate, timely, quality, economic, secure and clean provision of energy. One of the most important inputs of not only industry but also the daily life of the people is the energy and demand for energy is in a constant increase, and energy sources are continuously depleted. Natural result of this is an increasing gap between the production and consumption of energy. The assumption that energy is not only needed to meet the needs of the people but it is also a powerful instrument to determine the direction of the international policy is getting stronger with every passing day. The fact that the fossil fuel sources will be depleted in the near future and the high cost of energy urge nations to take some serious measures in the production and consumption of energy and lead them to conduct research on renewable energy sources. This trend results in energy saving attempts, effective use of sources, recycling of energy and attaching greater importance to renewable energy sources.

It is an undeniable fact that the balance existing today between the relatively cost-effective fossil fuels and renewable energy sources will shift in favour of renewable energy sources. Industrialized countries, as a result of their past experiences, took some precautions to increase the production and utilization efficiency of energy and support the use of renewable energy technologies. Under the restrictions imposed by Ministries of environment and similar institutions, standards have been developed by some countries to prevent the marketing of polluting and ineffective technologies in their countries so that they can get rid of the expenses stemming from the global concerns.

If we look at the issue from the general perspective, the energy demand in all the world is increasing by 4-5% annually and moreover, the fossil fuels playing the greatest role in the production of energy are steadily decreasing. When we look at the reserve of the primary energy sources of our day, fossil fuels, based on the amounts estimated in 1996, we can see that coal is predicted to be completely depleted 235 years later, petrol 43 years later and natural gas 66 years later. Even, some scientists state that in year 2030, the petrol reserves in the world will not meet the demand (Gençoğlu and Cebeci, 2001).

As in the world, Turkey is confronted with many problems in an environment of financial crisis such as high energy demand, decrease in the amount of sources apart from renewable energy sources and environmental pollution (Çetinkaya, 2005). The means of overcoming these problems seems to be the effective use of renewable energy sources (Buckley and Kuetz, 1994). Moreover, scientists in Turkey are making a projection of a bright future in terms of the use of renewable energy with the Development and Research works they have been conducting. However, the education provided about the renewable energy sources seems to be overlooked.

In Turkey, renewable energy education is mostly provided at tertiary level. Before looking at the state of renewable energy education in Turkey, first we look at the situation in the world.

Broman (1994) conducted a study looking at the state of renewable energy education with 20 years of experience, Garg and Kandpal (1996) investigated the master’s and PhD programs of energy engineering and the state of renewable energy sources in developing countries. Ruzinsky *et al*. (1996) investigated the development and research studies in field of the photovoltaic renewable energy carried out with the cooperation of Slovak Technical University and Florence University and precisely summarized the educational activities carried out in the undergraduate courses of photovoltaic engineering. Berkovski and Gottschalk (1997) investigated the engineering education and teaching program of UNESCO aiming to provide training in the field of new and renewable energy technologies at postgraduate level. They, moreover, talked about the UNESCO’s attempts to produce materials to be used in renewable energy education and distance education in developed countries.

Bhattacharya (2001) mentioned the renewable energy education at tertiary level and its increasing importance. Jain *et al*. (2002) carried out a study about the needs of renewable energy education in Botswana, its state in the country and educational programs suggested to give education about renewable energy sources. They presented the findings of the study and made some suggestions. Jennings (2009) describes the courses on renewable energy science, renewable energy engineering, renewable energy policy, planning and renewable energy industry and also deals with the education of the researchers who work in cooperation with the renewable energy industry.

In Turkey, Alkan *et al*. (2007) talked about the expectations about and made some suggestions for the solar energy education programs suitable for every level of the schooling and for raising the consciousness of the public about the issue. In the present study, in line with the purposes mentioned about, a questionnaire was developed and the questionnaire was administered to figure out the state of renewable energy education in Turkish universities and in light of the findings suggestions to enhance this education are made.

2. Methodology

In the present study, the state of the education of renewable energy sources in Turkish universities and what should be done to enhance it are determined. In light of the literature review, a questionnaire was developed and administered in the faculties, departments and research centres dealing with the renewable energy sources of different universities.

3. Results and Discussion

The present study was carried out among 14 different Turkish universities shown in Table 1. The questionnaire used in the study focuses on six main topics i) Characteristics of universities and faculty members; ii) Fields of renewable energy education; iii) Level of renewable energy education; iv) Degrees given; v) Depth of education. Following results were obtained from the questionnaire.

3.1. Characteristics of faculties and faculty members

134 faculty members from 14 different universities participated in the study. Almost all of these universities give renewable energy education. The faculty members of these universities conduct pioneering studies in the field of renewable energy; hence, the questionnaire was administered in these universities.

Table 1. Number of the faculty members from the universities participating in the study.

Universities in Turkey	Frequencies	Percentages (%)
Atatürk University	19	14.2
Dokuz Eylül University	6	4.5
Dumlupınar University	9	6.7
Ege University	6	4.5
Fırat University	13	9.7
Gebze Institute of Technology	11	8.2
İnönü University	17	12.7
Karabük University	7	5.2
Mersin University	14	10.4
Muğla University	4	2.8
Pamukkale University	7	5.2
Sakarya University	6	4.5
Süleyman Demirel University	10	7.5
Yıldız Technical University	5	3.7
Total	134	100.0

General characteristics of the participating faculty members are presented in Table 2. According to this table, 57.5% of the faculty members work in their own faculties as lecturers and 22.4% work in different faculties as lecturers.

Table 2. Characteristics of faculty members at the universities.

	Frequencies	Percentages (%)
No answer	4	3,0
Lecturers working at different faculties	30	22,4
Lecturers in specific faculties	77	57,5
Others	23	17,2
Total	134	100,0

3.2. Field of education

The questionnaire defines the fields as solar, wind, geothermal, hydraulic etc. energy sources. Table 3 presents the fields in which the universities give education about renewable energy sources. According to this table, the field where the most extensive education is given is geothermal renewable sources (31.3%) and this is followed by solar energy (16.4%), wind energy (15.7%) and hydraulic energy (9%). Though the currently most commonly used renewable energy sources in Turkey are hydraulic and classical bio-mass energy sources, the education given at the universities attach more importance to geothermal, solar and wind energy sources.

Table 3. Renewable energy sources about which education is given at universities

	Frequencies	**Percentages (%)**
Solar energy	22	16,4
Wind energy	21	15,7
Geothermal energy	42	31,3
Hydraulic energy	19	14,2
Hydrogen energy	12	9,0
Bio-mass energy	16	11,9
Tidal energy	1	0,7
Others	1	0,7
Total	**134**	**100,0**

Table 4 presents the institutions thought to be necessary to improve the field of renewable energy. According to the table, universities are regarded the most necessary institutions. In addition, state and local governments are considered to be important to provide support for the universities. Primary and secondary schools and families are viewed to be important to start renewable energy sources education.

Table 4. Institutions thought to be necessary to improve the field of renewable energy

	Frequencies	**Percentages (%)**
Universities	116	86,8
State government	111	82,8
Local governments	64	47,8
Primary and secondary schools	20	14,9
Families	19	14,2

3.2. Education level

Table 5 presents the faculties giving renewable energy sources education at the universities. Among these faculties, engineering faculties come first (72.4%) in giving education about renewable energy sources.

As can be seen in Table 6, the most extensive renewable energy education is given at master's programs (45.5%) and this is fallowed at PhD level 35.1%. Usually the researchers start to specialize on renewable energy sources at the master's level. At undergraduate level, it is observed that higher priority is given to the classical engineering subjects than renewable energy sources-related subjects. Special courses and similar activities about renewable energy sources are few at universities (2.2%).

Table 5. Faculties giving education about renewable energy sources.

	Frequencies	**Percentages (%)**
Technical Education Faculty	29	21,6
Engineering Faculty	97	72,4
Faculty of Science and Letters	5	3,7
Others	3	2,2
Total	**134**	**100,0**

Table 6. Level of education given at faculties

	Frequencies	**Percentages (%)**
Undergraduate	23	17,2
Master's	61	45,5
PhD	47	35,1
Special courses etc.	3	2,2
Total	**134**	**100,0**

3.4. Diploma of education

It is seen that no diploma about renewable energy sources is granted at the undergraduate level at Turkish universities. Usually, such diplomas are granted at master's and PhD levels.

3.5. Depth of education

Table 7 presents the state of the courses given about the energy sources in relation to their being required or elective. Here, it is seen that 37.3% of the courses presented are elective. In addition, 39.6% of the courses reserve some place for renewable energy sources in their curriculums. Low percentage of required courses indicates that not many educational activities are performed about renewable energy sources.

Table 7. courses given about renewable energy sources.

	Frequencies	**Percentages (%)**
Elective courses	50	37,3
Required courses	15	11,2
Both elective and required	16	11,9
As a part of a course	53	39,6
Total	134	100,0

The number of the courses concerning the teaching of renewable energy sources is presented in Table 8. According to this table, the greatest number of courses is given at engineering faculties. The technical education faculties and faculties of science and letters follow them.

Table 8. Number of the courses concerning the teaching of renewable energy sources

	Technical Education Faculty	Engineering Faculty	Faculty of Science and Letters
Undergraduate	9	19	9
Master's	5	11	6
PhD	8	10	5
Post doctorate	---	---	---

Table 9 presents the structure of the courses given about renewable energy sources. 59% of the courses given at the undergraduate level are theory-based, 28.4% of the courses given at the master's level are both theory and practice based. Therefore, it can be claimed that the courses given at the master's level are conducted with more application.

Table 9. The structure of the courses given about renewable energy sources at the universities (%).

	Theory based	Applicatio n based	Both theory and application based
Undergraduate	59	6	10.4
Master	23,9	5,2	28,4
PhD	27,6	10,4	9,7
Post doctorate	-----	-----	1,5

4. Conclusion

In the provision of the renewable energy sources education, promotion of continues and participatory teaching and creativity and innovation seems to be the key principle. This is the most important part of the education about renewable energy sources. At that point, the quality of faculty members, educational documents, equipment and tools, level of education and educational diplomas are of great importance. The education is usually provided by the faculties, institutes and research centers of universities. Here, the courses are taught by expert researchers and educators. In these courses, educational documents, text books, course notes and research findings are used. In addition, computer databases, special software programs, and simulations can be capitalized on. Laboratories, models and various tools and equipment are used to enrich the teaching. While courses are given at both undergraduate and master's levels of engineering faculties and similar faculties, departments specializing on renewable energy sources provide deeper and more intense education. There is no special diploma or certificate granted about renewable energy sources and technologies.

High cost of the equipment needed to conduct education about renewable energy sources results in some problems. Moreover, even if the required equipment is obtained, it may be difficult to find qualified personnel to use them. Providing quality education for the future generations about renewable energy sources will lead to great improvements in the exploitation of renewable energy sources.

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Abstracts

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A HUMAN-CENTERED ALTERNATIVE SOCIOECONOMIC OVERVIEW OF THE GLOBAL CRISIS AND PROPOSED SOLUTIONS

Abstract

Western economists have developed certain theories in line with the basic capitalism discipline, and other studies have followed this line and have been built over these basic facts. However, what is in reality and what is experienced particularly in the eastern societies differ from this approach. Instructor This study will at first look at the Western perspective with this distinctive approach, with an effort to analyze human behaviors on his plane. Marketing programs (early use up, purchasing pressure, credit sales of banks), banking and monetary system will be focused in addition to responsibilities that can be individually undertaken as causes of the global crisis and current economic problems. In this regard, consumption frenzy, raising the feeling of personal satisfaction over all sorts of value judgment, stolidity, and purchasing behaviors as symbols of status will be studied within the perspective of human behaviors. Alternative solutions will be proposed in the light of such evaluations. When doing this, our society's values and values like not overspending, economizing, solidarity, being content with what is at hand and being modest -pillars of perhaps all holy teachings- will be proposed as a solution.

Some social reasons like certain shortcomings of economics, incorrect description of man, existing approach to civilization and popular culture have been influential in the global crisis. This crisis or any potential future economic crises can only be overcome or prevented with an emphasis on social values. This study tries to present certain causes carrying the world to a crisis and human-oriented solution proposals together.

We maintain the opinion that forgetting or ignoring certain human values has been influential in the crisis. Popular culture and today's civilization has presented the mankind an understanding wherein the continuous increase of human needs and means of satisfaction, getting pleasure and personal satisfaction as basic measure, forgetting values like rights and equity, the powerful is considered rightful and exploitation of other segments of the society for interest are now taken to be a right.

Consumption frenzy and arranging everything for human pleasure reduce the sense of charity, whipping sentiments and consumption feelings. Expressions like 'I had too much pleasure; It was very entertaining' are frequently encountered.
Marketing programs encouraging purchasing like early use up, purchasing pressure produce newer needs every day and cause the consumers to purchase beyond their needs, leading

them to wasting. The solution for this is “not wasting.” Wasting is a trait triggering unnecessary consumption, and rendering available values insignificant. Thus, earnings are more easily spent, well-earned money becomes worthless, and making easy money is encouraged. And this pushes mankind to laziness. Wasting should be prevented, and needs should be planned and prioritized before purchasing. Production-focused approach should be established instead of a consumption-oriented one.

Human beings are equipped with a very complex and perfect system with unidentified scope. Therefore, they have more requirements than other living beings. Western philosophy emphasized that humans are very powerful beings, that they have high skills to reach their wishes. However, needs are also indicators of weakness. From this perspective, human beings, as beings with needing the most in the universe, are the most in needy, or in other words, the poorest of beings.

With such abundance of human needs, human beings also fail in reaching other living beings in meeting their needs. While human beings take one life to be trained, they need almost half a life to achieve a position where they are able to meet its needs. However, other living beings come to meet their needs at a very short time period.

One other weakness of human is psychological weaknesses. Human beings have the weakness of repeatedly feeling the sorrow of a future concern and past stresses, which are not felt by other living beings. Man is at the same time a being that cannot meet all of its needs by itself and civilized at birth, so has to live within a society. Man is the most perfect being in the whole universe and all beings are in his service. However, this does not mean that man can jauntily destroy everything. So, man should be respectful towards all living beings, being a part of the perfect order in the nature. So, the basic start point should be as follows. Man is a social being bearing the heavy burden of the stresses and concerns of the past and future, with its power hidden in its weaknesses.

Human beings are equipped with a very complex and perfect system with unidentified scope. Therefore, they have more requirements than other living beings. Western economists explain this with the limitlessness of needs. This is the point we have shortcomings. Requirements of human beings are not endless. Shortages that human beings may feel have limits. The truth is; “needs are as great as a person’s circle of dreams”. Real needs are very few indeed.

Again, western economists take the homo economicus man, motivated by self-interest under all circumstances, as their model. Western philosophy is set upon the presumption that humans are very powerful beings, that they have high skills to reach their wishes, that what underlies each and every action of human beings is self benefits and the motive to make life easier and more enjoyable, as a homo economicus being and builds the theory of economics on this idea. However, we can observe that all living beings around us help one another. With regards our social values; to what extent is it correct to name a being that helps its family, relatives, neighbors and to those in need, and pushing away or curbing its own personal wishes for this purpose as utilitarian?

Here, the solution is the encouragement of social aid and solidarity. The society has gradually become poorer in the absence of solidarity. Thus, affection and respect among various groups of income have been done away with, which has caused conflicts among different strata of the society.

One other reason of the crisis is the ambition of international companies and big capital holders to take possession of the world market, that is, their ambition for wealth. Needs are being produced one way or the other, new products are being marketed every passing day, and all sorts of earnings are being accepted as legitimate. Production is not being made according to needs, and the society is made to perceive produced items as needs. Man has ambitions to acquire the things it perceives as needs, and struggles to own these things without regard to its source and methods of earning. Thus, all methods are considered legitimate, and earnings made unfairly and to the loss of others are mostly considered waste. The solution for this is to rest on one's oars or content oneself with the available, and not to direct lead to wrong channels for more.

The banking system is established on earning money from money. In 2009 Turkey, credit card interest rates is five-six times the inflation. Banks exploit the difficulties of persons with low purchasing power or indebted persons or consumers' inability to perceive the detailed planning of experts. Inhuman approaches like “indifference” and powerful considered rightful lie in the foundation of capital owners' earning large sums of money from the labor of other persons. This causes the capital and labor to conflict with one another. This is the basic cause of class conflicts in history and that we have not experienced it can only be explained by our social values.

That the other production factors cannot get sufficient share capital factor despite its high earnings renders labor and other commercial activities meaningless. Because working alone does not bring such high earnings, laziness and easy money are being the day's trend in the society, and those with money direct themselves towards speculations, with the ones without money directed towards lotteries. Again, transactions carried out with virtual money in the market negatively affect the economy. To prevent this from happening, economy should be saved from the triangle of exchange, interest and foreign currency. Interest rates should be set as annual interest rates by financial institutions. Consumers should be made aware about the financial system, and legal arrangements that will prevent negative outcomes due to lack of information should be made deeper in content and meaning. One other precaution is to reduce interest rate. If this is made, factor earnings will be balanced to a certain degree, low income persons will get closer to the medium social group, will have an average living standard, and the gap between distribution of incomes will gradually decrease.

Money is a nominally traded means of exchange. Now, to the advantage of those establishing the system, it is valued or devalued as per their determinations. Actors of the monetary system get benefits from such value movements without producing and added value in line with their own interests, which cause the subjects of the system to permanently suffer loss against those who established the system. To prevent this from happening, the monetary system has to be reviewed. Depending on the occurrence speed of actors other than the Euro and China factor, the monetary system shall probably revise itself in a near future. What is important is the adoption of a transparent and auditable mechanism that will benefit the entire humanity, put priority on added value with the participation of all segments of the society.

With the marketing programs made and credit cards getting widespread, consumption has become frenzy. Many people buy beyond their needs and waste. This also causes the held values to become more and more worthless, causing dissatisfaction. The solution for this is to economize, and prevent show-off consumption. This means, acting towards the purpose, keeping away from excessiveness and suffice with sufficient consumption to meet needs instead of satisfying and spoiling the senses. Saving also means valuing what has been consumed. Thus, because the product value will be better recognized, more care will be given while consuming. However, lack of economizing will increase the number of consumers, causing the number of producers to go lesser.

The banking and monetary system strengthen capital accumulation, causing a great gap among social classes. Popular culture accepts many things as need, producing a human type who makes everything solely for his benefit, increasing consumption and waste. In this case, the banking system and the monetary system should be reviewed and revised and the relative share of production factors other than capital should be improved, economizing instead of wasting, modesty instead of ambitions should be suggested, and solidarity should be encouraged. This is the way to achieve a production-oriented social structure, to prevent class conflicts by maintaining balanced earnings, put the brake on ambitions that consider every method legitimate, and establish a more livable world away from crises.

Keywords: Global crisis, alternative proposals, need planning.

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GLOBAL CRISIS, LOCAL JOBS: THE EFFECTS OF THE ECONOMIC CRISIS ON LOCAL LABOUR MARKET IN TURKEY (THE CASE OF BURSA)

Abstract

The impact of the Global Financial and Economic Crisis 2008 on labour markets is getting problematized in both developed and developing countries. Its most direct effects were large-scale job losses and high unemployment rates in the local labour markets. Turkey's economy, which is considered as an emerging market in the world economy, was highly influenced by the economic crisis. In this context, increase in unemployment and decline of the job quality were the main characteristics of the Turkish labour market in the crisis period. From this point of view, this study aims to analyze the effect of the economic crisis on local labour market within the case of Bursa Province, which is recognized one of the highly industrialized regions in Turkey. According to the results of the analysis, based on data drawn from Turkish Employment Organisation (ISKUR), registered workforce and unemployed increased by 96% and 98% respectively in the first six-months of 2009 compared with same period of the previous year. Furthermore, on the one hand applications of the job seekers rose by 91%, on the other hand, the placements by ISKUR decreased by 202% in Bursa Province in the first month of 2009. These results were also presented as detailed in terms of some variables such as sex, age, educational level and occupational status. Finally, this study tries to discuss the Turkish government's "precaution package" policy for promoting employment as a response to the global crisis.

Keywords: Global Crisis, Job Market, Labour Economics.

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STRATEGIC COST MANAGEMENT UNDER UNCERTAINTY: A MULTIDIMENSIONAL APPROACH TO PRODUCT LIFE CYCLE COSTING

Abstract

The current economic uncertainty influences the manufacturing industry . Every company in manufacturing today faces a global challenge: balancing the need to grow and rapidly take new products to market while lowering costs in an open trade environment. The increasing complexity of this environment has spotlighted the need to eliminate inconsistencies in product design, creation and production. Many companies are reconsidering their strategies. Companies are paying more attention to process improvement initiatives to remove waste, drive down costs, and differentiate themselves from competition. Especially successful companies are changing their approach to cost structuring and control. The accuracy of cost estimating is a critical factor in product compettiveness. The theory of a product life cycle was first introduced in the 1950s to explain the expected life cycle of a typical product from design to obsolescence. One important part of life cycle costing is to optimise the manufacturing, maintenance and operation of a product (e.g. manufacturing equipment) for the period of its usability based on establishing all the important cost items over this period. In this paper, we improve a multidinesioonal approach to product lıfe cycle costıng by taking into consideration of the latest product lifecycle management techniques.

Keywords: Strategic cost management, cycle costing.

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THE VIEWS OF EMPLOYEES AND EMPLOYERS IN TURKEY ON LABOUR ISSUES DURING THE LAST GLOBAL FINANCIAL CRISES: A CRITICAL DISCOURSE ANALYSIS

Abstract

Such as the other parts of the World, Turkey also has been affected by the results of the global financial crisis (GFC) poorly both socially and economically. But this paper intends to focus on social ends of GFC by analyzing views of employees and employers in Turkey using "critical discourse analysis". Although mainstream ideological approaches try to define "labour relations" on a "partnership" or "social dialogue" surface the logic of foundation of the first labour unions depended on a division between labour and capital. Briefly, labour issues usually stand on an ideological face. In this paper we intend to reveal different ideological approaches of employees and employers in Turkey during the last GFC via a critical discourse analysis method. Because of its characteristic that reveals ideology from discourse or text, critical discourse analysis has been chosen as a method. This study will be depend on review of two different journal, one of them is a publication of labour confederation, Türk-İş, and the other is that of employer confederation, TİSK. The first journal, Türk-İş, is a quarterly and the other is monthly. Considering their ideological approach, we will examine the last three issues of Türk-İş Journal and six issues TİSK İşveren Journal.

Keywords: Financial Crisis, Critical Analysis, Employment policies.

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IMPACT OF GLOBAL FINANCIAL CRISIS ON BANGLADESH GARMENTS INDUSTRY

Abstract

In the globalize economy and ever-changing fashion world, Bangladesh Readymade Garments (RMG) industry is continuing to show robust performance, competitive strength and social commitment for last 25 years even in the era of global financial crisis. In compare to international market, Bangladeshi garments industry is a small segment but it has become the largest exporting sector of the country and contributing about 76 percent of the overall export. The objective of this paper is to show the overall status of the industry, impact of current global financial crisis and how industry is coping with this crisis. The RMG industry produces different high fashion and sophisticated high valued items such as T-shirt, Shorts, ladies and children's wears etc. The major part of RMG products are destined to USA and European markets. Physical abundance and low cost labour (2.5 million workers) give the competitive advantages to the Bangladeshi RMG industry to compete in the global market and to boost the export of the country. The export of the industry rose 10.7 billion US dollar in the fiscal year (July 2007 to June 2008) compare to 9.3 billion US dollar of previous year and achieved growth rate 15.5 percent where most of the garment exporting countries such as China, Indonesia, Malaysia, Philippine and Thailand suffering badly due to the ongoing global financial crisis. Most of high performing exporting countries are loosing their competitive edge because of increasing cost of raw materials and cutting price of western buyer. On the contrary, Bangladesh using their competitive advantage of low labour cost and achieving continuous growth. The political instability, Semi-skilled labour, indecent employment condition and scarcity of capital need to be addressed and diminish to run the smooth operations, assure the growth and cope with global financial crisis. So Bangladesh Garments Manufacturing Authority (BGMEA) should look into the sector thoroughly and ensure the sound working environment with latest technology for their labour to assure the stable growth.

Key Words: Global Financial Crisis, Bangladesh Garments Industry, Low Cost Labour.

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LOCAL EFFECTS OF GFC, PERSPECTIVE OF TURKISH TOURISM SECTOR: PAST, PRESENT AND FUTURE

Abstract

In 2008, global system is faced with the biggest financial crisis after the Great Depression. The difference between 1929 and 2008 was then we had an oversupply of cars and radios bought on credit that deflated. This time around it is an oversupply of houses and mortgage backed securities bought on credit that have deflated. The global crisis, brewing for a while, really started to show its effects in the middle of 2007 and into 2008. But it seriously affected all countries after September 2008, without distinction between developed and developing countries. In Turkey, the global crisis which first began to make itself felt last summer is developing in a very different manner for the different sectors. Altough many firms and sectors can not be saved from wreck, others are rising. According to some, the ongoing global financial crisis will introduce new tourism opportunities for Turkey, but according to some, wave of crisis hit hardly tourism in Turkey. In this paper first of all, effects of GFC on Turkish tourism sector will be examined with comparative statistics from past to present. And then we will try to make some suggestions for the businesses to overcome GFC and improve the sector.

Keywords: Global Financial Crisis (GFC), Turkish Tourism Sector.

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INTERNATIONAL TRADE UNDER CRISIS CONSTRAINTS

Abstract

Competitiveness of the world nations is due to the trade liaisons between these nations and proves how the economies manage the present, in the crisis conditions, but merely, their future. The entire world is now under the globalization features and the international trade is the main vector of this wholeness. The process of formation of regional economic entities is not opposite to that of globalization process. It is a complementary one. The entire world is already entered in recession, starting with the most developed countries. Therefore, for all economies, including Romania, the main goal is to discover and to apply the most appropriate measures and policies in order to reduce the decline and to assure, at the same time, the competitiveness of national economic entities. The international trade must go on and create possibilities to a sustainable development of all components of the commercial circuit.

Key words: international trade, crisis, competitiveness, knowledge-based economy.

Following the present phenomena and circumstances, the international trade is characterized by a series of highly important processes, such as:

a) The economic competitiveness of countries is ever fluctuating, being influenced almost decisive by the impact of actual crisis' features and by the evolution of the technical progress and by its implementation in the economic and social life.
The technical progress has deepened the international and technological labor division, emphasizing the intra-industrial and intra-product-like specialization, which has differentiated even more the economic development level of the countries.

b) The polarization of the trade exchanges, so that each country, by its geographic position might have special trade relationships with its neighboring ones, in the first place, due to the existence of certain, cultural, historical and political elements. This process is more and more highlighted by the broadening of the economic integration of the economies into economic regions or areas, which has freed the trade barriers.
The result obtained by the European Union has determined the states from various regions worldwide to follow its example (NAFTA in North America), MERCOSUR in Latin America, AFTA in South-East Asia etc.), even if the main objectives of the integration have not been fulfilled.

c) The strengthening of the financial markets involves, at a national level, a more severe control over the capital, acting as constraints upon the decision-makers in the field of trade policies, the errors being sanctioned much more rapidly.

d) The problems concerning the necessity of the environment protection must find their well-determined place within the working out process of the trade and economics policies, protecting thus two major trends:

1. One, of the supporters of the globalization process, which believe that only the market, by its free mechanism of self-regulation, of the balance between resources and needs, may solve the ecological issues and the entire exchanges between firms and their environment by means of negotiation and economic compromises;

2. The other one, the opponents of the globalization believe that the institution of market is the cause of the lack of balance and of the negative effects that manifest at the level of the environment, while protecting the nature is possible only by extra-economic means.

We do not believe any of these opinions to be fully true considering that for certain natural resources or certain ecological issues one may resort to the market to solve the problems, while for other one shall prefer the extra-economic ways.

The instruments of the trade policies will remain the same, also taking into account the possibility to appear new ones, adjusted to a reality that cannot be anticipated. In the last decade of the 20^{th} century, the main concern of the world trade policies was the liberalization of the economic and commercial activities. In fact, more or less, all the governments have taken measures to strengthen the role of the private companies and to eliminate the barriers that rise in the way of the commercial exchanges.

Analyzing the evolution of the international trade in the last two decades one may outline and forecast several features for the future:

First, the faster growth tendency of the world trade in comparison with the world output will remain steady, especially since certain premises have been created, capable to stir the world trade, such as: the existence of more open and more competitive markets, with a fully developing trade, the growth of the direct foreign investments, a low inflation rate, the reduction of the budget deficits in many countries and so on….

Secondly, the growth and the diversification of the services trade will continue, while their role in the states' economy will be more and more important and the implementation of the new technologies and of the modern telecommunication means will allow the development of this particular economic sector.

As well as this, the weight of the raw materials will continue to drop concomitantly with the increase of the manufactured products, with high level of inclusion of the technical progress. This evolution will determine the intensification of the growth process of the poorly developed countries' dependence, whose foreign trade is based on raw materials or on the products that are in the first working stages.

As a counter-weight, the intensification of the concerns regarding the integration of the different states within the free-trade areas might intensify the international cooperation related to the global trade, and a decrease of the external debt of the poorest countries (but these assumptions in normal conditions of the international development).

The *regionalization* tendencies have increased concomitantly with the tendencies of the globalization. *Regionalization* and the preferential agreements it supposes have come up either as a source of the fragmentation or as a negotiation weapon, or even as an intermediate way of the liberalization of the exchanges. In some specialists' opinion (Petiteville, 1997), regionalization has come out because the fear of a global failure of the multilateral negotiations has lead to a search for those solutions that might guarantee the liberalization of the regional trade.

However, *the globalization and the regionalization have to be seen as two complementary processes.* The regionalization should not lead to the fragmentation of the global system in blocks of opposing interests, but to the creation of economic and commercial areas within an open world economy. This can be taken as a transition process and not as an alternative for the globalization. The option of the states to take part in cooperation action within the regional economic groups must be subordinated to the national interests of superior revaluation of the material, human and technological potential.

One can righteously assert that since the beginning of the present century we witness to a process of "de-tensioning" the relations between *globalization* and *regionalization* (both of economic nature) in the meaning that both processes become "co-operating", complementary and decisively influencing world economy flows and structure. They even speak of *world economy management,* a distinctly important aspect under the conditions of ever more numerous and powerful inter-actions and integrative processes manifesting in today's world. As great experts in the field asserted, Paul Krugman „(1)" being one of these, *economic integration took much the lead ahead the political one,* so that economic realities (punctually world economy integration) have developed much faster than managerial capacity to administrate new economic and technological forces within *knowledge-based economy.*

Presently, we're witnesses of a thing inconceivable even half a century ago: *every world states trade (therefore, participate to world's economy flows)* but moreover, *consume a significant part of their national income within international exchanges.* What I attempted to outline in the present article are *the economic springs (more precisely of the real economy)* that determine the significant inter-state relationships in the present epoch, the fact that international trade activity is considered the main form of present globalizing manifestation,

Globalization, of which I was saying it shows multidimensional manifesting forms: economic, social, political, and cultural, is very exactly depicted through analyzing *international trade* and the whole train of the aspects that define it:

a. Intensifying economic relations between world's states, in a context of space-time "compression" of such relations;
b. De-localization and over(trans)-territoriality;
c. Strong manifestation of technological innovations and, totally, of revolutionary IT & C technologies;
d. Creation and good-functioning global markets.

What I have attempted in the present paper was depicting techniques and devices determinant for an efficient an as equitable trade. The problems one should comprehend are linked also both to the fact whether out of globalization manifestations, by means of commercial relations, *the poorest and least developed may gain, if elements of opportunity evaluation and equity may arise too* (Sen, 2002).

Moreover, I attempted to underline the importance of regulations of international bodies in the field through permanent analysis of the nature of a reasonable anticipation of the trade policies of all states participating to international trade as well as the impact of these relations on the well functioning of regional and multilateral commercial system.

I outlined the role and functioning of the world's main economic region, European Union, due not only to the fact that Romania is part , since January the 1st 2007, of this economic region and must integrate as fast and harmonize its norms and procedures with the community's ones.

Then, the *present depression* is considered by very many experts, and not only by them, as being artfully created and maintained , *a crisis appeared on the order of the forces that lead,* in fact, today's world. An only one name and example in this respect is that of David Rockefeller for a long time President of Chase Manhattan Bank that developed, within an operational militarized system, his abilities of a leader and creator of an information and influence network. He is considered to be one of those who planned world globalization at today's dimensions.

But, the crisis itself has so far had only a moderate impact on world trade. The first two economies of Europe, Germany which is powered by exports and France, have determined a business confidence falling down during this period. The consumers in these countries, but also in the other rich states, are cutting their spending, due the level of prices (raw materials in the first place) and to the fear of lowing pensions and to the situation of their financial assets.

Therefore, several European economies are slowing or falling into recession, provoked by the pricking of housing "bubbles", or the financial crisis in the cases of Ireland, Spain and Great Britain. Speaking about Europe, we must say that the trade between European countries accounts for one third of the world total. As a result, the WTO is likely to revise down its projection of trade growth this year from the six-year low of 4.5 percent it forecast in April 2009 when it reviews the figure next month.

And last but not least, for Romania situation becomes ever harder. Lowering with the decline situation of our whole exterior trade of this year's January when *imports decreased by one third,* and *exports by about one quarter,* Romania's trade deficit being diminished with 60.3%. The most important diminishing in import were registered from relations with extra-EU countries of about 45%, and also with EU member states an important decrease was also registered of about 34.1%.

In export, the situation is as complicated, taking into account the Leu's continuous depreciation face both to Euro and to U S Dollar. Thus, export decrease on non-EU relation was 38% while in export with the other 26 states of EU the diminishing was smaller, around the value of 19.1% As to the import and export structure , we can notice that transport machineries and equipments are situated on the first place, in both activities, with average values around 35%.

On the other hand we have to be cautious about the prognosis of our external trade achieved by the National Statistics Institute „(2)" *that point out permanent* in deficit *FOB-CIF commercial balance* „(3)" face to the previous year, with values with about (-)25, (-)26 thousand million Euros. Everything depends, in assuring the continuity of external trade activity, on the concrete assistance the state can lend to the companies that carry out exports as well as through permanent and loyal informing exchange with the other OCDE members through which international trade flows should be monitored and operative measures of correcting and supporting all those in difficulty, but without infringement contract obligations the economic agents had signed.

Notes

(1) Paul Krugman (born 1953), professor at Princeton University, USA, is the 2008 laureate of the Sveriges Riksbank in Economic Sciences in Memory of Alfred Nobel. He was awarded for „his analysis for trade patterns and location of economic activity".
(2) Data from „*Almanahul crizei 2009*" (*Crisis Almanac 2009*), pp. 26..
(3) In international trade conditions, the most not-favourable situations are the following (in use by the Romanian agents): FOB for imports and CIF for exports, because the importer, in the first case, pays the fees from the port (or place) of loading, and the exporter, in the second one, pays all the fees until the port (or place) of discharge in the buyer's country.

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