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Economics and Commerce

Franchise Relationship

Governance and FDI Attractiveness

Highlights

An Econometric Approach

The Growing Interdependence

Discovering Thoughts, Inventing Future

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By Richard J. Hunter, Jr. & Héctor R. Lozada

Seton Hall University

Abstract- In Part II of our study, the authors deal with the myriad of legal issues that pervade the franchise relationship. of particular interest are the differences between the sale of a franchise and the sale of a security; an analysis of the elements of the critical Franchise Disclosure Document (FDD); a detailed look at the franchise contract; some "special protections" available to automobile dealers and petroleum dealers in the United States; and the relationship between franchising and U.S. antitrust law (which provides a fertile area of litigation between franchisors and franchisees).

Keywords: security; franchise disclosure document; antitrust; franchise contract; negotiation and drafting.

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THE LEGAL ASPECTS OF THE FRANCHISE RELATIONSHIP

Strictly as per the compliance and regulations of:

The Legal Aspects of the Franchise Relationship

Richard J. Hunter, Jr. [α] & Héctor R. Lozada [σ]

Abstract- In Part II of our study, the authors deal with the myriad of legal issues that pervade the franchise relationship. Of particular interest are the differences between the sale of a franchise and the sale of a security; an analysis of the elements of the critical Franchise Disclosure Document (FDD); a detailed look at the franchise contract; some "special protections" available to automobile dealers and petroleum dealers in the United States; and the relationship between franchising and U.S. antitrust law (which provides a fertile area of litigation between franchisors and franchisees). The purpose of Part II is to inform the franchisee about the issues that will require professional attention by a competent and well-versed franchise contract advisor and legal expert.

Keywords: security; franchise disclosure document; antitrust; franchise contract; negotiation and drafting.

I. An Introduction to Franchising and the Law

There are many legal issues that are relevant to the franchise relationship. In fact, *the legal aspects of franchising* contain many critical pitfalls for both the franchisor and the franchisee that will require careful attention. It is therefore important that both parties to the relationship understand the legal implications in-herent in the relationship and, in some cases, seek out competent legal counsel to help navigate the "legal waters" of franchising.

a) *Is the Sale of A Franchise the Sale of a Security?*

One important issue revolves around whether the franchise contract is the sale of a security under applicable federal law. The implications of this question are staggering. If the sale of a franchise were considered as a security, a whole rash of fraud-specific provisions of relevant securities' laws would be applicable to this relationship.

It is well settled under American law that a franchise agreement is a contract and does not amount to a security under applicable federal or state securities laws. What is the rationale for this distinction? The *Securities Act of 1933* (1933) has defined a security as any "note, stock, treasury stock, bond, debenture, evidence of indebtedness, or participation in any profit-sharing agreement...." *The Securities Exchange Act of 1934* (1934) regulates the secondary distribution of securities through national stock exchanges, national securities associations, brokers, and dealers and covers proxy solicitations, regulates tender offers, and limits

actions which are found to be "insider trading" (Hunter & Loviscek, 1997). The 1934 Act generally was passed into law in order to eliminate fraud and "manipulative conduct" with respect to the sale or purchase of securities through the enactment of Section 10b of the Act *and Rule 10b-5,* promulgated by the Securities Exchange Commission (Utset, 2013).

b) *The text of Rule 10b-5 is as follows:*

"It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails, or of any facility of any national securities exchange: (a) to employ any device, scheme, or artifice to defraud, (b) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or (c) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security."

Professor Heyman (2013) notes that although the Securities Exchange Commission or SEC may not bring actions on behalf of an individual investor, several of the anti-fraud provisions of the Securities Act will allow an individual investor to bring civil actions against an issuer, an underwriter, and other offering participants on the basis of false or misleading statements. Professor Heyman (2013) further notes specifically that Section 11 of the Act imposes liability on issuers and underwriters for registration statements that contain "an untrue statement of a material fact or omit to state a material fact required . . . to make the statements contained therein not misleading." Section 12(a)(2) creates a liability for "any person" (presumably, the franchisor) who offers or sells a security through a prospectus or an oral communication containing a material misstatement or omission of fact. Section 17(a) is a catchall provision, which imposes liability for fraudulent sales of securities. However, franchises are generally not considered to be a security under applicable securities laws, and thus the *antifraud provisions* of Section 10b and Rule 10b-5 are not applicable, because the distributor/franchisee invests their own efforts in the franchise and does not expect to obtain benefits "solely from the efforts of others." In other words, the passive investment component generally associated with certain types of securities is not present in the typical franchising arrangement. This is referred to as the *"Howey principle,"* from *SEC v. Howey* (1946).

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II.   Franchising and the Federal Trade Commission (FTC)

The Federal Trade Commission (FTC) is the chief administrative agency of the federal government designed to discourage "unfair methods of competition" and "unfair or deceptive acts or practices." The FTC promulgated a regulation in 1979 concerning franchise disclosure in order to assure that the "bargaining power" between franchisors and franchisees would be more evenly balanced. The FTC itself and enforcement procedures and regulations enacted pursuant to federal antitrust law have attempted to do away with some of the more egregious abuses previously associated with the sale of franchises. If a violation is detected, the FTC may order the defendant to *cease and desist* (the administrative law equivalent of an injunction) from certain acts or practices, or may compel the affirmative disclosure of information previously omitted. In certain cases, the FTC may also seek civil penalties or permit a consumer to seek individual redress through filing a damage suit (Westenberg, 2011).

The FTC in the United States is especially concerned about advertising that it regards as either "deceptive" or "unfair." In order to combat these practices, the *FTC Franchise Rule requires* a franchisor to provide a prospective franchisee with a disclosure document (initially called the Uniform Franchise Offering Circular or UFOC, it has now been renamed as the *Franchise Disclosure Document or FDD)[1]* which gives detailed information about the "franchise offering" and includes a copy of all documents the franchisee will be required to sign, including the actual franchise agreement or contract.

Federal law requires that the franchisee must receive the FDD "on or before a first personal meeting with a representative of the franchisor." The franchisee is required to execute an on-the-record "Acknowledgment of Receipt," usually found in Item 23 of the FDD. The franchisor cannot require the franchisee to deposit any monies (either as an escrow or a returnable deposit) unless the franchisee is in possession of the FDD for at least ten business days. In addition, the franchisee must have the final and complete franchise agreement at least five business days before the franchisee is required to sign it or to provide any monies. (The five-day rule can run within the ten-day rule in the case of a contracted negotiation period). In addition, individual states require the franchisor to register its franchise offering with a state agency and obtain "approval" prior to selling franchises in that state or to a resident of that state. (For example, California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Oregon, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin. Certain states, such as Illinois and Minnesota, have even more stringent requirements for the franchisor. This in turn affords better protection for the prospective franchisee). If the franchisee is a resident of one of these states, a separate state-specific page will be provided on the federal FDD. Note, however, that approval by a state does not mean that the state believes the franchise is a good investment or that the franchisee will be successful. It's still up to the franchisee to investigate! The approval is more of technical requirement prior to a franchise offering.

III.   What Information is Found in the FDD?

The purpose of the FDD is to provide prospective franchisees with information about the franchisor, the franchise system, and the agreements they will be required to sign so that a prospective franchisee may make an informed business decision.

a)   The Disclosure Document (FDD)

The following is a description of the important provisions of the FDD:

- Item 1 : Provides the names of the franchisor and any parent corporation, predecessor corporation, and affiliates. This section provides a description of the franchisor and its business history.
- Item 2 : Business experience. This section provides biographical and professional information about the franchisor and its officers, directors, and most important executives or employees. Since the reputation and good will of the franchisor are critical elements in forming the relationship between the parties, this information may be critical in gaining an insight into reasons why the franchise may or may not be successful.
- Item 3 : Litigation. This section provides current and past criminal and civil litigation history for the franchisor and the "key" members of its management team.
- Item 4 : Bankruptcy. This section provides information about the franchisor itself and any key management personnel who have filed or who have proceeded through a bankruptcy proceeding.
- Item 5 : Initial fees. This section provides information about the initial franchise fees and the factors that determine the amount of the fees.
- Item 6 : Other fees. This item provides a description of all other recurring fees or payments that must be made. In *Part I* of this study, fees such as

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[1] The amended *Franchise Disclosure Rule* states what must be disclosed. It is published in the Code of Federal Regulations, Volume 16, Part 436 (16 CFR § 436) and in the Federal Register at Volume 72, No. 61, pp. 15544- 15575. The *Franchise Rule Compliance Guide,* which is designed to assist franchisors in complying with the amended Rule, is available at www.ftc.gov/bcp/edu/pubs/business/-franchise/bus70.pdf.

advertising fees and accounting fees were discussed in great detail. (Hunter & Lozada, 2013.)

- Item 7 : Initial investment. This item is presented in table format and includes all the expected expenses required of the franchisee in order to establish the franchise as a part of the franchise system. These expenses are justified as part of the "Quality Control" function of operating a franchise.

- Item 8 : Restriction on sources of products and services. This section includes any restrictions or requirements that the franchisor has established regarding the source of products or services. This section, dealing with product sourcing and "tie-ins," is often the main source of significant litigation as franchisees may claim that the franchisor is violating their individual rights to contract for supplies and services by requiring purchases from the franchisor—often at inflated prices.

- Item 9 : Franchisee's obligations. This item provides a reference table that indicates where in the franchise agreement franchisees can find the obligations to which the parties have agreed.

- Item 10 : Financing. This item describes the terms and conditions of any financing arrangements offered by the franchisor so that the franchisee can make an intelligent decision about how to finance its franchise obligations—either through the franchisor or an independent source of funding.

- Item 11 : Franchisor's Assistance, Advertising, Computer Systems and Training. This section describes the services that the franchisor will provide to the franchisee. This section likewise relates to the *"Quality Control"* obligation of the franchisor, which is at the core of the franchise relationship.

- Item 12 : Territory. This section provides the description of any exclusive territory and whether franchise territories can be modified. This is important because the franchisee should know in which areas his or her rights will be protected from competition by another franchise unit owned, operated, or licensed by the franchisor.

- Item 13 : Trademarks. This section provides information about the franchisor's trademarks, service marks, and trade names that provide the main method of identification of the franchisee with the franchisor's business operation.

- Item 14 : Patents, copyrights and proprietary information. This section provides information about how the patents and copyrights owned by the franchisor may be used by the franchisee. At issue will be the use of the "confidential information" of the franchisor by the franchisee that may be contained in the franchisor's "operations manual."

- Item 15 : Obligation to participate in the actual operation of the franchise business. This section describes the obligation of the franchisee to participate in the actual operation of the business. In most franchise contracts, there is a firm requirement that the franchisee become an active participant in the day-to-day franchise operations.

- Item 16 : Restrictions on what the franchisee may sell. This section deals with any restrictions on the goods and services that the franchisee may offer its customers. A franchisor may attempt to restrict sales of ancillary goods and services on the premises of the franchise operation pursuant to its "Quality Control" obligations.

- Item 17 : Renewal, termination, transfer, and dispute resolution. This section will inform the franchisee when and under what circumstances the franchise can be renewed or terminated and what are the rights and restrictions when a franchisee has a disagreement with your franchisor. (In most cases, the franchise contract will require mediation or arbitration of any franchise disagreement rather than permitting a franchise to press their claim in a more normal legal proceeding).

- Item 18 : Public Figures. If the franchisor uses public figures (celebrities, sports personalities, or other public persons) as endorsers or franchise-spokespersons, the amount the person is paid is revealed in this section.

- Item 19 : Financial Performance Representations. Here the franchisor is permitted, but not required, to provide information on individual unit financial performance so the franchisee may make an intelligent decision about the real prospects for profit in the individual franchise.

- Item 20 : Outlets and Franchisee Information. This section provides locations and contact information of existing franchises so that a prospective franchise might be able to contact franchisors to discuss "real world" business or professional concerns.

- Item 21 : Financial statements. Audited financial statements for the past three years are included in this section. It would thus be critical for a prospective franchisee who does not have a "working knowledge" of accounting to take these statements to their own professionals so as to analyze the facts or representations made in the financial statements. (Recall that in many cases, the franchisee will lack significant business experience and might have great difficulty in reading or interpreting financial statements, among other important franchise documents).

- Item 22 : Contracts. This item provides a list of all the agreements that the franchisee will be required

to sign—the most important of which is the franchise agreement itself.

- Item 23 : Receipts. This is a technical "acknowledgment requirement." Prospective fran-chisees are required to sign a receipt that they received the FDD.

IV. OTHER "UNIQUE" PROTECTIONS FOR THE FRANCHISEE

In one important industry, the sale of automobiles, a special statute, the *Automobile Dealers' Franchise Act* (ADFA), also known as *"The Automobile Dealer's Day in Court Act"* (1988), allows a terminated dealer to bring an action in federal court asking for the retention of the franchise if the dealer can prove that the franchisor has either conducted the termination in "bad faith" or has acted with coercion. This statute is important because it contradicts the common law rule formerly held in such cases which was built around a variation of the so-called "business judgment rule." Under the *business judgment rule,* as interpreted under the ADFA, a franchisor may still be able to terminate the franchisee, but only if the decision is based upon:

- financial ability (including failure to meet reasonable sales quotas, or to maintain or meet appropriate investment levels);
- business experience—or lack thereof (including the failure to observe quality standards as enunciated in the franchise handbook);
- "substantial" violations of the franchise contract; or
- moral character, as it relates to the important intangible element termed "good will" or other indicia of misconduct.

The federal *Petroleum Marketing Practices Act* (1996) likewise protects motor fuel distributors and dealers from "arbitrary" terminations *(Union Oil Co. of California v. O'Riley,* 1991). Other types of business have sought and received similar protections.[2]

V. WHY IT IS IMPORTANT TO HIRE A KNOWLEDGEABLE FRANCHISE ATTORNEY AND ACCOUNTANT?

Especially during the initial ten-day period under the FDD, the prospective franchisee should completely and carefully review all of the relevant documents. A franchise agreement is generally a very complex, lengthy, and imposing legal document, which becomes the basis for the legal relationship between the parties. Retaining an experienced franchise attorney is the most critical thing a prospective franchisee can do in protecting him/herself at this point. The franchise

attorney will be able to assist the franchisee in understanding the franchisor/franchisee relationship, and the parties' rights and obligations under the franchise agreement. However, unlike other contracting situations, a franchise attorney will have limited ability to "negotiate" the deal on behalf of the franchisee. Most franchise offerings, particularly in the established franchise systems, are offered virtually on a "take it or leave it" basis, and contain many "boilerplate" provisions. The following are some of the unique legal issues that a qualified, competent franchise attorney needs to understand and be prepared to discuss with the parties to the franchise relationship:

- Advertising obligations
- General obligations of the franchisee
- Arbitration or mediation
- Obligations of the franchisor
- Attorneys' fees provision
- Payments to the franchisor
- Contingencies terminating the contract
- Post-termination obligations
- Covenants Not To Compete
- Renovation of the premises
- Default provisions
- Reporting requirements
- *Force Majeure*
- Sales restrictions
- Term and renewal rights
- Jurisdiction and venue (for dispute resolution)
- Trademarks
- Liquidated damages
- Transfer by the franchisee to family member(s) or third parties
- Location of the franchise
- Transfer (sale) by the franchisor

VI. THE FRANCHISE CONTRACT

a) *Overview: Setting Up the Franchise Relationship: Evaluating a Franchise*

Buying, and then operating, a franchise can either be a "dream come true" or a real "nightmare"! Success or failure, to a large extent, will depend on the *relationship developed between the franchisor and the franchisee.* These are some of the most important questions that relate to the franchise contract itself which must be addressed *before* the parties enter into the franchise contract:

- Is the *length* of the initial term (usually ten years) sufficient to make the franchise financially viable? A prospective franchisee must determine the total

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[2]These industry-specific statutes relate to automobile dealerships, alcoholic beverages, farm equipment, petroleum, and office products, among other industries (Emerson & Benoliel, 2012/2013).

capital initially required, continuing fees owed to the franchisor, other costs (accounting, payroll, advertising, etc.), and rental costs and compare these costs to the expected or projected revenue. How do these expenses "match up" against any "earnings claims" found in Item 19 of the FDD?

- Will the franchisee have any right under the contract to *renew* the initial agreement on reasonable terms and conditions? This may include signing the then-existing franchise agreement, which may be substantially changed from the original agreement, especially with regard to the fee structure.

- If relevant (under a distributorship arrangement), what are the franchisee's rights to an adequate and reliable *supply of goods* at "competitive prices" and under reasonable terms and conditions?

- What are the franchisor's responsibilities regarding the protection of its *intellectual property* (trademarks, service marks, patents or copyrighted materials)? What happens to these marks if the franchisor ceases its business operations?

- Will the franchisee have the *right to sell* the business to a "third party" at a "fair market price" at the end of the relationship without the imposition of unreasonable conditions or demands by the franchisor?

- Should the franchisee wish to cease doing business, decide to retire, or becomes disabled or die, will the franchisee or his/her estate have the *right to transfer* or "assign" the franchise contract to a relative/spouse on reasonable terms?

- What are the requirements or prohibitions on the right of the franchisor to arbitrarily or unreasonably *terminate* the franchise, or to take over (as opposed to "acquire" on reasonable terms) the franchise?

- If relevant, what is the *relationship* between the franchise and its business premises? Is the franchisee the owner of the property or a lessee? Is the franchisee a sub-tenant of the franchisor?

- What are the rights of the franchisor (as either the primary tenant or landlord) in relation to the franchise premises?

- Will the franchise be required to *arbitrate* any disputes with the franchisor or will the franchisee be permitted to litigate these issues? (Adapted from Lewis, 2013).

b) *A Franchisee's Checklist for Negotiation and Drafting*

Without referencing any specific franchise contract, a general discussion of several standard provisions of a franchise contract is in order. We have raised these issues in the form of questions that must be addressed directly in the negotiations between a prospective franchisee (with the help of a competent franchise attorney and in some cases, a well-versed accountant familiar with franchising) and the franchisor:

i. *General Provisions*

a. *Description* of the parties; financial arrangements; experience of the franchisor; mandatory disclosure provisions;

b. *Nature* of the franchise; issues relating to service marks, trade marks, or trade names. (The franchisee may be asked to sign an agreement by which the franchisee agrees not to challenge the ownership or validity of the mark during the term of the agreement or afterwards). Will the franchisee be able to use the "trade name" after termination?

c. *Territory:* Will the franchisee be granted an area within which the franchisee is licensed to do business? What are the criteria upon which the location is selected? What is the primary area of the franchisee's responsibility? Can dealers compete "cross territory"?

d. *Representations* of the franchisor: assistance offered by the franchisor. Have there been any projected earnings?

e. *Legal requirements and representations:* Is there adequate time to consult counsel? Is there a period within which the franchisee can withdraw from a contract without any penalty?

ii. *Start-Up Provisions*

a. *Deposit of the fee:* initial franchise fee (usually by a "lump sum.") What is the nature of royalties (usually based upon a % of gross sales)? The initial fee should be stated with specificity as to what is the franchisee going to receive? Will there be advertising fees? Can the franchisor retain some of the fee if the franchisee backs out of the contract?

b. What sort of *legal entity* will the franchisee be? (corporation, partnership, etc.) Will *personal guarantees* be required of the franchisee? Can a franchise later be assigned to a corporation that the franchisee creates for this purpose?

c. What is the franchise *name*? Upon termination, can the franchisee continue to use the franchise name? Will there be a "reasonable period of time" to effect any change? Can the franchisee transform the name into one that is not "confusingly similar"? Can the franchisee use the designation "formerly known as....."?

d. *Land and building:* Must the building bear a distinctive design? Is there a requirement of any specific construction? Are there any location questions? Should the contract be made contingent upon finding a suitable building at a reasonable rental or upon the execution of a

satisfactory mortgage? Can the franchisee be required to enter into a "turn key" operation or is a "turn key" operation even offered by the franchisor?

e. *Equipment:* What specific equipment require-ments are found in the franchise contract? What equipment must be purchased or installed? Will these arrangements potentially violate antitrust provisions?

f. *Training:* reasons; nature and extent. What amount of training does the initial fee cover? Is additional training for franchisee or for other employees? If so, who will be required to pay for this additional training?

g. *Transmission of standards* (called "quality control"). This is a core responsibility of the franchisor. The ability to continue to charge the franchise fee may be contingent upon whether or not the franchisor has maintained "quality control." Likewise, the Trade Mark may be lost because of a lack of quality control and may be transformed into what has been termed as a "naked license."

iii. *Opening of the Business*

a. *Purchasing requirements:* What is the extent of initial stocking? What is the ability of the franchisor to require purchases of supplies?

b. Guidance of the franchisor in *book keeping and accounting:* Will the franchisor provide advertising assistance?

c. *Sales and other promotions:* mandatory nature? The use of the phrase "at participating locations."

d. *"Primary are of responsibility":* Can the franchisee open "satellite" or secondary locations? Can the franchisor compete directly in the same territory with a franchisee?

e. *Sales quotas:* Are there any mandatory sales required?

f. Royalty payments: At what point are the royalty payments to commence? Is there a "grace period" for payment?

g. *Confidentiality:* especially regarding the Opera-tions Manual.

iv. *Termination of the Franchise*

a. *Grounds* for termination: the concepts of "good faith" termination; "covenant of fair dealings";

b. *Obligations* of the parties upon termination;

c. *Resolution of disputes.*

VII. FRANCHISING AND ANTITRUST

The implications of antitrust (sometimes inter-nationally called "antimonopoly" law) law are especially relevant in the area of franchising. For the first 114 years of U.S. history, business had a fairly free hand in the field of commerce. The courts and the government took a "hands off" attitude ("laissez-faire") towards business (Barkoff, 2013). In the United States, the tide began to turn in the late 1800s as the public tired of the irresponsible behavior of some of the "captains of industry," derisively termed "robber barons." The press began to call for reforms and for public protection from abuses of "big business." The assault on unfettered big business, inspired by "muckrakers," had begun. Government regulation of business was to become a major factor in the management of commercial affairs. Many of the regulations that affect business today in the United States and in many nations around the world, and many of the government interventions that confront the modern businessperson, can be traced back to the cornerstone of business regulation. (Hunter, Shannon, O'Sullivan-Gavin & Blodgett, 2011.) The law that changed American business so dramatically was the *Sherman Antitrust Act* (1890). This important statute, and all of the subsequent legislation in this field, is predicated on increasing competition and encouraging competitive behavior.

Competition is seen as desirable for the following reasons:
• It promotes efficiency in resource allocation;
• It provides for meaningful consumer choice;
• It assures the avoidance of concentration of political power; and
• It assures basic "fairness" in economic behavior (Lande, 2013).

Flaim (2012, p. 160) stated the purposes in this way:

"Antitrust law—or competition law—is generally concerned with promoting and maintaining competition through the regulation of exclusionary business conduct. Competition is said to enhance the efficiency of the marketplace and benefit society as a whole. Without competition, cartels of firms, or single firms known as monopolists, are able to extract rents from consumers by restricting the output of goods or services and raising prices to supracompetitive levels. Monopolistic behavior results in economic waste to society, or "deadweight loss," as wealth is transferred from consumers to monopolists."

a) *The Sherman Antitrust Act (1890)*

Section 1 of the Sherman Antitrust Act (Sherman Act) is perhaps the most important legislative enactment that deals in the evaluation of potential restraints on trade. Restraints are considered as either *horizontal,* that is, where two or more competitors engage in conduct that is a restraint on trade; or *vertical,* that is, a restraint that may occur within a "marketing chain," such as between the manufacturer (franchisor), wholesaler (e.g., sub-franchisor), and the franchisee.
"

Section 1 of the Sherman Act reads: *Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal."*

Almost immediately, however, courts began to interpret this section narrowly (otherwise nearly every contract could be viewed as a restraint of trade... for example, a customer who contracts to buy some item from *seller A* normally will not buy the same type of item from a competitor of *seller A*) and developed the "rule of reason" as a means of applying the provisions of Section 1.

Thus, as a general rule, only those contracts or combinations that *unreasonably restrain trade* are prohibited. The first major case in the United States on point was *Standard Oil v. United States* (1911), in which Standard Oil had attempted to gain control of oil pipelines, engaged in regional price cutting to suppress competition, set up "bogus" independents to give the impression of competition, and engaged in industrial espionage. While the Supreme Court recognized the existence of the "rule of reason defense," in this case, the Court ruled specifically that Standard Oil's conduct did not fall within the rule and was, in fact, unreasonable and illegal.

Courts in the United States will examine the following factors in applying a rule of reason analysis in any particular case:

- The pro-competitive and anti-competitive effects of any challenged restraint on trade;
- The competitive structure of the industry;
- The firm's market share and economic power;
- The history and duration of the restraint; and
- "Other relevant factors" (Cheeseman, 2012, p. 719).

In contrast, it is recognized that there is conduct that is so lacking in social value that it is seen as an "automatic" violation of Section 1. Such conduct is termed as a *per se* violation of Section 1. If a firm is accused of a *per se* violation, and the government can meet its prima facie burden of proof, the defendant is not permitted to defend its conduct on the ground that it is reasonable, and it will be guilty of violating Section 1 of the Sherman Act.

Professor Jesse Markham (2012, p. 593) has stated:

"Courts resolve antitrust cases by applying various modes of analysis. These modes range across a spectrum from so-called "full blown" rule of reason analysis at one end to per se condemnation at the other. Per se rules condemn limited categories of conduct by applying a conclusive presumption of net anticompetitive effects, while rule of reason analysis requires a court to engage in case-specific evaluation of evidence bearing on actual or predictable competitive effects. Although the per se rules have obvious advantages of clarity, administrability, and predictability, the sorts of conduct falling under these rules have been narrowed in recent years as courts have become more wary of condemning legitimate competitive conduct. For example, although vertical price restraints and certain vertical non-price restraints were per se illegal for roughly 100 years, recent cases have established that all vertical price and non-price restraints are to be evaluated based upon some degree of analysis of the defendant's market power or ability to affect market competition, as well as a contextual review of the competitive effects of the challenged conduct."

There are three generally recognized *per se* violations under Section 1 of the Sherman Act that are relevant to the franchise relationship.

The first is *horizontal price fixing* or agreements on price among competitors. The United States Supreme Court framed the issue as follows: *"Any combination or agreement between competitors, formed for the purpose and with the effect of raising, depressing, fixing, pegging, or stabilizing the price of a commodity in interstate or foreign commerce is illegal per se"* (U.S. v. Socony-Vacuum Oil Co., 1940).

In the area of franchising, price fixing may include the franchisor setting minimum prices (resale price maintenance or vertical price fixing), as where a party at one level of distribution enters into an agreement with a party at another level to adhere to a price schedule that either sets (determines) prices or stabilizes prices);[3] setting maximum prices, even where there is a *freedom* to charge less than the maximum;[4] the use of franchise-wide "list prices;" and today, the use of minimum fee schedules by certain professional societies, formerly exempted under the "learned professions" exception for professions such as lawyers, architects, accountants, and real estate brokers[5] *(Goldfarb v. Virginia State Bar (attorney), 1975; Arizona v. Maricopa County Medical Society (physician),* 1982). A possible violation might stem from pricing *suggestions* where such actions become "active

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In *Dr. Miles Medical Co. v. John D. Park & Sons, Co.* (1911), the United States Supreme Court held that setting minimum resale prices is a *per se* violation of Section 1 of the Sherman Act as an "unreasonable restraint of trade."

[4] However, the U.S. Supreme Court's recent ruling in this area may have changed the equation for this type of restraint. In *State Oil Co. v. Khan* (1997), the Supreme Court held that setting of maximum resale prices would be examined under a rule of reason analysis in order to determine whether or not setting maximum resale prices violates section 1 of the Sherman Act. The Supreme Court concluded that there was "insufficient economic justification for *per se* invalidation of vertical maximum price fixing" (Cheeseman, 2013, p. 723).

[5] Professor Bruce Hunter noted: "The inherent anticompetitive potential of all price-fixing schemes requires their invalidation regardless of any procompetitive justifications" (Hunter, 1983, p. 260).

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exhortation," or where the exchange of information regarding prices may take place at required meetings, conventions, or sales promotions arranged by the franchisor at which there is mandatory attendance required of franchisees.

It is also important to note that certain businesses are subject to government-regulated prices, as highly *regulated* industries. Such industries as airlines, railroads, shipping companies (common carriers), stock exchanges, insurance companies, and banks) may be permitted, in fact, to "fix" prices without violating antitrust law if a government agency has determined that the rates fixed are in the "public interest" (Cheeseman, 2012, p. 735, notes 24-27).

Sometimes, a franchisor (especially in a distributorship arrangement) will attempt to determine or "fix" the price of an item through a procedure known as a *consignment sale.* In order for a court to determine that a "true consignment" sale has taken place, the following factors will be considered:

- The distributor (franchisor) must retain *title* to the goods;
- The distributor (franchisor) must retain *ownership;*
- The distributor (franchisor) must retain *risk of loss;*
- The distributor (franchisor) must permit the franchisee the *right to return* unsold goods.

In the area of franchising, consignment sales (also called "sale or return" contracts) have been attacked on the basis of a violation of any of the elements of the rule and generally have been held to be nothing more than price fixing (*Cont'l T.V., Inc. v. GTE Sylvania, 1977; United States v. Arnold, Schwinn & Co.,* 1963) (However, in the case of certain new car sales, the ability of the consignor to "set" or "fix" the price was attacked because, in fact, there was *"virtually no chance that there would be any unsold goods."*). In any event, the ability of the franchisor/consignor to fix the price of goods has been severely called into question.

Finally, in the area of price fixing, it is doubtful that competitors will overtly conspire or agree to fix prices, although there were a few examples from American history in which competitors did just that! Sometimes an agreement or conspiracy that violates Section 1 can only be proved by *circumstantial evidence.* At this point, the emphasis shifts to the concept of an *agreement* based upon the conduct of the parties. This is undertaken under a doctrine called *"conscious parallelism"* (cf., *Interstate Circuit v. U.S.,* 1939). In this case, the Supreme Court stressed the existence of three elements:

- *Knowledge* of competitor pricing;
- *Motivation* (usually to undercut competition in order to keep prices high);
- *Substantial unanimity* (usually within a rather narrow 2-5% range).

In *Theater Enterprises v. Paramount Film Distributor Corp.* (1954), the Supreme Court noted that "The crucial question is whether the respondent's conduct stemmed from an independent decision; or from an agreement tacit or express."

Conscious parallelism is a difficult and intriguing problem because of a recognized concept in marketing termed "price leadership" which may be a significant aspect of competition among franchises offering similar products or services.

The second per se is *horizontal market division* or agreements among competitors as to who can sell in which region (allocations of markets). This violation may occur where an agreement exists among businesses performing similar services or dealing in similar products, whereby the available market is divided up and each given a share (*U.S. v. Topco Associates, Inc.,* 1972). In the United States, some heavily "regulated industries" have been granted rights to in fact divide markets if the relevant regulatory agency has determined that this practice would "benefit the public." One such industry is the airline industry in which regulations have allowed certain U.S. airlines to dominate certain markets (e.g., United/Continental in Denver or Chicago; Delta in Dallas or Atlanta; USAir in Pittsburgh and Charlotte; and United/Continental in Newark).

A third per se violation involves a *group boycotts or refusals to deal*—essentially practices or agreements among competitors not to sell to a particular buyer or not to buy from a particular seller. An individual has discretion to choose with whom he or she wishes to deal. Such a practice is generally protected under the *business judgment rule.* (As you may remember, the considerations or elements of the rule are business experience, financial ability, and moral character—especially as it relates to the element of "good will.") Thus, the United States Supreme Court has held that a firm may *unilaterally* choose not to deal with another party without being in violation of Section 1 of the Sherman Act because is "no concerted action with others" (Cheeseman, 2013, p. 723). The rule relating to a "unilateral refusal to deal" was announced in *United States v. Colgate & Co.* (1919) and is often referred to as the *Colgate Doctrine.*

However, when a group of competitors agrees not to deal with (often sell to) a person outside the group at all or only on certain terms, there may be an unlawful boycott, constituting a combination in restraint of trade.

i. *Section 2 of the Sherman Act*

Section 2 is the important antimonopoly provision of the Sherman Act. It reads:

"Every person who shall monopolize, or attempt to monopolize, or combine or conspire with

any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor."

In determining what is or is not an improper or illegal monopoly, courts generally look at two aspects: the *relevant market and the percentage share of dominance* in that market. The relevant *product or service market* generally includes any substitute products or services that are *reasonably inter changeable* with the products or services offered by the defendant. A relevant *geographic market* is generally defined as the area in which the defendant and its competitors sell their products or services. The geographic market may be national, regional, state-wide, or local, depending on the circumstances of each case. Professor Cheeseman (2013, pp. 724-725) notes that "The Courts generally apply the following guidelines: Market share of above 70 percent is monopoly power; market share under 20% is not monopoly power. Otherwise, courts generally prefer to examine the facts and circumstances of each case before making a determination about monopoly power."[6]

Some monopolies are deemed as "natural"; that is, they have been created by producing superior products or through a long-standing domination of the market (e.g., Yoo, 2012). In *American Football League v. National Football League* (1963), the Fourth Circuit stated: "When one has acquired a natural monopoly by means which are neither exclusionary, unfair, nor predatory,[7] he is not disempowered to defend his position fairly." Likewise in *Union Leader Corp. v. Newspapers of New England, Inc.* (1960), the First Circuit stated: "A natural monopoly market does not of itself impose restrictions on one who actively, but fairly, competes for it, any more than it does on one who passively acquires it."

Other industries may have been granted monopoly status by the government and are called "regulated monopolies." These are such as power companies, utilities, water companies, and until recently, American cable companies.

b) *Other Important Antitrust Statutes Relevant to Franchising*

  i. *The Clayton Act*

The Clayton Act of 1914 was the second most important piece of legislation enacted to encourage competition. The aspects of the Clayton Act relevant to franchising may be summarized as follows:

- Section 3 prohibits sales on the condition that the buyer will not deal with competitors of the seller. Three types of contracts fall within the scrutiny of Section 3: "tie-in" sales, exclusive dealing arrangements (found especially in distributorships), and requirement contracts.

Perhaps the most important portion of the Clayton Act deals with the area of price discrimination, an important aspect of franchising: Section 2 of the Clayton Act (as amended by the Robinson-Patman Act of 1936).

Under Section 2 as amended, it is unlawful for any person engaged in commerce to discriminate in price between different purchasers of like grade, quantity, and quality (*e.g., Hartley & Parker, Inc. v. Florida Beverage Corp.,* 1962), where the effect may be "to substantially lessen competition in any line of commerce, or tend to create a monopoly (by, for example, forcing one party out of business), or to injure, destroy or prevent competition (through such indirect actions as dummy brokerage fees and promotional "kickbacks").

The major defense to a charge of price discrimination is that the seller is "meeting" but not "beating" the price being offered by a competitor. The defendant can also defend by showing that a lower price is being offered because of obsolescence, seasonal variations, damage to goods sold, changing conditions, perishable goods being sold, that the goods are of different grade or quality, or real "quantity discounts" which are available to *all* buyers.

The major case in the United States concerning the defense of "meeting- not beating- the competition" was *Standard Oil of Indiana v. FTC* (1951).

- Section 4 allows treble damage suits by private individuals for violations of either the Sherman or Clayton Act, although the U.S. Department of Justice and its specialists in the Antitrust Division are primarily responsible for enforcing the Sherman Act.

- Section 6 exempts labor unions, certain agricultural organizations (Agricultural Cooperative Associations), farmer and fisherman organizations, export organizations, baseball (and not other professional sports) under *Federal Baseball Club v. National League* (1922) *(see, e.g., Community Communications Co., Inc. v. City of Boulder* (1982), certain "regulated industries" (Cheeseman, 2013, p. 731) and other small businesses.

- Section 7 is a very important section because it deals with the area of acquisitions and mergers. *Mergers* may be of three general types: *horizontal* (between competitors), *vertical* (between different

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[6]   In *Greyhound Computer Corporation v. International Business Machines* (1977), IBM's market share of the leasing market for computers was 82.5 percent.
[7]   Predatory pricing has been defined as pricing below average or marginal cost with the intention to drive out competition (*William Inglis & Sons Baking Company v. ITT Continental Baking Company, Inc.* 1982).

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levels within the marketing chain), or *conglomerate* (between essentially different or unrelated businesses) (see *R.C. Bigelow, Inc. v. Unilever, N.V.,* 1989). Mergers may be banned when the effect would be to "substantially lessen competition or tend to create a monopoly." A merger might occur when a company acquires the stock or assets of another firm. These types of mergers involve the application of the *Cellar-Kefauver Act of 1950.* There was again a period of "merger mania" in the United States in the 1980s which resulted in a variety of new words—and new business practices and concepts being introduced into the law such as targets, "poison pills," "junk bonds," "insider trading," "Pac-man defenses"—and which may have ushered in the S&L "scandal" in the 1980s. In the United States, a defense that has been accepted is the *"failing company doctrine,"* showing that without the merger, (1) there is no other reasonable alternative for the failing company, (2) no other purchaser is available, and (3) the assets of the failing company would completely disappear from the market if the otherwise anticompetitive merger were not allowed to proceed. There is also the *"small company defense,"* where courts have permitted two or more small companies to merge without incurring Section 7 liability so that they might be able to compete with a large company. Many of these defenses are especially relevant in the franchise relationship.

In 1976, pursuant to the passage of the *Hart-Scott-Rodino Antitrust Improvement Act* (1976), certain firms are required to notify the Federal Trade Commission and the Department of Justice of any proposed merger so as to give these bodies time to investigate and potentially challenge a merger that is potentially anticompetitive. If the merger falls within the parameters of the Act, the parties must file the notification form and wait thirty days. If within the thirty day period the government files suit to block the proposed merger, that suit is entitled to "expedited treatment" in the courts.

- Section 8 prohibits so-called "interlocking directorates" under certain circumstances (MacLeod, 1984). That is, no individual may sit on the boards of directors of two or more competing companies if either of the firms has capital and surplus (cash) in excess of $1 million and if a merger between them would violate any antitrust law. This section has been largely ignored by the Department of Justice.

ii. *The Federal Trade Commission Act of 1914*

Section 5 of the FTC Act prohibits "unfair methods of competition" and "unfair and deceptive trade practices." The Act also created the Federal Trade Commission (FTC) to enforce antitrust laws, especially the Clayton Act. The Federal Trade Commission Act is especially relevant in the area of franchising, where advertising plays such a critical role in differentiating between franchise operations and models and products or services.

A violation of the FTC Act can be found without any overt proof of any deception (similar to conscious parallelism). A mere showing that there is a "fair prospect" that the public will be deceived is sufficient to establish that the conduct is unfair and deceptive. The FTC Act is also involved in stemming so-called "bait and switch" advertising which involves advertising a product at an especially low or enticing price to get a customer into a store (the "bait") and then talking the customer into buying a more expensive model or service (the "switch") because the advertised model is sold out or has some alleged defect.

The FTC may order a respondent to "cease and desist" from certain acts or practices determined to be unfair or deceptive (similar to an injunction issued by a court), or may compel the affirmative disclosure of information previously omitted from an advertisement. The order may extend to products or services other than the products or services covered by the original advertisement which drew the wrath of the FTC. In certain cases (depending on whether the action was determined to be deliberate or unintentional, whether the violator has a prior history of similar conduct, etc.) the FTC may seek civil penalties or consumer redress (recalls, forced repurchases, etc.) The FTC may fine a violator up to $5,000 per violation- *with each day constituting a separate violation.*

Warner-Lambert Corporation v. Federal Trade Commission (1977) shows that the FTC may opt for corrective advertising as an appropriate remedy. Corrective advertising is business advertising that admits *in some way* that a product lacks some characteristic or performance feature it "appears" to have and is in order when the FTC believes that it is necessary to correct a false impression created by the respondent's prior advertisements.

At one time, so-called "resale price maintenance" agreements were legal under the *Miller-Tydings Act* of 1937 under which a retailer (franchisee) would agree to charge a single, uniform price so as to assure that the article would be "fair traded." These arrangements are no longer valid. Several important U.S. businesses rose to prominence under the special protection of "fair trade" legislation (like Tupperware and Corning Ware which were "fair traded" all over America).

iii. *Antitrust Remedies*

The penalties for a violation of an antitrust statute are myriad (Cavanagh, 2005). Several sections of the Sherman Act are punishable by fines (up to $1 million for a corporation and $100,000 for an individual) or up to three years in jail or both. If a corporation violates any of the penal provisions of antitrust laws, an

individual director, officer, or agent of the corporation may be held liable (generally, Lande and Davis, 2011).

Federal Courts in the United States may also issue orders to:

- *Restrain* particular acts or practices;
- Compel *divestiture* of a subsidiary;
- *Divide* a company's assets, even to the extent of creating a competing entity;
- Compel a company to *license a patent* with a reasonable royalty, or on a royalty-free basis (*U.S. v. Glaxo Group, Ltd.,* 1973);
- *Cancel contracts* entered into in violation of any antitrust law;
- *Disgorge illegal profits or impress a constructive trust* on parties.

Private parties today may file suit under the Sherman, Clayton, and Robinson-Patman Acts and seek treble damages (e.g., *Brunswick Corporation v. Pueblo Bowl-O-Mat, Inc.,* 1977). In the case of the Sherman Act, a successful plaintiff may also receive reasonable attorney's fees.

a. *Rule of Reason Considerations: The Major Standard in Franchising*

The "rule of reason" continues to be the basis of most judicial decisions in the area of franchising. A "rule of reason" analysis permits the courts to ask three important questions:

- What is the effect of the alleged restraint on competition?
- Would the restraint actually promote competition? (Has anyone actually been harmed?)
- Was the restraint reasonable and necessary to serve a legitimate competitive purpose?

The rule of reason is generally applied in the following circumstances:

Exclusive dealing contract (the essence of a distributorship arrangement): wherein one party requires the other party to deal with that party alone. For example, the seller tells the buyer that unless the buyer only buys from the seller, and not from a competitor of the seller, he will no longer deal with the buyer. Not all such arrangements are illegal; in fact, most are legal and permissible. Only those arrangements which in fact close off competition or where their effect "may be to substantially lessen competition or tend to create a monopoly..." will be branded illegal. Writes Danielle Paschal (2001, pp. 256-257):

"Exclusive dealing agreements frequently have procompetitive benefits not only for parties to the agreement but also for consumers. Exclusive dealing encourages manufacturers to invest in their distributors by providing training and capital investments. Without these agreements, distributors have an incentive to free-ride by using investments made by one manufacturer to sell products made by competing manufacturers. In addition to deterring free-riding, exclusive dealing agreements reduce transaction costs between suppliers and distributors because long-term contracts allow parties to avoid the expenses of entering into agreements for each transaction. These contracts give manufacturers the ability to control the quality of their products. Exclusive dealing also fosters trust between parties by protecting trade secrets and trademarks."

Requirements contracts (a contract in which the quantity is measured by the requirements of the buyer): like an exclusive dealing contract, a requirements contract obligates the buyer to purchase all of its requirements from a seller. Again, the rule of reason is used to evaluate such contracts, provided that the underlying contract is legal (Clayton Act, 1914, Section 3).

Customer and territory restrictions (to whom products/services can be sold or where products/-services can be sold): Originally, territorial and customer restrictions were considered to be *per se* violations by the United States Supreme Court, under a precedent termed the *Schwinn Rule* (*U.S. v. Arnold, Schwinn & Co.,* 1969). Under *Schwinn,* the Court had written: "It is unreasonable without more for a manufacturer to seek to restrict and confine areas or persons with whom an article may be traded after the manufacturer has parted with dominion and control over it." The *per se* view was set aside, however, as the Supreme Court now applies the rule of reason to such cases.

It is possible, however, for a manufacturer (distributor) to set up a "primary area of responsibility" with sales quotas for its franchisees by and through the contract entered into by the parties. These types of restrictions are important when a franchisor guarantees territories to a franchisee, in a concept termed "franchise market area protection." This is most often accomplished through using a radius (space/area), zip code (postal code) or population base (i.e., one franchise outlet per _____ thousands of persons). In the United States, protected territories originally had a median range of one mile. In many such cases, the franchisor may allow for expansion within an area by allowing the franchisee, if qualified, to purchase the new site on the same terms available elsewhere in the system in a comparable market. This is sometimes termed an option or a right of first refusal.

Tying Arrangements: In a tying arrangement, one party (usually the seller) refuses to sell one product unless the buyer also agrees to purchase or take a second product or service from the seller. Originally, tying arrangements were considered as *per se* violations. However, today, many exceptions or justifications do in fact exist which permit a court to apply a rule of reason analysis.

Requirements of a typing arrangement include: Two products (one of the products can be the trade mark or the service mark or the franchise contract itself *(Siegel v. Chicken Delight, 1971)*;

- "Economic power" on the part of the seller; that is, the typing product/service must be desirable (economic power will be automatically inferred from the existence of a patent);
- There must be an actual tie-in (and not just the "opportunity" to purchase goods/services);
- The fact that commerce is "not insubstantially affected." Thus, even a small effect on commerce will bring a tie-in under close scrutiny;
- "No legal justification is present." That is, the rule of reason will be applied in most cases; and
- Damages which can be shown easily if the tied product can be purchased at a lower cost from a second supplier (see, e.g., *Metrix Warehouse, Inc. v. Mercedes-Benz of North America, Inc.,* 1987).

A franchisor can still offer products or services to a franchisee. An illegal tie-in occurs where there is a *requirement of purchase that cannot be justified* under the rule of reason.

Several "justifications" have been offered under a rule of reason analysis that may be especially relevant in franchising:

- Sophistication regarding specifications for a product;
- Quality control (e.g., *Collins v. Dairy Queen, International, 1996; Tripoli v. Wella Corporation,* 1970);
- Product uniformity;
- The "practically indistinguishable" justification (relevant to franchises such as Hires Root Beer, Orange Julius, Dairy Queen). In essence, there is only *one product*- the product is the franchise or the franchise is the product; or
- The "new business" exception (usually for no more than six months) or "failing business" exception established in general antitrust cases (cf., *U.S. v. Jerrold Electronics,* 1961).

Many franchisors also attempt to circumvent rules by offering so-called "turn-key" operations to franchisees; in essence, full package franchises (land/building/equipment and supplies). A turn-key is not illegal; however, recently in the United States, courts have held that no more than a reasonable amount of supplies may be stocked in a franchise operating under an initial turn-key. At the outside, this may be no more than necessary to operate the franchise for an "initial reasonable period" (3-6 months).

Many successful American franchises now operating internationally began by tying-in a whole variety of products and services to an attractive product or service. The method of doing business outlined in KFC was the standard under which most franchises originally operated: low (or no) franchise fees;

percentages of income dedicated to the on-going franchising operation and to advertising; and sales of a whole host of products and services "tied" to the relationship (forks, napkins and paper products, "sporks," menu boards, accounting assistance, etc.) that provide the majority of income to the franchisor.

From this study of the *legal aspects of franchising* it should be apparent that a prospective franchisee must thoroughly understand and become familiar with these critical elements and concepts *before* they enter into a relationship that will determine their future success.

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Governance and FDI Attractiveness: Some Evidence from Developing and Developed Countries

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Abstract- In this paper, we'll try to study the impact of governance indicators and macroeconomic variables on the attractiveness of foreign direct investment in 20 developed and developing countries over the period 1998–2011 using fixed effects panel regressions. Our results generally indicate that only two indicators of governance namely, political stability and regulatory quality have a significant impact on FDI inflows. This indicates, for our overall sample, that foreign investors are interested in political stability and regulatory quality in their choice of investment abroad.

Keywords: governance, foreign direct investment, macroeconomic variables, fixed effects models and panel data.

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Strictly as per the compliance and regulations of:

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Yosra Saidi [α], Anis Ochi [σ] & Houria Ghadri [ρ]

Abstract- In this paper, we'll try to study the impact of governance indicators and macroeconomic variables on the attractiveness of foreign direct investment in 20 developed and developing countries over the period 1998–2011 using fixed effects panel regressions. Our results generally indicate that only two indicators of governance namely, political stability and regulatory quality have a significant impact on FDI inflows. This indicates, for our overall sample, that foreign investors are interested in political stability and regulatory quality in their choice of investment abroad. This paper also investigates the impact of macroeconomic variables on the attractiveness of FDI. Generally, in most models, either developed or developing countries, these variables provide a significant sign, which indicates the importance of these factors in the attraction of FDI. Indeed, market size, trade openness, infrastructure quality, the current account deficit have a significant effect on FDI inflows.

Keywords: governance, foreign direct investment, macroeconomic variables, fixed effects models and panel data.

I. Introduction

Globalization has led to an increase in foreign direct investment and transition countries become more attractive to FDI through the adoption of the liberalization of their regimes. Foreign direct investment plays an important role in the development and in poverty reduction. They have several positive effects on employment, transfer of technology, and consequently on the development and economic growth of the host country. In this sense, the origin of foreign investment, its destination and its effects on the country issuers and receivers have been a topic of continuing interest.

In recent years, the international development debate and political discourse are interested in the concept of good governance, which became an important factor for the well functioning of countries market, and therefore, for the attractiveness of foreign investment. Indeed, governments seeking to attract FDI should create a more favourable climate for Multinational Enterprises. Indeed, governments seeking to attract FDI should create a more favourable climate for Multinational Enterprises through the improvement of political institutions and economic policies that stimulate FDI inflows. On the other hand, there are several factors such as corruption, political instability, macroeconomic instability that affect the investment climate.

Governance is an optimal alternative of governability; it depends on the interdependence of powers relating to collective action. This alternative is amplified, notably as a result of chess successive Bretton Woods's institutions. The World Bank was one of the first international institutions called for the contribution of non-governmental actors in the process of political decisions, economic and social, in particular within states borrowers to improve governance at national and local level. It has defined governance as a mode of power exercise in the management of social and economic resources of a country. Also, UNCTAD has defined governance as "the manner in which the main actors of the society, governments, businesses and civil society work together to make society better."

Generally good institutions have a positive impact on development by encouraging investments. Therefore, the quality of institutions can attract FDI through good governance which constitutes an important factor for the attractiveness of foreign investment. The concept of good governance played a more important role in the international development debate and scientific research. Also, transparency is a special element that has a great relationship with governance and foreign direct investment. The concept of lack of transparency is linked to the corruption which indicates the absence of good governance.

Indeed, multinational companies are always looking to invest where the institutional environment is favourable. In addition, foreign investors prefer to make their investments in host countries with a transparent institutional framework characterized by a coherent policy. Therefore, the objective of this study is to know the influence of governance indicators on FDI flows. So our problem is as follow: what is the impact of governance indicators and macroeconomic variables on the attractiveness of foreign direct investment?

The remainder of the paper is organized as follow: section 2 provides a review of the related literature. In section 3, we discuss the methodology and

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the econometric specification. The data and variables are reported in Section 4. Section 5 reports the empirical results of the estimation. The paper's concluding remarks are provided in Section 6.

II. Brief Literature Reviews

There are several studies that focus on the determinants of FDI in developing countries. The empirical study of Singh and Jun in 1995 that has been done on the influence of political risk and macroeconomic variables on FDI inflows in developing countries, confirms the significance of these factors in explaining the determinants of FDI. Singh and Jun 1995, use in their work the FDI as a percentage of GDP as the dependent variable, and political risk and macroeconomic variables (manufacturing exports and the fiscal system) as explanatory variables. Also, they used control variables. Both authors have done an econometric study with panel data set of 31 developing countries in the period 1970-1993.

Wang and Swain (1997) showed that political instability affects negatively FDI inflows of multinational companies and their subsidiaries. Political instability, payment or modification of sovereign debt, corruption and non-transparent institutional harm the business climate, and therefore reduce FDI inflows.

Morisset (2000) in his study showed that corruption and bad governance, increase administrative costs and therefore reduce FDI inflows. And other works argue that political and institutional factors are necessary determinants of FDI movements to developing countries (Stein and Daude, 2001) and Latin America (Stevens, 2000).

Also, Globerman and shapiro in 2002, studied the relationship between governance and foreign direct investment in the United States. In general, governance infrastructure represents attributes of legislation, regulation and legal systems that affect the security of property rights, transparency of government and legal processes. Their result indicates that the governance infrastructure, including the nature of the legal system is an important determinant of received FDI. Globerman and shapiro in 2003 argue that good institutions establish a conducive climate to multinational companies abroad. The authors examine the impact of governance on FDI outflows from the United States destined for developing countries using a probit model.

According to Asiedu, in his article in 2005, data from several surveys of investors suggest that the investment restrictions, macroeconomic instability, corruption and political instability have a negative impact on foreign direct investment (FDI) in Africa. He uses panel data for 22 countries during the period 1984-2000 to analyze the influence of market, resources of nature, government policies, political instability and the quality of the institution in the host countries of FDI. Their fundamental result is that the major markets, natural resources, an educated population, a good infrastructure, less corruption, a political stability and a reliable legal system have a positive impact on FDI flows.

Bénassy-Quéré, Coupet and Mayer (2007) analyze the role of the institutional quality on the attractiveness of FDI in a sample of 52 countries in both countries investors and host countries. Using a database implemented by the French Ministry of Economy and Finance, the authors attempt to study in detail the institutions. They establish a panel gravity model. The results of this study argue that host country institutions have an impact on FDI with or without the inclusion of GDP in the model. The results raise the role of the public sector in the fight against corruption, transparency, human contacts, the guarantee of security of property rights, effective justice and prudential supervision, in addition, to setting up an effective fiscal system.

The study by Mishra and Daly (2007) focuses on the effect of institutional quality of OECD and Asian host countries on FDI during the period 1991 – 2001 using the International Guide of country risk. They find that the best institutions in the host country have a positive and significant overall impact on FDI inflows. Indeed, the respect for the people's rights, the strength and justice of the legal system and government stability in host countries have a direct impact on FDI inflows in these countries.

Samimi and Ariani (2010) studied the impact of a better quality of governance on foreign direct investment. They used aggregate annual data for 16 countries in the Middle East and North Africa (MENA) for the period 2002-2007. They used three governance indicators namely, political stability, control of corruption and rule of law published by the World resources institute. They resulted in the improvement of governance and they have a positive impact on FDI inflows in MENA countries. Therefore, policies aimed at improving governance indicators in the region are proposed.

Adhikary (2011) studied the relationship between good governance, FDI and economic growth in 15 Asian countries over the period 1996 to 2008 with the application of the random effect of generalized least squares, estimation models Prais-Winsten. The empirical results show that FDI and governance indicators such as government effectiveness, political stability and absence of violence are determining factors of economic growth. Mengistu and Adhikary (2011), analyze the impact of six indicators of good governance on FDI inflows in 15 Asian countries for the period 1996-2007. They use a panel data model with fixed effects. They result that the six governance indicators namely, government effectiveness, political stability and absence of violence, the rule of law and control of corruption are

the main factors of FDI location. Generally, they conclude that improving the governance environment is able to attract more FDI.

Hassen and Anis (2012) studied the impact of foreign direct investment (FDI) on the economic growth of Tunisia, over the period 1975-2009. They found a relationship co-integration of long-term between the coefficients of financial development, FDI, human capital, trade openness and real GDP of the Tunisian economy.

III. Methodology

This paper uses the model of Baptiste (2005) to address the nature of the impact (positive or negative) of governance indicators on the attractiveness of foreign direct investment on a sample of 20 countries, 10 developed countries and 10 developing countries. We choose the control variables in our model according to data availability. Also, we add the variable subscribers to High Speed Internet fixed (per 100 people) as an indicator of infrastructure INFR. Thus, INFR is expected to be positively correlated with FDI. First, we will estimate our overall sample. After that, we divide the sample into two groups: The first group consists of 10 developed countries and the second contains 10 developing countries. And we will estimate for each group. Thus, the complete model is the following:

$$\text{FDI net inflows} = \beta 0 + \beta 1\ \text{STAB}_{it} + \beta 2\text{QUAL}_{it} + \beta 3\ \text{CORR}_{it} + \beta 4\ \text{ETAT}_{it} + \beta 5\ \text{VRES}_{it} + \beta 6\ \text{EFI}_{it} + \beta 7\ \text{TINF}_{it} + + \beta 8\ \text{BCPIB}_{it} + \beta 9\quad \text{CPIB}_{it} + \beta 10\ \text{TOU}_{it} + \beta 11\ \text{INT}_{it} + \varepsilon_{it}$$

Where **i** is the country subscript, **t** is the time ubscript, **β0** is the constant, is an error term, **βi** are the coefficients associated with different variable, **FDI** (FDI net inflows (BDP current U.S.)) is foreign direct Investment net inflows (BDP current U.S.), **PSAV** is the political stability and the absence of violence, **RQUAL** is the regulatory quality, **ETAT** is the rule of law, **VA** is voice and accountability, **CBRT** is corruption and bureaucratic red tape, **GEFF** is government effectiveness, **RINF** is the inflation rate, **BPCA** is the balance of payments current account, **GDPG** is the GDP Growth Rate, **OPEN** is the openness of the economy and **INFR** is the infrastructure Index. In our research we made the following operational assumptions that guide the remainder of the study. The first hypothesis assumes that the Political stability has a positive and significant impact on the attractiveness of FDI. The second hypothesis assumes that regulatory quality has a positive and significant effect on entered FDI. The third hypothesis assumes that the control of corruption affects positively and significantly the inflow of FDI. However, CBRT is expected to be negatively correlated with FDI flows. The fourth hypothesis assumes that voice and accountability, the rule of law and government effectiveness are positively related to FDI inflows. The fifth hypothesis assumes that the rate of GDP growth and the opening rate affect significantly and positively the inflow of FDI. The GDP growth rate is a variable that measures the size of the market; more the market size increases more the FDI share increases. Also, Morisset (2000) and Asiedu (2003) argue that the attraction of FDI depends on the degree of country trade openness. Finally the sixth hypothesis assumes that the inflation has a negative impact on the FDI entry, the more the inflation is low the more FDI inflows are large (Trevino, Daniels and Arbeláez, 2002).

IV. The Data and Variables

a) Data

This study data are taken from the World Bank website, the World Development Indicators and the site of Governance Matters 2011 (Worldwide Governance Indicators, (1996-2010). Our empirical investigation focuses on the study of the impact of the six governance indicators on inputs flows of foreign direct investment (FDI). Our sample is an unbalanced panel data of 20 developing and developed countries namely the United States, Japan, Germany, France, Italy, Canada, Greece, United Kingdom, Portugal, Netherlands, Algeria, Tunisia, Morocco, Egypt, Nigeria, Kenya, Indonesia, Malaysia, Albania and Cameron over the period between 1998 and 2010 consisting of 260 observations.

b) Variables description

To test the magnitude of the impact of the six governance indicators on the inputs of foreign investment flows, we used some variables that will be presented in detail as follows:

The dependent variable in our model is the FDI net inflows (BDP current U.S.).

The independent variables are the six governance indicators, namely the fight against is corruption and bureaucratic red tape (CBRT), the rule of law (ETAT), political stability and the absence of violence (PSAV), voice and accountability (VA), regulatory quality (RQUAL) and government effectiveness (GEFF).

The control variables are related to five categories of factors: the inflation rate (RINF), balance of payments current account (% of GDP) (BPCA), GDP growth (GDPG), openness of the economy (OPEN) and infrastructure Index (INFR).

The inflation rate is measured by consumer prices (annual %). This variable is assumed closely

related to an inadequate form of macroeconomic policy. The balance of payments current account is the total net exports of goods, services, net income and net current transfers. The openness of the economy is estimated by the trade intensity measured by the ratio of the sum of exports and imports to GDP. This ratio is often interpreted as the quantification of trade restrictions. In general, the impact of trade openness is related to the type of foreign investment. Indeed, the existence of many trade restrictions promotes the entry of horizontal FDI. While, the multinationals engaged in export activities or vertical FDI, prefer to invest in relatively open economies because trade barriers increase the transaction costs. Finally, the effect of infrastructure on the attractiveness of FDI can be explained by adequate services that provide a favorable environment for the entry of foreign investment.

V. Empirical Results

In order to measure the impact of governance indicators on the FDI entry, we used several tests. In the following, we present in detail the results. At first, we present descriptive statistics for the overall model, which contains 20 developed and developing countries.

a) The Global Model

i. Descriptive statistics

To estimate the models, we used the econometric technique for estimating panel data using statistical software for data analysis (STATA 12). In this context, the following table reports the descriptive statistics that characterize the series of FDI inflows retained on the sample period from 1998 to 2010:

Table 1 : Descriptive statistics for the study variables

Variable	Observation	Average	Ecart-type	Minimum	Maximum
FDI	259	2, 48	2,65	-2,8	16,4
CBRT	220	0,42	1,13	-1,32	2,33
PSAV	220	0,016	0,9	-2,05	1,62
RL	221	0,42	1,1	-1,61	1,81
GEFF	220	0,56	1,01	-1,234	2,10
RQUAL	220	0,5	0,92	-1,34	2,06
VA	220	0,3	1,02	-1,43	1,73
RINF	260	3,91	5,25	-1,3	58,4
BPCA	259	0,3	7,45	-18,7	32,5
INFR	254	6,15	9,81	0	37,97
GDPG	260	3,28	3,39	-13,1	20,4
OPEN	258	0 ,7	0,38	0,19	2,2

Table 1 shows, for the period 1998 to 2010, the descriptive statistics of all variables used in our empirical analysis for all countries in the sample. We find that the FDI variable is between -2,8 and 16,4 with an average of 2, 48 and a standard deviation of 2,65 n . In fact, these recorded values show the existence of a significant volatility that characterizes, in this case, the distribution of FDI flows in the sample. While, the variable CBRT has an average of 0,42 and a low dispersion of 1,13, knowing that volatile between -1,32 and 2,33. PSAV variable has an average of 0,016 and low variability 0,9. RL variable is between -1,61 and 1,81 with an average of 0,42 and a standard deviation of 1.064. Thus, GEFF, RQUAL and VA have averages of 0,56, 0,5 and 0,3, respectively, and a standard deviation of 1,01, 0,92 and 1,02 respectively. However, RINF and BCGDP are on average 3,91 and 0,29 respectively, and high variability 5,27 and 7,48 respectively. Also, variables INFR, GDPG have an average of 6,15 and 3,28

respectively, and a standard deviation of 9,81 and 3,39. The opening rate variable varies between 0,19 and 2,2 and an average of 0,7 and a low of dispersion 0,38. We conclude that most variables represent a low variability compared to the average, which shows the homogeneity of variables.

ii. The impact of PSAV, and CBRT ON THE RQUAL GDP

First, we introduce the variable STAB, to study its impact on the attractiveness of FDI. The examination of the Fisher statistic detects the global significance of the model. Indeed, we have obtained a value statistically significant at the 1% level to confirm the overall significance of the model (prob> F = 0,0011 <0,1). Also, according to the Fisher test (F = 4;15, prob> F = 0,000), we conclude that this model is homogeneous.

Table 2 : The impact of PSAV, and CBRT ON THE RQUAL GDP

Variables	PSAV	RQUAL	CBRT
PSAV	1.282464** (1 .99)		
RQUAL		2.708162* (2.68)	
CBRT			0.204065 (0.23)
RINF	0.0142966 (0.37)	0.0023739 (0.06)	0.0069952 (0.18)
INFR	- 0.0445364*** (-1.96)	-0.0620257* (-2.84)	- 0.05501091** (--2.34)
GDPG	0.1038136*** (1.82)	0.1007373*** (1.78)	0.1126864* ** (1.96)
BPCA	-0.0736364** (-2.00)	-0.0736048** (-2.02)	- 0.0797789** (-2.16)
OPEN	4.070379** (2.32)	3.042588* (1.72)	3.88261** (2.18)
CONS	-0.4043803 (-0.33)	-0.8166462 (-0.67)	-0.2620199 (-0.21)
R^2	0.1101	0.1247	0.0917
F	0.0011	0.0003	0.0054
Hausman test	0.0002	0.0001	0.0011

*, ** and *** indicate 1% , 5% and 10% significance levels, respectively
The first line shows the coefficients and the second line shows t-student

Then, we use the variable RQUAL to measure its impact on FDI inflows. This model is globally significant (prob> F = 0.0003 <0.1) and homogeneous (F = 4.25, prob> F = 0.000). As we enter the variable control of corruption (CORR) to clarify its influence on FDI. Also, we enter the variable control of corruption (CORR) to clarify its influence on FDI. This model is globally significant (prob> F = 0 .0054 <0.1) and homogeneous (F = 3.42, prob> F = 0.0054).

The coefficient of determination R2 gives an idea of the percentage of variable variability. The higher the coefficient R2 is close to 1, the more there is a better correlation in the model. When we use the variable PSAV, we obtain a value of (R2= 11%), indicating that 11% of the variability of FDI is explained by these variables. Therefore, this fixed effect model is distinguished by a relatively low explanatory power. Also, models that relate the variables RQUAL and CBRT give a low explanatory power, 12,47% and 9,17% respectively.

Table 2 summarizes the results of our study. We note that all the control variables are statistically significant (at the 5% and 10%) except the variable inflation RINF. Firstly, the variable PSAV has a positive and significant effect at the 5% on FDI inflows. This result confirms the first hypothesis that political stability and absence of violence affects positively and significantly the FDI inflows. Our result affirms that political stability is an important factor in the choice of multinational enterprises to invest in a foreign country. Secondly, regulatory quality has a positive and significant effect (at 1%) on FDI inflows. This result supports our theoretical hypothesis (H2). Indeed, the government's capacity to formulate and implement policies and regulations, that promote private sector development, stimulates FDI inflows. Thirdly, the control coefficient of corruption and bureaucratic red tape is positive and statistically insignificant. This result contradicts our assumption (3), that the CBRT has a

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positive and significant effect on FDI. The positive sign means that the more the country is making efforts to reduce the level of corruption, the more it attracts FDI. Moreover, a country that adopts measures to raise the level of transparency in its policies and institutions, realizes an increase in FDI inflows. Variable inflation (RINF) has a positive sign that is not significant. This result opposes our sixth hypothesis that inflation discourages FDI inflows. However, the effect of the infrastructure Index (INFR) appeared negative and significant at 10%, 1%, 5% respectively in the three models. Negative sign explains that bad infrastructure significantly discourages FDI. Indeed, infrastructure is a precondition for attracting FDI. The variable GDP growth (GDPG) which reflects the market size has a positive impact and statistically significant at 10% in the three models. This result corroborates with our fifth hypothesis. Concerning the balance of payments current account (BPCA), we observe a negative and significant effect at the 5% level in all three models. The negative sign indicates a deficit current balance. This deficit is generally covered by imposing high taxes on

domestic and foreign companies, which increases the cost of investment, and therefore discourages FDI. In the end, the coefficient associated with the variable rate of trade openness is positive and significant at the 5%. This result conforms to (H5), the more the country is open to international trade, the more it attracts FDI.

iii. *The impact of RL, GEFF and VA on FDI*

First, we take the variable of the rule of law (RL) to clarify its impact on FDI. This model is globally significant (prob > F = 0.0049 < 0.1) and homogeneous (prob = 0.000 < 0.1). Then, we introduce the variable GEFF to know its impact on FDI. Fisher statistics can give the global significance of this model which is significant at 1% (prob > F = 0.0049 < 0.1). Also, This model is homogeneous (prob > F = 0.000 < 0.1). Finally, we use the variable of voice and accountability (VA) to study its influence on FDI inflows. This model is globally significant at 1% (prob > F = 0.0029 < 0.1) and homogeneous (prob > F = 0.000 < 0.1). The regression results are presented in the table 3:

Table 3 : The impact of RL, GEFF and VA on FDI

Variables	RL	GEFF	VA
RL	0.6337362		
	(0.50)		
GEFF		0.6731652	
		(0.53)	
VA			-1.387986
			(-1.26)
RIF	0.0080846	0.0071658	-0.0099851
	(0.21)	(0.19)	(-0.25)
INFR	-0.056105**	-0.0530445**	-0.0585311*
	(-2.53)	(-2.28)	(-2.65)
GDPG	0.1163644**	0.1074337***	0.1284016**
	(2.01)	(1.84)	(2.20)
BPCA	-0.0815049**	-0.0811123**	-0.0721074***
	(-2.19)	(-2.19)	(-1.93)
OPEN	3.780711**	3.957963**	4.168669**
	(2.11)	(2.24)	(2.35)
CONS	-0.373277	-0.6069996	0.0581133
	(-0.29)	(-0.42)	(0.05)
R^2	0.0927	0.0928	0.0991
F	0.0049	0.0049	0.0029
Hausman test	0.0004	0.0003	0.0001

*,** and *** indicate 1% , 5% and 10% significance levels, respectively
The first line shows the coefficients and the second line shows t-student

The dependence coefficient R2 has a value of 9.27%, 9.28% and 9.91%, which means that these three models have a very low explanatory power. According to Table 3, we find that the rule of law has a positive impact on FDI inflows, which supports our fourth hypothesis. Therefore, systems of rules that is really executed, institutions that really work and maintain a favorable implementation of these rules encourage FDI. Our result supports the conclusions of the neo-institutional theory that finds a transparent and effective legal system reduces transaction costs for economic actors, including foreign investors. Indeed, for developing countries that have ongoing transition to a market economy, must apply legal and judicial reforms. The variable of government effectiveness (GEFF) has a positive effect on FDI inflows, which is not significant. Indeed, the quality of the public services and the degree of its independence from political pressures, the quality of policy formulation and implementation and the credibility of the government's commitment to such policies have an impact on FDI. This result confirms our fourth hypothesis. The coefficient relative to the variable of voice and accountability (VA) has a negative and statistically significant impact, which opposes the fourth hypothesis. This negative sign indicates that the lack of accountability and lack of democracy discourages FDI inflows.

Through our results in the overall model, only political stability and regulatory quality are important determinants for FDI inflows in these countries.

In the second part, we divided our sample in to two groups: a group of developed countries and another of developing countries, and we studied if the model, governance-FDI is significant or not in the two groups, independently of one another.

b) Developed Countries

In this context, we studied the influence of governance indicators on the inflow of FDI in the 10 developed countries in our sample. And we found that the four governance indicators namely, PSAV, QUAL, CBRT, GEFF have a positive and significant impact on FDI inflows in these countries. While the variables RL and VA have no significant impact.

First, we studied the impact of variable PSAV on FDI inflows. For this model, the probability of the Hausman test is less than 10% (p = 0.0528), which implies that the fixed effects model is more appropriate than the random effects model. Also, this model is globally significant level of 1% (prob > F = 0.0035 < 0.1) and homogeneous (prob > F = 0.001 < 0.1). Then, we checked the influence of the variable RQUAL on FDI. For this model, the probability of the Hausman test is higher than 10% (P = 17.44 %), which implies that the random effects model is more appropriate than the fixed effects model. Also this model is globally significant at 1% (prob > chi2 = 0.00). To study the effect of corruption on FDI inflows in developed countries, we used the random effects model, because the probability of the Hausman test is greater than 10%. Finally, we inflows in developed countries, we used the random effects model, because the probability of the Hausman test is greater than 10%. Finally, we introduced the variable GEFF to verify its impact on FDI. The estimation results are reported in the following table:

Table 4 : The impact of RL, GEFF and VA on FDI

Variables	PSAV	RQUAL	CORR	EFFI
PSAV	2.702201**			
	(2.39)			
RQUAL		3.010073*		
		(3.71)		
CBRT			1.772752*	
			(3.28)	
GEFF				2.406599*
				(3.67)
RINF	0.1312824	-0.1500469	0.1065682	0.024938
	(0.44)	(-0.56)	(0.39)	(0.09)
INFR	-0.319828	-0.048016**	-0.03289	-0.031014
	(-1.01)	(-1.79)	(-1.23)	(-1.17)
GDPG	0.1167928	0.1304282	0.1026451	0.1105431
	(0.96)	(1.15)	(0.88)	(0.96)
BPCA	-0.3433354**	-0.0563079	-0.0871571	-0.1013515
	(-2.52)	(-0.89)	(-1.26)	(-1.51)
OPEN	4.155172	3.607757*	3.515469*	4.09935*
	(0.87)	(3.35)	(2.98)	(4.00)
CONS	-2.595857	-3.114394*	-2.204386**	-3.428038*
	(-0.89)	(-2.96)	(-2.26)	(-3.09)
R^2	0.1884	0.3296	0.3187	0.3249
F ou chi2	0.0035	0.0000	0.0000	0.0000
Hausman test	0.0528	0.1744	0.2517	0.1548

*, ** and *** indicate 1% , 5% and 10% significance levels, respectively
The first line shows the coefficients.
For the first model, the second shows t-student is presented in parentheses.
For the second, third, and fourth model, the second line shows the statistics (z) are also

situations increase the levels of investment risk. Several authors argue that investors choose to invest in developed countries, because they are politically stable. Regulatory quality has a positive and significant impact at 1% on FDI inflows in developed countries. In addition, there is a positive and significant relationship between control of corruption and entered FDI. This result justifies our third hypothesis. Similarly, the variable effectiveness of government seems to have a positive and significant effect (at 1%) of the FDI inflows in developed countries (hypothesis 4). In addition, the inflation rate RINF in the second model has a negative and insignificant effect that is to say that the level of inflation evolves in the opposite direction of the FDI inflows. This result validates our sixth hypothesis. We note that the infrastructure Index always has a negative and significant impact (we explained this in the global

model). But in table 4, only in the second model, it appeared significant. Also, we noted that the coefficient of the variable GDPG in developed countries appeared positive, but not significant which contradicts our fifth hypothesis. When the variable BPCA, still exerts a negative and significant effect in the overall model. But in developed countries, it seems insignificant except for the first model which appears negative and significant. Finally, the opening rate (OPEN) always has a positive and significant relationship with the incoming FDI, which is consistent with our fifth hypothesis. But in the first model it appeared insignificant.

From the preceding results, we conclude that the governance-FDI model is significant in developed countries. Among of the six governance indicators, there are four that have an important role in the attraction of FDI.

c) Developing Countries

In this context, we examined the impact of governance indicators on FDI inflows in 10 developing countries in our sample. We got only one indicator of the regulatory quality that has a significant impact on FDI flows in these countries.

First, we used the variable political stability and absence of violence PSAV to study its impact on FDI inflows in developing countries. We used the fixed effects model as an estimation procedure because the probability of the Hausman test is less than 10%. We obtain an overall model significant at 5% (prob > F = 0.0153), and homogeneous (prob > F = 0.000 < 0.1). Then we entered the variable RQUAL also to clarify its influence on FDI inflows in 10 developing countries in our sample. This model is globally significant at 1%. The estimation results are reported in Table 5:

Table 5 : The impact PSAV and RQUAL on FDI inflows in developing countries

Variables	PSAV	RQUAL
PSAV	0.1968477	
	(0.29)	
RQUAL		2.351847**
		(2.20)
RINF	-0.0022077	-0.0034787
	(-0.07)	(-0.12)
INFR	0.3779466**	0.3457603**
	(2.51)	(2.35)
GDPG	0.1092733***	0.1020575***
	(1.93)	(1.84)
BPCA	-0.0484076	-0.0473193
	(-1.59)	(-1.60)
OPEN	4.494654*	3.573836**
	(2.85)	(2.26)
CONS	-1.470629	-0.0478648
	(-1.10)	(-0.03)
R^2	0.1541	0.1955
F	0.0153	0.0023
Hausman test	0.0181	0.0065

According to table 5, we noted that the variable PSAV has a positive and insignificant impact on FDI inflows, which opposes our first hypothesis. Indeed, there is a positive but not significant relationship between political stability and absence of violence and FDI inflows. Then, there is a positive and statistically significant (at the 5% level) between regulatory quality and inward FDI in developing countries (hypothesis 2). In addition, the inflation rate RINF seems to have a negative effect but insignificant on FDI inflows, which confirms our sixth hypothesis.

Unlike all the results obtained in previous models, the coefficient of the variable subscribes to thigh-Speed fixed Interne (INFR) in developing countries in our sample appeared positive and significant at the 5% level. Concerning the coefficients of GDPG, OPEN variables, we found the same results that the global

model, which are positive and significant at 10%, 1%, respectively. This result confirms our fifth hypothesis. The coefficient of BPCA variable is always negative and significant, but in developing countries, it became negative but insignificant. The negative sign indicates a deficit in the current account in these developing countries.

VI. Conclusion

The main objective of this paper is to examine the influence of governance indicators on the attractiveness of foreign direct investment in 20 developed and developing countries over the period 1998–2010 using a fixed effect model, for the majority of models, with each explanatory variable in the equation. The results indicate that only two indicators of governance namely, political stability and regulatory quality have a significant impact on FDI inflows. This

indicates, for our overall sample, that foreign investors are interested in political stability and regulatory quality in their choice of investment abroad.

Then, in our sample we tried to study the impact of these six indicators of FDI inflows in 10 developing countries. We found that only the quality of regulation has a significant impact on FDI inflows in these countries. While, we found four governance indicators that have a significant and positive impact on the attractiveness of FDI in developed countries namely; PSAV, RQUAL, CBRT, GEFF, indicating that governance has a significant impact on the inputs of FDI in the developed countries.

This paper also investigates the impact of macroeconomic variables on the attractiveness of FDI. Generally, in most models, either developed or developing countries, these variables provide a significant sign, which indicates the importance of these factors in the attraction of FDI. Indeed, market size, trade openness, a good or bad infrastructure, the current account deficit have a significant effect on FDI inflows.

From our results in three models (global, developed countries and developing countries), we concluded the importance of political stability and regulatory quality and macroeconomic variables in the attraction of FDI.

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Poverty, Underdevelopment and Emerging Economies: Nigeria in Focus

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Abstract- The paper critically investigated poverty in Nigeria over the years, considering its persistent rise in spite of various measures instituted by different Nigerian leaders. The study revealed that improper identification of the poor, lack of adequate monitoring of programmes, corruption, inconsistent   policies, poor funding of programmes, lack of industries, poor infrastructure and irregular power supply, among others, have contributed significantly meteoric rise in poverty over the years. Among the ways forward articulated are: proper research and survey are required before commencement of programmes; sufficient monitoring and consistency in policies are essential; intensification of modernized agricultural practices in Nigeria; annihilation of corruption in all levels through leaders' change of attitude; and mass participation of citizens in policy formulation and service delivery are imperative now.

Keywords: economies, emerging, poverty, policies, underdevelopment.

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Abstract- The paper critically investigated poverty in Nigeria over the years, considering its persistent rise in spite of various measures instituted by different Nigerian leaders. The study revealed that improper identification of the poor, lack of adequate monitoring of programmes, corruption, inconsistent policies, poor funding of programmes, lack of industries, poor infrastructure and irregular power supply, among others, have contributed significantly meteoric rise in poverty over the years. Among the ways forward articulated are: proper research and survey are required before commencement of programmes; sufficient monitoring and consistency in policies are essential; intensification of modernized agricultural practices in Nigeria; annihilation of corruption in all levels through leaders' change of attitude; and mass participation of citizens in policy formulation and service delivery are imperative now.

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I. Introduction

Nigeria is the most populous country in Africa with a population of over 162 million, according to the World Bank (2011) data. The country is blessed with abundance of both human and natural resources. Prior to the present civilian regime, the military that was in control for fifteen years (1984-1999) did not put meaningful developmental structures on ground and this gradually deteriorated the living standard. However, different policies, programmes and strategies were employed to reposition the economy from being one of the poorest countries of the world to one of the leading economies by the year 2020. Yet, on practical basis, the country lacks the requirements for decent living standard. The Guardian (2005) points that Nigeria is rated one of the world poorest countries. Available data show that the economy ranks between 130-154th position of the Global 172 economies in the world marginal index, and is among the 20 poorest countries in the world in spite of being the giant of Africa in terms of huge human and mineral resources and available. The country occupies the 7th position as the world's largest producer of crude oil.

Ogwumike (2002) points that the number of those in poverty rose from 27% in 1980 to 46% in 1985; it decreased slightly to 42% in 1992, and increased sharply to 67% in 1996. By 1999 the estimated poverty was more than 70%, which compelled the federal government to intensify action on poverty reduction. Consequently, efforts have been made in all angles to reduce the level of poverty in Nigeria but greed has retarded positive efforts. Budgetary allocations have been on the increase, nevertheless, with no remarkable improvement.

Ozoh (2010) posits that the problem of inability of the underdeveloped countries to grow emanates from defective economic and socio-political institutional setups, defective attitude towards work, technological backwardness, low entrepreneurial skill and talents, indiscipline, limited size of market and imperfection, lack of basic industries due to capital deficiency and defective education, among others. Nigeria as a country has inadequate infrastructure to sustain industrial activity. Besides, the pattern of attitude among leadership and the led have not been encouraging. Consequently, there is decline in aggregate economic activity, which reflects on the gross domestic product and real income of the society, thereby debilitating the repositioning of poverty in the country. Consequently, the economy is strongly gripped with vicious cycle of poverty.

Tackling the vicious circle of poverty is seen as a prerequisite for revamping the economy. Poor income gives rise to low saving which in turn results to low capital accumulation, low investment and low income. The required environment in Nigeria has not been available and favourable in repositioning low living standard. Among the actions of the federal government in changing the trend of poor living standard is increased expenditure by the three tiers of government– Local, State and Federal. This is more of a simultaneous investment in various nooks and crannies of the economy. This intention was aimed at turning around the vicious circle of poverty which exists both on the supply and demand sides of the economy. However, the present status quo gives room for ambiguity in respect of proper targeting and attainment of goals.

Every year, the various governments of Nigeria make budgetary allocations in various sectors with the hope of improving and advancing the economy. These allocations are not easily accounted for owing to the high degree of corruption. In its assessment of the level

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of corruption, Transparency International employed surveys and assessments which included questions related to the bribery of public officials, kickbacks in public procurement, embezzlement of public funds, and the effectiveness of public sector anti-corruption efforts. Their approach placed Nigeria as one of the most corrupt economies. This is because Nigeria ranked 143 with index of 2.4 out of 183 countries and other territories of the world (Transparency International, 2011).

More so, the existing problems in all the sectors are always there, notwithstanding the yearly funding. Specifically, the power sector which has a great linkage effect in the engagement of other sectorial activities is yet to be well positioned to sustain production in Nigeria in spite of huge budgetary allocations. Besides, the outcome of poverty alleviation measures has not been able to yield practical, positive results. In Nigeria, most commodities consumed by the poor are the most expensive. For instance, petrol is sold at 97 naira per liter while kerosene is 140 naira.

Igbuzor (2004) notes that the main causes of poverty in Nigeria include illiteracy, unemployment, ignorance, high inflation rates, poor economic governance, insecurity of life and property, huge foreign debt, high incidence of diseases, environmental degradation, large family size, inadequate access to employment opportunities and lack of adequate access to land and capital. Many policies, programmes and strategies aimed at solving these myriad of problems still leave the majority of Nigerian unchanged. One may be compelled to ask what is really happening to the Nigerian economy. Why have policies, fund allocations and various programmes adopted over the years unable to revive poverty in Nigeria?

In this paper, our intention is to critically appraise poverty alleviation in Nigeria, including the Millennium Development Goal (MDG) of United Nations which targets poverty eradication by the year 2015. So, the paper is presented in this order: section one dwells on theoretical and empirical literature, section two focused on overview of programmes to alleviate poverty, the third section centres on critical evaluation of the programmes, while the last section discusses the way forward and conclusion.

II. Theoretical Literature

One of the major problems adversely affecting developing countries has been poverty. Nurkse (1957) points out that 'a country is poor because it is poor'. Poverty of a country stems from many factors which retard productivity, income generation, saving and investment, thereby affecting capital accumulation. Domar (1937) states that it is actually capital rather than labour that is the main factor limiting growth in less developed countries. Arthur Lewis, Rostow and others support this view. Human capital, being an important

variable in growth and development, has been observed by various economists as the critical factor [Romer (1986), Mankiw, Romer, Weil (1992)]. For poverty to be eradicated in Nigeria, besides putting in place capital over heads, efforts are desperately required to reform the quality of human capital. This implies restructuring or reforming the education sector. The Solow-Swan model recognizes the stock of capital and knowledge or effectiveness of labour as imperative in raising output level. Mankiw, Romer, and Weil (1992) have also shown that relative small changes in the resources devoted to physical and human capital accumulation may lead to large changes in output per worker.

Poverty is easily tackled with great change in both physical and human capital. It is basically on this fact that emphases of most policies and programmes for alleviating poverty in Nigeria have incorporated education and training and provision of facilities to enhance production of output expected to change the economic trend. But the approaches adopted over the years seem unsatisfactory considering the fact that the menace of poverty has not abated. Education sector is highly deficient of the requisite infrastructure to enhance effective learning. Industrial actions are frequently experienced by the teachers and Academic Staff Union of Universities (ASUU) which could have been avoided, but due to government inability to do what is necessary at the right time. Incessant strikes have dampened and bastardized the spirit of learning and mental development, thereby yielding poor quality results. This definitely has its negative multiplier effects.

Agenor (2000) observes that educational attainment is a crucial determinant of an individual's earnings capacity and of a country's stock of human capital. Poor families are often caught in a low-education, low-skill, and low-income trap: they cannot afford to forgo current income and invest in education. From various indications, it is obvious that human capital development and infrastructural provisions are very essential ingredients of sustainable economic growth and poverty reduction. The government of Nigeria is aware of all these but prefer to pay lip services in most cases; hence the situation has degenerated to the unexpected as no Nigerian University is ranked among the 20th in Africa or among the 1000th in the world (Webmetrics, 2012).

Nigeria as a country is characterized by low per capita income, highly unequal income/wealth distribution, low standard of living, lack of infrastructure, under utilisation of natural resources, dualistic economic pattern and most importantly, lack of capital which is reflected by low rate of capital formation as a result of low per capita income, general poverty, low saving and high marginal propensity to consume, unproductive, conspicuous consumption, low marginal efficiency of capital and so on.

The government, being aware of these, has attempted in various ways to develop the economy, yet much is yet to be realised. Meier (1980) states that economic development is the process whereby the real per capita income of a country increases over a long period of time-subject to the stipulations that the number of people below an "absolute poverty line" does not increase, and that the distribution of income does not become more unequal. The effort of the government has not been enough to reduce poverty. The poor are becoming poorer every year and living standard in the rural areas of the country is shocking.

The Big Push theory advocates a simultaneous investment in all the sectors of the economy. It is unequivocal that bit-by-bit developmental investment approach may not be enough to put in place the enormous resource requirement and capital overheads to push the underdeveloped economy to the path of sustainable growth. Hence, Rodan (1947) advocates the Big Push thesis that points that there is minimum level of resources that must be made available for development programme if the society intends to have an opportunity of success. This presupposes that investment in inter related industries with positive externalities will have the complementarity ability to bring about positive economic effects. The Big Push actually advocates the industrialization of an economy and the role of the government in the application of policies and programmes since the market forces may not be sufficient to allocate resources adequately and accelerate economic development.

This theory in so many ways has been applied in Nigeria over the years in consideration of the different National Development Plans since 1962. But the continual rise in both urban and rural poverty calls for questioning the extent of all the government actions in poverty eradication. It is difficult to convince anybody that the allocations for power supply, water supply, road network, agriculture and education have been sufficient to alleviate poverty. It is also disheartening that most Local Government Areas in Nigeria are handicapped from impacting in any way in the development of the local areas due to improper channeling of funds. It is also very equivocal to accept that all allocated funds are entirely channeled to the targeted considering the fact that corruption has eaten deep into all the nuclei of the sectors of the Nigerian economy.

III. Empirical Literature

Many writers have been worried about the high degree of poverty in sub-Saharan Africa and as such have investigated on how to resolve it so as to improve the living standard of the people. In Nigeria, serious attention has been paid to poverty eradication over the years. Nevertheless, much still needs be done. Ibeh (2011), in his study of the bastardization of the poverty alleviation programmes in Nigeria, points that

notwithstanding about 40 years of developmental planning and economic reforms, poverty and its features like unemployment, hunger, malnutrition, corruption, dualistic economy, technological backwardness and vicious cycle of poverty are prevalent in the everyday lives of Nigerians. He further notes that the introduction of poverty alleviation programme aimed at tackling poverty has been debased and made a source of embezzlement by the promoters, leading to prolonged poverty with associated difficulties.

Although poverty alleviation was indirectly considered in the past, which was later made direct with the intention of tackling it in earnest, it is quite disheartening that the level of decay among leaders has now resulted to egocentrism and wealth acquisition at the expense of the down trodden. The allocated resources, most times, do not reach their targeted. The impact is far below the budgeted and allocated amount of resources. The situation in the country has compelled many Nigerians to seek asylum in other developed countries of the world even when there is no crisis.

Uma (2009) analysed the impact of some macroeconomic variables on poverty reduction in Nigeria using ordinary least square method. The study found that, apart from agricultural output, other variables did not contribute significantly to poverty alleviation in Nigeria. It is saddening in that resources devoted for poverty reduction over the years are not yielding reasonable results. Every year, poverty indicators show that the living standard is deteriorating. This is the reason behind Uma and Eboh's (2013) perception that corruption is one of the greatest obstacles to the development of the Nigerian economy as it has brought about high level of selfishness, diversion and misallocation of scarce resources. If corruption is tackled, Nigeria will have high level poverty reduction and consequently, growth.

In their study of foreign direct investment: a panacea for unemployment and poverty reduction in Nigeria, Eboh and Uma (2010) note that the level of capital deficiency for industrialization gives rise to high level of unemployment and under utilization of resources of the country and so argued that the answer hinges on greater openness of the economy for influx of capital. Actually, this is plausible if security of life and property is absolutely put in place so as to attract foreign investors.

Earthtrends (2003) points out that the percentage of Nigerian population living on less than $1 a day is 70.2% while the percentage of population living on less than $2 a day is 90.8%. This shows that many Nigerians cannot afford one decent square meal a day. Hunger, malnutrition and poor health are not favourable to mental development. The genesis of our major setback in the quest for socio-economic development hinges on poverty. The living standard is not determined by budget or resources allocation on paper work by some government authorities, rather on what is on

ground and easily seen. We can tell the world what we like about ourselves, we can paint a picture to the international community to suit our purpose but the truth is that many Nigerians are wallowing in abject poverty in spite of the blessings by nature in form of mineral resources. This situation is reversible if refined, transparent and accountable leadership is instituted.

Ali et al (2002) examined poverty reduction in Africa: challenges and policy options. The study investigated the spread, depth and severity of poverty for the region and the chosen countries. Their literature review shows high level of poverty and which is still worsening in Africa in comparison with other developing countries. The mean head-count ratio in 1990 was 53% while the rural and urban poverty rates were respectively 56% and 43%. High inequality in income distribution exists in Africa while in some countries, rural poverty range is 70-80% while urban poverty range is 50-60%. The study also revealed that at regional level, lower rate of poverty stems from improvement in education, health care, maternal education, safe water and sanitation. Surprisingly, some countries with high level of education also have high poverty rate.

Aigbokhan (2000) studied poverty, growth and inequity in Nigeria and found that there is evidence of increased poverty, inequality and polarization in distribution during the period of 12 years studied. He further revealed that poverty and inequality are more among male-headed households in rural areas and the northern geographical zone. The study also showed positive real growth at the period whereas poverty and inequality deteriorated.

Eboh & Uma (2010) examined some policies and programmes on rural electrification and water supply aimed at tackling poverty reduction in Nigeria. The study revealed that uneven development of the rural and urban areas resulted to developmental skewness in favour of the urban region, thereby retarding resource availability and its use in the rural sector. Consequently, the chain effects raise poverty to excruciating level. A large proportion of Nigerians live in the rural areas of the Nigerian economy, and due to the fact that much has not been done in this area, poverty remains with the country and the spill effects/externalities carried to the urban areas. At present, the rural inhabitants prefer living in slums in urban areas instead of remaining in the areas devoid of all essentials of living. This infectious poverty has increased slumization, overcrowding, waste management problem and many social vices such as kidnapping, human trafficking, smuggling, obtaining by tricks and prostitution, among others, in the urban areas of the Nigerian economy.

Ali and Thorbecke (1997) in their study of the state of rural poverty, income distribution and rural development in Sub-Saharan Africa (SSA) pointed among others that lower population density and large spatial distribution of population in sub-Saharan Africa are the main impediments to the provision of an adequate rural infrastructure network when compared with Asia. Poor road network contributes to (i) the very high transportation costs; (ii) the high prices which invariably affect initial agricultural producer prices and final consumer prices; (iii) segmented agricultural product market; and (iv) subsistence African farmers' very limited market orientation. All these culminate to negative effects of physical and technological factors on rural and agricultural development. Besides, the governments of Sub-Saharan Africa (SSA) almost generally pursue policies and institutions that pay less attention to agriculture.

IV. Overview of Programmes to Alleviate Poverty

Many programmes have directly and indirectly been put in place to tackle poverty in Nigeria since after independence. Ogwumike (2002) points that before the Structural Adjustment Programme (SAP), poverty alleviation was not the aspiration of development planning and management, but the resource managers indirectly focused on poverty reduction in the sense that the objective pursued in the first National Development Plan and others which dwell in the improvement in health, employment, education, among others would result to poverty reduction.

Still with unconscious approach of tackling poverty, various schemes were put in place to reduce rural-urban migration, encourage agricultural production, raise manpower and raw material utilization and increase real income. Such schemes include: River Basin Development Authorities (RBDA), the Rural Electrification Scheme (RES), the Agricultural Development Programmes (ADP), the Rural Banking Programme (RBP), Operation Feed the Nation (OFN), and Free Compulsory Education (FCPE) of 1977 under Obasanjo's military regime, Green Revolution of Shehu Shagari put in place in 1980, and Low Cost Housing Scheme, among others. Although the schemes were laudable at inception, they could not be sustained owing to lack of attention. The huge resource investments in some became irreversible and ultimately were a colossal loss to the country.

However, from 1986 to 1993, there was a conscious effort to ameliorate poverty. This intention gave rise to the Structural Adjustment Programme (SAP) under the military head of state, Ibrahim Babangida. He introduced a variety of programmes as shown in the table below:

Table 1 : showing anti-poverty programmes

Programme	Year Established	Target group	Nature of Intervention
Directorate for Food, Roads and Rural Infrastructures (DFRRI)	1986	Rural Areas	Feeder Roads, rural water supply and rural electrification.
National Directorate of Employment (NDE)	1986	Unemployed your	Training, finance and guidance.
Better Life Programme (BLP)	1987	Rural women	Self – help and rural development programmes, skill acquisition and health care.
People's Bank of Nigeria (PBN)	1989	Underprivileged in rural and urban areas	Encouraging savings and credit facilities
Community Banks (CB)	1990	Rural residents, micro enterprises in urban areas	Banking facilities.
Family Support Programme (FSP)	1994	Families in Rural areas	Health care delivery, child welfare, youth development, etc.
Family Economic Advancement Programme (FEAP)	1997	Rural areas	Credit facilities to support the establishment of cottage industries.

Source : Oladeji and Abiola, (1998).

These programmes, in many ways, were highly welcomed considering the urgency to address poverty in Nigeria. The programmes targeted on various categories of Nigerians affected by poverty. The programmes in actual fact played some desirable role at the onset. Its un-sustainability accentuated by macro-economic distortion, inconsistent policies, nepotism, selfishness of operators and corruption annihilated sufficient goal attainment. Besides, the rise in poverty, in spite of all these, was highly demoralising. Poverty rose from 67% in 1996 to over 70% in 1999. Obadan (2002) notes that at the time Nigeria experienced economic growth, considerable poverty reduction was not achieved. For instance between 1985-1992, gross domestic product rose slightly, although aggregate poverty headcount level came down a little, but there was high level of inequality and the poor did not enjoy in the economic advancement since the depth and severity of poverty could not significantly change.

Each programme consumed a colossal sum of money. The outcome seemed not commensurate to the input of resources. This situation compelled the new civilian regime to strategize on poverty alleviation. The civilian government in 1999 headed by Obasanjo was much concerned with poverty alleviation through encouragement of agriculture, education, water supply and health.

The National Poverty Eradication Programme (NAPEP) was introduced in 2001 aimed at absolute poverty eradication. The National Poverty Eradication Council (NAPEC) was instituted to coordinate the programme with various bodies/agencies that was associated with poverty reduction. Many government ministries were pinpointed as core poverty alleviation ministries based on the Joda Panel and Abdullahi Committee Reports. In addition, Poverty alleviation institutions were also identified. Hence, activities for NAPEP were categorized thus: Youth empowerment Scheme (YES), Rural Infrastructure Development Scheme (RIDS), Social Welfare Service Scheme (SOWESS) and National Resources Development and Conservation Scheme (NRDCS). Each scheme focused on specific areas of provisions of basic needs, facilities and infrastructure aimed at empowering the youths and the populace with the intention to address poverty. Poverty Reduction Strategy Paper was the next move under the supervision of the Economic Policy Co-ordinating Committee in the Office of the Vice President. A National core team was inaugurated in February, 2001 (FRN, 2000; Obadan, 2002; Ogwumike, 2002; Igbuzor, 2004).

V. Critical Evaluation of Programmes

Over the years the various Nigerian leaders identify and implemented poverty alleviation programmes very slipshodly. This led to improper targeting

of the poor. Obadan (2002) posits that insufficient systems of targeting for the poor and the fact that most of the programmes did not focus directly on the poor, and poor co-ordination contributed significantly for inability to achieve meaningful outcome. Besides, it should also be pointed that there is a pattern or way of life of most leaders in Nigeria who are not usually interested on going on with existing policy made by the predecessor. The expected aim of policies cannot easily be achieved if operational issues are thwarted. Consequently, inconsistent policies due to leadership changes have adverse effects on designed poverty reduction programmes.

Worthy to note is the high level of corruption which has never helped any good policies and programmes to achieve positive effects. When appointted leaders see their positions as an opportunity to enrich selves overnight. It then becomes difficult to channel resources to the appropriate areas of need for goal attainment. The menace of corruption has, in various ways, stifled the realization of policy objectives, thereby paralyzing and jeopardizing the good intentions of policy makers and the progress of the country (Uma and Eboh, 2013). Nigeria is what it is because we are… mostly selfish, shortsighted, parochial and grab-your-own mentality, obsessed group of people who make noise when not in position to steal, who steal when positioned to do greater good. This pattern of behaviour does deny the masses of the necessary public goods and retard living standard and raises the comfort of the few at the expense of many (Ozoh, 2012).

In a similar vein, improper monitoring of projects, lack of accountability, inability to pinpoint and non-co-option of the poor have retarded progress. Monitoring helps to detect the possibility of changing action taken for better results. The lack of it helped to waste colossal resources. In addition, the difficulty of an individual is best known by the person. Most designed poverty reduction programmes lacked the input of the poor. It is difficult to tackle surface effects of an ailment when the root which exists internally has not been touched. Poverty is concentrated among women, children and the elderly people, especially in the rural areas of the country. Ogwumike (2002) points that a fundamental problem of rural development approach to poverty reduction is that it is difficult to focus attention on the real poor given that poverty in the rural area is pervasive and also that the inability to identify the poor has contributed to the inability to achieve significant result in the nation's poverty reduction programmes.

Many poverty alleviation programmes focused on agriculture as the basis for food provision and income generation, but insufficient and un-sustained attention on this important sector has led to food shortage which invariably raises the prices of food stuff and the adverse effect of high price impacted so much on the poor. Besides, lack of essential infrastructure in the rural areas of Nigeria has compelled many youths who would have opted for agriculture to relocate to the urban areas. Nigeria, as an agrarian economy, has all it takes to increase employment opportunity in this sector so as to boast food, raw materials production and change the status of the poor. Insufficient encouragement has helped to change the attitude of Nigerians to opt for white collar jobs. The food crisis in Nigeria seems to have taken a dangerous dimension, taking into account the challenges presented by high prices of food. Agricultural commodity prices rose sharply since early 2006. Ever since, there has been a continued rise in food prices and the low income earners, the poor have not been able to cope, thereby retarding the living standard. This situation has raised poverty in the country. As a result, the production system of farmers, given their socio-economic situation, inconsistent government policies, poor infrastructural base and other factors combined to annihilate the sector thereby bringing in low production, high prices of food items, inflation, underdevelopment and poverty. The high rate of unemployment and poverty in Nigeria are, to a great extent, associated with neglect of agriculture (Okuneye, 2001; Agwu et al, 2011; Uma et al, 2013).

Unemployment which is one of the major causes of poverty in Nigeria is yet to be properly addressed. The level of attention and financial support required by the National Directorate of Employment (NDE) is not available. It is obvious that the NDE has done considerably well in training and empowering many youths, but inadequate funding has debilitate the good work of this institution. This has been a major problem of resource managers in Nigeria. Continual support of a programme that has great potentialities for success is usually disregarded until it degenerate to a level where it is even more difficult to carry on.

It is also relevant to mention that lack of industrialization and poor infrastructure has debarred prospective investors in Nigeria. Insecurity of life and property, especially in Northern parts of the country have in different ways forced many Nigerians into poverty level. Poverty reduction intention should increase capital over heads and sufficient interdependent industries capable of harnessing the insufficiently utilized resources of the society. Development of many undeveloped sectors in Nigeria is imperative to increase employment and retard poverty.

VI. Way Forward for Poverty Alleviation

In consideration of poverty situation over the years, it is imperative for programmes and strategies for alleviating poverty in Nigeria to incorporate the following:

a) Proper identification and classification of the poor will help for effective and efficient targeting so as to achieve better result.

b) Consistency of policies and programmes are essential. Every leader in the country should not discard the policies and programmes started by the predecessor. This will help to minimize waste and duplication of social and economic institutions for poverty alleviation.

c) Intensification of modernized agricultural practices in Nigeria is necessary. Studies have shown that agriculture has contributed meaningfully to poverty reduction in Nigeria and it should be promoted in all ramifications. Integrated agriculture should be encouraged to ensure steady supply of food. Apart from ensuring food and raw materials availability, it is a remarkable source of job for the unemployed. Farmers should be encouraged to form co-operative society so as to delve into large scale production and credit facilities should be provided with no stringent collateral security.

d) The National Directorate of Employment (NDE) should be properly funded and extended to all the parts of the country. The graduates in the training programme should be provided with initial capital through soft loans that is devoid of security. This will help to achieve greater impact of this directorate.

e) Operations of some poverty reduction programmes need be monitored on quarterly basis. Mangers of programme should ensure proper accountability of allocated resources. This will help in the discovery of what ought to be done at the right time so as to avoid diversion and waste of scarce resources.

f) There is urgent need to annihilate corruption in all angles through leaders' change of attitude and mass participation. This intention has to start from leaders whose activities are being emulated by the subordinates and the society. It is difficult for people to take serious anybody who continuously engage in anything ugly and who also preaches against it. Exemplary life and attitudinal change is imperative and expected of every leader if corruption need be addressed. If corruption can be reduced to a great extent, poverty in Nigeria will drastically fall.

g) It is also relevant that research and survey be carried out before introduction of poverty reduction programme. This will help in identifying what is really needed to be done so as to have better results. The idea of leaders operating on guise work is not necessary in this modern era.

h) There is urgent need for revival of education, industrialisation and power sector. Insufficient capital needed in schools affect quality education. Lack of industries in Nigeria has lessened adequate resources utilization and employment. Irregular power supply in Nigeria has compelled rural barbers, hair dressers and welders to opt for motor cycle business, prostitution and crimes. Surprisingly, one major indirect programme/policy that could help in poverty alleviation is the government provision of power supply, behold, every other process will adjust in that positive direction and micro-level sufficiency will emerge dramatically. The chain effects of lack of these have played significant role in sustaining poverty in Nigeria.

In addressing poverty using the people oriented approach, the poor must be key actors in ideology and addressing livelihood priorities. Development agents and government need processes or must create processes to enable them listen and respond to the poor. It should also be multi-level, by ensuring that micro-level activity inform the development of policy and create enabling environment that macro-level structures and processes support people to build upon their own support.

On this note, it is pertinent to recall Lennart (2003) who states that the most important partnership, and finally the only one that will matter is with the poor themselves to take the skills, and the knowledge, and certainly the will to improve their lives. What they lack is opportunity. Our task is to create the enabling environment and opportunity for them to live in harmony with the natural resources base on which their lives depend.

VII. CONCLUSION

The study has critically examined poverty alleviation activity in Nigeria and was able to show that the continuous increase in poverty in Nigeria in spite of poverty alleviation programme and huge budgetary allocation stem from the pattern of programme, improper management, inconsistence of policies and corruption. It is believed that a change in reducing the rising poverty is possible with attitudinal change of leaders by taking the right step at the right time. Nigerian poverty situation is not beyond control if there is sincerity of management, accountability and monitoring. All Nigerians should be part of the aspiration to fight poverty through tackling corruption, insecurity and obeying rules and regulations.

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Efficiency of Rice Farms during Boro Period in Bangladesh: An Econometric Approach

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Abstract- Bangladesh is an agro-based economy. To achieve self sufficiency of food-grain production in Bangladesh, it is very important to increase the production of rice, particularly Boro rice. Production may be increased, firstly, by introducing modern technology in the long-run or secondly, by improving the efficiency of the farmers in the short-term. In this study, researcher is focusing to achieve the target by improving the efficiency of the farmers. Modern econometric tools, like Stochastic Frontier Approach (SFA) is used for measuring the efficiencies of the farmers. Empirical results of this study shows that average technical, allocative and economic efficiency of the farmers during Boro period are 86 per cent, 75 per cent and 64 per cent respectively.

EFFICIENCYOFRICEFARMSDURINGBOROPERIODINBANGLADESHANECONOMETRICAPPROACH

Strictly as per the compliance and regulations of:

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Abstract- Bangladesh is an agro-based economy. To achieve self sufficiency of food-grain production in Bangladesh, it is very important to increase the production of rice, particularly Boro rice. Production may be increased, firstly, by introducing modern technology in the long-run or secondly, by improving the efficiency of the farmers in the short-term. In this study, researcher is focusing to achieve the target by improving the efficiency of the farmers. Modern econometric tools, like Stochastic Frontier Approach (SFA) is used for measuring the efficiencies of the farmers. Empirical results of this study shows that average technical, allocative and economic efficiency of the farmers during Boro period are 86 per cent, 75 per cent and 64 per cent respectively. So, it is possible by making the farmers technically and allocatively efficient, production of Boro rice could be increased by 14 to 36 per cent without any increase in input use, technology is given. In this study, we also find some important inefficiency factors which affect the production of Boro rice in Bangladesh, such as, inadequate extension services, insufficient credit facilities, and land degradation. Importantly, we are trying to quantify them by using Tobit regression model. Study suggests that authority should address these inefficiency factors properly and take necessary action by increasing credit facilities and extension services and reducing land degradation by using more environment friendly fertilizers and pesticides. Therefore, it expected that inefficiency of the farmers decrease and eventually the target of self-sufficiency of food-grain production by 2013 may be achieved.

I. Introduction

Bangladesh is an agro-based country. Though the contribution of agricultural sector in Bangladesh economy is decreasing day by day, but its real impact on the whole economy is still comprehensive. Contribution of agricultural sector of GDP was 20.01 per cent in 2010-2011 and in 2011-2012 it was 19.29 per cent. Agriculture has also an indirect contribution to the GDP. About 43.6 per cent labour forces are engaged in agriculture directly or indirectly.

Serial food production is main agricultural product of it. Rice is dominated crop in agriculture. Boro is the major part of rice production in Bangladesh. Food-grain production in Bangladesh was 36.065 million metric tons in 2010-2011, of which Aus rice was 2.133 million metric tons, Aman rice was 12.791 million metric tons and Boro rice was 18.617 million metric tons. Total rice production was increased by 33 per cent in seven years during 2004-2005 to 2010-2011. Particularly, Boro rice production was increased by 35 per cent during that period. Food-grain import in 2010-2011 was 5.15 million metric tons, of which rice import was 1.554 million metric tons and wheat import was 3.596 million metric tons. So, by increasing the production of Boro rice, Bangladesh can reduce import of food-grain.

Bangladesh has settled a target of food sufficiency by the end of 2013. Total food deficit of Bangladesh is about 2.5 million metric tons. To ensure the food security of the country, it is essential to increase the food-grain production, particularly rice production. Boro is dominated among the rice production, so we may be given more emphasis to increase Boro rice production.

Production of Boro rice can be increased in two ways: Firstly, by increasing the efficiency of Boro rice producer which takes lesser time. Secondly, by introducing technological change, which takes longer time and as well as required huge amount of investment. In this study researcher focuses to increase Boro rice production by improving efficiency of the farmers, because Government of Bangladesh has settled to achieve self-sufficiency of crop production by the end of 2013. So, to take short-term but appropriate strategy to increase rice production is more justifiable.

II. Objectives of the Study

Find out the problems and subject matters, discussed above, we may select the objectives of the study are:

a) To measure the efficiency of the Boro rice producer;

b) To mention the ways of optimum utilization of resources during Boro rice production;

c) To identify and quantify factors which affect efficiency of Boro rice farmers;

d) To suggest some important and useful policies for improving the production of rice during Boro season.

III. Methodology of the Study

a) The Survey Method

This study is based on survey method. Researcher used primary data in this study for estimating the efficiency of Boro rice farmers. Data are

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collected by questionnaire method and face to face interview method. We have taken sample from different parts of Barind area of Bangladesh. Total 205 samples are selected from the study area. Both simple random sampling and purposive sampling techniques are used for selecting these samples. Three different districts from Barind area are selected. Then one upazella (sub-district) from each district is selected. Then three or four villages from each upazella are selected under the procedure of purposive sampling. Then 20-25 farmers from each village are selected by simple randon sampling.

b) Questionnaire Designing

In this study we have used both open-ended and structured closed type questionnaire. There are four sections in the questionnaire: personal and social status related questions in the first section; production and cultivation related question in the second section. The third section contains non-farm income and activities related questions and final section includes livestock related questions.

c) The Survey Data

In this study we used the primary data which are collected from three different upazell of three different districts in the High Barind area of Bangladesh. The survey data are collected for the Boro season from November to February in 2010-2011.

IV. The Conceptual Framework

a) Production Function

The concept of the production function is basic to the development of the theory of farm in microeconomics. In the classical non-stochastic theory of the farm a production function is defined as a schedule showing the maximum amount of output that can be produced from a specified set of inputs, giving the existing technology (Ferguson, 1966).

In general, we may describe production function as a technical relationship between inputs and outputs of a production process. Alternatively, production function defines the maximum output attainable from a given set of inputs.

Following Battese and Taylor, (1985) we may take these assumptions for a simple production function:

a) The production process is mono-periodic,
b) All inputs and outputs are homogeneous,
c) The production function is twice continuously differentiable,
d) Output and input prices are known with certainty,
e) The goal of the farm is to maximize profit (or minimize cost for a specified output level).

Now, we consider a simple production process in which a farm utilizes two variable inputs (x_1 and x_2)

and one or more fixed inputs in order to produce a single output (y).

The production functions are usually represented by a mathematical function as

$$y = f\left(x_1, x_2, v, \gamma\right) \tag{1}$$

where v denotes returns to scale which refers to the long-run analysis of production, since it assumes change in the plant. γ means a efficiency parameter which refers to the organizational aspect of production.

f) Efficiency

Farrell's (1957) seminal article has led to the development of several techniques for the measurement of efficiency of production. The term 'efficiency' implies the success with which a farm best utilizes its available resources to produce maximum levels of potential outputs (Dinc et. al., 1998). A farm is efficient if and only if it is not possible to increase output (or decrease inputs) without more inputs (or without decreasing output) (Cooper, et. al., 1995). Any failure to obtain this potential maximum output results in inefficiency. The neoclassical theory of production defines the production function based on the notion of efficiency that gives the maximum possible output for given amounts of inputs. It is not realistic to recognize this 'maximum' output simply by observing the actual amount of output unless the observed output is assumed to be a maximum; different farms produce different output levels even if they utilize the same input vector (Kumbhakar, 1994).

Farrell (1957) proposed that efficiency of a farm consists of two components: technical efficiency and allocative efficiency. The concept technical efficiency, which represents the ability of a farm to obtain maximum output from a given set of inputs, or the ability to minimize input use in the production of a given output vector. Thus the production frontier is associated with the maximum attainable level of output, given the level of inputs, or the minimum level of inputs required to produce a given output. In other words, it is the locus of maximum attainable output for each input mix. Technical inefficiency is attributed to a failure of the farm to produce the frontier level of output, given the quantities of inputs (Kumbhakar, 1994).

Allocative efficiency reflects the ability of a farm to use the inputs in optimal proportions, given their respective prices. Alternatively, allocative inefficiency arises if farms fail to allocating inputs which minimize the cost of production of an output, given relative input prices. Failure in allocating resources optimally results in increased cost and decreased profit. In particular, a farm is said to be allocatively inefficient if the marginal rate of technical substitution between any two inputs is not equal to the corresponding ratio of input prices, that is, allocative inefficiency exists when the farm fails to use

cost-minimizing input mixes. The distinction between technical and allocative efficiency provides four ways for explaining the relative performance of farms. Firstly, a farm might be technically and allocatively inefficient, secondly; it may be technically efficient, but allocatively inefficient; thirdly, it may show allocative efficiency, but technical inefficiency; finally, it may be both technically and allocatively efficient.

These two measures technical efficiency and *allocative efficiency* - are then combined to provide a measure of economic efficiency, which reflects the ability of a farm to produce output at minimum cost. Thus, either one of the efficiencies may be necessary

but not sufficient conditions to ensure economic efficiency for a farm. The simultaneous attainment of both efficiencies gives the sufficient condition to ensure economic efficiency (Ellis, 1988).

V. EMPIRICAL MODELS AND RESULTS

a) The Estimated Model

In our study we apply a Cobb-Douglas frontier because it is self-dual and its dual cost frontier model forms the basis for computing technical, allocative and economic efficiency as follows:

$$\ln \tilde{y}_i = \beta_0 + \sum_{k=1}^{6} \beta_{ik} \ln x_{ik} + \xi_i - \zeta_i \quad \text{(i=1, 2, ..., 205, number of farms)}$$

Now, subtracting   from both sides of (2) yields:

(2)

$$\ln \tilde{y}_i = \ln \tilde{y}_i - \xi_i = \beta_0 + \sum_{k=1}^{6} \beta_{ik} \ln x_{ik} - \zeta_i$$

where $\tilde{y}_i$ now denotes the farm's observed output adjusted for the stochastic random noise captured by ξ_i. This equation constitutes the basis for obtaining the technically efficient input vector x_{ik}^{T} and algebraically deriving the dual frontier cost function which is the basis

for calculating the economically efficient (technically and allocatively efficient) input vector x_{ik}^{E}. The dual frontier cost function model is analytically derived from the stochastic frontier production model as:

$$C(p_{ik}, \tilde{y}_i) = \alpha_0 \prod_{k=1}^{6} p_{ik}^{\beta_{ik}\alpha_{ik}} \tilde{y}_i^{\alpha_{ik}}$$

(3)

$$\text{where } \alpha_0 = \left(\frac{1}{\beta_0^{\alpha_{ik}}}\right)\left(\sum_{k=1}^{6} \beta_{ik} \Big/ \prod_{k=1}^{6} \beta_{ik}^{\beta_{ik}\alpha_{ik}}\right) \text{ and } \alpha_{ik} = \frac{1}{\sum_{k=1}^{6} \beta_{ik}}$$

Differentiating (3) with respect to each input's price and applying Shephard lemma provide the system of input demand function as:

$$x_{ik}^{E} = \frac{\partial C(p_{ik}, \tilde{y})}{\partial p_{ik}} = x_{ik}^{E}(p_{ik}, \tilde{y}_i) = \alpha_0(\beta_{ik}\alpha_{ik})\prod_{k=1}^{6} \frac{1}{p_{ik}} p_{ik}^{\beta_{ik}\alpha_{ik}} \tilde{y}_i^{\alpha_{ik}}$$

(4)

Alternatively:

$$x_{ik}^{E} = \frac{\partial C(p_{ik}, \tilde{y})}{\partial p_{ik}} = \frac{\partial C}{\partial p_{ik}} = C.\frac{\alpha_{ik}}{p_{ik}}$$

where C denotes $C(p_{ik}, \tilde{y})$ is cost function and

$$\alpha_{ik} = \beta_{ik} \Big/ \sum_{k=1}^{6} \beta_{ik} \quad \text{(i=1, 2, ..., 205, number of}$$

farms). We also solve for the technically efficient input

vectors x_{ik}^{T} using the results from the stochastic frontier production function in (2). Multiplying the observed input vectors x_{ik}, technically efficient input vectors x_{ik}^{T} and economically efficient input vectors x_{ik}^{E} by the input

price vectors provides the observed, technically efficient and economically efficient costs of production of the ith farm equal to $p_{ik}x_{ik}$, $p_{ik}x_{ik}^{T}$, and $p_{ik}x_{ik}^{E}$ respectively which compute the TE , AE and EE indices for the ith farm as:

$$TE = p_{ik}x_{ik}^{T} \big/ p_{ik}x_{ik} \; ;$$

$$AE = p_{ik}x_{ik}^{E} \big/ p_{ik}x_{ik}^{T} \text{ and}$$

$$EE = p_{ik}x_{ik}^{E} \big/ p_{ik}x_{ik} \text{ respectively.}$$

$$IE_i = \delta_0 + \delta_1 z_{i1} + \delta_2 z_{i2} + \delta_3 z_{i3} + \delta_4 z_{i4} + \delta_5 z_{i5} + \delta_6 z_{i6} + w_i \tag{5}$$

where the z_i are the socio-economic and infrastructural variables which affect production and as well as efficiency of the farmers. The variable z_{i1} denotes the year of the schooling of the farmer; z_{i2} denotes the year of rice cultivation experience of the farmer; the variable z_{i3} represents the land fragmentation; z_{i4} denotes the extension services dummy which assumes the value one if the farmer takes extension services from the related officials and zero otherwise; z_{i5} indicates credit facilities dummy which assumes the value one if the farmer takes any kind of credit from government and non-government sources and zero otherwise and z_{i6} denotes the degradation dummy which takes the value one if the land is un-degraded and zero otherwise. The value one for z_{i6} implies that most of the lands of an individual farm household are un-degraded.

The model includes a random error term, w_i which is normally and independently distributed with a zero mean and variance σ_w^2. The Tobit model is used as inefficiency, IE_i, is a limited dependent variable. The value of IE_i falls between zero and one; some of the values of IE_i are likely to be zero.

Now, for empirical study, we have defined output, y_i as the observed rice production and are measured in kilograms (km). Land, x_{i1} represents the total amount of land used for rice production and the price of land, p_{i1} represents the price per acre of land. Labour, x_{i2} includes both family and hired labour engaged in rice production and the price of labour, p_{i2} indicates the wage per man-day (wages for family labour are imputed). Irrigation, x_{i3} is the total amount of land irrigated for rice production and the price of irrigation, p_{i3} represents irrigation price per acre. Fertilizer, x_{i4} includes all organic and inorganic fertilizer and is measured in kilograms. The fertilizer price, p_{i4} indicates the average price all fertilizer per kilogram.

Pesticides, x_{i5} is the total quantity of pesticides used per acre of land and is measured also in kilograms. The price of pesticides, p_{i5} is the price of all pesticides per kilogram. Seeds, x_{i6} represents the amount of seeds used in per acre of land and is measured in kilograms. The seed price, p_{i6} means the average prices of seeds per kilogram (includes both HYV and traditional type of seeds).

To assess the role of human capital variables, extension services, irrigation infrastructure and environmental factors in technical, allocative and economic efficiency, the following inefficiency effects model is estimated separately by using Tobit Regression Model

b) The Cobb-Douglas Stochastic Frontier Results

The maximum likelihood estimates of the parameters of Cobb-Douglas frontier are estimated using the econometric software Frontier 4.1 (Coelli, 1996). These are presented in Table 1 for Boro season. We expect the signs of all of the coefficients are positive. We obtain positive coefficients for all six parameters. In field level survey, we have observed some significant behaviour for labour and seeds. It shows that there are already abundant supplies of labour in agriculture sector of Bangladesh, particularly in the study area of northern part of Bangladesh. In the case of seed, they used excessive amount of seed. Therefore, we have some unusual results and behaviours of both coefficients of labour and seeds. All the coefficients are significant except seeds.

Table 1 : Maximum-Likelihood Estimates of the Stochastic Frontier Model for Boro Season

Stochastic Frontier

Name of Variables	Parameters	Coefficients	t-ratios
Constant	β_0	0.4641	3.2048
Land	β_1	0.1448	4.2643
Labour	β_2	0.8898	2.2554
Irrigation	β_3	0.9092	5.1000
Fertilizer	β_4	0.3695	2.7491
Pesticides	β_5	0.4157	2.4813
Seeds	β_6	0.2788	0.3269
Inefficiency Model			
Constant	δ_0	0.136	9.501
Year of Schooling	δ_1	0.0011	1.021
Experience	δ_2	0.00176	3.735
Land Fragmentation	δ_3	-0.0108	-13.174
Extension Services Dummy	δ_4	0.0296	0.424
Credit Facilities Dummy	δ_5	0.00749	0.108
Land Degradation Dummy	δ_6	-0.0819	-8.081
Variance Parameters			
Sigma-squared	$\sigma^2 = \sigma_\xi^2 + \sigma_\zeta^2$	0.1437	5.9550
Gamma	$\gamma = \left(\sigma_\zeta^2 \middle/ \sigma^2 \right)$	0.5882	6.7013
	σ_ξ^2	0.0592	
	σ_ζ^2	0.0845	
Log likelihood Value		16.8526	

The estimates of the variance parameter and the parameter of are significantly different from zero. This indicates that the inefficiency effects are significant in determining the level and variability of output of farm households in Bangladesh. This result is consistent with Sharma et. al. (1997) and Coelli and Battese (1996). This shows that a conventional production function is not an adequate representation of the data.

c) Estimated Production, Cost and Input-Demand Functions

The estimated production function and its corresponding cost function are given below.

Now, we can derive the estimated production function and its corresponding dual cost function and input demand function for boro season.

Production Function for Boro Season is,

$$\ln y_i = 0.4641 + 0.1448 \ln x_{i1} + 0.8898 \ln x_{i2} + 0.9092 \ln x_{i3} + 0.3695 \ln x_{i4} + 0.4157 \ln x_{i5} + 0.2788 \ln x_{i6}$$

or, alternatively,

$$y_i = 0.4641\, x_{i1}^{0.1448}\, x_{i2}^{0.8898}\, x_{i3}^{0.9092}\, x_{i4}^{0.3695}\, x_{i5}^{0.4157}\, x_{i6}^{0.2788} \tag{6}$$

(where i=1, 2, …, 205, number of farms)

The corresponding dual frontier cost function is analytically derived as follows:

$$C(p_{ik}, \widetilde{y}_i) = \alpha_0 \prod_{k=1}^{6} p_{ik}^{\beta_{ik}\alpha_{ik}}\, \widetilde{y}_i^{\alpha_{ik}} \quad \text{, notations are given earlier}$$

$$C(p_{ik}, \widetilde{y}_i) = 6.5195\, p_{i1}^{0.1448(0.3324)}\, p_{i2}^{0.8898(0.3324)}\, p_{i3}^{0.9092(0.3324)}$$
$$p_{i4}^{0.3695(0.3324)}\, p_{i5}^{0.4157(0.3324)}\, p_{i6}^{0.2788(0.3324)}\, \widetilde{y}_i^{0.3324}$$

Thus, the Cost Function for Boro Season is:

$$C_i = 6.5195\, p_{i1}^{0.0481}\, p_{i2}^{0.2957}\, p_{i3}^{0.3022}\, p_{i4}^{0.1228}\, p_{i5}^{0.1381}\, p_{i6}^{0.0926}\, \widetilde{y}_i^{0.3324} \tag{7}$$

(where i=1, 2, …, 205, number of farms) (7)
(where i=1, 2, …, 205, number of farms)

Input Demand Function for Boro Season:

Differentiating the cost function with respect to each input's price and applying Shephard Lemma provide the system of input demand function as follows:

$$x_{ik}^E = \frac{\partial C(p_{ik}, \widetilde{y})}{\partial p_{ik}} = x_{ik}^E(p_{ik}, \widetilde{y}_i) = \alpha_0(\beta_{ik}\alpha_{ik}) \prod_{k=1}^{6} \frac{1}{p_{ik}}\, p_{ik}^{\beta_{ik}\alpha_{ik}}\, \widetilde{y}_i^{\alpha_{ik}} \quad ,$$

For example, input demand function for input 1 in boro season is:

$$x_{i1} = \frac{\partial c}{\partial p_{i1}} = 6.5195(0.0481)\, p_{i1}^{(0.0481-1)}\, p_{i2}^{0.2957}\, p_{i3}^{0.3022}\, p_{i4}^{0.1228}\, p_{i5}^{0.1381}\, p_{i6}^{0.09268}\, \widetilde{y}_i^{0.3324}$$

or, alternatively, $\quad x_{i1} = \dfrac{0.3135\, p_{i2}^{0.2957}\, p_{i3}^{0.3022}\, p_{i4}^{0.1228}\, p_{i5}^{0.1381}\, p_{i6}^{0.0926}\, \widetilde{y}_i^{0.3324}}{p_{i1}^{0.9519}} \tag{8}$

(where i=1, 2, …, 205, number of farms).

Similarly, we solve the technically efficient input vector x_{i1}^T using the results in (8) in Boro season and observed input ratios $x_1/x_{i1} = k_1\ (i \neq 1)$. Then multiply the observed input vectors x_{i1}, technically efficient input vectors x_{i1}^E and economically efficient input vectors x_{i1}^E by their input price vectors provides the observed, technically efficient and economically efficient costs of production of the 1st farm in boro season equal to $p_{i1}x_{i1}$, $p_{i1}x_{i1}^T$ and $p_{i1}x_{i1}^E$ espectively. Then we compute technical, allocative and economic efficiency for farm 1 in Boro season as:

$$TE = p_{i1}x_{i1}^T \big/ p_{i1}x_{i1}\; ;\; AE = p_{i1}x_{i1}^E \big/ p_{i1}x_{i1}^T \text{ and } EE = p_{i1}x_{i1}^E \big/ p_{i1}x_{i1} \text{ respectively.}$$

d) Estimated Technical, Allocative and Economic Efficiency

Technical, allocative and economic estimates for Boro seasons are presented in Table 2.

Table 2 : Technical, Allocative and Economic Efficiency of Farms in Boro Season

Efficiency Index (%)	Stochastic Frontier					
	Number of Farms			Percentage of Farms		
	TE	AE	EE	TE	AE	EE
1.00-40	0	16	20	0	7.8	9.76
40-45	1	3	12	0.49	1.46	5.85
45-50	0	13	18	0	6.34	8.78
50-55	2	15	14	0.98	7.32	6.83
55-60	1	11	11	0.49	5.37	5.37
60-65	3	4	17	1.46	1.95	8.29
65-70	8	8	24	3.9	3.9	11.7
70-75	6	15	27	2.93	7.32	13.2
75-80	16	19	26	7.8	9.27	12.7
80-85	33	16	21	16.1	7.8	10.2
85-90	42	21	9	20.5	10.2	4.39
90-95	55	24	6	26.8	11.7	2.93
95-100	38	40	0	18.5	19.5	0
total	205	205	205	100	100	100

Table 3 : Summary Statistics of Efficiency in Boro Season

Statistics	Stochastic Frontier		
	TE	AE	EE
Mean	86.82	75.00	64.13
Minimum	41.95	30.49	30.01
Maximum	99.18	99.72	94.77
Std. dev	9.686	20.47	16.33
Skewness	-1.52	-0.59	-0.39
Kurtosis	3.164	-0.87	-0.82

Table 2 shows that 45 per cent farmers are 90 per cent or more technically efficient, 31 per cent farmers are more than 90 per cent allocatively efficient and only 3 per cent farmers more than 90 per cent economically efficient in Boro season.
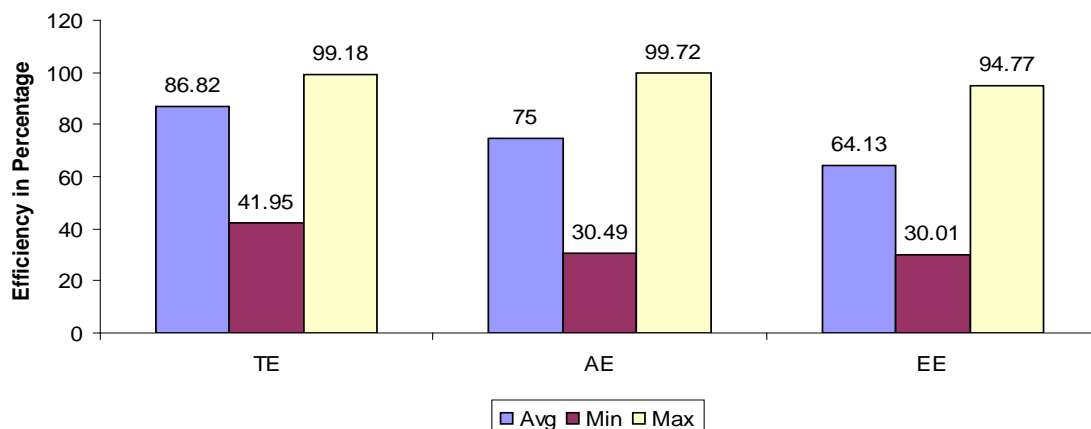
Figure 1 : Maximum, Average and Minimum Efficiency Scores of Farms in Boro Season

The average estimates of technical, allocative and economic efficiency for farms in Boro seasons are shown in Figure 1.

The frequency distribution and summary statistics of the estimated technical, allocative and economic efficiency of farms in Boro seasons are presented in Table 3. The estimated mean technical, allocative and economic efficiency in Boro season are 87, 75 and 64 per cent respectively. This indicates that there is considerable inefficiency in Boro production in that region and therefore rooms for production gain through efficiency improvement. More specifically it can be said that farm households could reduce their production cost by 13, 25 and 36 per cent if they could operate at full technical, allocative and economic efficiency levels respectively.

Frequency histogram of technical, allocative and economic efficiency index for Boro season is given in diagrams from Figure 2 to Figure 4.
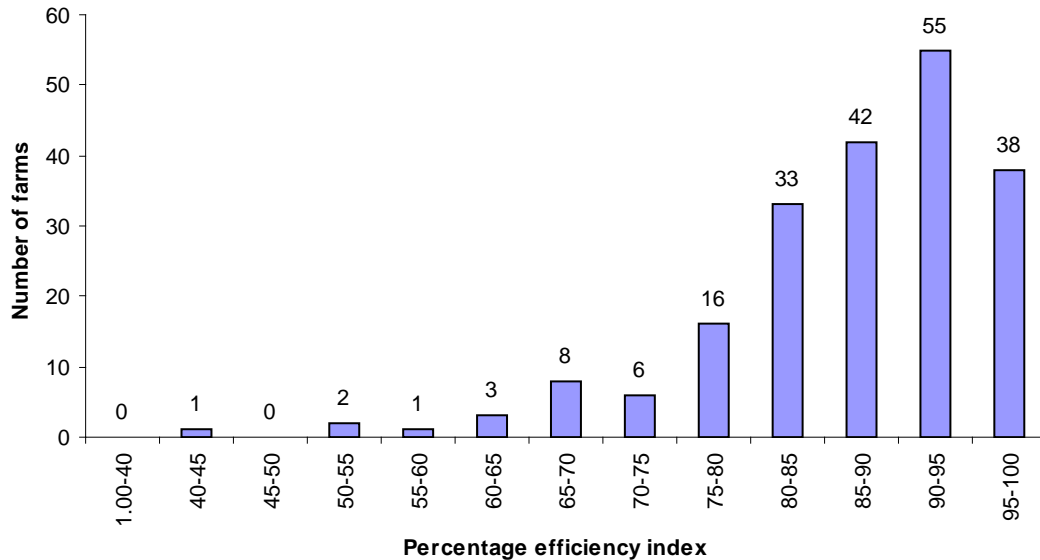
Figure 2 : Frequency Histogram of Technical Efficiency Index in Boro Season.
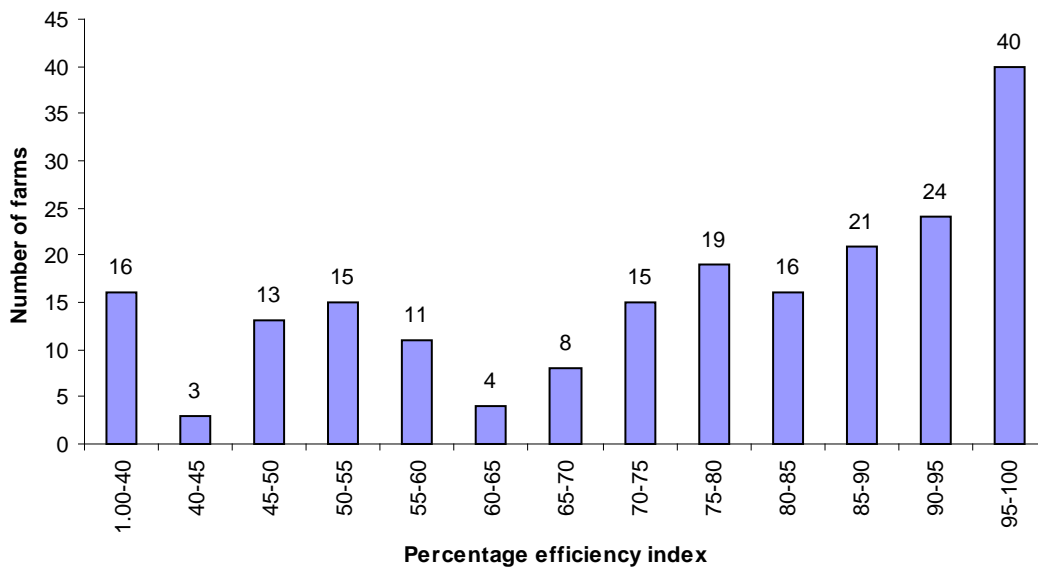
Figure 3 : Frequency Histogram of Allocative Efficiency Index in Boro Season.

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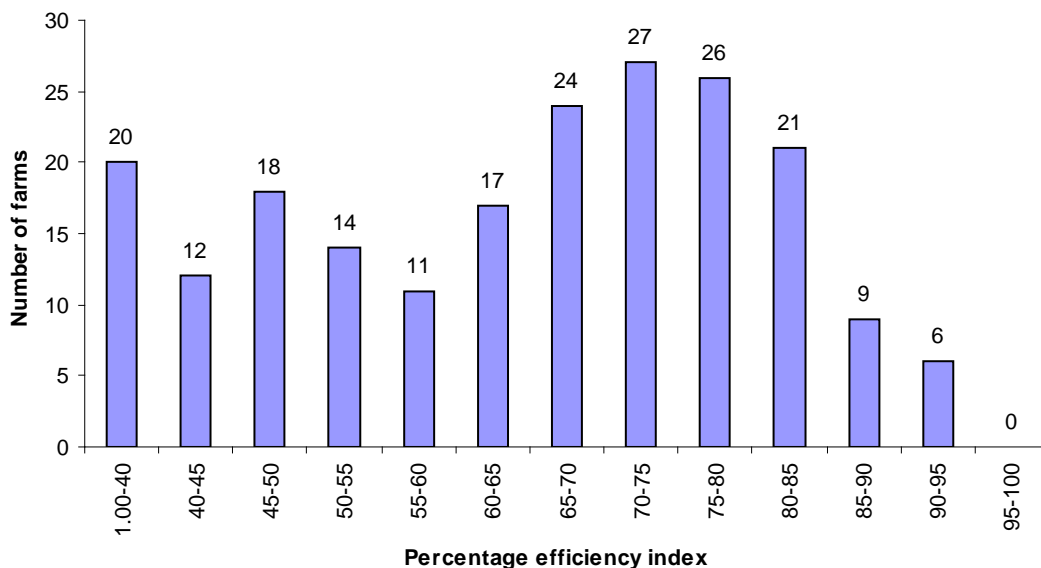
Figure 4 : Frequency Histogram of Economic Efficiency Index in Boro Season.

Highest numbers of technically efficient farms are found in 90-95 per cent efficiency class interval. In case of allocatively efficient farms, different results are found. Highest numbers of allocatively efficient farms are seen in 95-100 percent efficiency class interval. On the other hand, maximum economically efficient farms are in in 70-75 per cent efficiency class interval at boro season.

e) Factors Affecting Technical, Allocative and Economic Inefficiencies in Boro Season

We can assess the role human, socio-economic and environmental factors to explain the causes of inefficiency of farmers during Boro season. Results of Tobit regression model for factors affecting inefficiency during Boro season are presented in Table 4.

Table 4 : Factors Affecting Inefficiency during Boro Season

Factors						
Boro Season	TI		AI		EI	
	Co-efficients	t-ratios	Co-efficients	t-ratios	Co-efficients	t-ratios
Constant	0.136	9.501	0.08893	2.401	0.212	6.839
Yrs. of Schooling	-0.0011	-1.021	0.00607	2.162	0.00639	2.723
Exp. of the Farmers	0.00176	3.735	-0.00057	-0.443	0.00092	0.897
Land Fragmentation	-0.0108	-13.174	0.01456	0.869	-0.00486	-2.746
Extension Service Dummy	0.0296	0.424	-0.137	-0.757	-0.0877	-0.580
Credit Facilities Dummy	-0.00749	-0.108	0.183	1.018	0.147	0.982
Land Degradation Dummy	-0.0819	-8.081	-0.0133	-0.508	-0.05615	-2.561
Log Likelihood	100.04		111.47		151.60	

The coefficient of year of schooling for TI is negative and significant. This means a positive effect on efficiency. In other words, more educated persons are technically more efficient in Boro season. In contrast, less educated persons are allocatively and economically more efficient in this season.

The coefficient of length of experience for technical and economic efficiency is positive, but allocative efficiency is negative. This means that relatively new farmers are technically and economically more efficient but experienced farmers can handle inputs more efficiently.

The coefficients of land fragmentation for all efficiencies are negative, except AI in Boro season. This indicates that greater land size provides more efficiency for the farmers. Because the farmers can easily apply

modern technology in bigger size of lands and also it is more economic.

The negative coefficients of extension services and credit facilities imply that they have positive effects on efficiency of farmers. As we increase the quality extension services, farmers become able to allocate their inputs more efficiently and cost of production decreases. Similarly if we provide more credits in easiest way to the poor and marginal farmers, they become more efficient in production process.

The coefficients of environmental factor are negative in all cases. This indicates that less land degraded farmers have more and more efficiency. The coefficients of land degradation in TI and EI in Boro are significant.

VI.   Conclusions

a)   Findings of the Study

We have estimated technical, allocative and economic efficiencies of Boro rice farms using a cost decomposition technique specifying a self-dual Cobb-Douglas stochastic frontier production model. The model is estimated by the maximum likelihood method. The estimated parameters of the model are all positive, as expected. From this it is clear that there are plenty of rooms to enhance the productivity of Boro rice cultivation as far as efficiency is concerned. We have found average technical, allocative and economic efficiency scores are 86 per cent, 75 per cent and 64 per cent respectively. More specifically 14 per cent technical efficiency, 25 per cent allocative efficiency and 36 per cent economic efficiency could be improved in this season without changing or improving the cultivation technologies if the farmers operate at full efficiency scale. So, the policy makers could give more attention for improving the production and reducing the production cost of the farmer by increasing their efficiency levels.

The inefficiency effects models are assumed by Tobit regression analysis. The results of human, socio-economic and environmental factors are reported. More educated farmers are more technically efficient. On the other hand, less educated but more experienced farmers are capable of managing inputs efficiently. Fragmentation is one of the major problems to increase production of rice in our country. This study suggests that less fragmented land gives more opportunity to use modern technology. Better and appropriate land tenure policy, for example, cooperative farming, giving government khash land to the landless but genuine farmers, will be helpful for the farmers to improve efficiency. Finally, land degradation hampers the efficiency of the farmers. So, policy makers could think to improve the environment of the soil by reducing erosions and deforesting of land and also improving the working condition of the area.

VII.   Recommendations

The average scores of technical, allocative and economic efficiency for Boro season are 86, 75 and 64 per cent respectively. So, there is an opportunity to increase the technical efficiency of farmers by 14 per cent, allocative efficiency by 25 per cent and economic efficiency by 36 per cent without any change or improve in cultivation technologies if the farmers operate at the full efficiency scale.

Results of Tobit Regression Model shows that inefficiency effects in production are influenced by many factors. One of the major inefficiency effect factors in production is land fragmentation, that is, smaller plot sizes. So policies should be targeted in such way that the existing land tenure and land management system can reduce land fragmentation. Evaluating factors related to inefficiency suggests that extension services, credit facilities, land degradation and irrigation infrastructure are statistically most significantly associated with technical, allocative and economic inefficiency.

Tobit Regression Model results also show that extension services are directly related to efficiency of the farmers. Field survey to the study area also indicates that in this region we have seen very poor extension service facilities to the grass-root level farmers. So, if the agricultural department authority gives appropriate effort to improve the extension services, it would be expected that farmer's efficiency in Boro rice cultivation will improve. Therefore, policies should be targeted to increase quality and regular extension services for the grassroots and marginal farmers.

Credit facility is one of the important factors which related to the efficiency of the farmers. Credit facility particularly agriculture credit facility in this study area as well as in Bangladesh is not so organized. Empirical results suggest that credit facility factor is directly related to the efficiency. At the same time during the field level survey we have seen that there are lots of difficulties for the farmers to get agriculture credit. For example, government financial institutions like Bangladesh Krishi Bank (Bangladesh Agriculture Bank), Rajshahi Krishi Unnayan Bank (Agriculture Development Bank of Rajshahi) and other institutions have lots of formalities and processes which discourage the rural and low educated farmers to go there for loans. On the other hand, non-government organizations and other institutions which have credit programs especially micro credit programs are generally not interested to agriculture. Even they have some credit program for agriculture; the interest rate is so high that farmers were not benefited by taking that kind of credits. Another serious problem should be noted here that the marginal farmers sale their products or crops in advance to get credit from local Mahajans (village micro-credit providers). Therefore, they do not get appropriate price

for their crops. It is one of the major obstacles for the farmers to operate at the maximum level of efficiency. So, policies should be targeted to improve the credit facilities for the farmers. Credit system should be simple and disciplined and formalities should be minimized, so that target people can get credit as easiest way as possible.

Irrigation infrastructure is another prime factor to influence efficiency of the farmers in Bangladesh. Irrigation infrastructure has developed sufficiently in the Barind region by the help of Barind Multipurpose Development Authority (BMDA). Moreover, Rural Electrification Board (REB) supplies power to the Deep Tube-wells. So, policies should be to keep this irrigation infrastructure and also can introduce by under ground drainage system. Electricity supply should be widening to every Deep Tube-well and uninterrupted at the time of irrigation.

Land degradation is considered as an environmental factor. Results show that it decreases technical, allocative and economic efficiency. So, it implies that land degradation decreases farmers' ability to utilize the existing technology in full capacity and also creates problems for the allocation of inputs in a cost minimizing way. On the other hand, results indicate that human factors such as, age and cultivation experience of farmers during Boro period and duration of formal education i.e., years of schooling are more or less affect the efficiency of the farmers.

Government of Bangladesh, in recent time, is giving more emphasis on agriculture sector. For these purpose, they might have continued the agriculture subsidy, so that the farmers can survive and maintain their living standard. But the government should strictly supervise that the benefits of the subsidized money have gone to the targeted and marginal farmers of the country. This study suggests that if the policy makers give more attention to the inefficiency factors which are identified in this study, then it will be easier to help the rural level farmers as far as efficiency is concerned. Production and new technology related to education and training program should be extended by the Thana (sub-district) extension agriculture offices. So the target people could be educated and proper trained. Therefore, they will be capable to operate the existing technology more efficiently and can easily adapt the new technology to come. So, policies to reduce land-degradation and to use more environment friendly fertilizer and pesticide will decrease technical, allocative and economic inefficiency and hence eventually increase Boro rice production and welfare of the farm-household of the country.

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Mise En Place D'un Système De Management Intégré Dans La Chaîne Gazière

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Abstract-   Résumé Dans cette contribution, nous avons procédé à un audit des différentes fonctions d'un échantillon représentatif d'entreprises de la chaine gazière. Au terme e cet audit nous avons réalisé un audit qui confirme des disfonctionnements au niveau de l'ensemble des fonctions. Ce qui conduit a une nécessaire mise à niveau par des bureaux d'études très couteux. Mise à niveau nécessitant un SMQ(1) ou un TQM (2) voire un reengineering.   Les pays à économie dite dirigée ou planifiée ont hérité d'entreprises qui connaissent de multiples lacunes en matière de management.

GJMBR-B Classification : FOR Code:150304 JEL Code: F15

MISEENPLACEDUNSYSTMEDEMANAGEMENTINTGRDANSLACHANEGAZIRE

Strictly as per the compliance and regulations of:

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I. Introduction

D es pays qui ont choisi le même paradigme ont connu exactement ce type de situation à quelques nuances près Cette étude propose une mise à en place d'un système de management intégré par le contrôle de gestion. Nous proposons donc la miseen niveau de ces entreprises par le biais de la mise place dans ces entreprises d'un système de management plus moderne qui utilise les différents

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benchmarking interne ,divisionnaire et international dans ces entreprises afin de mettre leur management au niveau des entreprises les plus performantes dans le monde globalisé que nous vivons. La mise à niveau va concerner l'ensemble des fonctions de l'entreprise selon l'ordre budgétaire. Mais d'abord qu'est ce que le contrôle de gestion ? Le contrôle de gestion dans le cadre d'un management décentralisé, « A pour mission d'assurer la conformité entre les résultats des activités et les objectifs de l'organisation ». Planification stratégique, de 5 à10 ans puis le PMTE de 3 à 5 ans, le plan annuel et enfin la budgétisation qui pour nous est la concrétisation du plan. La PS relève uniquement de la DG de l'entreprise, voire dans le cas algérien de la tutelle, de même pour le Plan à Moyen Terme Économique qui est un outil de stratégie. Le contrôle de gestion doit se situer nécessairement dans le cadre d'un management intégré décentralisé, il a deux rôles essentiels à jouer:

- Un contrôle A PRIORI ou Actif : Dans la mesure où des actions de prévention et même de correction sont prises avant (Calcul à priori) que les conséquences de certaines décisions aient pu se faire sentir.Calcul des écarts et sous écarts en cours de plan annuel avec les mesures correctrices avant la fin du plan ou plus exactement des différents plans. Le calcul des sous écarts permet d'affiner les performances d'une entreprise pour distinguer les variables exogènes des variables endogènes .En effet dans le secteur des hydrocarbures il arrive souvent comme c'est le cas pout Sonatrach ces dernières années que ce qui est présenté comme une amélioration de la performance de l'entreprise n'est en fait qu'une amélioration   des résultats financiers qui est souvent due à l'augmentation du prix du baril alors que les quantités physiques en gaz et pétrole exportées ont diminué.

- Système de management de la qualité

- Total quality management

- Donc pour les plans futurs (N+1,……..N+n).Cette mise en place d'un système de management intégré va se heurter à de nombreux obstacles dont notamment des résistances de la part du personnel et de l'encadrement au refus du changement et des situations acquises. Il s'agit de passer du management centralisé autoritaire à un système basé sur des centres de responsabilité, décentralisés et participatifs. Le contrôle a priori est

une caractéristique importante du contrôle qui vaille à ce que l'entreprise utilise les plus récentes techniques de management dans l'ensemble des fonctions. En management faire confiance à son personnel, c'est bien mais contrôler c'est mieux.

II. Definition du Controle de Gestion Dans le Cadre d'un Management Integre

Il existe plusieurs définitions du contrôle de gestion pour moi il est défini « Comme le processus par lequel les dirigeants s'assurent que les ressources sont obtenues et utilisées avec efficacité et efficience pour réaliser les objectifs de l'organisation » (R.Anthony et Bouquin les deux meilleurs spécialistes mondiaux cités par Ahmed Ouamar).Le premier est l'expert de l'école anglo-saxonne pragmatique, le second de l'école latine plus théorique.D'une manière générale, le contrôle de gestion est un processus destiné à motiver les responsables et à les inciter à exécuter des activités contribuant à l'atteinte des objectifs de l'organisation.

III. Le Processus du Controle de Gestion Dans la Chaine Petroliere du Puit a la Pompe

Le caractère dynamique du contrôle de gestion dans la chaîne pétrolière ou gazière va s'intéresser à l'exploration, la production, le transport, le raffinage et enfin la distribution ; il souligne les étapes suivantes :

i. Fixation des objectifs de l'exploration, de la production, du transport par canalisation, du raffinage et de la distribution.

ii. Planification budgets selon l'ordre budgétaire : Budget de la commerciale puis de la production, puis des appros et enfin des structures de soutien et enfin les charges discrétionnaires.

iii. Mise en œuvre du plan après budgétisation qui tient compte des remarques des structures opérationnelles.

iv. Suivi périodique des réalisations en fonction du planning prévu

v. Analyse des résultats non pas in fine mais périodiquement, surtout pas en fin de plan $E/VALEUR= (Pp) \times (Qp-PrxQr)$.

vi. Prises d'actions correctives dans le calcul des sous écarts la chaîne pétrolière.$S/E.PRIX=Pr. \times (Q.s.-PsxQr)$ et S/E quantité$=(Ps) \times (QR-PsxQs)$.L e calcul des sous écarts permet de distinguer si les performances commerciales sont dues à une augmentation du prix des hydrocarbures (Variable exogène à l'entreprise) ou à une réelle augmentation de la production due à un effort de l'entreprise (Variable endogène).

Le processus de contrôle de gestion s'inscrit dans la stratégie de l'entreprise, cette stratégie est définie en fonction des objectifs fondamentaux de l'entreprise, en fonction des opportunités et des contraintes de l'environnement (Grille de Porter, analyse SWOT, Matrice du Boston Consulting Groupe ou BCG) des moyens, des potentiels, et des contraintes externes. Une entreprise algérienne énumère ainsi les missions attendues du CG : « Le contrôle de le gestion globale de l'entreprise, L'établissement des procédures de gestion comptable et analytique, le suivi mensuel des activités de production et de commercialisation en analysant les performances de l'entreprise dans ces domaines, l'appréciation des causes des écarts identifiés entre les objectifs et les réalisations, la recherche des propositions correctives, assurer le suivi du plan d'action déterminé par le budget, l'analyse des indicateurs de gestion conformément aux objectifs fixés par l'ensemble des directions, l'évaluation des marges de profit et des indicateurs de performance par lignes de produits, la vérification des écritures comptables et l'analyse des comptes, faire des reporting et tableaux de bord mensuels, assister les directions dans la mise en place des procédures de gestion, le contrôle et la correction des variances ».Comme nous pouvons l'observer, les missions imparties au contrôleur de gestion sont vastes et complexes ,en fait il lui est exigé de mettre l'entreprise au niveau de management le plus élevé.

IV. Les Objectifs du Controle de Gestion Dans un Management Decentralise

En raison du recours récurrent à l'externalisation par les entreprises, cette pratique se banalise. En effet, selon le Baromètre Outsourcing Andersen, 62% des entreprises externalisent une de leurs activités. Par externalisation, le Baromètre Outsourcing Andersen entend «la délégation de certaines fonctions sur une durée contractuelle pluriannuelle à des prestataires de services extérieurs à l'entreprise ». Mais il convient de nuancer cette définition. Des auteurs tels que Jérôme Barthélémy distinguent l'externalisation de la sous-traitance avec laquelle elle est souvent confondue; l'auteur s'appuie sur la définition du Conseil Économique et Social qui présente la sous-traitance comme «une opération par laquelle une entreprise confie à une autre le soin d'exécuter pour elle et selon un cahier des charges préétabli une partie des actes de production ou des services dont elle conservera la responsabilité économique finale ». Pour Barthélemy , là où « la sous-traitance implique une obligation de moyens, l'externalisation implique une obligation de résultat ».

Nous avons commencé à mettre l'accent dans l'entreprise algérienne sur l'externalisation. L'auteur

s'appuie sur la définition du Conseil Économique et Social qui présente la sous-traitance comme « une opération par laquelle une entreprise confie à une autre le soin d'exécuter pour elle et selon un cahier des charges préétabli une partie des actes de production ou des services dont elle conservera la responsabilité économique finale ».C'est ainsi que nous avons proposé de sous traiter, le transport du personnel, la restauration, le nettoyage et enfin le gardiennage.

Cette stratégie vise à ce que l'entreprise se concentre sur son métier de base : La production d'énergie et non pas iniquement des hydrocarbures.

Le contrôle de gestion ne peut se comprendre que dans une entreprise finalisée qui a des buts et dans laquelle un processus de fixation d'objectifs a été mis en place au niveau des structures et des individus. Le tableau d'exploitation prévisionnel (TPE) en est l'outil. En fait les entreprises algériennes ont souffert durant plus de trente années d'économie dite administrée ou socialiste du manque d'environnement concurrentiel à la fois sur le marché national puisqu' 'elles étaient toutes dans une situation monopolistique. Elles ont également souffert de l'absence de concurrents étrangers puisque l'investissement étranger étai absent dans une économie vivant en quasi autarcie.
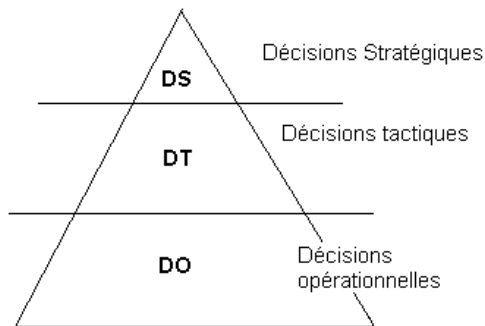
Le contrôle de gestion appliqué dans une entreprise de la chaîne gazière en Algérie va inciter les managers et les structures de l'entreprise pétrolière à :

- Accroître la motivation des responsables à travers un système de sanctions/récompenses de nature financière ou autre au lieu et place d'un salaire assimilé par le passé à une rente dans notre entreprise des hydrocarbures.
- Créer davantage de convergence de buts dans les organisations en éliminant les dysfonctionnements transversaux et verticaux (Voir la pyramide de décision en supra). Rôle transversal unique du contrôleur de gestion avec le directeur de l'entreprise, il est en effet le seul à à avoir un droit de regard sur l'ensemble des structures de l'entreprise. Il va se poser d'après notre analyse sur le terrain un grave problème lié au cloisonnement

entre fonctions hérité de l'ancien modèle de management centralisé et autoritaire. Nous avons mis en place ce système et l'amélioration des performances a été spectaculaire.

V. La Fonction du Controle de Gestion

La fonction du contrôle de gestion est mal connue dans beaucoup d'entreprises de la chaîne gazière alors que c'est la fonction stratégique par excellence surtout dans les pays qui sortent d'une économie dite planifiée en fait administrée. Cette fonction est essentielle aussi dans l'organigramme des petites entreprises car elle offre aux décideurs les moyens de comprendre la réalité, de s'y adapter et de se préparer au futur. Concrètement nous avons réussi à lever ces appréhensions.

VI. Le Systeme du Controle de Gestion

a) Le contrôle de gestion apparaît comme un système de régulation des comportements positifs et négatifs des individus et des groupes dont les actions influencent la vie et les choix de l'organisation. C'est pour cela que nous avons mis en place dans l'entreprise une batterie d'indicateurs qualitatifs et quantitatifs. Il s'appuie sur :

- Des objectifs précis à atteindre sur la période après avoir évalué les conséquences des choix.
- Les ressources déjà mobilisées à travers un budget ou à mobiliser sur cette période : techniques, humaines, financières, …
- Les performances visées à travers les ratios des Tableaux de bord, du Benchmarking ou résultant des actions lancées.
- Le contrôle de gestion appliqué à une entreprise de la chaîne pétrolière va ajuster :
- Les ressources aux objectifs en décomposant les objectifs en sous objectifs pour affecter les ressources y compris en proposant comme nous l'avons fait l'externalisation de certaines tâches comme le transport, la restauration, le nettoyage voire même le traitement informatique même si cette dernière nécessite des règles de confidentialité et de sécurité très strictes. décision d'externaliser ou non va dépendre d'un calcul coûts-qualité de la prestation.
- Les ressources aux performances en tentant de résoudre les problèmes de productivité de qualité.
- Les performances aux objectifs pour apprécier l'efficacité des actions.

VII. Les Outils du Controle de Gestion Selon Anthonny et Bouquin

Le contrôle de gestion englobe de nombreux outils de gestion

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- L'analyse des coûts mais encore faut il avoir des coûts normatifs pour les hydrocarbures d'où des partenariats SH-Statoil.
- L'analyse des écarts et sous écarts pour prendre à temps des mesures correctrices.
- L'analyse des budgets et des plans selon un ordre budgétaire comme cité plus haut.
- L'élaboration des tableaux de bord de la Direction ou de Pilotage et de gestion.Donc il s'agit de Tableaux et non d'un Tableau.
- L'analyse de la valeur.
- Le contrôle de la qualité selon les normes ISO 9000 ,1400(Environnement) ,12000(HSE).
- L'analyse et la répartition du surplus …

VIII. Avantages du Controle de Gestion

Le contrôle de gestion est un plus aux entreprises auxquelles il apporte une meilleure compréhension :

- Des problèmes que l'entreprise ou nous avons mis en place ce système, rencontre ou qu'elle est susceptible de rencontrer en préparant les informations nécessaires à son pilotage et en évaluant les risques encourus.
- Des comportements des acteurs pour mieux les influencer par la mise en place d'un ensemble cohérent de règles de conduite et de normes afin de limiter les risques de non performance.

IX. La Place du Controle de Gestion dans L'organigramme de L'entreprise Petroliere

a) Existe Deux Cas Possibles Qui Ce Sont Présentés À Nous :

- Une position fonctionnelle mais il sera placé sous la tutelle du Directeur Financier et Comptable, ce qui peut être limitatif de son champ d'action .Nous avons constaté une tendance du directeur financier à brider les prérogatives du contrôleur de gestion.
- Un positionnement préférable au niveau de la DG de l'entreprise qui lui donne plus de pouvoir de contrôle, mais avec le risque réel surtout en Algérie, de dépendre du président directeur général(PDG). Nous avons préféré cette seconde méthode ou variante.

X. Une Position Fonctionnelle Qui Prete a Confusion

Ce que nous avons constaté sur le terrain au sein de l'entreprise algérienne, est loin de la théorie. Soit le contrôleur de gestion est rattaché à une direction fonctionnelle administrative pour qui : « Faire confiance c'est bien contrôler c'est mieux ».Soit directement à la direction générale et c'est le cas de notre entreprise gazière.

Le contrôle est, dans tous les cas indispensable, il rassure chaque salarié quant à l'objectivité du contrôle et de l'évaluation qui est faite sur des critères objectifs.Mais il inclut un contrôle rigoureux des structures et des hommes.Par contre la confiance est indispensable afin de donner une liberté d'actions aux gestionnaires ,c'est le management décentralisé basé sur les Centres de responsabilité :Centres de coûts ,centres de profit et centres d'investissement. Le CG est l'ensemble des moyens mis en œuvre par l'entreprise afin d'aider les responsables opérationnels à maîtriser leur gestion, pour atteindre les objectifs fixés. Le contrôleur de gestion a cinq missions fondamentales quel que soit le paradigme managérial retenu par l'entreprise algérienne:

a) Valoriser en quantité les différents plans de structures.
b) Contrôler les plans d'action.
c) Analyser les causes des écarts et sous écarts afin de situer les résponsabilités.
d) Suivre périodiquement l'exequatur des plans pare les différentiels structures.
e) Analyse des écarts et sous écarts entre prévisions et réalisations. Le Contrôleur de Gestion ne doit jamais se substituer à l'opérationnel; c'est un outil de conseil de vérification et de sanctions positives et négatives.

Tableau 1 : Le Contrôle De Gestion Relie A La Direction Financiere Et Comptable
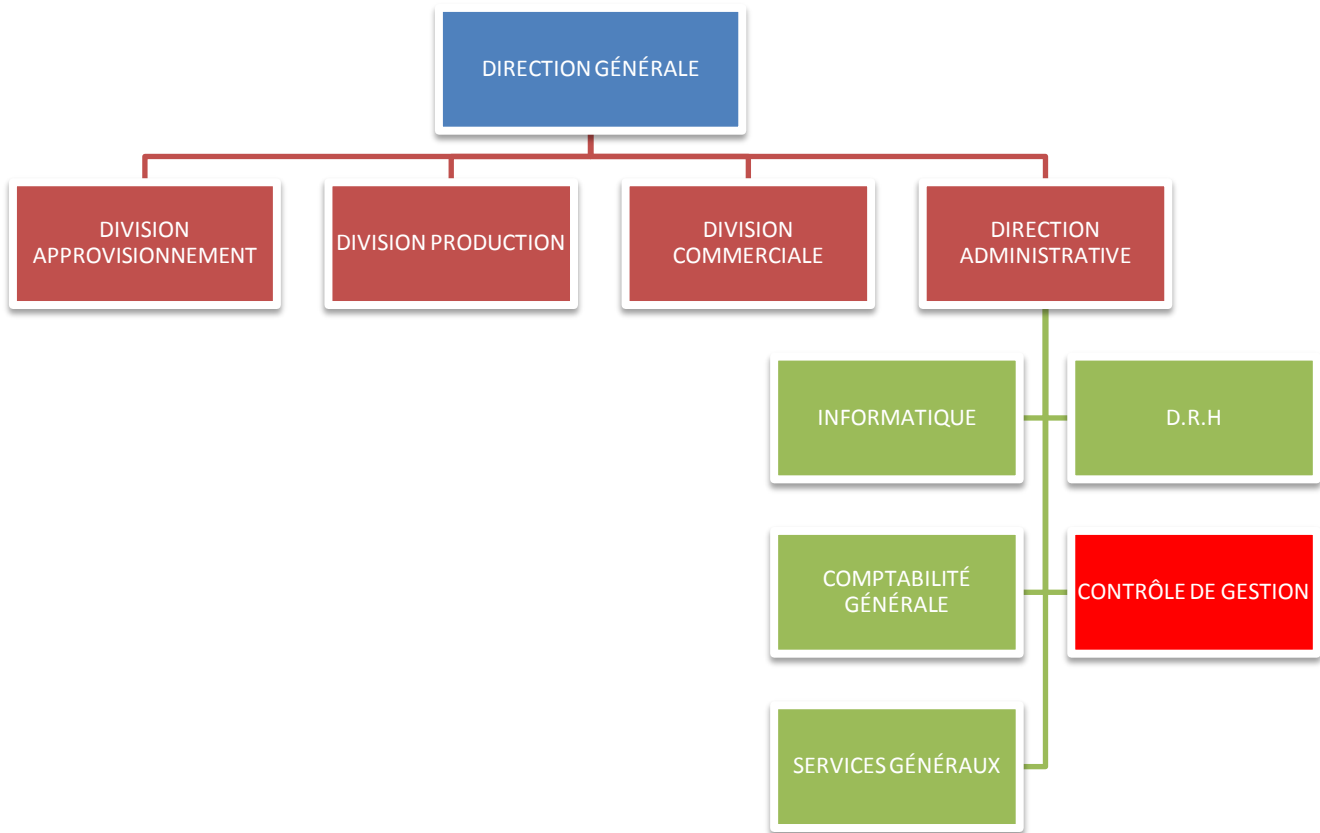
La mission du contrôleur de gestion n'est pas la comptabilité générale et ne coïncide pas avec la définition pour moi moderne du contrôle de gestion qui va au-delà des constats qui relèvent des statistiques dites d'entreprise.

XI. UNE POSITION D'ETAT-MAJOR AU NIVEAU DE LA DG DE L'ENTREPRISE PETROLIERE AVEC SES DIVISIONS

Le contrôle de gestion peut être situé et occuper une place de « staff » ou d'état-major disposant non pas d'une autorité hiérarchique mais d'une autorité de spécialité.Ainsi le CG peut avoir une vue d'ensemble des fonctions de l'entreprise cf. Organigramme ci dessous.

Tableau 2 : Le Contrôle De Gestion Relie A La Direction Generale
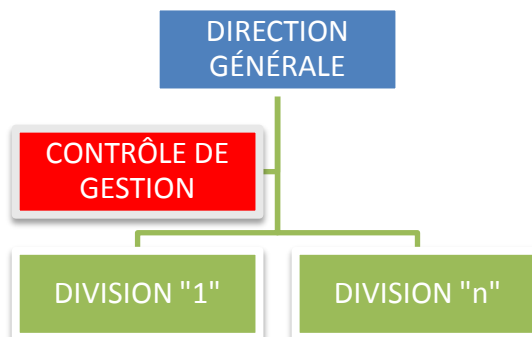
Le contrôleur de gestion intervient :
- Dans le processus de planification stratégique.
- Dans le processus de mobilisation et d'animation des acteurs.

- Dans la prise de décision s à long terme: choix d'investissements, partenariat.

XII. L'organisation de Service du Controle de Gestion dans L'entreprise Petroliere

XIII. Tableau 2.les Tâches du Contôlreur De gestion Tableau N°3.les Differentes tâches du contrôleur De Gestion Dans L'entreprise Gaziere
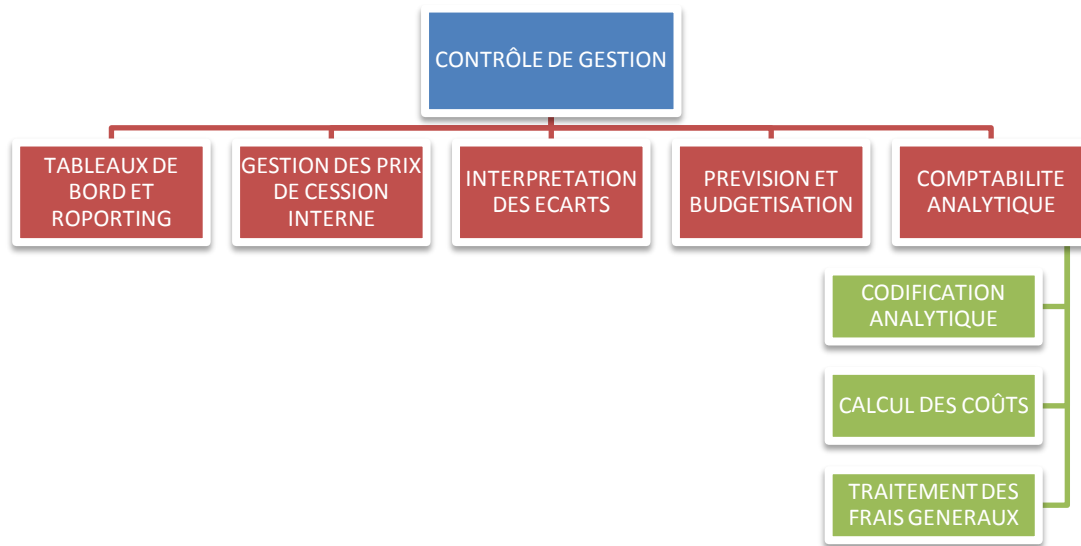
Les Tableaux de Bord de Gestion n'ont rien avoir avec le tableau de bord dit de pilotage de la direction générale : ce sont des Tableaux ou documents de synthèse où sont rassemblés des indicateurs permettant d'évaluer les paramètres de mesure.Cf tableau ci-dessus.Le Reporting : est lié au système de fixation des objectifs. Le système de planification fixe des objectifs spécifiques à chaque manager pour une période de temps donné. Il a pour mission principale l'information de la hiérarchie sur l'état et l'évolution des unités décentralisées. Il permet de rendre compte des résultats des activités déléguées aux différents centres de responsabilité .Les prix de cession interne appliqués par l'entreprise de la chaîne gazière vont avoir des répercutions inimaginables sur la rentabilité financière de l'entreprise. (Voir supra).Je distingue personnellement trois méthodes applicables à la chaîne : Au coût de production, au prix négocié, au coût du marché. Ces prix vont s'appliquer :

A l'exploration de nouveaux gisements d'huile et de gaz.
A la production d'hydrocarbures.
Au transport par canalisation(Gazoducs).
Au raffinage ou liquéfaction du gaz .
A la distribution de la chaîne pétrolière ou gazière.

Des trois méthodes de prix de cession interne ma préférence va sans conteste dans le cas algérien au prix négocié car Sonatrach est une entreprise verticalement intégré qui assume à la fois l'exploration des gisements qu'elle sous traite parfois en totalité à

des entreprises étrangères comme Schlumberger, Haliburton, mais aussi le transport par canalisation, le raffinage ou liquéfaction et enfin la distribution. Le choix d'une de ces trois méthodes aura des conséquences très importantes sur chacune des filiales en terme de cash-flow.

XIV. Les Differentes Approches du Cositionnement Du Controle de Gestion Dans L'organigram

a) Une Approche Dite Classique Ou Traditionnelle De La Place Du Controle:

Selon cette approche, l'entreprise doit être régulée de manière interne par la maîtrise des problèmes organisationnels et de gestion, et de manière externe par la maîtrise de l'adaptation à l'environnement. La fonction du contrôle de gestion a la responsabilité de concevoir et de faire vivre ce système d'information et d'alerte. Le contrôle de gestion va lui-même faire en sorte de disposer d'une information suffisante pour associer les résultats à son responsable. Nous avons constaté là également une tendance à la rétention de l'information qui circule mal entre structures. Le prétexte évoqué est souvent la confidentialité.

b) Une Approche Du Management Decentralisatrice :

Selon cette approche, vérifiée in situ ,la décentralisation est nécessaire pour s'adapter réagir vite et mieux motiver le personnel qui est ainsi associé,

décentralisation n'est pas la panacée, elle comporte des risques, celui notamment de la dilution des responsabilités ou « redondance » que nous avons constaté sur le terrain.

XV. LA MISSION DU CONTRÔLE DE GESTION ET LA TAILLE DE L'ORGANISATION

Dans les grands groupes pétroliers le contrôle de gestion est une fonction stratégique vu la taille de ces entreprises assurée en même temps que d'autres fonctions comme la comptabilité, les finances, l'administration ou l'informatique. A Sonatrach, on aura une direction Audit et contrôle de gestion rattachée directement au PDG. La taille de cette entreprise de 140..000 salariés et qui réalise en 2012 un chiffre d'affaires de 76 milliards de $ justifie cette organisation. Dans les grandes organisations, la fonction est plus élargie et spécialisée.

a) Le Contrôleur De Gestion

i. Les Missions Du Controleur De Gestion :

Le contrôleur de gestion est un responsable du système d'information de gestion de l'entreprise. Il devient alors parfois de facto:

• Le récepteur du système d'information et a pour tâches :

1. La définition et la qualification des différents centres de responsabilité. Dans une entreprise de la taille de Sonatrach, la mise en place de centres de coûts, de profit et d'investissement est incontournable, sans cette organisation l'entreprise devient incontrôlable.
2. La construction du réseau analytique d'information.
3. L'établissement des standards et leur révision périodique car les normes ne sont pas figées. En effet la performance et donc les ratios qui la mesurent ont une validité limitée dans le temps et l'espace entre autres à cause ou grâce au progrès technique.
4. La construction de l'articulation budgétaire tel que citée. C'est à dire l'ordre budgétaire que nous déclinons ainsi, budget de la commercialisation des hydrocarbures, budget des approvisionnements, production et enfin des structures de soutien.
5. L'élaboration des différents tableaux de bord et des indicateurs de performances spécifiques à l'entreprise algérienne.

• Le gestionnaire du système d'information et assure la coordination et la circulation des informations.

• L'animateur du système d'information et remplit des missions :

1. D'information et de communication auprès des décideurs de l'entreprise.
2. De conseil auprès des responsables de centre.
3. De participation à la gestion des conflits et arbitrages entre les unités du groupe.

ii. *Le Profil Du Controleur De Gestion Dans Un Management Decentralise*

Puisque les profils demandés par les compagnies pétrolières dans les annonces sont longs et utopiques, certaines qualités peuvent être raisonnablement exigées et appréciées chez le futur contrôleur qui doit nécessairement faire un training dans tous les services:

• Qualités professionnelles : Polyvalence technique et économique, avec de 3 à 5 années d'expérience.

• Bonne culture technologique : Compréhension des processus productifs, de services et distributifs, centres de coûts et centres de profit. Il faut toujours insister sur le fait qu'un contrôleur de gestion doit être polyvalent, c'est-à-dire un ingénieur ou technicien du domaine gazier et un financier. C'est exactement le profil que notre faculté(FHC) forme en économie des hydrocarbures. Des ingénieurs algériens que nous formons et qui ont cette double casquette.

• Capacité d'observation : Construction d'un réseau analytique, identification des facteurs de coût, point faible de l'entreprise algérienne publique ou privée.

• Empathie : La capacité d'un individu à se mettre à la place d'un autre, l'imagination des effets et des comportements liés à l'introduction d'un indicateur qualitatif ou quantitatif de performance pour un acteur.

• Dialogue : Discussion avec les acteurs des différentes fonctions de l'entreprise pétrolière, le contrôleur de gestion étant l'interface entre la DG et les différentes structures fonctionnelles et opérationnelles de l'entreprise.

• Pédagogie : La présentation des tableaux de bord sous forme synoptique, précision des travaux de calcul de coût. L'utilisation de graphes, pyramides, fromages et pictogrammes en couleur permet une meilleure lecture.

• Discrétion : Le devoir de réserve s'applique ici la confidentialité concernant le système d'information et le traitement des éléments aussi. Le contrôleur de gestion est le seul avec le PDG à avoir accès à l'information de l'ensemble des structures (Transversalité et verticalité).Dans le contrat nous avons signé une obligation de confidentialité et de réserve.

• Dans la pratique, on peut identifier quelques qualités très déterminantes des rôles assignés aux contrôleurs de gestion :

• Maîtriser le cœur du métier (Exploration, production, transport et raffinage d'énergie, et enfin sa distribution, ce qui équivaut pour l'entreprise à une redéfinition de son cœur de métier et une ouverture vers les énergies renouvelables, solaire éolien etc. Mais non plus seulement des hydrocarbures, en termes d'informations).

- Posséder les capacités relationnelles adéquates à l'animation des procédures et à l'assistance du manager.
- Contribuer à transformer l'entreprise en associant les structures opérationnelles à la fixation des objectifs réalistes.

Aujourd'hui, le contrôleur de gestion a pour rôle le contrôle au service de la stratégie. On parle du contrôleur de gestion stratégique qui garanti l'allocation rationnelle (Efficience, c'est-à-dire atteindre un objectif optimal avec le minimum de ressources, terme complètement différent de l'efficacité) des ressources et la création de valeur qui se trouve au fond de la stratégie de l'entreprise. Le contrôleur de gestion stratégique a une fonction de couplage de l'organisation avec l'environnement et de s'assurer que la stratégie choisie est mise en œuvre d'une façon pertinente dans le but de réaliser les finalités de l'entreprise. Donc, le contrôleur de gestion stratégique a pour métier la gestion prévisionnelle

b) *Les Difficultes Constates Du Controle De Gestion Dans La Chaîne Gaziere*

i. *les principaux criteres de reussite du controle de gestion* :

L'efficacité du contrôle de gestion, dans une entreprise, exige de :

- Connaître le fonctionnement interne de l'organisation pour y adapter la mise en place du contrôle, celle d'une entreprise pétrolière possède des spécificités propres aux chaines pétrolière et gazière.
- Anticiper sur l'évolution de son environnement en intégrant les dimensions spatiales et temporelles par la mise en place des différentes veilles, commerciales, concurrentielles, technologiques selon la grille de Porter.
- Evaluer toutes les combinaisons possibles entre ses ressources actuelles et ses ressources potentielles en vue d'atteindre les objectifs stratégiques (Plan Stratégique et PMTE).
- Formaliser certaines pratiques comme le calcul périodique des écarts et sous-écarts pour favoriser le suivi, l'évaluation et les mesures dites de corrections.
- Disposer d'un langage concret, d'un cadre contractuel et d'une discipline d'exécution pour que chaque utilisateur comprenne ce qui lui est demandé et ce que font les autres.
- S'appuyer sur les hommes de terrain (Les opérationnels du pétrole) et œuvrer pour que le changement quotidien qu'il impulse évite les freins culturels négatifs et favorise le fonctionnement en réseau et en équipe.

ii. *les obstacles a la mise en œuvre du controle de gestion* :

Le contrôleur de gestion se heurte fréquemment à :

- La tentation de la direction générale de l'Entreprise pétrolière:
- De vouloir piloter toutes les dimensions de la stratégie, PS, PMTE en Algérie, PLANS ANNUELS, BUDGETISATION.
- De demander au contrôle de gestion de tout contrôler ce qui techniquement dans la chaîne pétrolière complexe est impossible.
- Des structures arbitraires de l'organisation en centre de responsabilité dont les échanges :
- Reposent sur des relations bilatérales introduisant des marges de manœuvre et des gaspillages.
- Rendent mal compte des transversalités et ignorent l'effet réseau.
- Rendent impossible l'affectation d'une marge ou d'un dysfonctionnement sur une opération à laquelle ont participé plusieurs entités. Un produit de mauvaise qualité ne doit sûrement pas être imputé à la fonction fabrication ?
- Des conditions d'exercice insatisfaisantes, des impératifs contradictoires :
- Les objectifs ne sont pas clairement définis.
- L'activité ne se répète pas suffisamment pour capitaliser une expérience.
- Les prévisions et la mesure de ratios car de nombreux ratios sont peu fiables.
- Il faut orienter les pratiques tout en laissant de l'autonomie aux acteurs.
- Il n'est pas aisé d'isoler le lieu et l'instant de la décision de définir la meilleure solution.*

iii. *les difficultes pour apprehender la performance de l'organisation dans la chaine petroliere*:

Le contrôle de gestion éprouve une grande difficulté à mettre en place les indicateurs qualitatifs et quantitatifs relatifs dans le temps et l'espace pertinents pour compter la performance de la chaîne pétrolière dans toutes ses dimensions.Mesurer la performance intrinsèque impose une réflexion collective préalable pour définir ce qu'on entend par performance et conduit à :

- Pratiquer des comparaisons entre des périodes déterminées, dans le temps ou des concurrents dans l'espace (Benchmarking).Sonatrach a noué un partenariat avec l'entreprise étatique norvégienne Statoil, ce partenariat est très judicieux dans la mesure ou un benchmark avec Total ou BP ou toute autre compagnie privée serait biaisé.
- Utiliser un ensemble stable d'indicateurs synthétiques de performance avec une pondération et des caractéristiques quantifiables.
- Il convient de ne pas confondre :
- Les performances apparentes et les performances réelles. En effet nous avons constaté une tendance

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à sous estimer les objectifs afin de les atteindre facilement et toucher les primes de rendement.

- Les performances individuelles et celles d'une équipe de l'organisation.
- Les performances à un instant donné et son évolution dans le temps.

XVI. Les Autres Formes De Controle

a) Les Controles A Posteriori

Faire confiance, est bien, contrôler c'est mieux ». Le contrôle assimilé à une vérification, intervient lorsque la tâche est accomplie. Il consiste à vérifier que les résultats sont conformes aux objectifs ou aux standards.Le contrôle budgétaire grâce auquel on mesure périodiquement les écarts entre les prévisions et les réalisations, aide aussi à s'assurer que les performances obtenues ne s'éloignent pas des chiffres initialement fixés dans les plans.Dans les programmes et les budgets de même les contrôles statistiques de conformité se classent parmi ce type d'outils.Une telle forme de contrôle après l'action convient bien aux opérations qui se répètent fréquemment. Elle s'applique aussi aux opérations non répétitives, à des projets uniques à partir du moment où le déroulement des tâches est prévu avec précision.Le contrôle de la stratégie convient à la tactique lorsqu'il s'agit d'en apprécier les résultats.

b) Le Controle De Gestion Et Les Autres Formes De Controle Dans Le Cadre D'un Management Integre:

Le contrôle de gestion coexiste et en interaction avec d'autres mécanismes de régulation :

- Contrôle interne.
- Audit interne.
- Contrôle d'exécution.
- Audit opérationnel.

L'audit vient du mot anglais « to audit » ce qui signifie : vérifier, contrôler et surveiller. Avec le temps, ce mot a pris le sens de diagnostic, de conseil et d'apport de service divers aux organigrammes. Ainsi, l'audit recouvre un champ très large d'activités.

c) Le Controle D'audit Interne

i. Le Controle Interne

Le contrôle interne est un processus plus global mis en œuvre et supervisé par la direction générale pour conserver la maîtrise de l'organigramme. Il est ainsi chargé de mettre en place toutes les sécurités nécessaires à fin que :

- Les décisions prises pour assurer les meilleures performances à l'organisation soient correctement appliquées.
- Les comportements de tous ses membres soient conformes aux procédures formalisées ou aux principes admis, aux lois et réglementation en vigueur, et aillent bien dans le sens des objectifs stratégiques.

- La protection du patrimoine et la qualité de l'information soient garantis.
- Les conditions pour la flexibilité et la réaction soient réunies en permanence pour assurer la qualité maximale aux prestations fournies en interne comme en externe.

ii. Audit Interne

L'audit interne contrôle le processus de contrôle interne, c'est-à-dire le processus qui conditionne la qualité des prestations de l'organigramme. Il s'interroge sur son efficience et sa fiabilité, sur son aptitude à détecter et corriger les dysfonctionnements, à couvrir la totalité des opérations et à assurer leur cohérence.Il est interne a pour mission :

- D'analyser réalisé pour le compte des dirigeants par un service audit interne spécifique qui ne communiquent leurs informations qu'à leurs dirigeants. Un auditeur les procédures de contrôle en place, leur application, leur adéquation aux objectifs.
- D'observer et écouter le personnel.
- De relever les incohérences et les faiblesses de la pratique.
- De s'appuyer sur un questionnaire de contrôle interne.
- De tester le mode d'application des procédures et leur efficacité.

L'audit interne des états comptables et financiers est le plus fréquent. Mais il y a des audits qualité, sécurité etc.

XVII. Conclusion Generale

La mise en place pratique d'un système de contrôle de gestion dans l'entreprise a été un véritable bouleversement des pratiques managériales.
Fonction par définition hautement stratégique le CG lorsqu'il est correctement mis en place peut permettre à une entreprise de la chaîne, de mettre à niveau son management sans se ruiner, c'est ce que nous avons réalisé. Nous avons appliqué le Benchmarking interne, sectoriel, divisionnaire et enfin international en nouant des partenariats Win-Win.

La mise à niveau d'entreprises de la chaîne gazière qui ont connu durant près d'un demi-siècle un management de type centralisé est une lourde tâche.
Toutes les fonctions de l'entreprise comme l'approvisionnement, la comptabilité analytique, la fonction marketing, la gestion des ressources humaines étaient défaillantes.

Certaines entreprises dites socialistes ont opté pour le partenariat avec des entreprises étrangères sous toutes ces formes pour bénéficier immédiatement su savoir faire managérial de leur partenaire occidental. D'autres ont eu recours à des mises à niveau réalisées par des bureaux d'études internationaux très couteux avec des résultats mitigées car ces sociétés comme

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Ernest Youg ou le BCG ignorent totalement une réalité algérienne trop complexe pour des experts étrangers. Nous pensons que la mise en place d'un système de management intégré pourrait être une solution interne d'avenir pour les milliers d'entreprises qui cherchent à se mettre au niveau des entreprises les plus performantes dans le monde sans passer nécessairement par des partenariats couteux avec des firmes étrangères des pays occidentaux. La mise en place d'un management intégré passe par un contrôleur de gestion qui doit être un conseiller ou un animateur afin de transmettre rapidement aux responsables et aux opérationnels les informations(Indicateurs financiers et quantitatifs) utiles à leurs décisions et à leurs engagements dans des actions correctives.Les responsables et les contrôleurs de gestion doivent travailler en concertation avec toutes les structures de décision dites stratégiques ,les structures fonctionnelles ,et enfin les opérationnels de l'entreprise,pour faire du contrôle de gestion un instrument utile et motivant incitatif pour nos entreprises algériennes publiques ou privées afin d' utiliser les plus récentes techniques de gestion en Algérie et dans le monde et non pas comme un système de contrôle et de pénalisation ou de sanction. traitants,d'image… (Earl, 1996). Dans ces cas, l'externalisation se traduit souvent par une (ré-)internalisation, ce qui n'est pas sans engendrer quelques difficultés.

Toutefois, elle est considérée comme une marque de rationalité économique par ses partisans. Ainsi, la division du travail permet au commanditaire de focaliser ses moyens sur les activités qu'il juge stratégiques. De même, l'externalisation accroit la flexibilité du travail et donc par ce biais est utile pour faire face aux pointes d'activité. A ce titre, Veltz (2008) affirme : « contrôle, diffusion du risque, simplification sont les trois enjeux de l'externalisation ».

Au final, l'externalisation exige une réflexion qui vise à la comprendre dans ses multiples implications :implications sur la chaîne de valeur (tant de l'entreprise donneuse d'ordre que du prestataire) ;implications en termes de pratiques de coopération et implications quant au(x) Business Model(s) à mettre en place lorsque l'externalisation est envisagée. Aussi, faut-appréhender les pratiques d'externalisation dans leurs dimensions stratégique, sociale, managériale, juridique et politique. Dès lors, il ressort que selon qu'il s'agisse d'une entreprise commanditaire ou preneur d'ordre, les enjeux et intérêts ne sont pas les mêmes.
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Determinants of Market Orientation among Smallholders Cassava Farmers in Nigeria

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Abstract- Households need surplus output to meet both consumption requirements and market demand. To achieve this, households intuitively produce enough quantities of crops to satisfy these. Only a small proportion of the total output is taken to the more lucrative (but distant) urban markets for sale. This study aimed at analyzing the factors determining smallholder cassava farmer's market orientation. Household survey was conducted with a total of one hundred respondents. Descriptive Statistics was used in describing the socio- economic status of farmer households in the study area and Tobit model to identify factors that influenced market orientation.

Keywords: cassava, commercialization, market orienta-tion, tobit model and nigeria.

GJMBR-B Classification : FOR Code:150304 JEL Code: Q12

DETERMINANTSOFMARKETORIENTATIONAMONGSMALLHOLDERSCASSAVAFARMERSINNIGERIA

Strictly as per the compliance and regulations of:

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Abstract- Households need surplus output to meet both consumption requirements and market demand. To achieve this, households intuitively produce enough quantities of crops to satisfy these. Only a small proportion of the total output is taken to the more lucrative (but distant) urban markets for sale. This study aimed at analyzing the factors determining smallholder cassava farmer's market orientation. Household survey was conducted with a total of one hundred respondents. Descriptive Statistics was used in describing the socio- economic status of farmer households in the study area and Tobit model to identify factors that influenced market orientation. Result revealed that majority of the respondents were male (74%) and had a mean farming experience of 22 years, the average age was 49 years with an average household size of 5. An average of 4.87 acres of land was owned by the farmers while 1.33 acres was allocated to cassava production in the last growing season. Results obtained from econometric analysis revealed that, age ($p<0.05$; $\beta=0.0027478$); education ($p<0.05$; $\beta=0.0365234$); gender ($p<0.10$; $\beta=0.0661173$) and distance ($p<0.10$; $\beta=0.0083176$) significantly influenced market orientation. Policy that would promote formation of rural information bureaus alongside the mobile-telephony systems that are already being piloted by some institutions should be pursued.

Keywords: *cassava, commercialization, market orientation, tobit model and nigeria.*

I. Background to the Study

Agriculture continues to be a strategic sector in the development of most low-income nations. It employs about 40% of the active labor force globally (Nyanamba et al, 2009). In sub-Saharan Africa, Asia and the Pacific, the agriculture-dependent population is over 60%, while in Latin America and high income economies, the proportions are estimated at 18% and 4%, respectively (World Bank, 2006). Close to two thirds of the natural wealth in low-income countries is engaged in crop and pasture land (Otieno *et al,* 2009). Poverty within Nigeria remains staggeringly high with over 50 percent and 70 percent of its general and rural population respectively, living on less than US1$ a day (World Bank 2007). Similarly, though Nigeria is often cited as one of the largest oil exporting countries, agriculture still remains the main employer of over 70 percent of the country's labor force and accounts for about 31 percent of the nation's GDP (World Bank 2008). Consequently, the importance of this sector in national development and poverty alleviation cannot be overemphasized. Over time, agriculture has declined in importance.

Market orientation is the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it. Market orientation in agriculture is basically a production decision issue as influenced both by production conditions and market signals (Berhanu *et al,* 2010). Moti *et al,* (2010) defined market orientation in agriculture as the degree of allocation of resources (land, labour and capital) to the production of agricultural produce that are meant for exchange or sale.

Numerous studies have examined strategies, structures and systems as potential barriers to developing market orientation (including Lear, 1963; Ruekert, 1992; Slater and Narver, 1993; Jaworski and Kohli, 1993; Pulendran and Speed, 1996). Arguably, the earliest study of behaviour as an obstacle to market orientation is that of Felton (1959). In a detailed investigation of potential impediments, Felton (1959) identifies and discusses four potential pitfalls to market orientation, namely: lack of inter-functional integration; political manoeuvring; weak management skills; and executive inexperience. Felton (1959) argues that such behavioural obstacles can severely restrict market orientation development and thus organizational performance. Harris (1998) uncovers seven main barriers to developing market orientation at the shopfloor level including: instrumentalism; short-termism; and weak management support. While Harris (1998) focuses on shopfloor workers, he also suggests that management attitudes and actions are important. Similar claims in the wider organizational literature identified leadership as a major determinant of company performance (Thorlindsson, 1987; Fiedler, 1996; Hennessey, 1998). Commercial orientation of small-holder agriculture leads to gradual decline in real food prices due to increased competition and lower costs in food marketing and processing (Jayne *et al.,* 1995). These changes improve the welfare of smallholder farmers in two ways: low food prices increase the purchasing power for food of consumers while, to producers, a decline in food prices enables reallocation of limited household incomes to high value non-food agribusiness sectors and off-farm enterprises.

Like most crop production in Nigeria, cassava production is concentrated in the hands of numerous

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small holder farmers and located mostly in the central and southern regions of the country (Liverpool *et al,* 2009). The Nigerian cassava market is composed of a more traditional food- oriented section which is fairly well understood and a newly emerging industrial market (where cassava is used for the production of pharmaceutical products, feed, and confectionary) which needs to be further explored and developed.

The Obasanjo administration's presidential initiatives on cassava production as well as the immediate past government's seven point agenda have contributed to the recent growth in the country's cassava production. Between 2005 and 2006, there was a 73 percent increase in cassava production, partially due to the imitative (Reuter, 2007). The recent increase in cassava production has been said to have resulted in a surplus of cassava production which decreased prices and caused significant financial losses for cassava producers, this is most likely driven by the inefficient cassava commodity chain characterized by a poor distribution network, poor storage capacity, and a generally underdeveloped cassava downstream sector (Liverpool *et al,* 2009).

Examining the trend of market orientation is a method of accessing the smallholder farmers' participation in the output market so that the objective of small-holders agricultural commercialization can be justified. Cassava is widely grown in Nigeria; it is now a close substitute for cash crop in the international market. It is important to know the level of production of this crop by smallholder farmers and their level of participation in the exchange market with consideration to local and a foreign market. It is therefore imperative in this study to examine the determinant of market orientation among smallholder cassava farmers.

In order to meet the stated objectives of this study, the following research questions are pertinent.

- Does market orientation translate into market participation?
- What are factors that create barriers to market orientation?
- What are the factors that promote market orientation among cassava farmers?

II. Methodology

a) Area of Study

The study was carried out in Osun State, Nigeria. Nigeria is the largest country in Africa, with a total geographical area of 923 768 square kilometers and an estimated population of about 126 million (2003 estimate). It lies wholly within the tropics along the Gulf of Guinea on the western coast of Africa. Nigeria has a highly diversified agro-ecological condition, which makes possible the production of a wide range of agricultural products (Liverpool *et al,* 2009). Oșun State is an inland state in south-western Nigeria. It is bounded

in the north by Kwara State, in the east partly by Ekiti State and partly by Ondo State, in the south by Ogun State and in the west by Oyo State. The 1991 census puts the population of the State at 2.2 million (Total population: 2,203,016 in 1991 and 2005 Estimated at 4,137,627m respectively. Total land Area covered 9,251 km^2 (3,571.8 sq mi) with area density of 238.1/km^2 (616.8/sq mi). It is located on Latitude: 7°30′N 4°30′Eand Longitude 7.5°N 4.5°E. The state consists of thirty Local Government Areas; there are more than 200 towns, villages and other settlements in the State. The state has a considerable number of highly urbanized settlements. The State runs an agrarian economy with a vast majority of the populace into farming.

b) Sources and Method of Data Collection

This study focused on selected households that engaged in cassava production. Primary data was used for this study; structured and open ended questionnaire were used to collect information from households who were randomly selected. Oral interviews, as well as, personal observation were also used to augment the earlier instrument.

c) Sampling Procedure and Sample Size

Random sampling technique was adopted since the population under study was homogenous i.e. cassava crop is widely grown by almost all small scale farmers in the study area. This study covered 100 randomly selected households from the Ten (10) wards in the study area. The structured questionnaires were distributed to the selected farming households for administering under supervision so as to avoid misspecification of information while oral interviews were also conducted for each respondent to complement information on questionnaires.

d) Analytical Techniques

The data generated was subjected to different forms of analysis: Descriptive analysis involved the use of statistical tools like frequency tables, percentages and ratios to describe socio- economic characteristics that affect market participation. Socio economic characteristics such as: gender, household size, education, household resource endowment such as land, labour, capital and transport facilities and institutional services such as credit, extension, etc. and access to market and non-farm activities were considered in the analysis to see how they affect market orientation. Probit Model Regression Analysis, Tobit Model Regression analysis, Truncated Regression model analysis were also used.

e) Tobit Regression Model Analysis

The aim of the study was to look at factors that increase the level of participation in the maize markets. Ideally, the ordinary least square (OLS) model is applicable when all households participate in the market but in reality not all households participate or at the

same level in the markets. Some households may not prefer to participate in a particular market in favour of another, while others may be excluded by market conditions. If the OLS regression is estimated excluding the non-participants from the analysis, a sample selectivity bias is introduced into the model. Such a problem is overcome by following a two-stage procedure as suggested by Heckman (1979) or Tobit procedures. These procedures has been discussed broadly in Tobin (1958), Greene (1981, 1993), Maddala, (1988), and Gujarati (1995) and applied in several instances such as Adejobi et al (2006).

Data providing for market participation tend to be censored at the lower limit of zero. That is, the household may sell some of its produce, while another may not sell at all. If only probability of selling is to be analyzed, Probit or Logit models would be adequate techniques for addressing probability questions. Although it is interesting to know factors that influence the level of sales, at the same time, there is a need for a model that is a hybrid between the Logit or Probit and the OLS. The appropriate tool for such is the Tobit model that uses Maximum Likelihood Regression (MLE) estimation (Tobin, 1958, Gujarati, 1995). A Tobit model answers both of the following questions:
What factors influence the probability of selling?
What factors determine the level or magnitude of sales?

Using this type of econometric model (Tobit) to determine the factors affecting market participation while controlling for other factors is expressed as:

$$Y^* = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \mu_i$$

$Y = 0$ if $y \leq 0$,
$y = Y^*$ if $y > 0$

Y^* = House Commercialization Index
β = estimated parameter or coefficient
X_i = the explanatory variables
ε_i = error term and is normally distributed with zero mean and constant variance.

The dependent variable y equals 0 if the latent variable y^* is below a certain threshold, usually 0. If the values of the latent variable are positive, the dependent variable is equal to the latent variable.

$$y^* = \beta_0 + x\beta_1 + \mu, \ \mu / x \ \text{Normal} \ (0, \sigma^2) \qquad (1)$$

$$y^* = \max(0, y^*) \qquad (2)$$

The latent variable y^* satisfies the classical linear model assumptions; in particular, it has a normal, homoskedastic distribution with a linear conditional mean.

Equation (2) implies that the observed variable, y, equals y^* when $y^* \geq 0$, but y= 0 when $y^*<0$. Because y^* is normally distributed, y has a continuous distribution over strictly positive values. In particular, the density of y^* given x is the same as the density of y^* given x for positive values. Further,

$$P(y = 0 / x) = P(y^* < 0 / x) = P(\mu < -x\beta) \qquad (3)$$

$$= P(\mu / \sigma < -x\beta / \sigma) = \Phi(-x\beta / \sigma) = 1 - \Phi(x\beta / \sigma) \qquad (4)$$

Because μ / σ has a standard normal distribution and is independent of x; we have absorbed the intercept into x for notational simplicity. Therefore, if (x_i, y_i) is a random draw from the population, the density of y_i given x_i is

$$\left(2\pi\sigma^2\right)^{-1/2} \exp\left[-\left(y - x_i\beta\right)^2 / \left(2\sigma^2\right)\right] = (1/\sigma)\phi\left[\left(y - x_i\beta\right)/\sigma\right], y > 0 \qquad (5)$$

$$P(y_i = 0 / x_i) = 1 - \Phi(x_i\beta / \sigma) \qquad (6)$$

Where ϕ is the standard normal density function. From (5) and (6), the log-likelihood function for each observation i is then obtained

$$l_i(\beta, \sigma) = 1(y_i = 0)\log\left[1 - \Phi(x_i\beta / \sigma)\right] + 1(y_i > 0)\log\left\{(1/\sigma)\phi\left[(y_i - x_i\beta)/\sigma\right]\right\} \qquad (7)$$

The log-likelihood for a random sample of size n is obtained by summing equation (7) across all i. The maximum likelihood estimates of β and are σ a obtained by maximizing the log-likelihood which is easily executed in STATA.

Tobit regression was employed to analyze the determinants of market participation of maize farmers using all the data information acquired. The second stage which is to analyze the factors determining the

volume of sales by the farmers, the Ordinary Least Square (OLS) model was used.

Tobit regression model is adopted to examine the household orientation toward the market. The recursive simultaneous equations Tobit model is specified as follows:

$$Y_2^* = \delta X^k + \kappa y_i + u_2$$
$$Y_2 = \max(0, y^{2*})$$
$$Y_1 = \pi X^l + v$$

In which: X^1 = vector of variables (I =age, farming mode, education, gender, household size, farming experience, non-farm activities, price and market information, quantity produced; quantity sold; distance to market); acres of cassava grown; farming experience = years of crop experience; market association = dummy variable for involvement in Market association (1/0); Gender= dummy variable for male=0, female=1, Non farm activities= dummy variable for involvement=0, No= 1, farming mode= dummy variable full-time=0, part-time =1, δ k and π = the coefficients to be estimated; Y_2 = Market Orientation index (MOIi); u_2 and v = the errors terms, symmetrically distributed around zero.

III. MODEL

The meaning and importance of market orientation has been studied extensively in the business sector (Kohli & Jaworski; Narver & Slater, 1990), but it is relatively new concept for the nonprofit and public sector. The model suggested in this research intends to explain the relationship between the antecedents of market-orientation and the tendency to adopt market orientation in cassava farming. These factors are conceptualized from two levels: those that constitute barriers and those that promote market orientation.
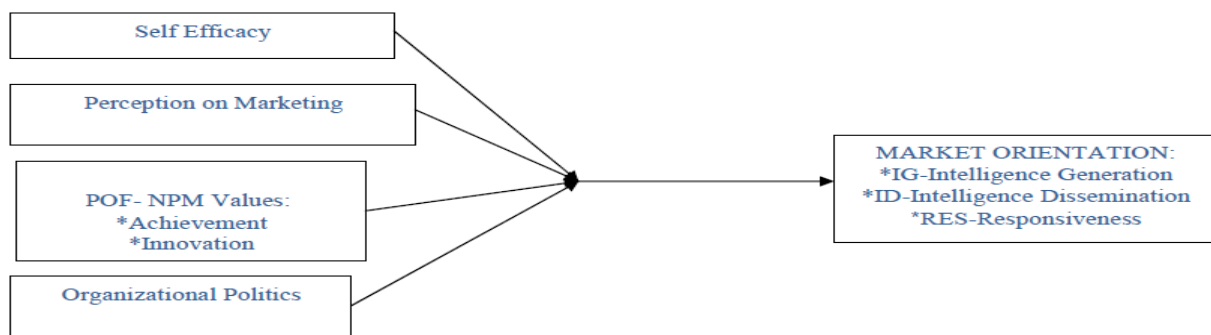
Source : Adapted from Nourit Segev, 2012

Figure 1 : Model explaining the concept of antecedents of market orientation

IV. RESULTS

a) *Socio-Economic Characteristics of Respondents*

Table 1 shows the result of the socio-economic analysis. Mean age of the sampled farmers was 49.17years. Age of the household head is used as a proxy for experience in farming Omiti et al (2009). This is expected to improve the intensity of market orientation. The modal age group lies between 41 – 50 years age group which constitutes 29% of the total respondents. This is followed by farmers who are more than 60 years old and this category constitutes 22% of the total respondents. This indicates that middle aged cassava farmers constitute significant percentage of the farmers in the study area. The older ones (>60 years) are weak as they can hardly contribute their self labour into production process in the absence of high cost of hired labor.

Table 1 : Socio-economic Distribution of Respondents

Variable	Frequency	Percentage
Age (years)		
20-30	14	14
31-40	20	20
41-50	29	29
51-60	15	15
>60	22	22
Total	**100**	**100**
Gender		
Male	74	74
Female	26	26
Total	**100**	**100**
Class of farm size(Ha)		
0.1-1.9	74	74
2.0-2.9	20	20
3.0-3.9	4	4
>5	2	2
Total	**100**	**100**
Farming experience(years)		
2-10	29	29
11-15	11	11
16-20	14	14
21-25	6	6
26-30	17	17
>30	23	23
Total	100	100
Level of Education		
No Education(NFE)	23	23
Primary Education(PE)	20	20
Secondary Education(SE)	36	36
Tertiary Education(TE)	21	21
Total	100	100
Household Size(Members)		
1 – 3	27	27
4 – 6	58	58
7 – 9	10	10
10 – 12	5	5
Total	**100**	**100**
Mode of farming		
Full-time	14	14
Part-time	86	86
Total	**100**	**100**
Access to Extension		
Service		
Yes	32	32
No	68	68
Total	**100**	**100**

Access to Credit		
Yes	4	4
No	96	96
Total	**100**	**100**
Land Ownership		
Inheritance	80	80
Rent	9	9
Lease	10	10
Purchased	1	1
Total	**100**	**100**
Marketing Association		
Yes	19	81
No	81	9
Total	**100**	**100**

The inability of the youth to complement family labour as a result of their involvement in non farm activities such as commercial motorcycle business ('okada' riding) makes labor more expensive. The result of the analysis showed that 74% of the respondents were male while only 26% are female. Gender represents differences in market orientation between male and female heads of households. Cunningham et al. (2008) found that men are likely to sell more in the season when prices are still high, while women prefer to store more output for household self-sufficiency. Women are more involved in micro processing of the crops into other product as well as involvement in other agro processing of other agricultural products such as oil palm. 98% of the farmers operated on small-scale.

The calculated mean farming experience is 22.50 years. 70% of the sampled farmers had minimum education requirement that is necessary to make farmers market oriented, thereby allowing them to participate in the market. The calculated mean household size is 4.73. Large households with more dependants are likely to have a lower level of commercialization as confirmed by Lapar *et al,* (2003) that propensity to commercialize declines with numbers of household members. This is because more of the produce is likely being consumed. The table also showed that 86% of the respondents are part-time farmers with about 14% full-time farmers. Cassava biologically has long gestation period usually at least a year before harvesting, hence, farmers seek for alternative source of income to meet households needs and provide basis for funds needed to carry out basic farm operations. 68% of the respondents had no access to extension service in the last growing season while only 32% of the sampled farmers accessed extension services in the same production season. Unavailability of extension services contributes one of the major threats to the realization of market orientation and participation objective among smallholder cassava farmers in the study area. Only 4% of the respondents had access to credit in the last growing season while 96% of the respondents had no access to credit in the same period. Farmers in the study area depended solely on their personal capital to finance farm production needs. As a result of this the production capacity of the farmers depend on their personal capital based and this determined to some extent the level of market orientation and participation of individual famers in the study area. 81% of the sampled respondents do not belong to any marketing association, while only 19% of the sampled farmers belong to one marketing association or the other. In a market oriented environment, involvement in marketing association is one of the major key determinant necessary for farmers to participate in the output market as it gives farmers opportunity to sell their produce with maximum profit and to get relevant information on price trend and market condition.

V. Tobit Model Regression Analysis

Tobit model regression analysis was used to examine the factors affecting farmers' market orientation in the study area. Farmers' market orientation was used to determine farmers preparedness for the participation in the output market through the efficient allocation of the factor of production into production process. Table 2 presents the result of Tobit estimation of factors affecting farmers' market orientation in Osun state, Nigeria.

Table 2 : Result of Tobit Model Regression Analysis of Smallholder Cassava Farmers Market Orientation, Nigeria

Variable	Coefficient	Std.Error	t-statistics	p>/t/
Age(years)	-0.0027478	0.001352	-2.03	0.045**
Gender(0=male,1=female)	0.0661173	0.033341	1.98	0.051***
Farming mode(fulltime=0,partime=1)	-0.1128012	0.090718	-1.24	0.217
Education(years)	0.0365234	0.015385	2.37	0.020**
Price(N)	-1.05e-06	1.74e-06	-0.61	0.546
Farming experience(years)	0.0019443	0.001519	1.28	0.204
Household size(number)	-0.0011743	0.006416	-0.81	0.855
Marketing association(yes=0,no=1)	0.013755	0.031586	0.44	0.664
Land fragmentation(yes=0,no=1)	0.0121401	0.027845	0.44	0.664
Access to loan(yes=0,no=1)	0.0997914	0.065828	1.52	0.133
Access to extension(yes=0,no=1)	0.0056883	0.028514	0.20	0.842
Distance to market(km)	0.0083176	0.004724	1.76	0.082***
Road type(tarred=0,untarred=1,feeder=2)	-0.0113277	0.023515	-0.48	0.631
Non-farm activities(yes=0,no=1)	-0.1112119	0.087764	-1.27	0.209
Collect market information(yes=0,no=1)	-0.0136185	0.031760	-0.43	0.669
Landownership(inheritance=0,lease=1,rent=2)	-0.004282	0.018811	-0.23	0.820
Constant	0.6821561	0.141058	4.84	0.000
Number of observation	100			
Log likelihood	74.363515			
Pseudo R^2	0.5773			
Prob>chi^2	0.000			

***, **, and * are significant at 1%, 5%, and 10% significant levels, respectively
Source : Authors' Computation, 2011

About 58% (pseudo R^2= 0.5773) of the variation in the dependent variable were incorporate in the model; market orientation index is explained by variation in the explanatory variable., the overall significance and fitness of the model can be checked with the value of chi-square. Pro>chi^2 =0.000 shows that the result is significant. Market orientation index (MOI) was used as dependent variable. Four (4) variables are significantly different from zero. There is a strong significant and negative relationship between age of farmers and market orientation in the study area i.e. (p>0.05) (β = - 0.0027478; P= 0.045). This shows that, market orientation of farmers in the study area decrease as their age increases. The fact remains that the older farmers in the study area are less market oriented as a result of their inability to contribute self labour into production process as a means of complementing labour supply on the farm in the absence of un-willingness of the members of the households to contribute family labour. As the age of farmers increase their ability to work on their farm reduces. Inability of the farmers to access credit is also a major threat to aged farmers as most farmers in the study area depend on their own capital to carry out basic farm activities. There is also a positive significant relationship (p< 0.10), between gender and market orientation in the study area ;(β =0.0661173, P= 0.051).

Accordingly, market orientation increases by 0.0661173 if the household head is male consistent with the findings of Berhanu *et al,* (2010), although, male headed households involve in on-farm production while majority of the female headed households are involved in post harvesting processing. The results also showed

that, there is a positive significant relationship (P> 0.05) between farmers orientation in the study area and their education as expected (β = 0.0365234, P=0.020), which is in line with Berhanu *et al,* (2010). This may be because majority of the farmers in the study area have minimum education requirements to make them market oriented; at least 80% of the respondents had a basic education in line with the findings of Heierli and Gass (2001). The result also showed that, there is a positive and significant relationship (P>0.10) between farmers orientation in the study area and the distance from farm to nearby market. This may be as result of moderate distance between the farmers' farms in the study area and the market. The average distance between farmers' farm in the area and the market is 6.67km. Farmers orientation increase by (β = 0.0083176, P= 0.082) given its distance to the market consistent with the findings of Shilpi *et al,* (2008) that improved market infrastructures increases the level of commercialization, especially in the developing countries. Key et al. (2000) and Makhura et al. (2001) found that distance to the market negatively influences both the decision to participate in markets and the proportion of output sold. Thus, the variable transport costs per unit of distance increases with the potential marketable load size. For farmers in very remote rural areas, geographic isolation through distance creates a wedge between farm gate and market prices. This leads to a shift from production of profitable but highly perishable commodities such as fruits and vegetables to relatively storable low-value cereals (Stifel & Minten, 2008). Input use is also affected in these rural areas by the substitution of commercial

high-value varieties with easily available and affordable though poor-yielding varieties. Consequently, through negative multiplier effects, distance can have severe implications for technology uptake and poverty reduction efforts.

The following variables although insignificant to market orientation in the area, have a positive relationship: farming experience, marketing association, land fragmentation, access to loan and extension respectively. Extension services in the area correlate positively with the market orientation in the study area as result of longtime experience of farmers in production of the crop in which the mean year of farming experience of farmers in the area is estimated at 25 years. Couple with the farmers in the area having minimum education requirement and farming experience enhanced their market orientation ability in the area. The following variables are not significant but correlate negatively with market orientation in the study area: farming mode, price, household size, road type, non-farm activities and market information.

Household size is expected to have positive relationship with market orientation with positive sign but this is not so in the study area as larger household size in the study area consumed more of what they produced rather than participating in the output market consistent with the findings of Lapar *et al* (2003). Also, inability of the members in the area, especially the youth to contribute their family labour thereby reduced farmers orientation and the small proportion being produced by the household-head is consumed by the entire household. Road infrastructure in the area also associated negatively with market orientation, this is because majority of the roads in the area are un-tarred and feeder roads which is not too motorable thereby making transportation of produce from farm to nearby market difficult and this increased farmers transaction cost consistent with the findings of Randela *et al,* (2008). Market information is also not associated with market orientation in the study area as a result of inability of the cassava farmers in the study area to have access to up to date market information on prices, commodity trends and market condition before production decision are made. As a result of this, market information is not within the reach of the farmers and farmers tend to take negative market decision which result in loss of income by farmers in line with the findings of Randela *et al,* (2008).

VI. Conclusion

Most farmers in the study area produce low volumes of relatively low-value and less perishable marketed surpluses. They also sell mainly at the farm gate and in rural markets. Only a small proportion of the total output is taken to the more lucrative (but distant) urban markets. These farmers do not participate effectively in the urban markets, which offer excellent opportunities for increasing their farm incomes and extracting themselves from the poverty and squalor in which they currently live. This study demonstrated the relevance of survey methods in enhancing farmers' involvement in commercial agriculture. Results from the household surveys showed that as age of farmers increases, their orientation towards the market decreases as a result of their inability to contribute their labour to complement the scarce hire labour supply in the area in the absence of credit facilities. Education plays a major role in the orientation of the farmers. The study findings confirmed assertions in the literature that distance indeed confines rural farmers to the perpetual production of low-value and less perishable commodities, particularly tubers such cassava (Omiti et al, 2009; Randela et al 2008). It was also established that market information plays a significant role in farmers' decision on how much output to make available to the market depending on the prevailing price and nearness of the specific market outlet.

Two sets of policy interventions are suggested. First, it is necessary to upgrade farm-to-market roads and establish more and better equipped retail market centers in the villages in order to reduce transport costs and encourage rural farmers to produce and trade in high-value commodities (such as milk). A second strategy would be to promote the formation of rural information bureaus alongside the mobile-telephony systems that are already being piloted by some institutions. These could enhance farmers' supply response to market dynamics for households in various socioeconomic profiles and village categories. It is often claimed that once the requisite infrastructure (roads, market facilities, and so on) has been put in place that should be enough to encourage farmers and traders to engage in agribusiness. This study, however, suggests that improved infrastructure is a necessary but not sufficient condition for enhancing agricultural commercialization. The sufficient condition would be simultaneous efforts to improve integration, through institutional reforms, and access, by building sustainable and predictable linkages to urban markets. Efforts towards this end would include group marketing arrangements to bring down transaction costs, bargain for better prices, enforce farmer-trader contracts and explore other opportunities inherent in economies of scale and scope.

There is need for adequate extension services to bridge the information gap between the cassava farmers and research stations in terms of their contribution in providing the farmers on updated information on price, market trends and price history so that farmers can sell their produce at good price, time and markets.

VII. Limitations

This study was designed to provide an initial insight into cassava farmers' market orientation and to supply a foundation for further research in this area. The limitations of this study provide a number of different avenues for future research. The sample used did not investigate other professional groups. It would be useful to expand the research to other organisations and populations. A major limitation is that the cross-sectional nature of the data collected precludes claims of causality. In this context, it is suggested that longitudinal research could provide a means of determining the directionality of associations. Consequently, a potentially fruitful avenue for future research could be the in-depth case study of the impact of farmers' actions and attitudes on the development of market orientation. The replication of this study in different contexts would also add insight and contribute to the generaliseability of the results. In particular, studies outside the Nigeria context appear, potentially, most worthy. Finally, further research is necessary to uncover additional factors to market orientation and to elucidate the process of developing market orientation. Priority issues for future research include harmonizing farm-level definitions or measurements of market integration and access, and developing a joint analytical framework for group responses and individual household data, particularly in the context of agricultural commercialization and the desired investment policy.

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The Growing Interdependence between International Business and National Economies

By Zdzisław W. Puślecki

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Abstract- The international trade policy in the end of the first decade of the XXI century have been strongly affected by the force of the economic crisis. The changes are evident in the growing importance of international trade to national economies and to domestic groups within those economies, in the closer linkages between trade and other international issues. Realistic point is important trends in the global trade regime during the economic crisis.

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Keywords: international business, national economies, growing interdependence.

I. Introduction

The changes induce by economic crisis are evident in the growing importance of international trade to national economies and to domestic groups within those economies, in the closer linkages between trade and other international issues. Realistic point is important trends in the global trade regime during the economic crisis. The growing interdependence have led to increased competitiveness and greater temptations to resort to strategic trade policy. The decisions taken by

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the representatives of the governments participating in the World Trade Organisation (WTO) are, to a significant degree, influenced by various lobbies, such as organisations and unions of food producers or other non-governmental organisations, including trade unions. The problems of mutual relations between the representatives of governments and those non-governmental organisations which influence on multilateral trade negotiations conducted on the forum of WTO are the subject of the analysis in the undertaken research program. Despite the undeniable benefits of the multilateral WTO forum for trade liberalization, the rapid increase of North-South bilateral and multilateral Free Trade Areas (FTAs) begs a systematic explanation for why some forums are prioritized relative to others. The main aim of the article is the the presentation of the growing interdependence between international business and national economies. In the article presents the new model of the foreign trade policy theory, protectionist pressures in different political systems, the level of protectionist pressures, food producers pressure, conflicts between the tendencies to sustainable international trade liberalisation and environmental protection, the effects of liberalisation China trade policy and the bilateral tendencies in the international trade policy,.

II. The New Model of the Foreign Trade Policy Theory

Traditionally, political economy models of trade policy have tendend to focus on the demand for protection, with factor endowments driving political reactions to exposure to international trade. Such model simply assumed that adversely affected economic agents would organize to seek protection, which would be afforded to them by their elected representatives in the political system. The supply side for trade policy was either ignored or underspecified in most model (Thies and Porche, 2007, p. 172).

In the new model of the foreign trade policy theory interesting are the reviews of Alt et al. (1996) and Nelson (1988) about the demand for trade policy in terms of the theoretical importance of factor specificity (Alt, Frieden, Gilligan, Rodrik and Rogowski, 1996, p. 695; Nelson, 1988, p. 806). Factor specificity refers to the ease with which factors (land, labor, and capital) can move from one sector to another in an economy. The two dominant approaches to explaining the demand

side of trade policy used radically diffreeent assumptions about the specificity of factors. The Heckscher-Ohlin model, used by Rogowski (1989) in his seminal contribution "Commers and Coalitions", assumes very low-factor specificity (Rogowski, 1989). The low specificity of factors means that factor returns are equalized throughout a region's economy. Producers should export goods that intensively use their abundant factors and import goods that intensively use their scarce factors, with the result that owners of abundant factors will favor free trade and owners of scarce factors will favor protectionisme. Trade policy coalitions will therefore be organized along factor or class lines. On the other hand, the Ricardo-Viner assumes that some factors are stuck in their present uses; therefore, factor returns are not equalized throughout a region's economy, but are industry specific. Trade policy coalitions should form along the lines of exporting versus import-competing industries.

Neither of these models explains how prefe-rences over trade policies are actually translated into political action (Alt, Frieden, Gilligan, Rodrik and Rogowski, 1996, p. 695). In a discussion of the endogenous tariff literature, Nelson (1988) notes that the mobility costs of the specific-factors model may be a result of productivity differentials, labor union activity, or individual preferences for membership in a given geografic area, industry, or firm (i.e., some form of solidarity) (Nelson, 1988, p. 806). In all of these cases, one can derive a link to preferences for tariff policy, "but without additional information on why the specific-factor model is chosen, it does not tell us much about political organisation".

Alt et al. (1996) suggest that one can begin to understand this process by assuming that rational individuals make cost/benefit calculations (Alt, Frieden, Gilligan, Rodrik and Rogowski, 1996, p. 695). The Heckscher-Ohlin and Ricardo-Viner models tell us the benefits that individuals hope to recive, but the costs of collective action also intervene as they organize to achive those benefits in the political system. Olson (1985) argued that small groups with specialized interests are easier to organize and more effective in securing economic rents than large groups with diffuse interests (Olson, 1985, p. 928-937). Small groups are better able to control free riders than large groups, and groups with specific or homogenous interests can more easily coordinate and target their activities than groups with diffuse or heterogenous interests. This approach is thought to explain the success of agricultural producer groups in developed countries in organizing for protection as well as the inability of agricultural producer group to organize in developing countries (Anderson, 1995, p. 401-423; Coleman, 1998, p. 632-651; Olson, 1985, p. 928-937; Olson, 1986; Sheingate, 2001).

However, Nelson (1988) points out that we should not assume that organized interests will be equally responsive to all issues (Nelson, 1988, p. 807). Institutionalized interaction among actors may help to explain systematic patterns of action, espaically as institutions created for specific historical purposes may outlive those purposes. Alt et al. (1996) suggest that if a particular group has paid the fixed costs of establishing collective action and developed well-worn channels of acces to public officials, it may defend its trade policy preferences even when the stakes are low because the marginal costs of action are low (Alt, Frieden,Gilligan, Rodrik and Rogowski, 1996, p. 696). It may be the case that "a much more affected but inchoate group does nothing because the start-up costs of organization are too daunting". Past strength of an organization should therefore be an important intervening variable predicting group action on trade policy. Further, as Nelson (1988) argues, once these institutions exist, supply-side interventions may also affect their usefulness as some are deemed legitimate or illegitimate aggregators of interest (Nelson, 1988, p. 807). Thus, we must examine the way in which economic institutions and political institutions interact. Most economic models simply assume that a model of the economy is a model of the demand side for trade policy, but Nelson (1988) suggests that we must elaborate the mechanisms by which demand is articulated to the suppliers of trade policy (Nelson, 1988, p. 810). For a good overwiew of this argument, especially as it pertains to agriculture (Thies and Porche, 2007, p. 172).

If the political systems rewards small sectoral groups, than individuals will not pay the costs of organizing large intersectoral coalitions. If the political system rewards large mass movements (i.e., majoritarianism), than individuals will have to pay the costs of organizing large intersectoral coalitions in order to achive any benefits. Collective action costs and political institutions are interactive with factor specifity. They suggest that Rogowski's (1989) Heckscher-Ohlin framework requires low factor specifity, low collective action costs, and domestic political institutions that favor mass movements (Rogowski, 1989). The Ricardo-Viner framework used by the endogenous tariff literature requires that factors are specific, collection action costs are high, and institutions are less majoritarian, with changes in any of these three variables also affecting the typ of coalitions that form.

In the state as a rational dictator model, the state may be seen as either pursuing "good government" goals along a social welfare function or intervening in the economy for their own self- interested model of the state views politicians as offering preferential trade policy to economic actors in exchange for political support (Magee, Brock, Young, 1989), (Grossman and Helpman, 1984, p. 833-850). On the other hand, pluralist theory typically view the state as a neutral aggregator of demands from groups in society. The supply of trade policy is then determined by the

balance of power on any given issue. The supply side of trade policy is relatively undeveloped theoretically, and yet a crucial part of the equation. A variety of different characteristics of the political system are posited to affect the supply of trade protectionism, such as politicians incentives to cultivate personal votes, the size of electoral districts, party fragmentation, federalism, presidential versus parliamentary systems, and so on (Nielson, 2003, p. 407-491; Rodrik, 1995; Rogowski, 1987, p. 203-222; Rogowski, 1987, p. 1121-1137).

On a theoretical level, understanding the choice of trade policies in countries is very important. A survey of economists in 1984 suggested that one of the few things they agreed on was that, under most conditions, tariffs, and quotas reduce the general welfare (Frey, 1984, p. 986-994). The stubbornness of protectionism in the face of international and academic pressure against it has led economists to seek explanations. These explanations range from the simple ignorance of politicians to arguments about the rationality of protection for "infant industries" and "optimal tariff levels" in developing states. Faced eith this frustrating question, scholars have increasingly turned to political answers in order to explain the choice of what would seem to be an "irrational" policy (Frey, 1984, p. 199-223; Nau, 1989; Nelson, 1988, p. 796-837).

III. Protectionist Pressures In Different Political Systems

It is important to indicate, that the role of trade unions in different political systems may be, to a high degree, different. In authoritarian systems it is, as a rule, smaller than in democratic systems. It would seem that if protectionistic pressure on the part of trade unions is weaker, the situation for economic growth is much better. Following that line of reasoning we could come to conclusion that the authoritarian system is better for the effectiveness of the labour market. The examples of Chile, South Korea, Singapore and Turkey from the seventies and early eighties could confirm that point of view. In many cases during those two decades the authoritarian regimes persecuted trade unions and put restrictions on basic labour rights. During that period of oppression, South Korea, Singapore and Turkey experienced a spectacular growth in the sector of processing industry and in the growth of demand for labour. Growing profits and the demand for labour in a processing industry, caused a general growth of prosperity of the employed. Although similar results were not noted immediately during the authoritarian phase of development in Chile, a number of observers express the opinion that the reforms introduced at that time helped to reorganise Chilean economy in the nineties. The application of democratic rules, on the other hand, may lead to lower productivity of labour force. In a number of years different democracies had to use significant financial resources for the employment of those who belonged to trade unions like for examle in the European Union.

A different point of view says that government legislation concerning the labour market may be applied more effectively in an authoritarian system than in a democratic one. The authoritarian regimes often make use of individual interests of given circles. In most democratic countries there is no broad enough basis that would allow to use labour market policy for gaining the support from pressure groups, the urbanised labour marked elite included. The major difference between authoritarian and democratic regimes lies in the level of the outside influence. In a well functioning democracy, the outside opinions are also taken into account and there occur some limitations which come from the outside, which restricts the achievements of given groups of interest. In a dictatorship, a government cares only that those groups are not too strong.

There is, however, a number of democracies among the industrialised countries where an effective labour market exists. There is also a number of democracies with effective labour market policy among the developing countries. Similarly, in the countries in which the transformation from the authoritarian regime towards a democracy is taking place, avoiding unfavourable phenomena on a labour market is often a priority. For example, the Chilean government moved towards democracy and to free trade unions without home income growth. The end of oppression in South Korea, in 1987, started the partnership relations in full of conflicts industry (Banerji and Ghanem, 1997, p. 173).

It is worth considering which of the two points of view presented above should be given support, that is, which of them is the proper one. The analysis of that problem may be based on the Grossman and Helpman model (Grossman and Helpman, 1994, p. 833 – 850) This model describes economic development on the basis of two sectors - urbanised, regulated processing sector, and rural, unregulated agricultural sector. The protection of the labour market, especially of minimum wages, is usually applied in order to bring the benefits for the employees of the regulated sector, since the sector of unregulated employees does not come under the legislation concerning the labour market.

The sector of regulated employees, and also the owners, demand from the government that it leads an economic policy that is favourable to them. The employed demand high minimum wages, while capitalists demand high profits. Both groups demand the restrictions on the degree of economy openness. In a closed economy, higher market minimum wages and higher profits are usually connected with higher prices for home consumers, and this is not easy when those consumers are free to buy the substitutes in form of imported goods. Thus, incomes in an economy may be created by protection and later divided among the

employees of the regulated sector and the capitalists, although sometimes the government itself takes a part of those incomes (Banerji and Ghanem, 1997, p. 173).

A government conducting an economic policy takes into account a number of factors. Firstly, it has to decide the degree of obtaining the resources, that is, how much from those resources it wants to obtain. Hence the importance of investments and of future economic growth, and also of defining the possibilities for keeping the power it is currently holding. Secondly, the government should define the scale of support from each of the pressure groups that can influence the situation. The position and importance of each group for the development of political processes should be considered. For example, in the country where the regulated labour market is divided, and politically weak, only the capitalists may have a deciding voice in political processes. And the contrary also happens - in the societies where the labour market is organised, it may play the important role in mobilising voters.

How can we recognise the type of power, the type of rule? First of all, we should investigate what level of resources a given government is going to achieve. If an authoritarian government is more or less corrupted than a democratic one, it will be creating the income, to a bigger or lesser degree, through protectionism. It will also appropriate some part of that income. Secondly, a given type of government may remain under the influence of different pressure groups. If an authoritarian government is trying, to some extent, to subordinate special pressure groups including the regulated labour sector, it will be, to some extent, generating incomes through protection and it will be turning over some part of them to those special pressure groups.

IV. The Level of Protectionist Pressures

The above arguments show that the policy is defined by political factors (including the type of the government and the burdens resulting from obligations towards employees and capitalists), and by economical factors (wages, prices, the structure of production and consumption). On the basis of the present discussion, we can present two equations, one pertaining to the level of protection, and the second pertaining to the national economy and deformation of wages.

$$\pi = f\,(e,\,l,\,k,\,R)$$
$$\varphi = f_1\,(\pi,\,e,\,l,\,k,\,R)$$

The level of protection (π) depends on the economic parameters (e), a relative political importance of urbanised employees and capitalists (l and k, respectively), and on the type of the government (R). Deformation of wages is, on the other hand, the function of π and of e, l, k and R. In case of a small economy, economic parameters that can influence π and φ include

flexible consumer and producer prices, demand flexibility, wages and the demand for labour force, and also the price of goods on an international market.

One can expect, a priori, that the growth of π is dependant on l and k. If interest groups become stronger, the pressure to form incomes based on protectionism may become stronger. The influence of R, that is, the influence of a political authoritarianism on the level of protectionism, that is, π, depends on the fact whether the opinion, that the level of protectionism depends on the effects of democratisation, is correct. It is also thought that the increase of the deformation of wages depends on π and l, while its decrease depends on k. As long as the incomes are obtained from trade protections, those incomes can be handed over to urbanised employees. An important problem in case of urbanised labour force as an interest group with growing strength is the fact that urbanised employees may gain a big share in the division of incomes but the growth of political importance of the capitalists may cause that the shared incomes, handed over to the labour force in regulated sectors of economy will become smaller (Banerji and Ghanem, 1997, p. 173).

There is no doubt that it is easier for wealthy rather than poor societies to choose democracy (Helliwel, 1992). Since those wealthier societies at the same time have a tendency to a bigger openness, the direction of cause-result events may run from the openness of society to the political system, and not, as was suggested earlier, in the opposite direction. The research showed also that the level of education plays an important role in this respect. The countries with a higher level of education of labour force are more open.

On the basis of the earlier considerations, one can come to the conclusion that authoritarian systems have a tendency towards a broader application of protectionism than democratic systems, and that, in turn, the trade restrictions accompany significant deformations of wages on the labour market. This opinion may be justified on the basis of the observations of the situation in a number of countries.

Freedom of association is one of the elements of good management and the necessary condition for development. The authoritarian governments do not respect, however, the freedom of association, which is connected with the policy of trade restrictions and with the deformations on the labour markets. One cannot state, however, that improper or ineffective policy on the labour market belonged exclusively to authoritarian regimes or that authoritarianism automatically generates this kind of policy. There is a number of examples of authoritarian countries which do not conduct policies of that kind. The works of such authors as Fields or Freeman show that the repressions against the labour force are not necessary, if one wants to achieve a

required economic growth (Fields, 1994; see also Freeman, 1993).

Finally, it should be pointed out that there exists a close relation between democracy and an economic growth, There are well known examples of open societies that stimulate the economic growth. This is true mainly in case of highly developed and strongly urbanised countries. In the countries with a developed democracy, the pressure groups have a bigger opportunity for acting. The research shows that the presence of trade unions helps to accelerate the economic reforms (Devarajan, Ghanem, Thierfelder, 1997, p. 145 – 170). The benefits resulting from liberalisation of the international trade are bigger when the trade unions exist in the sector of the economy under protection. The growth of import abilities leads to the decrease of wage pressures, and when the trade unions agree to that, such a situation allows for a better allocation of labour force in the economy. This is true both in the case of active and passive trade unions, although the effects are better in case of active trade unions.

The trade unions active on an urbanised labour market had a significant influence on the decisions of governments, in the course of multilateral trade negotiations within WTO. It was especially evident in the negotiations on lowering customs duties and non-tariff measures in steel, shipbuilding, textile and clothing industries, and in coal mining. In the so-called "sensitive" industries, which, for example, in the European Union were under special trade protection, the position of trade unions was very strong.

V. Food Producers Pressure

The biggest conflicts between the United States and the European Union within WTO were caused by agricultural problems also during the Doha Round. The governments of the two economic powers were in many times under a very strong pressure of food producers, who had problems with the sale of agricultural products surpluses in the situation of the shrinking world market and lower prices.

The problem of liberalisation of agricultural products trading is linked to the problem of subsidies application. According to the WTO decisions (art. XVI), exports of the agricultural products, as so-called basic goods, can be subsidised, if this fact does not interfere with the economic interests of other participants of the agreement. Actually, subsidising exports of agricultural products may have many different forms, starting with a direct subsidy, through variable compensatory fees, and finally through various forms of government guarantees and preferential credits. In the ministers declaration we read only about a better discipline among the members of WTO. The total prohibition of subsidies would be the simplest course, but it does not seem to be realistic my be after 2013.

In an effort to limit the EU budget expense for subsidising agricultural products, it was decided, among other things, that in case of fats, the money will be transferred from the processing sector to the production sector. Instead of compensating the industry for higher costs of purchasing more expensive, local raw materials (the prices paid to the growers of rape or sunflower in the EU are much higher than the world prices), it was decided that subsidies would go directly to farmers, and the size of farms was to be the basis for calculations. At the same time, the Union authorities disclosed that they will be trying to reduce gradually those expenses by reducing guaranteed prices.

This reform was the first in which the attempt was made to eliminate the structural surpluses, the surpluses which had been disorganising the EU agricultural market and the international trade for many years. It is worth pointing out here that the direct result of announced changes in the agricultural policy of the EU may not be favourable in the abroad. The simplest form of compensation for farmers are usually the restrictions for the suppliers from abroad. The agricultural lobby in France is especially active in this area. As a result of its activity and the pressure exerted on the government the agricultural goods from abroad have been successfully blocked from the EU market. The position taken by that agricultural lobby influenced also the position of the EU representatives in the debates on the agricultural questions during the multilateral trade negotiations also in the framework of the Doha Round.

In spite of the trade conflicts, most clearly visible in the USA - the EU relations, all the countries participating in the international trade were interested in the successful of the international trade negotiations. The reduction or the elimination of trade restrictions stimulates significantly the growth of the world trade exchange, while the foreign trade, in turn, is an important factor of the economic growth of individual countries.

VI. Conflicts Between the Tendencies to Sustainable International Trade Liberalisation and Environmental Protection

The tendencies to liberalize the international trade often stand in clear conflict with the protection of the natural environment which, during the intensification of production, found itself in the centre of attention. The process of pollution was one of the negative results of scientific-technological revolution. Many countries introduced special legal regulations in order to protect the environment against pollution. Ecological organisations of different types were established, and also the pressure groups, especially in industrialised countries, interested in the use of trade restrictions by governments for protection of the environment.

The pressure groups acting for natural environment protection see the trade policy in two aspects: as the way of improvement the standards of environmental protection in individual countries and over their borders, and as the instrument for persuading those countries to sign the international agreements on environmental protection. The imports restrictions against the producers coming from the countries with low standards of environmental protection may lead to the improvement of production standards by the local companies resulting from fighting with low competitiveness, and from the attempts to compete with foreign firms (Anderson, 1997, p. 319).

The application, in trade policy, of discriminating means in relation to the environment, which happened in the countries of western Europe, is in accordance with the article XX of WTO, and it testifies to the fact that trade barriers are used for the protection of the environment. Thus, the activities related to environmental protection are in conflict with the tendencies leading to international trade liberalisation, and with higher investments. From the theoretical point of view, we cannot say that trade liberalisation may help the environmental protection, especially when serious steps have to be taken in order to protect this environment against further degradation (Chichilnisky, 1994, p. 851 - 874; see also Copland and Taylor, 1995, p. 716 – 737; Corden, 1996). On the other hand, when some government find itself in a difficult situation, the trade reforms will be much more advantageous for that government than the actions in the environmental protection area (Bhagwati and Srinivisan, 1996). That is why the pressure groups connected with the environmental protection are against the international trade liberalisation.

The actions of those groups on WTO forum, and their regional activity against the reduction of trade barriers, have three reasons: 1) free trade means the growth of production and income, which, in turn, leads to the degradation of the environment, 2) free trade and growing investments cause the growth of transport activity and encourage companies to transfer the production to the countries with low ecological standards, which from the environmental point of view is wrong, 3) freedom for foreign investments discourage local companies to develop the technologies favourable for environmental protection (Anderson, 1997, p. 319).The question of reaching some form of an agreement between the problems of international trade liberalisation and the protection of natural environment especially in the context of the sustainable development became an important task for the WTO. The program of WTO activities included:

- The relations between the means used in trade and in environmental protection.
- The relations between multilateral trade systems and the environmental protection means, applied for protection of the environment.
- The influence of the effects of environmental protection on the liberalisation of international trade.
- The relations between the mechanisms leading to compromises within WTO and within the multilateral agreements on environmental protection (Martin and Winters, 1995, p. 1-3).

Reaching the effective agreements on the international trade liberalisation and on environmental protection in the light of sustainable development is considered to be both very difficult and very delicate question. The problems of environmental protection have become most important issues. Therefore, it is evident that the international market has to take them into account. In the context of the sustainable development, the key problem is to make a proper choice: is the introduction of restrictions on international trade the best solution, or will the benefits from environmental protection (as applied by a multilateral trade system) be higher than the costs?

It is necessary also to emphasis that if the rules of international trade are clear – and if they are perceived to be supportive of important environmental values – then their legitimacy will be much greater. Over the long term, public support for the WTO depends on a perception that it is balanced and fair (Esty, 1998, p. 123). Efforts to adress the issues identified above could greatly enhance the WTO's reputation. Competing trade and environmental principles could best be balanced through creation of an interpretive statement that focuses on how the "exceptions"spelled out in Article XX would be implemented, rather than through full-blown renegotiation of the environmental elements of the trading system (Esty, 2000, p. 250-251).

Finding ways to aadress the environmental issues that inescapably arise in the context of deeper economic integration and tendency to the sustainable development must be seen as an important trade policy priority, as a matter of WTO commitment to undergirding the trade regime with sound economic theory, and as a matter of political necessity. Building a trading system that is more sensitive to pollution control and natural resources management issues is mandated by the growing degree to which these realms intersect with trade and environmental policies mutually reinforcing are also advisable to the extent that the presence of trade rules that internalize externalities will prove to be more economically efficient over time. Institutionalizing the links from the trade regime to environmental actors and other elements of civil society will also pay dividends. A culture of openness within the WTO is likely to generate policies that the public accepts and that therefore become more useful and durable (Esty, 2000, p. 250-251).

VII. The Effects of Liberalisation China Trade Policy

In the new circumstances for the development of the global economy and the global trade, China seems to be a production superpower, able to change the world trade. In many areas it possesses comparative advantages. A long-termed stability of that country depends also on the fast economic growth, which is possible only when the foreigners become convinced that China is a partner able to play global roles. China wants to be a part of a global world and it is aware that it must observe its laws.

The access of China to WTO (10 November 2001) was a historical decision, the evidence of evolution which was taking place within that organisation, giving it a more universal, global form. This means also that it expands on a huge market which can open itself up for foreign competition. However, there are many problems to be solved in China itself. The country is undergoing the transformation towards the market economy. Gaining the economic balance is still very difficult.

The access of China to the WTO was the moment in which new trade rules became obligatory. In the next five years China eliminated all kinds of quotas and other non-tariff barriers that slow down the inflow of foreign goods. Customs duties which were lowered from 44% in 1992 to 15% in 2001 were gradually reduced to an average of 9%. Foreign banks received the right to introduce the foreign ownership in 100% of economic fields and the right to take in the deposits from the Chinese in their own currency.

The Chinese trade practice becames more and more subjected to the anti-dumping rules, to the intellectual property rights and to other laws, accepted officially by Beijing, as well as by the provinces, where the protection of the Chinese firms may still take place. In general opinion, as far as China is concerned, WTO is both a challenge and a chance. However, in case of agriculture, it is easy to see the challenge, while the chances are rather difficult to spot. The reason lies in the fact that the area of the Chinese farms are too small when compared with the American agricultural giants. Nevertheless, during the last two decades the Chinese laid strong foundations for reforms. Membership in WTO means also the acceleration of the already implemented reforms.

China is now the biggest exporter and receiver of foreign investments. Estimates by R.J. Tammen at al.(2000) anticipate that China will overtake the United States in mid-century (Tammen, Kugler, Lemke, Stam, Abdollahian, Al-Sharabati, Efird, and Organski 2000). Thus American dominance should endure until mid-century. Afterwards, Asian demands for modification to the international system will likely increase, and unless resolved, will be increasingly likely to be imposed by force. The question raised by this empirically grounded extrapolation is whether the West will see China's rise as an opportunity for cooperation (as former European enemies did when responding to the post-World War II resurgence of Germany by creating the EU) or for conflict (Kugler, 2006, p.39).

Intensive development through economic growth is generally preferable to military and extensive expansion. With new investments, a country can transform its position through industrial expansion at home and sustain it through international trade. Access to the economies of other nations is sufficient; a rising nation does not need territorial control of them. Peaceful development can thus take the place of aggressive expansion. Since World War II, a number of economies have adopted this principle, including Germany, Japan, China and other East Asian Nations (Rosecrance, 2006, p.33)..

China will enter a world market in which many of the spoils have already been appriopriated. Although growing rapiddly Chinese industries may often be subsidiaries (or joint venture partners) of major world corporations located somewhere else. States may become more equal economically as capital shifts to the southern and eastern hemispheres. But fewer and fewer major firms may actually dominate the world economy. Some countries, like Mexico, will posses few, if any, decreasing cost industries. They will have to send their labor elsewhere to retain economic advantage. China will be studded with United States, Japanese, and European firms contributing high technology to Chinese development. Aside from textiles, however, it is not clear how many purely Chinese industries will attain economies of scale.

Under these circumstances, even very strong countries economically will be at least partly dependent on industries headquartered somewhere else. Even today, America does not represent the attainment of unipolarity in economics, whatever its military might. It is dependent upon money market and foreign direct investment from China, Japan, and Europe. Economic concentration today has three or four different nodes, not just one. The same will be true in 2020 or 2030. Decreasing cost (increasing returns) industries will be located in different zones and no one Great Power will monopolize them all. Europe will boast the London-Frankfurt and Zurich-Milan corridors. America will find large-scale competitive champions in two zones-Boston to North Carolina and San Diego to Seattle. China will have industrial or software concentrations in north China, Fujian, and Guangdong terminating in the Pearl River Delta. But no country, however powerful in terms of GDP, will incorporate all worldwide industrial or service potential. It is even possible that the defense industry on an international basis is one of increasing

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returns to scale. Under the circumstances, there will be overlapping zones of economic competency among Great Powers, and some countries will be left out altogether.

The assumed result of one Great Power hegemony replacing another and a shift between unipolarities will not be obtained in the next few decades. Thus, even very powerful countries militarily will find themselves needing the products and markets of countries (and corporations) located somewhere else. In theory, a very strong power militarily might be able to expand to take over the industries on which it has become dependent, but for a host of reasons this is unlikely. Again, cost-benefit reasons would cut against any attempt at conquest – openness would provide acces to such industries much more efficiently than seizure that would not be successful in the longer term (Rosecrance, 2006, p.35).

One, of course, cannot be sure that the more full-throated globalization of the present and future will remedy the difficulty. History shows that states sometimes engage in war for insufficient reasons, neglecting the ties that bind nations together. Short-term motives take proceedence over long-term maximization. But they are not likely to do so between the United States and China, both long-term maximizers. China is especially sensitive to the advantages of intensive growth and will not wish to disrupt essential economic arrangements that have been crucial to her success.

In addition, should she decide otherwise, there are neighbouring power that would present barriers to extensive expansion.Japan,a unficated Korea,India, and Russia all border on China. Even if the United States were not a major power guarantor of the existing settlement, these powers would make Chinese external expansion difficult if not imposible. Japan, perhaps, has traditionally underused her power, but this is not true of Russia or India. A unified Korea will represent another uncertainty for China. Again, economic ties with these nations will be preferable to military expansion against them. And the presence of the United States and its military bases will occasion additional hesitation. No one can be certain that relations among Great Powers will be peaceful ones over the long term. But the current economic, political, and military relationships make that prospect much more likely than it has been in the past (Rosecrance, 2006, p.35).

VIII. The Bilateral Tendencies in the Inernational Trade Policy

The tendencies in international trade development can create changes in domestic markets, placing pressure on political actors to obtain aid from the government especially during the economic crisis. There are also the groups which want to coordinate

activities and change foreign trade policy. Government provide the justification for protection of the domestic market to response to global competition. Essentially, the government appears to supply protection for affected parties; yet, the overall impact on consumers, producers, and foreign competition is neglible (Thies and Porche, 2007, p. 172). Significant government ownership of the productive resources of a country has a negative effect on trade liberalization, while fragmentation of decision-making authority, expressed as fragmentation within the government and pluralism in society, has a positive impact on the libaralization of trade policy (Kennedy, 2007, p. 165).

In the area of foreign-policy analysis has focused on "three i's": interest groups, international structure, and ideas (Kennedy, 2007, p. 146). In the interests groups literature, government policy is viewed as the outcome of competition between groups for trade policies that benefit their industry (Nau, 1989; Milner, 1995; Milner and Yoffie, 1989, p. 239-272; Schatts-chneider, 1935). International structure suggests that freer trade was a reflection on U.S. interests and its hegemonic status after World War II, while a decline in free trade is a reflection of the U.S.'s hegemonic decline (Krasner, 1976, p. 317-347). The literature on ideas suggests that policy belifs are reflected in laws and institutions. These laws and institutions, in turn, carry a type of interia that continues to influence policy outcomes long after changes in international and domestic structure would predict policy change (Goldstein, 1989, p. 31-71; Goldstein, 1995). In contrast to these explanations government interests in the economy and in maintaining stability also play a large role in trade policy (Kennedy, 2007 p. 146).

At one end, a multilateral forum with near universal membership offers maximization of gains from trade and reduced transaction costs. However, a single state cannot expect to have much control over trade partners or liberaliztion agendas at the multilateral level. At the other end, a bilateral FTA often yields very small gains from trade and usually increases transaction costs by producing idiosyncratic sets of rules. But at the same time, a large state can acquire a high level of control in terms of partners, issues and agenda selection, and sectoral exclusions or inclusions based on domestic political needs (Pekkanen, Solis, and Katada, 2007, p. 962). One can contend that industrialized of aggregate economic gains in the interest of national welfare (largest in multilateral forums) or seeking control over rules in line with political interests (greatest in bilateral forums).

The liberalizing rules on agriculture, and other less competitive sectors, are no longer an acceptable political price for the economic gains bundled across sectors (Interview MOFA, 2004; New York Times, 2007). In the ongoing Doha Round, the agreement to end

agricultural subsidies by 2013 calls for a substantial part of these subsidies to be eliminated well before then. Yet, this sort of vague statement fosters uncertainty for domestic actors at home in uncompetitive sectors like agriculture and in several cases like for example in Japan trade officials need to show that they have more concrete control for political reasons-an element more credible in a bilateral setting than a multilateral one (Pekkanen, Solis, and Katada, 2007, p. 962). This situation may also indicate the back from globalisation to the mercantilist tendencies in the foreign trade policy.

IX. CONCLUDING REMARKS

Foreign trade policy takes on additional importance in economic battle of "the valiant liberal reformers, fighting against self-dealing rent seekers profiting from inconsistencies of the transition economy" (Aslund, 2002, p. 19; Kitschelt, Mansfeldova, Markowski and Toka, 1999). Many of the clientelist policies that shelter rent seekers are impossible to maintain in the face of competition in the international economy. On the other hand, high tariff walls, export licensing, and artificial exchange rates provide numerous sources of rents for business people who are trying to promote their own loyalties.

The international business policy plays a key role in the maintenance of both economic and political liberalization (Frieden, 1999; Frieden and Rogowski, 1996; Rogowski, 1987, 203-222). The prominence of rent seeking in a country can have far-reaching implication for its economic development. Especially in underdeveloped or transitional countries, rent seeking takes scarce resource out of productive areas in the economy, using them to promote and/or perpetuate further rents (Murphy, Shleifer and Vishny, 1993, 409-414).

Structural and micro-political economy analyses of international business policy in the context of the sustainable development have missed the impact of changing ideas about protectionism and relatively unchanging institutions designed to handle domestic producer complaints. The political consensus on the supply of international business policy and protectionism has changed over time. In the economic depression tariffs revenues and protectionism played important roles in the politics of political parties. At the same time in the market economy even during the economic depression one can observe a little support for liberal foreign trade policy. It is necessary to emphasize that in the international business policy there are not pure liberalism and pure protectionism. In the high economic growth there are tendency to liberalism in international business policy and in the economic crisis there are tendency to protectionism. At the same time, it should be stressed that free trade in itself is not responsible for economic growth, but more significant are the determining macroeconomic stability and increasing investment.

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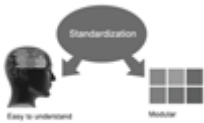
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