ROMANIAN ECONOMIC AND BUSINESS REVIEW

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THE AUDIT OF FINANCIAL SITUATIONS – THE PROFIT AND LOSS ACCOUNT

Lucian C-tin Gabriel Budacia[*]

Abstract

From a personal perspective, I believe that all income accounts highlight the fact that, sooner or later, money will enter the enterprise, usually through a banking account or a pay office and all expenses accounts highlight the fact that, sooner or later, money will leave the enterprise, usually from the banking account or the pay office. In the results account we find all the costs and income generated after the consumption of resources (material, financial, informational) of an enterprise throughout a financial exercise. The role of the auditor is to follow the recording of all the income made through sales and to correctly analyse the expenses, in order to determine the real ones.

Key words: income, expenses, profit, loss, audit

JEl Classification: M41, M42

1. Conceptual clarifications regarding the income and the expenses

Measuring and reporting the performance is one of the most important functions of accountancy, because investors, managers, banks and third parties are interested in knowing if the firm generates profit or loss. The performance of the development of the enterprise's activity, namely the result of the enterprise's activity, is determined as the difference between income (I) and expenses (E). The result may be positive, in which case it is called <u>profit</u> (I>E) or negative, in which case it is called <u>loss</u> (E>I). The **performance** of the activity of an enterprise is established on the basis of the following equation:

Income – Expenses = ± Result	**Profit** (I>E)
	Loss (E>I)

The accounting document known as the **profit and loss account** indicates the result / performance of a certain period of time (month, trimester, year), which assumes shape through the highlight of all the income and expenses of the enterprise, within a certain period of time.

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According to the active legislation, the definitions of income and expenses are the following:

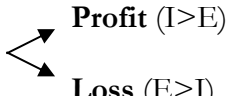| The income represents an increase of economic benefits, which appeared during an exercise under the form of asset increase or of debt decrease towards third parties and which generated an increase of the capital, other than the infusion of capital from the owners.	Expenses represent the decrease of economic benefits, which appeared during an exercise under the form of asset reduction or debt increase towards third parties and which generated a decrease of the capital, other than the capital distribution towards the owners.

From a more simplified, personal perspective, I believe that the income accounts point out the fact that, sooner or later, money will enter the firm, usually in the banking account or the pay office and that all expenses accounts point out the fact that, sooner or later, money will leave the enterprise, usually from the banking account or the pay office.
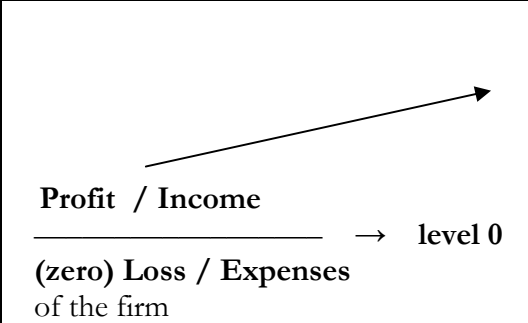
In order to facilitate the understanding of the development of the profit and loss control, it is necessary to present the typology of income and expenses.

- income from <u>exploitation</u>

- <u>financial</u> income   } **Current** income (ordinary and repetitive)

- <u>extraordinary</u> income

- <u>exploitation</u> expenses

- <u>financial</u> expenses   } **Current** expenses (ordinary and repetitive)

- <u>extraordinary</u> expenses

2. The control over the income and loss account

In the results' account we find all the performed expenses and income generated after the resource consumption (materials: human, financial, informational) of an enterprise during the financial exercise. The role of the auditor is to follow the recording of all sale income and to correctly analyse expenses, in order to determine the real ones. Moreover, he/she has to establish if there were also extraordinary elements.

For a clearer view of the results' account, I propose a scheme in which the nature of the ***Profit, Loss, Income*** and ***Expenses*** accounts is accurately explained:

Profit / Income ───────────────── → **level 0** **(zero) Loss / Expenses** of the firm	Anything that is over the level 0 (zero) of the firm represents a **Debt** of the respective firm towards the shareholders (meaning that the enterprise has to give to the shareholders the *income* and the *profit*); therefore, the **Income** and the **Profit** are also **debts** of the firm towards the shareholders.
	Anything that is below the level 0 (zero) of the firm represents a **Claim** of the firm towards the shareholders (meaning that the enterprise will receive money from shareholders in order to be invigorated); therefore, *expenses* and *loss* are claims of the firm towards the shareholders.

Through the **audit's objectives** of the profit and loss account, the auditor has to make sure that, through the income and expenses accounts, a clear, accurate and complete image of the accomplished modifications is presented, modifications made by economic processes developed within the respective enterprise.

a) Audit objectives regarding the expenses accounts:
- ❖ In financial situations we find all expenses;
- ❖ All expenses have been correctly recorded;
- ❖ The recording of the expenses was made respecting the accounting principles;
- ❖ Expenses and acquisitions are developed in the current financial exercise;
- ❖ Expenses and acquisitions belong to the respective enterprise.

b) Audit objectives regarding the income accounts:
- ❖ In financial situations we find all income;
- ❖ All the income has been correctly recorded;
- ❖ The recording of the income was made respecting the accounting principles;
- ❖ The income and sales are developed in the current financial exercise;
- ❖ The income and sales belong to the respective enterprise.

Audit samples are obtained by comparing different categories of expenses and income with the accounts of the previous exercise and the rate of the turnover. As a result of this comparison, the auditor explains the main variations and evaluates the incidence on the control program of any unusual variation.

The control of the profit and loss account implies passing through certain phases:

The analysis of the current situation of income and expenses

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Establishing the correctness and accuracy of the income made through sales

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The reconciliation of the income made through sales to which we apply the VAT with the VAT expense account

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General analysis of sales

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Cancellation examination

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Examination of the arrear orders for a large period

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Summarizing purchases associated with the audited financial exercise

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The reconciliation of all inflow with VAT with the VAT expense account

↓

The analysis of purchases

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Examining expenses with the personnel and the situation of the personnel

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Verifying the correctness of the firm's contributions to the budget of social insurance, health insurance and other similar budgets

↓

Justifying situations for the notes of financial situations

■ **The analysis of the current situation of income and expenses** refers to the study of the dynamics of income and expenses. It is recommended to analyze the nature of the income and expenses, in order to highlight the evolution within each activity: of exploitation, financial and extraordinary.

■ **Establishing the correctness and accuracy of the income made through sales** is an essential part of the audit process and it consists of the recording of the manner in which the audited financial situations have been compiled and of obtaining the documents through which the individual digits can be justified. The income made through sales or the turnover represents an extremely important piece of information, which should be complete, precise and correctly dimensioned.

■ **The reconciliation of the income made through sales to which we apply the VAT with the VAT expense account** means the analysis of the appropiate documents in order to test the income made through sales and, subsequently, a reconciliation of the income with the accountancy regarding the VAT. Hence, the value of the income made through sales can be confirmed for certain.

■ **The general analysis of sales** has several secondary stages:
a) The analysis of the sale book keeping
b) The analysis of cash sales
c) The analytical examination of sales
d) The verification of a sample of merchandise sold on the basis of the expenditure register.

a) The analysis of the sale book keeping offers relevant information to the auditor. Verifying the procedure of the book keeping of sales imposes, on the one hand, the verification of an invoice sample, starting with their recording in the daily sales register, in the main register and in the corresponding account from the sales register and, on the other hand, the verification of a sample of recordings in the sales income account (or accounts) in the main register and in the daily sales register back to the respective invoices.

The purpose of this type of verification is that it offers the auditor the chance to make sure that the registered sales are real and that the accountancy concerning the sales is complete and accurate. If there is no sales register, then the auditor has to obtain sufficient evidence in order to determine the fact that the income made through sales and the final debtors' sale refers to real control transactions.

b) The analysis of cash sales is made in order to confirm if all cash sales are entirely and accurately registered in the accountancy. The auditor has to test the cash sales lists (receipts) with the accounting recordings (banking account, account of income made through sales, VAT account). If the majority of the firm's sales are in cash, their correct testing is extremely important, because the cash sales recording is often made incorrectly in the case of these firms.

c) The analytical examination of sales represents an important phase in the audit process. It means comparing the income made through sales which corresponds to the audited financial exercise with the one made in the previous year and maybe with the one forecast in the budget, if it exists. For the justification of the sum of the income made through sales, the auditor has to know the commercial conditions practised by the client. Moreover, this phase refers to the comparison of the leeway for the gross income which corresponds to the audited financial exercise with the one from the previous year. The discrepancies can indicate an overestimation or an underestimation of the income made through sales or errors in the value of sale cost.

d) The verification of a sample of merchandise sold on the basis of the expenditure register. It is important that we verify the fact that the goods and services have been invoiced at the correct price and that the correct VAT was applied. There are many starting points for a detailed verification of invoices. Besides the expenditure documents,

other written notes or orders made by phone can exist. Sometimes, it is better to start the verification from these documents.

■ **The cancellation examination is important** because issuing cancellation documents directly influences the income made through sales. Such documents have to be authorised and properly registered in the accountancy. The auditor has to verify if the issuing of the cancellation documents has been authorised and the frequency with which they have been issued.

■ **Examination of the arrear orders for a large period** implies that the auditor has to examine the reasons for which the orders have not been answered to in due time and to verify if these orders were eventually and entirely honored and invoiced.

■ **Summarizing purchases associated with the audited financial exercise** reflects highly important information, which should be complete, precise and not underdimensioned.

■ **The reconciliation of all inflow with VAT with the VAT expense account** represents a means through which the auditor makes sure that all the corresponding purchases/expenses have been registered in the accountancy.

■ **The analysis of purchases** consists of a series of secondary stages:
a) The examination of the purchase register
b) The analytical examination of purchases
c) The verification of a sample of goods on the basis of receipts

a) The examination of the purchase register offers relevant information for the auditor. All invoices have to be entirely and accurately registered – also controlling the opportunity of expenses – in the daily purchase register and then in the main register and in the purchase register. It is recommended that this procedure should be tested by:

~ verifying an invoice sample, starting with their recording in the daily purchase register, then in the main register and in the adequate account from the purchase register;

~ verifying a sample of the records in the purchase and expense account from the main register and from the purchase register back to the respective invoices.

There are also situations in which the firm does not compile a purchase register and the auditor has to obtain sufficient documents regarding purchases, expenses and the final sale of the creditors, through which he/she has to demonstrate that these records were determined by real transactions.

b) The analytical examination of purchases implies the comparison of purchases and expenses which correspond to the audited financial exercise with those from the previous year and those which are forecast in the budget. The value of the purchases has to be correlated with the value of the income made through sales (taking into account the stocks' variation) and any discrepancies must be investigated. Another comparison should be made in the records from each expenses account and unusual variations must be investigated. In this manner, we can identify the lack of records (or double records) and the allocation of certain expenses in the wrong account.

c) The verification of a sample of goods on the basis of receipts means establishing the fact that goods and services have been invoiced at the correct price and recorded at the correct quantities. If there are receipts of purchased goods/records of the stocks, they have to be used as a starting point for verification and a sample from the purchased goods should be correlated with the corresponding invoices.

■ **Examining expenses with the personnel and the situation of the personnel** is an important and difficult phase because it implies:

a) Summarizing all expenses made with the personnel
b) Verifying a sample of records of expenses made with the personnel
c) The analytical examination of expenses made with the pesonnel
d) Verifying new employees or employees who recently left.

a) Summarizing all expenses made with the personnel means knowing the expenses made with the personnel, especially the ones concerning the wage tax, insurances and social protection, because they often represent important pieces of information, which have to be complete, precise and not underdimensioned.

b) Verifying a sample of records of expenses made with the personnel by auditing the pay roll in which the expenses with the personnel have to be entirely and exactly registered. The main purpose of these tests is that the auditor makes sure that the records of expenses with the personnel are real and correct and that there are no fictitious employees.

This procedure can be tested by:

~ verifying a sample of records from the main register on the basis of all expenses with the wages and payments – it is important that the numbers from the main register reflect expenses and real payments which correspond to real employees.

~ verifying a sample of the total of the wage expenses on the basis of the personnel records, in order to confirm the existence of the respective employees and the correct recording of the wage tax and of the expenses with insurances and social protection.

c) The analytical examination of expenses made with the pesonnel implies the verification of the expenses made with wages every year. Starting from the results obtained through the examination of the activity of the audited firm, the auditor has to decide if the expenses with the personnel from the audited financial exercise are in accordance with the firm's activity and if the variation of the number of employees and paid taxes (if there is such a variation) from each year correspond to the variation of the expense.

d) Verifying new employees or employees who recently left means determining the correctness with which, in the pay roll, at the appropriate date, the new employees and those who ceased to work are registered. In some cases, it is possible that there are frauds of the personnel regarding salaries. Although they are insignificant concerning the accuracy with which the financial situations reflect "a faithful image" of the firm, the auditor will have to take into account the responsibilities that he/she has towards the client.

■ **Verifying the correctness of the firm's contributions to the budget of social insurance, health insurance and other similar budgets** implies that the auditor should make sure that the correct calculation was made regarding the firm's contributions to these budgets and verify the manner in which the payment was made. In the case of payments with delays, the auditor should verify if the penalties are correctly calculated and if they were accounted. In the case in which the penalties surpass a significant level, it is necessary to add a suplementary note to the audit report.

■ **Justifying situations for the notes of financial situations.** The auditor must obtain justifying situations for the notes of financial situations. The accounting standards mention the necessary presentations, which should be followed accordingly. Regarding the salaries of the directors, a correct and precise presentation is imposed, even if in this field the sums do not surpass a significant level.

3. Conclusions

Alongside the management of the audited firm, the auditor analyses the errors that he/she discovered and recommends the appropriate corrections. The auditor analyses the comparative situation of income and expense accounts on the basis of intermediate inventory solds and establishes certain conclusions in relation to the evolution of these indicators.

In the end, before putting down the audit report, the financial auditor makes one more verification of the entire activity with a view to evaluating the results. In this sense, he/she has to revise and evaluate all the conclusions which result from the audit evidence obtained as a basis for expressing an opinion regarding the financial situations. This revisal implies taking into account the fact that financial situations have been compiled according to a general framework of approved financial reference, standards or relevant national practices.

Audit reports have an essential role in the audit commitments because they communicate the verdict of the auditor, verdict which leaves its mark on the future activity of the analysed enterprise.

In conclusion, the auditor has to take into account the fact that:
- ✓ all documents which compose the set of financial situations (balance sheet, profit and loss account, the situation of the modification of the firm's capital, the situation of the treasury fluxes, policies and explanatory notes) are included in the finacial situations of the respective firm;
- ✓ in compiling the financial situations the current accounting regulations have been respected;
- ✓ the framework of financial reference adopted by the management in order to compile the financial situations is acceptable;
- ✓ sufficient probative information was accumulated;

- ✓ the audit evidence is sufficient and adequate, so that it reduces the risk of the existence of certain significant misrepresentations within the financial situations to a low level;
- ✓ the accounting policies reflected and applied are in accordance with the financial reference and adequate in the given circumstances;
- ✓ the accounting estimations made by the management are relevant, attainable, easy to compare and understand;
- ✓ the information presented in the financial situations, including the accounting policies, are relevant, attainable, easy to compare and understand;
- ✓ the analysed financial situations accurately present transactions and major events in a manner which offers a faithful image over the information presented by them.

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THE AUDIT OF FINANCIAL SITUATIONS – PARTICULARITIES OF THE CONTROL OF THE LEVY AND TAX ACCOUNTS

Elena Ioniță[*]

Abstract

The financial situations of an enterprise represent the main source of data and information meant to satisfy the needs of a large variety of users, because they are among the few documents which are made public. Financial situations represent the synthesis of all modifications which take place within the activity developed by the respective company, being the product of accountancy.

The accounting specialist deals with the production of accounting information, while the censor and the financial auditor are garanties of the quality of this information. The financial auditor is the natural or legal person who has acquired this quality after a well established and carefully controlled procedure and who develops the activity of financial audit.

Audit appeared as a consequence of the conflict of interests between those who prepare the accounting information and its users, who can determine a distortion of the information and reduce the credibility. The audit's necessity refers to the fact that managers, as well as shareholders, wish an increased credibility of the firm's financial situations.

Key words: audit, levies and taxes, financial situations

JEL Classification: M41, M42

1. General framework of the financial audit

The organisation of accountancy for Romanian companies, imposed by the active legislation, implies the chronological and systematic recording of all financial and accounting operations. Moreover, we specify the fact that, the adaptation, publishing and retention of information regarding the financial situation, the financial performances and the treasury fluxes are necessary for the respective enterprise, but also for persons and entities from outside the company. Among those who are outside the firm and who have an interest in financial and accounting information, more inportant are the investors, the creditors, the clients, some public intitutions, etc.

The companies which organise a double-entry book keeping have the obligation to compile annual financial situations, according to norms and regulations which have been established by fiscal agencies. The structure of financial situations differs in terms of certain size criteria mentioned by the active regulations. Another important aspect is that the financial audit is mandatory for those companies which have a large activity and surpass certain values of some indicators, such as: the total of assets, the turnover, the average number of employees.

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Fig. no. 1 – The structure of the annual financial situations

The filing of the annual financial situations at the territorial fiscal intitutions is accompanied by the administrator's report, the audit report/the report of the commitee of censors and the proposition of profit distribution or of covering the accounting loss. A written statement from the persons in charge with the organisation and management of accountancy is also necessary, through which they assume the responsability for compiling the annual financial asituations and confirm that: the used accounting policies are in accordance with applicable accounting regulations, the annual financial situations offer a faithful image regarding the developed activity, the legal person develops his/her activity in conditions of continuity.

2. Aspects regarding the control of the levy and tax accounts in the audit activity

Any company has relations with the state budget and local budgets concerning the set of levies and taxes that it owes, the eventual subsidies, as well as some special funds to which it contributes. The main levies and taxes that are taken into account are the VAT, the current income tax, excises, dividend taxes, etc. The auditor's role is important in this context, because he has the mission to verify if the arrear and current debts have been correctly registered in the state budget and the special funds, debts regarding the postponed levy, as well as the possible penalties. The auditor should take into account the accomplishment of the control program, which will subsequently facilitate for him the formulation of the opinion, conclusions and propositions.

The formulation of the audit objectives should take into account the following important aspects: reality, evaluation, completeness.

- Reality refers to the fact that the sums which are owed as levies and taxes are registered accordingly, meaning that those sums are owed by the company and reflect the activity developed by the respective company.
- Evaluation means: the correct calculation of levies and taxes, the fact that the paid sums were established correctly and the possible penalties were also determined correctly.
- Completeness implies elements such as the fact that the respective levies and taxes are registered in the proper accounts, at the appropriate time and that the sums from the final sales correspond to the respective financial exercise.

Accomplishing the audit objectives depends on the manner in which the auditor manages the audit evidence. Concerning levies and taxes, the role of the auditor is to verify sales and the movements of the respective debts. Hence, the auditor should take into account several relevant phases.

Fig. no. 2 – Phases of the accomplishment of the control of levies and taxes
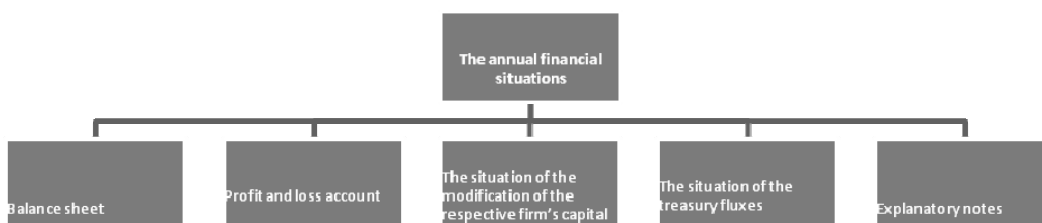
■ A synthetic analysis of the situation of levies and taxes

In this stage a complete analysis is realised, concerning, on the one hand, the initial sums of the levies and taxes account from the current period, which are correlated with the final sums of the same accounts from the previous period, and, on the other hand, the paid sums and the ones which will be recuperated. The analysis is recommended to be made under the form of tables, in order to have a clearer image, but also to highlight the variations of debts from one period to another, the modifications of their structure and to explain those movements which generate anomalies.

■ The situation of the levies and taxes from the previous exercise

The task of the auditor is to determine if the levies and taxes were paid in due time and in the case of certain arrear payments, he/she has to determine their causes. Another important aspect is the one regarding the recording of interest rates and the corresponding penalties.

■ Verifying the modalities in which the calculation of levies and taxes was made

All the calculations made by the company for the audited year are verified and also the sums of the reported levies and taxes. The most important documents are the ones that target buyings and active sellings, because the verification of certain

fiscal deductions is imposed or of some expenses which correspond to sales or purchases.

■ Fiscal reconciliations

More often than not it is useful to confirm the fairness of the income tax. Hence, the theoretical presentation of the level of the income tax is recommended and the determination of the causes which generated differences between the theoretical taxing and the one actually applied. The most obvious aspects which should be verified are the nontaxable income and expenses which cannot be deduced. The auditor should determine the manner in which the fiscal result was established and recompose it if the eventuality of the apparition of some differences is imposed.

■ VAT expense accounts – examination and possible reconciliation

For a clearer image of the VAT situation, the analysis of this tax is imposed, from the perspective of the two commercial fluxes in which it intervenes, namely the selling one and the buying one. We consider that the firm X is a buyer in relation with the firm A and a seller in relation with the firm B.

Fig. no. 3 The VAT mechanism

Flux (1) - selling		Flux (2) - buying
Firm A → →	→ **Firm X** →	→ → **Firm B**
Price 1000+VAT 240		Price 1300+VAT 312
Buying price = 1240		Selling price = 1612
Deductible VAT = 240	↓	Collected VAT = 312
	VAT which will be paid = 72	
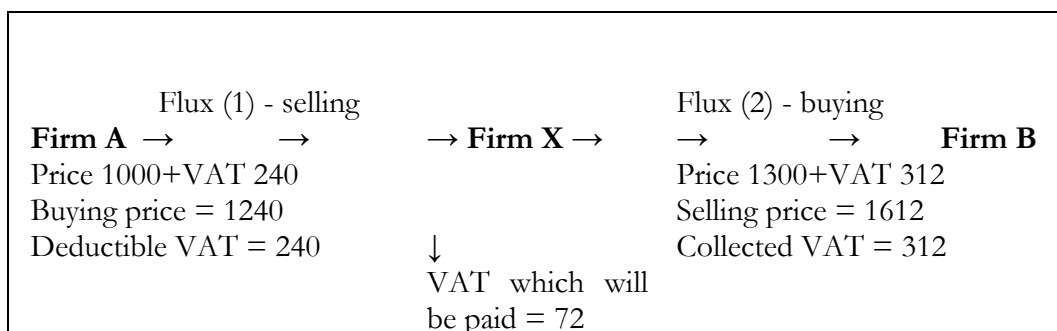
Source: adaptation after, L.C.G. Budacia, *Bazele contabilității*, Ed. Universitară, București, 2010, pg. 122

Avoiding penalties means an imposed fairness of the VAT expense accounts, which also imposes the correspondance between them and the book keeping. The verification of these aspects can be made through the analysis of a sample from the VAT expense account. A facilitation of the analysis can be accomplished if the verification is made under the form of tables and targets aspects such as:

✦ the declared turnover;

✦ the declared basis from the sales, purchases, cash register and the bank, as well as the advance money from clients; the accounting data registered in the declaration; the arithmetical calculations; the sum for the VAT account; the payment and the date of the transaction with the money order and the statement account;

✦ verifying if the sums from the collected VAT accounts and the deductible VAT are paid on the 31st of December;

✦ if the company asked for VAT refunds, the refund request will be verified concerning the accentance of the funds in the statement account, the paid back sums or in process of being paid back if they were deducted from the following expense accounts.

■ The correct registration of the VAT

Verifying the correct registration of the VAT which corresponds to goods or sold services is very important, because the undiscovered mistakes can generate significant debts. In this stage, the auditor combines tests concerning the entire income with those necessary for the verification of the correctness of the paid VAT, corresponding to the audited financial exercise. The final sum of the VAT, passive or active, should be tested and checked on the basis of the payment of the owed sum or of the collected sum which will be recuperated.

■ The correspondence of the VAT expense accounts – company and the Ministry of Public Finances

The VAT expense accounts should be filed in time, in order for the company to avoid paying penalties. The correspondance of the VAT expense accounts between the respective firm and the Ministry of Public Finances can include notifying the obligation of paying certain penalties or interest rates or it can give notice to the company regarding the obligation to calculate the VAT for certain goods or services. No matter the subject of the correspondance, its implications should be understood, but also the establishment of remedy measures.

■ The adequate presentation of the sums from the levy and tax accounts

In order to determine the correctness of levies and taxes, the auditor should check: arithmetical calculations, the application of the appropriate interest rates, the declared basis, justifying sums from the accounts from the balance sheet, the accounting allocation in the corresponding expense accounts, as well as the payment of these levies and taxes or, in the case of claims, the sums and their components.

The auditor will end the section by formulating effective conclusions of his/her work, making sure at the same time that these conclusions were read and understood and only after that signed as a sustaining act of the fact that the audit ended.

3. Conclusions

The appopriate accomplishment of the auditor' activity implies understanding the audited entity and its environment, knowing the particularities of the company, its object of activity, but also the financial – accounting organisation. Knowing this information can generate one of the auditor's following decisions: to accept the mission, in which case the decision forms vary in relation to the obtained information from the risk analysis: he/she either accepts a mandate without apparent risks or he/she accepts the madate under an appropriate observation and special measures; he/she refuses the mission. If the auditor accepts the mission's commitment, he/she will write a letter of commitment.

Moreover, the auditor is interested in a series of risks which can disturb his/her activity; we take here into account the audit risk – the risk that the auditor expresses an audit opinion which is inappropriate when the situations are significantly deformed and the risk of them not being detected – is the risk that the auditor does not detect a deformation which exists in a statement and which can be significant, when isolated or cumulated with other deformations.

Concerning responsability, it is important to mention the fact that managers are responsible for compiling and presenting the financial situations and not financial auditors, the latter taking responsability only for the expressed opinion.

The services of a financial audior have their advantages for companies, but, unfortunately, in the Romanian business environment the audit still means for many people control and they ask this service only out of obligation and not necessity. This happens because Romanian economic agents did not reach the necessary level of knowledge or did not understand sufficiently well the role and importance of financial audit in the guarantee of the quality of the information from the financial situations, in the increase of their credibility.

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THE IMPACT OF THE INTEREST RATE POLICY ON THE ALBANIAN ECONOMIC GROWTH

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Anilda Bozdo,
Leontiev Çuçi[*]

Abstract

In USA, the 2008 global crisis started with the financial crisis, and soon after affected the real economy. It also started as a financial crisis in the Euro zone, while in countries with very weak public debt indicators and current accounts it was transformed into a state crisis. Experts in economics were concerned on how this crisis was being faced by small countries, and which were the most efficient mechanisms and instruments for their economic survival. Analysis of the data shows that financial system and real economy in Albania suffered shock from the crisis, but not collapse. Reasons related to the fact that the banking system and the real economy are less sophisticated than in United States, where the crisis began. Albania has maintained economic growth during the crisis period, although growth rates have fallen. Analysis of the data of the Bank of Albania through regression shows that that the degree of impact of basic interest rate decreases on economic growth is big. This is achieved by keeping inflation in control.

The purpose of this paper is to present extent of the impact of the global crisis in the Albanian economy and the measures undertaken by the Bank of Albania for the preservation of economic growth in the framework of both global and Eurozone crisis, as well as to measure the degree of expansive monetary policy transmission, regarding the use of basic interest rate instrument in economic growth.

Econometric and regression methods are used. The data refer to the period 2000-2012, precisely to: the basic interest rate, monetary mass and GDP.

1. Introduction

In this paper are presented the degree of impact of the global crisis in the Albanian economy, and the effect of monetary policy of the Bank of Albania on economic growth. In order to achieve the purpose of the paper are defined the following objectives.

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- o Submission of a picture of the global crisis and its impact on the Albanian economy.
- o Presentation of Monetary Policy of the Bank of Albania in the period of transition.
- o The regression method has been used to analyze the effect of reducing the interest rate on economic growth.
- o Presentation of conclusions and recommendations based on the findings of the paper.

Crisis and the Albanian Economy. In this section are presented data on the impact of the crisis in the financial economy. The analysis focuses on the banking system, for the reason that nearly 80 percent of the financial system consists of banks. So, are presented data on inflation, deposits, government loans, and credit system.

Analysis of the data shows that the banking system in Albania suffered shock from the crisis, but not collapses. Reasons related to the fact that the banking system is less sophisticated than in the American banking system, where the crisis began, as well as the policy of the Bank of Albania.

The crisis has affected not only financial indicators, but also the conomic ones. However, Albanian economy, did not suffer reccession, it has maintained economic growth rates. This is due mainly to the structure of the GDP of the Albanian economy, but also the monetary policy of the Bank of Albania. Here, are presented data on key indicators of the Albanian economy. Concretely are presented data on GDP structure, deficit of current account, emigrant's remittances, etc.

Monetary Policy Bank of Albania. Here, is presented the history of the Bank of Albania monetary policy, divided into two periods, 1992-2000 and 2000-2012. These periods distinguish from each other mainly by the using of instruments direct and indirect. Thus, after 1992, Bank of Albania has mainly operated with two direct instruments, setting the interest rate of deposits and the limit of crediting.

During 1998, there was a high inflation rate due to the collapse of pyramidal system. In order to stabilize the currency, the Bank of Albania has followed a restricting monetary policy. During 1999, there was a defined reduction of inflation up to 3.2 percent, after that a systematic expansive monetary policy was passed by reducing interest rates. Bank of Albania since 2000 has defined the base interest rate, for all banks operating with state capital was substituted by market instruments. The purpose of the using of this instrument is that the changing of basic interest rate will affect market interest rates, banking system instruments, and consequently the real economy regarding the aggregate demand for the further promotion of economic growth. For this reason, the policy of the Bank of Albania has been an expansionary monetary policy.

*Regression method.*Through simple multifunctional regression econometric method is verified the impact of Bank of Albania monetary policy, especially the interest rate instrument on economic growth. To this aim, are collected data for the period 2000-2012, on change of basic interest rate, change of money supply and change of GDP.

From the analysis of the two equations results that expansive monetary policy, i.e. the reduction of basic interest rate, applied by Bank of Albania during the period 2000-2012, has had a positive impact on economic growth.

2. Crisis and the Albanian Economy

The reports of International Monetary Fund (IMF) on Albanian economy highlight that Albania has well faced the world financial crisis of 2008, and avoided the economic fall, *Margaret 2009*.

Despite this, the crisis has affected various economic indicators. The following shows the first impact of crisis on both financial and banking system, as well as on the real economy, and the data refer to 2008.

2.1 Crisis impact on financial and banking system

Albanian banking and financial system resisted to the financial crisis, because it was less sophisticated compared to that of USA, *Pano 2009*. The following shows the differencies between Albanian and the American system:

➢ Albanian system lacks the market of financial instruments.Albanian bank transactions are very traditional, and encompass common banking deposits as well as limited and simple crediting.

➢ There is no market of securities, with the exception of that of treasury bills.
➢ There are no different financial derivates.
➢ The procedures as to the assessment of customer solvency are very traditional. Independently of this, the crisis had its own impact on the main financial and banking system indicators.

In early 2008, the economy was under inflation pressure, mainly due to demand strikes and as a consequence there was an increase of inflation.Thus, during the third tremester of 2008 inflation reached up to 4.2 percent. There was a falling tendency of inflation by the end of 2008, graph 1. This is due to the fact the price fall of raw materials in the international market, as well the slow down of domestic demand rate triggered by the economic fall. The average annual inflation during the first tremester of 2009, was 1.9 percent, while in the second tremester of 2009 the inflation fell by 0.5 percent.

There is a slow down in the increase of deposits that affects the balance of commercial banks, but not their solvency. During the first two months of 2009, the increasing rate of foreign currency deposits was reduced by 3 percent, graph 2. The

money out of the banks in domestic currency, signed a rapid increase because of lack of trust by the people to save their money in banks, Graph 3.

Because of lack of liquidities, the government demand to borrow from the public increases. The consequence is the increase of interest rates of government treasury bills.Thus, in March 2009, treasury bills' interest rate reached their highest level of 9.2 percent, graph 4. Credit system shrank. The annual increasing rate of crediting portfoglio slowed down by 28.5 percent,in February 2009, compared to 44.2 percent, of Oct. 2008, graph 5.

2.2 Crisis impact on real economy

The crisis has affected not only financial indicators, but also the economic ones, *Pano,2009.*

Industrial production constitutes 8 only percent, *of GDP.* It is composed of; power production which entirely depends on natural conditions, production of certain minerals for export and clothing production using orderers' material which are mainly exported.Hence, the difficulties to export minerals and textile products because of price reductions have negatively affected the economic growth.

Emigrants remittances, a very important source for the economy of the country. Their reduction affects; purchasing power of country's population, the exchange rate of our currency and feasible investments of emigrants at home,

The economic down fall in Italy and Greece, directly affected the reduction of respective emigrants' remmitances. Because of the reduction of both trade balance and remmitances, it is worsened the deficit indicator of current accounts as to GDP. On 31.12.2008, the deficit of current account was 14.9 percent,of GDP versus the 10.4 percent,of the previous year, Graph 6.

3. Monetary Policy of Bank of Albania

Bank of Albania has followed a well defined monetary policy, to mitigate the effects of the crisis and the analysis of its effects is the object of this study. Hereunder is a history of monetary policy use.

3.1 Monetary Policy in the period 1992-2000

The establishment of Bank of Albania in April 1992 was associated among others with the development of the monetary policy framework and its instruments. Within this framework, the Bank of Albania manages the monetary regime. This bank intervenes into the money supply by changing it, and this change is reflected into price level and economic growth, depending on the set target. In order to implement its monetary policy, Bank of Albania has operated in two ways; directly, through its regulatory power, and indirectly by influencing the money market.

After 1992, Bank of Albania has mainly operated with two direct instruments, setting the interest rate of deposits and the limit of crediting. All crediting institutions which performed banking operations should respect crediting limits, i.e. they should respect the limit of crediting according to the levels defined by the Bank of Albania. Similarly, the Bank of Albania defined the interest rates for the deposits of second level banks. In addition, it started the application of indirect instruments, keeping the compulsory reserve for the second level banks and publishing the re-financing rate. In 1992 second level banks started to apply 10 percent on their liabilities from third parties in their respective accounts at the Bank of Albania.

Despite this, the monetary policy of this period is based mainly on using the above mentioned direct instruments. The development level of financial system in Albania at that time permitted the use of a monetary policy based almost entirely on direct instruments of monetary control. Direct instruments used during this period, have been both trustful and successful, without any evident side effect on credit control as to the economy, distribution and its cost, *Sheqeri 2003*. These instruments were used as a bridge to pass from the one grade to the two grade banking system, and from the centralized economy to the market economy, *Sokoler 2009*.

In 1999, the limiting instrument was abolished, and since 2000, the defining of deposit interest rates for the banks operating with state capital, was substituted by the defining instrument of the basic interest rates from the Bank of Albania, *Peeters 2009*.

During 1998, there was a high inflation rate due to the collapse of pyramidal system. In order to stabilize the currency, the Bank of Albania has followed a restricting monetary policy, which meant the increase of deposit interest rates that led to a sensible reduction of inflation, up to 8.7 percent, by the end of 1998. During 1999, there was a defined reduction of inflation up to 3.2 percent, after that a systematic expansive monetary policy was passed by reducing interest rates. Hence, under the conditions of stabilized inflation, the main objective of the Bank of Albania is the promotion of economic growth.

3.2 Monetary Policy 2000-2012.

As was mentioned above, the interest rates were defined by the Bank of Albania since 2000 and for all banks operating with state capital was substituted by market instruments, where the main instrument is the defining of the basic interest rate by the Bank of Albania. Hence, the changing of basic interest rate will affect market interest rates, banking system instruments, and consequently the real economy regarding the aggregate demand for the further promotion of economic growth, *Kolasi et.al 2010*.

Interest rate channel is the main mechanism of monetary transmission through which monetary policy may affect aggregate demand, and that is the reason why it has taken an increasing role during the last years, *Angeloni et al., 2003*.

3.3   Use of interest rate instrument in the frame of global crisis.

Bank of Albania, aiming to protect the real economy and maintain the economic growth, has reduced the basic interest rate from 6.25 percent, in November 2007 to 5.75 percent, in January 2009. As to the efficiency of this measure, various experts and analysts are not very confident and differ in their opinions. According to them, Bank of Albania should have operated more professionally, and had to reduce the interest rate earlier.Hence, these experts suggested a more aggressive reduction of the basic interest rate in the Albanian economy, as an anti-crisis measure, *Cani, 2009.*According to him, the reduction of crediting in European and regional economy would have a chain like economic effect, which would bring about a restrain of GDP growth at least by 0.5-1 percent. Nevertheless, crediting interest rates, for both domestic and foreign currencies, businesses and individuals, has had a downward tendency since 2009.It is obvious that this is also a consequence of the interest rate decrease applied by the Bank of Albania. The last interest rate change dates on 05.02.2013 at 3, 75 percent.

4. Interest Rate and Economic Growth

The objective of this analysis, as afore mentioned, is to verify the impact of Bank of Albania monetary policy, especially the interest rate instrument on economic growth, through econometric methods. To this aim, the following are the collected data for the period 2000-2012.
- ➢ Change of basic interest rate
- ➢ Change of money supply
- ➢ Change of GDP in the respective period.

Our analysis provides an answer to this question; has the transmission followed the right path, and which is the transmission rate? Linear relationship shows the correlation of the above and the positive impact of interest rate policy on economic growth, graphs 7, 8, 9. But graphical representation does not provide thorough assessment of the trends. For this reason, we used econometric method as follows.

First let us consider the relationship between the basic monetary rate and money supply. We are considering the money supply as a dependent variable (Y) and basic interest rate as an indipindent variable (X). The following are the hypothesis tested:

➢ **No hypothesis;** H_0: reduction of basic interest rate affects the increase of money supply

➢ **Alternative hypothesis** H_1: basic interest rate reduction affects the reduction of money supply.

Based on monetary policy transmission mechanism, regression analysis continues with relationship of two other indicators, money suply and GDP. Following the same logic, first we develop both basic and alternative hypothesis.

➢ **No hypothesis;** *H0: increase of money supply, leads to GDP increase.*

 ➢ **Alternative hypothesis;** *H1: increase of money supply, leads to GDP reduction.*

5. Results

The respective coeficients of regression are given in Table1.The impact of factor X on Y is measured by *the coeficient of determination* R^2. In our case, **$R^2 = 0,597$,** shows a higher degree of negative relationship between these factors.

The relationship between the interest rate and money supply is given by the equation:

$$Y = \beta_0 + \beta_1 x_1 = 415.68 - 34.548 \, X_1 \qquad (1),$$

which shows that for any decrease of the interest rate basis point, the money supply increases by (415,7-34,548) in million ALL.We proceede further with verifying of the above hypothesis. Since tf=27,988>tk, it means that H_1 falls and H_0 is accepted. Furthermore, the fact that Pvalue=5,477> α=0,05, verifies the above fact, thus, H0 is accepted. Hence, once again the relationship between the two indicators is verified.

From Table 2, the regression respective coeficient, $R^2 = 0,826$, shows a high degree of positive relationship between the indicators. Regression equation is:

$$Y = 77,1904 + 0,536263 \, X_1 \qquad (2)$$

This means that for one in million ALL of increase of money supply, GDP increases by (77,1904 + 0,536263) in million ALL Thus, it is once again verified the strong positive relationship between the two indicators. Following the afore mentioned logic, we verify our hypothesis. Since tf=18.279>tk, it means that H_1 falls and H_0 is accepted. Furthermore, the fact that Pvalue=8,69> α=0,05, verifies the above fact, thus, H0 is accepted.

The above conclusion, can be reached even through another regression analysis, which directly relates, the basic interest rate and GDP.

Results in Table 3, show the indirect relationship between basic interest rate and GDP, given by the following equation:

$$Y = 5.56 - 0.485x \qquad (3)$$

Y shows the level of GDP and X indicates interest rates. Following the above logic it is verified the sustainable, indirect relationship between basic interest rate and GDP. It is observed that the relationship is not of the same strength level as with the other indicators.

6. Discussion

The following are the main findings that result from the use of simple regression method in connection with the effect of Bank of Albania monetary policy.

➢ The Bank of Albania has applied an expansionary monetary policy. Specifically has reduced the interest rate since 2000.

➢ Regression coefficients indicate that the reduction of interest rates has had a considerable influence on economic growth.

➢ The expansive monetary policy of the Bank of Albania is realized without major side effects. Inflation is held under control, at the level of 4 percent.

In these conditions are some important issues to be discussed. Is there the further space for the Bank of Albania to reduce the interest rate without causing inflation? Could be followed while an expansionary fiscal policy?

As above mentioned, the expansive monetary policy, i.e. the reduction of basic interest rate, applied by Bank of Albania during the period 2000-2012, has had a positive impact on economic growth. The method shows that the degree of impact of basic interest rate decrease on economic growth is big. This is achieved by keeping inflation in control Albania's fiscal policy instruments are exhausted. Signs of public debt crisis have begun. His level is over 60 percent.

Economic analysts in Albania have emphasized that the Albanian economy has exhausted the main sources of the transition period. According to them the first way not to fall in recession economy and ensure economic growth rates is an economic re-modeling. This means that should be structured branches of the economy, to be set new priorities, such as the development of agriculture, tourism, local products, etc. But it is a long way. In the short term, under current conditions of Albanian economy, where economic growth is low and an economic re-modeling through fiscal and monetary expansive policy is indispensable, it is judged that monetary policy is the most efficient.

According to the above method it is foreseen that there is room for the reduction of basic interest rate in the future, without risking falling into inflation.

7. Conclusions

Global crisis has affected the main macroeconomic indicators of the country, without causing recession and lack of solvency by the part of banking and financial system. Analyzing the health of banking system indicators shows an increasing level of risk and a decrease of its financial capacity. Due to global crisis and slowing down of economic grow rates banks have revised their strategic plans, by having a more conservative approach to increasing the activity.

Bank of Albania and financial institutions were aware of the fact that since crisis appeared somewhere else, it could not be solved in Albania,but Albania should try its best to preserve its economic and financial stability.Thus, they realized a very careful monitoring of the situation by undertaking a series of actions, which lessened the pressure on the banking system.Thus, Bank of Albania developed a strategy about changes in the respective regulations and use of monetary instruments, such as the interest rate.

Use of monetary instruments was part of the anti -crisis package. In the frame of measures undertaken by the Bank of Albania, it should be highlighted the expansive monetary policy, particularly the reduction of basic interest rate. By analyzing the respective data using the statistical method of regression, we come to the conclusion that monetary policy, expansive monetary policy, and particularly the reduction of basic interest rate, which were applied by Bank of Albania, especially during the period 2008-2012, were associated with a positive impact on economic growth.

In addition, the method shows that the degree of impact of basic interest rate decrease on economic growth is big. Through this method, it is foreseen that there is room for the reduction of basic interest rate in the future without risking to fall into inflation. Under current conditions of Albanian economy, where economic growth is low and an economic re-modeling through fiscal and monetary expansive policy is indispensable, it is judged that monetary policy is the most efficient one.

GRAPH VIEW

**Graph no. 1*. Inflation according trimesters for the period 2007-2009.*
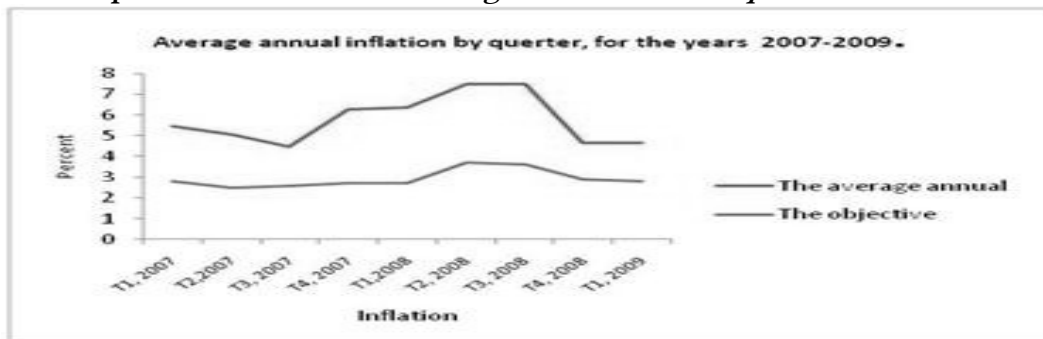
Source: Bank of Albania Report on Monetary Policy, First tremester 2009.

Graph no. 2. Annual growth of deposits every two months, 2007-2009
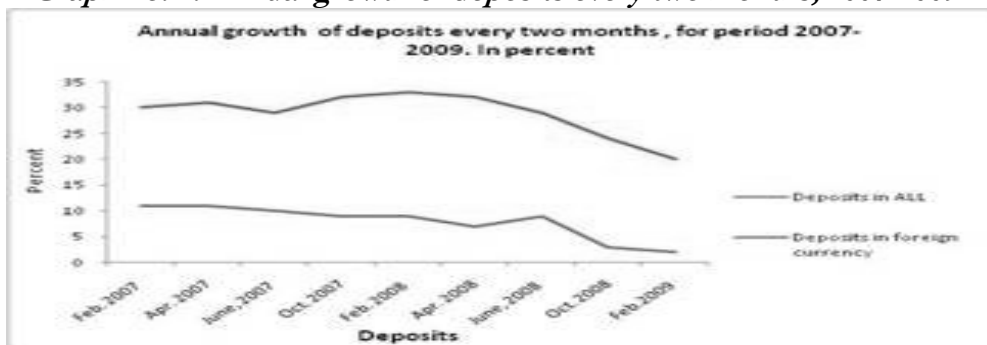
Source: Bank of Albania. Report on Monetary Policy, First tremester 2009

Graph no. 3*. Annual increase of the money supply, 2008-2009*
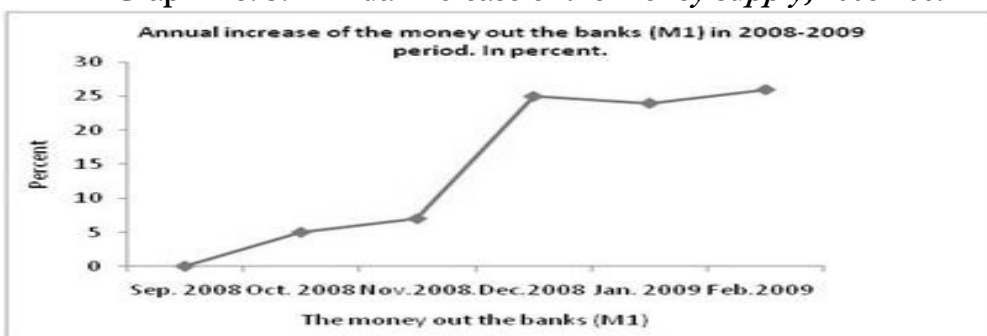
Source: Bank of Albania, Report on Monetary Policy, First tremester of 2009.

Graph no. 4. Interest rate for treasury bills.
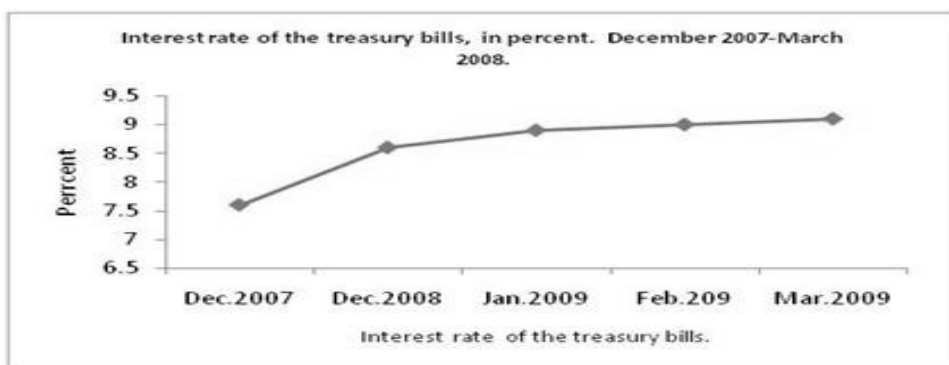
Source: Bank of Albania, Report on Monetary Policy, First tremester, 2009.

Graph no. 5. The growth rate of outstanding loans, 2008-2009.

The growth rate of outstanding loans for 2008-2009 period. In percent.
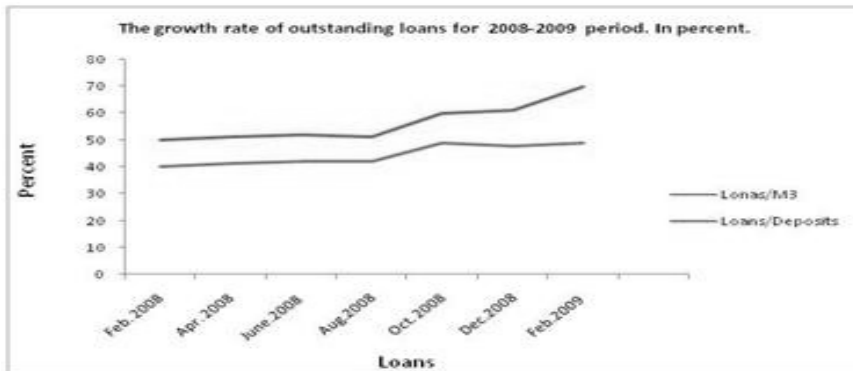
Source: Bank of Albania, Report on Monetary Policy, First tremester, 2009.

Graph no. 6. Current account, as percentage against GDP

Current account as a percent against to GDP.

Source: Bank of Albania, Reprt on Monetary Policy, First tremester, 2009.

Graph no.7. The interest rate and the money supply 2000-2011.

The performance of the interest rate and the money supply (in billion ALL)
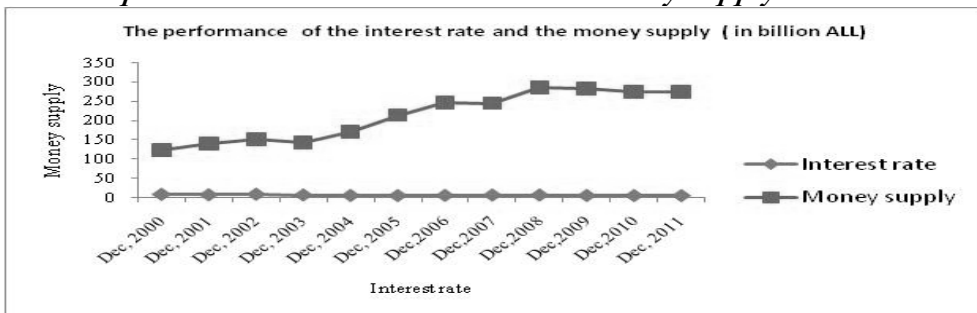
Source: Bank of Albania, Report on Monetary Policy, First tremester 2012.

Graph no. 8. The Interest rate and GDP 2000-2011.
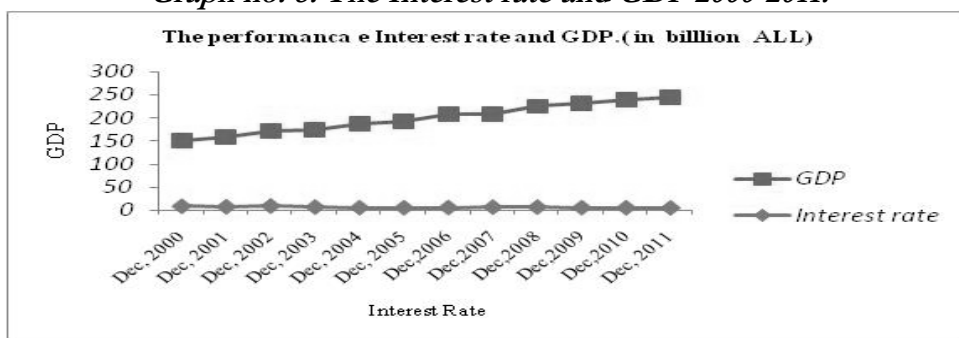
Source: Bank of Albania, Report on Monetary Policy, First tremester 2012.

Graph no.9. Money supply and GDP
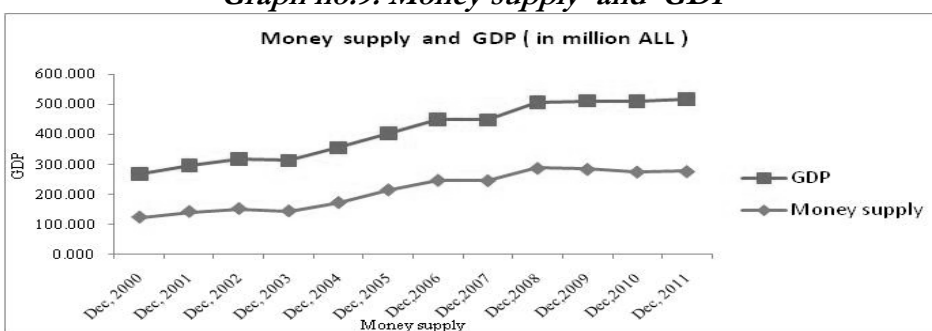
Source: Bank of Albania, Report on Monetary Policy, First tremester 2012.

Table
Table no. 1.

Regression Statistics	
Multiple R	0,7730565
R Square	0,5976164
Adjusted R Square	0,5948976
Standard Error	37,720585
Observations	150

ANOVA

	Df	SS	MS	F	Significance F
Regression	1	312752,4535	312752,4535	219,8081943	4,67003E-31
Residual	148	210580,6986	1422,842558		
Total	149	523333,1521			

	Coeffic.	Stand. Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	415,68	14,8520	27,9881	5,477E-61	386,3308	445,029
X Variable	-34,548	2,330256	-14,8259	4,67E-31	-39,1531	-29,94336

Table no. 2.

Regression Statistics	
Multiple R	0,9089
R Square	0,8261
Adjusted R Square	0,8249
Standard Error	14,63
Observations	150

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	150498,9339	150498,93	703,10364	4,341E-58
Residual	148	31679,31588	214,04943		
Total	149	182178,2498			

	Coefficients	Stand. Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	77,19	4,222	18,2794	8,691E	68,8456	85,5351
X Variable	0,5363	0,0202	26,5161	4,341	0,4962	0,5762

Table no. 3.

```
    Source |       SS       df       MS              Number of obs =      149
-----------+------------------------------          F(  1,   147) =   214.50
     Model | .615798279        1  .615798279         Prob > F      =   0.0000
  Residual | .422018176      147  .002870872         R-squared     =   0.5934
-----------+------------------------------          Adj R-squared =   0.5906
     Total | 1.03781646      148  .007012273         Root MSE      =   .05358


    loggdp |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-----------+----------------------------------------------------------------
normainter~t| -.0485686   .0033162   -14.65   0.000    -.0551222    -.042015
     _cons |   5.56061   .0211589   262.80   0.000     5.518795    5.602425
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A SCIENTIFIC REVIEW OF ROMA COMMUNITY CULTURE, HEALTH AND LIVING CONDITIONS PRESENTED BY MEANS OF ALBANIAN STUDIES DURING THE LAST TWO DECADES

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Abstract

The paper analyses the last two decades Albanian studies focused on the culture, living conditions, services and health issues of Roma groups. The review as a methodology helps us to give evidence about treatment and expectances from Roma strength and weak points, how to overcome the health risky behavior; how near and far by the Roma Community National Strategy commented standards are the theoretical arguments given by the studies; how these arguments have been taken in consideration in rehabilitation policies for these community and how is presented on these studies the proper Roma`s will and motivation for changing behavior. Stressing on the strengths and weakness of Roma culture and standards of living is the main perception for their social integration. Work, education and "the art of begging" as the big post-communist challenge of their social integration, distinguished some Roma groups from each other. The question of the social services and attitudes toward culture of health is complex and a simple prediction equation is not enough for effective interventions designed to ensure behavior change. Thus, we only benefit situations, where levels of mismatch between knowledge, attitudes and behaviors, create confusion in the perception of the risk assessments "map" and further interventions.

Part of the discussion remain also the fact that the perennial and continuous investments towards these groups seems that don`t have positive results yet. The paper tries to argue which of the social psychology theories could be more valuable to lead services and decisions in achieving these results.

We could reach to an answer through coherent treatments of the given studies basic questions.

Key words: health risky behavior, culture of poverty, Roma community, integration, social status.

JEL Classification: Z10, Z13

Introduction

About "*arixhinj*" of before `90-es and for the Roma after` 90-es, is speaking too much in these two decades, especially after 2000-s.It is talking to the media, through the official language of government through the rehabilitation strategy for

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this population, but also through studies. Exactly the studies published during these years, focused on Roma population as a vulnerable group related to social, economical, political integration as well as risky behavior on health, HIV / AIDS, STI-s and drug use, are the object of this paper.

The aim of the paper is to find the relation between the studies conducted and the reported situations for Roma groups, in order to identify behaviors that have been changed (if any), or the effectiveness of services up to the Roma needs. Obviously, here should been taken in consideration the typologies of the studies done and should take into account their formal and informal marketing. There is not the purpose of this paper to evaluate the quality of the studies focused on Roma (it can be done by meta-analysis), but to rank findings and possible comparisons as the way which lead to the coherence, authenticity and investment usefulness through researches and surveys results.

The main problem is to identify how close or far by the European and other Albanian majority population standarts appear those of Roma behavior, culture and coexistence, from the studies conducted in Albania at the last two decades.

Some topical questions explored within the selected studies are: is it talking about the standard of living, culture, behavior, integration, health and services for the Roma population compared with the large population in the selected studies and where the suggestions for changing behavior are based on? Does any study intend to describe the situation of Roma groups, or to provide possible useful ways to change their behavior, related to the strategy and standards developed by the Albanian government? Why almost all issues for Roma continue to be at the point 0?

In addition we will have answers to the issues raised in the abstract.

Methodology

This paper is conceived as the review of the theories concluded from studies conducted for Roma integration, health and benefit services terms, as essential parts of national strategy for rehabilitation of this community, and also the living and the right standards.

The methodology involves a review of existing literature by purpose. As O `Malley & Arksey (2005), defined[1], the intention of using this method, is the summarizing and dissemination of existing research findings. Reviews by purpose are exploratory, so include the results of previous studies on Roma-related issues identified. The selection criterias for studies are not based on quality of studies, but due to the problem of the studies. The studies were found through keyword research: *Albanian studies, Roma, standards, health, integration, services.* So were obtained the electronic published studies as well as those published as prints, on which was requested in the archives of organizations that are involved in studies on Roma, as

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[1] Arksey, H., & O`Malley, L. (2005). Scoping Studies: Towards a methodological framework.Int.J. Social Research Methodology, p. 8,19.32.

Centre for Economic and Social Studies, Public Opinion Studies Institute (POSI), "Vatra" Center, Public Health Institute, UNICEF, World Vision, Terre des Home, etc. The methodology of all these studies is based on several researches, quantity and quality techniques, including reviews of the existing literatures, socioeconomic surveys, semi-structured interviews with Roma people, focus group discussions, etc.

The studies reviewed

Albanian studies found that satisfy the requirements of the paper are:

"An unknown case: Roma in Albania".Report of the European Centre for Roma Rights.Series "National Reports" nr. 5. July 1997; "Riproductive Health problems in Albania"(POSI, 2002);" Rapid Assessment and Response to HIV / AIDS among young women sex workers in the district of Vlora, Korça", (Unicef, POSI, 2002); "The Challenge of HIV / AIDS on vulnerable groups in Albania" (POSI, 2003); "Assessment of Child Trafficking situation of Roma and Gypsies in Albania, Tirana ODIHR, CPRSI (2003); "Solutions found in Albania for the company of children-victims of trafficking ",Terre des Homes.Pegi. (2004); "Assessment of the health services impact in Roma groups and the elderly in Tirana", (POSI & OSFA, 2004); Hermine De Soto, Sabine Beddies, Ilir Gedeshi "Roma and Egyptians in Albania: From Social Exclusion to Social Inclusion or The Gold Coin Dilemma", (2004); "Rapid Assessment and Response to HIV / AIDS in Albania: Young Roma and young MSM in Tirana, Vlora, Elbasan", (POSI & ASSA, 2005); " Biological and Behavioral Surveillance Study Report in Albania" (USAID,FHI, PHI & POSI, 2006); " Biological and Behavioral Surveillance Study Report in Albania" (GFTAM , PHI, POSI, 2008); "Demographic and Health Survey in Albania 2008-2009" (Institute of Statistics and Institute Public Health, 2010), "Improving Social Inclusion of Roma / Gypsy,(UNDP, 2010); "Study Report on the situation of Roma people who live and work in garbage dumpsite in Sharra",(FPGSH, 2010), "Mapping Roma Children in Albania"(Centre for Economic and Social Studies, 2011);

" Demographic and socio-economic status of Roma in Albania"(Ministry of Labour, Social Affairs and Equal Chances, UNICEF, 2012).

Studies limitations

1. Ethnic identity in some studies presents a limitation, because it is not based on the definition given for specific groups: Roma and Jevgj. Roma, are actually determined on the basis of self-reports in interviews and demographic questionnaires. Also, no differences were observed and there were no specific treatments related to ethnical mixtures between Roma and non-Roma.

There is no fact or analyses in selected studies, about the difference between Roma and Jevgj, so we are not sure about the real population involved in studies,

when it referes the Roma population.[2] So, believing by agreement, the studies have been considered with focus on demographic unit referred to ethnicity and not nationality.[3]

2. There is no study which figure out the professional roles, especially ones of the social worker. There is no evidence from the selected studies to confirm through interviews, focus groups, etc., that social workers or other health professionals have been or will be recommended to involve in long-term or permanent services for the social rehabilitation of Roma groups. Highlighting strengths, weakness, threatens and possibilities for changes, the social workers can facilitate the integration through a quickly penetration to the mentality and typical stigma that characterizes this population, to arouse their interest on integration as part of the Albanian society, mainly by affecting the attitudes and behaviors reflections that threaten individual health but not only.

The profession of social worker is the most valuable and adaptive in an enormous problems environment, especially those related to the health, resolution of which should be started from the minimum levels of rehabilitation, treatment, attitudes and behaviors, up to the official services organization.

3. Surveillances do not give us full data about HIV / AIDS` knowledge's.

There is no precise measurement or assessment on information functioning to prevent the risk behavior, which makes Roma people less interested to get information.

4. Mental health is not mentioned in the surveillance, although it has a big role in the   sexual risk culture behavior.

5. In both two studies the biological and behavioral surveillance, sampling was done using standard sampling techniques in groups of household units.

The surveillance made in 2006 was held in the Roma population and the general ones, on the suburbs of Tirana, while the 2008-th ones, has a nationally representative population of Roma, but there is not the representatives of the general population.

6. All studies reviewed before 2012, are noted as exploratory, descriptive which simply report the situation, ascertain and that all give the similar theoretical suggestions about how to do what. There is no explanatory study, or recommendations based on social psychology or health and rights theories. No one theoretical basis to argue why it is important that language instruction, or the fact that if all the efforts so far have minimal results, what way can be better replaced with the desired expectations. The Roma language teaching is important in helping

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[2] There is no specific detail about the question, but really the Roma population is differently identified from Jevgj. There are still many discussions for Albania, as a specific case connected with Roma issues. Note of the author.

[3] Albanian Roma community is presented as Albanians. Author`s note.

Roma children's cognitive development.[4] This conclusion determined by L.S.Vygotsky in 1930, very important, based in his cultural theory, according to which the culture plays an important role in language and cognitive development of Roma children. This theory was not ever applied for Roma children, until early 2000, when many societies began to talk seriously about their education.

On the other side most of the studies made in the period 1960-1990, showed that for Roma children was more important to have good knowledge of official language of the country where they lived, than to learn the mother language. In countries like Romania, where the number of Roma population is very high, this theory was implemented and has given positive results.

In fact, no references are given for similar cases in Albania, where in accordance to the strategy is stressed Roma language teaching, despite of the difficulties that represents this process.

7. Almost all selected studies (but not only), publish that the poverty among Roma and Jevgj minorities in Albania, is the result of social exclusion and discrimination. It still remains unconfirmed theory until we should explain the relation of these causes with the culture of poverty, differences in identity between the two communities, as well as specifications for the Roma community, the more marginalized one.

Risk behaviors descriptive analysis of the studies

If from the explanations of qualitative studies results reported higher risk, the risk culture behavior management, continues to be low. If the studies made in 2003, reported low knowledge`s about HIV / AIDS, recently is reported to have knowledge about ways of protective health behaviors by HIV / AIDS, STI risk. Often prejudice and stigma for Roma groups prevents the spread of information.

As noted in the study of POSI (2003), the starting time of sexual activity is earlier than the global average ones, which increases the level of vulnerability to infections, because the early sexual experiences are associated with lack of knowledge`s, limited skills and insufficient social experiences. Risk behavior perception is particularly low in Roma men and women all together.

The analysis shows an unchanged situation on fact that the women report the start of sexual activity at age 15-17 years and males 12-14 years (RAR, 2005). The reported use of contraception during sex in the 2003-2005 studies, still problematic, was explained by the lack of basic protection information among Roma, the lack of information structures, fear by the side effects that protective means can cause(according to Roma peoples), and by the belief that partners have to each other

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[4] Hristo Kyuchukov, Constantine the Philosopher University, Nitra, Slovakia, online presentation: http://www.romadecade.org/files//ftp/17%20ISC/Hristo%20Kyuchukov%20presentation%20 (Roma%20Identity%20session).ppt.

(fact without basic of veracity, indeed), (RAR, 2005). Roma women reported more loyal than men within their marriages.

To understand the situations it`s more useful to be focused on cultural elements that bring decrease attention and awareness about the risk for these people. Roma injecting drug users can`t be considered as sexual risk behavior group (POSI, 2003:12), although the average of having used drugs for the first time is about 15 years. The answer is: because of their low sexual activity.

Are we right to consider this fact as a dilemma or unclear situation: they begin earlier the sexuality, but they don`t have so much sexual relationships; they begin earlier to use drugs, but they aren`t at risk? Roma women have less risky behaviors than men related to the drug use (RAR, 2005: 46).

Massively is reported consumption of alcohol and tobacco among Roma groups. About 60% of them report the use of cannabis (RAR, 2005:49). They are extensively more soft drug users than serious and injections ones (VSHP, 2005: 49-50).

Roma women wanted to profit not only gynecological medical services, but also other services, on condition to be delivered by women doctors. There is no cases of HIV infection in these groups, sampled across the country in 2008 (BBSS, 2008), versus 0.3% of cases found in the previous surveillance, even by Roma people is reported that they have minimal knowledge`s about this infection. They are inattentive about the care and protection measures to get prevent of the infection. Even in ordinary cases of health problems, they arrive at the last moment at health centers to receive services,

Surveillance of 2005, reporting 0% males and 2.6% Roma women tested for HIV / AIDS, 6.1% and 5.1% female's and males tested for hepatitis B, while there is no report on tests of hepatitis C. This indicate us the operation level of intervention programs regarding population testing.

General socioeconomic and education situation for roma

According to the latest publication of the Ministry of Labor and Social Affairs and UNICEF (April, 2012), in "Study of the socio-economic demographics situation of the Roma in Albania", are registered in total 14 564 Roma inhabitants. This detailed database of each Albanian area, will facilitate now and in the future, the needs identification and the socio-economic policies decision-making process, related to them.

The map identify that the greatist number of Roma live in Tirana, 3 022 people, then is ranked Fier, with 2 311 persons followed by Korça, with 1324 and Elbasan, with 1 114 Roma inhabitants. Librazhd is the city that has only one Roma resident, followed by Kolonja with 7 Roma inhabitants.

In studies before 2012-th, we can notice infinitely findings regarding the causes of poverty and social exclusion for Roma communities, such as:

☞ the lack of proper culture of education at schools, focused of the un-institutionalized Romani language, Roma children discrimination ect.;

☞ the unemployment, focused on discrimination, casual, traditional occupations of Roma and their crisis in the market today;

☞ the problematic infrastructure, in relation to drinking water, sanitation, electricity, overcrowded and unsuitable houses for living;

☞ the social protection focused on the lack of benefits from the state because of prolonged unemployment and inability to seek assistance from the government;

☞ the limited access on information and governance, related to the lack of representation in decision making, illiteracy, lack of information about government policies. Not represented by any political party;

☞ the limited access to law and justice, lack of formalization of births and marriages;

☞ aid dependency because the lack of education, vocational training, unemployment, low income;

☞ Roma culture is threatened due to lack of official status as a minority and discrimination. Accurate statistics for their registration are lacking.

The Roma community is characterized by the diversity and this fact is important to give them different integration and rehabilitation access according the group (e.g. meckara, are more integrated than the others).

Roma is described as "a mosaic of different major groups"[5] that shares the same history, culture and tradition. They all share the same origin as a people without geographically identified homeland, but with differences related to family structure, discrimination and social exclusion experiences by "the others", the majority non-Roma population.

A Roma family works also as an important economic unit. Roma children's socialization occurs through the links of this great family. Solidarity with the Roma culture begins since in the childhood. The education within the family for Roma, means learning the rules of Roma culture and tradition. Thus, Roma children receive this culture through grandparents, parents, the older sisters and brothers. Traditionally almost all government policies and international practices against exclusion and assimilation of education for Roma have resulted under the standard.

Expectations for equal opportunities for Roma education generally have been failed.

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[5] Liegeois, J. P. (1998) School Provision for Ethnic Minorities: The Gypsy Paradigm, University of Hertfordshire Press: Hertfordshire, pp 49.

The most repeated issues affecting education and health are noticed:

☞ The key reason that Roma children do not attend school or drop out of it, is extreme poverty of their families.

☞ Roma peoples, like many other segments of the population, have lost faith in schools as an institution with human values.

☞ Because of the stigma of poverty and rejection multifaceted education, Roma are less aware of the health and risk behaviors referred to the rest of the population.

According to recent studies (Centre for Economic and Social Studies, 2011) there is a decline of illiteracy for Roma population: from 52.4% in the period 1991-2000, to 34.4% in the period 2001-2010.

Following this study "Despite of an improvement in the educational level of the Roma during 2000-es, compared to the first decade of transition, illiteracy remains very high.[…]High unemployment and poverty, discrimination and social exclusion reflected in the lowering educational level. The Roma population is characterized by illiteracy (40.3 percent), completed (25.9 percent) and incomplete (14.9 percent) primary education, while very few have completed middle school education (16.1 percent) and secondary education (2.1 percent). In the meantime a comparison with the majority population shows that the gap is very large (40.3% Roma population and 1.6% the majority population). […] In absence of education for the Roma population it is difficult for them to integrate into the labor market and their abilities compared to the majority population will continue to decrease. Roma parents list several reasons, which relate mainly to poverty. The difficulty to buy books and school items, lack of adequate clothing, poor living conditions and lack of infrastructure, the contribute children need to make in increasing family`s income, care for younger sisters and brothers, etc., are some of the main obstacles for the education of children. Apart from the above mentioned issues there are also institutional barriers, as well as barriers related to Roma traditions and culture. […] Cultural barriers include gender roles, language and nomadic traditions. Besides these, some other obstacles are the low level of parental education and low perception of the education benefits. The survey shows that 69.4 percent of the Roma speak Romani and Albanian in their homes. But in some big Roma communities – such as those in Levan, Rrapishtë, Nish Tulla, Fushë Kruja, etc. – children use more the Romani language amongst them (18.3 percent). Consequently, many of them face difficulties on first grade where classes are in Albanian, pushing them to drop out of school. […] In this case the policy should ensure the involvement of all Roma children in preschool education, where the Roma teachers would teach them proper Albanian. Almost 7 percent of Roma parents believe that the education of their children does not increase their opportunities to find employment in the formal market and improve their living conditions. As a result of extreme poverty conditions, many Roma families have a short term vision. Because of their low education level, many Roma parents cannot assist their children in doing their homework. Empirical data show that only 26.4 percent of Roma children aged from 3 to 6 years attend preschool facilities Children who attend preschool adapt

better to the school environment when they go to elementary school and face less difficulty in absorbing new knowledge." Roma children easily and massively leave school which brings a very low level of education among them. On the other hand, the role of their big family unites, has been considered the most important tool in education. According Marsel Kurtiade: "... A little expense once a year for school items is not so economically oppressive compared with costs of parties made by Roma families for circumcising…" Exclusion from health care services access and low living standards is believed to occur because of low life expectations level, high rates of infant mortality, low level of education and high rates of poverty.

As long as Roma people feel themselves different from "the others" and seeing that the path to change is very hard or almost impossible, munch more they`ll continue their stereotypes, rituals and crafts to survive and we`ll find them still begging in the streets.

Profile of the Roma in general accompanied by begging, stealing and selling in the stock of old clothes and goods, while the attitudes and perspectives from the wider society for them, seem largely bad and negatives.

An important issue is that all services providers that met the needs of Roma groups, should know very well their history, culture and expectations, and should be characterized by a multicultural perception for understanding their needs and orienting them to fulfill these needs.[6]

Conclusions

There are big challenges for Roma groups in Albania: on the one hand the desire for integration, on the other hand the anchorage to begging(as the great challenge of all rehabilitation strategies, projects and policies), that enables the problematic empowerment of Roma and any kind aid dependency, which promotes at last their passivity. Tradition obliges Roma to behave as isolated population, while the development finds them psychologically and morally unprepared to overcome the obstacles and prejudices for a worthy status and social position.

Urban growth stimulate and increases the stigma and prejudice from the majority to Roma, but also between Roma groups too connected with the possession of the "property market", that of employment, schooling tendency, etc.

(E.g. Interviewing Roma meçkarë, in Levan commune of Fier, in South of Albania (2005, 2010), were noticed that they don`t believe sometimes that Roma karbuxhë can be stable workforce and massively will send children to school, because they perceive them at the lowest level of society civilization).

As an emergency we need psychological and sociological knowledge support, to explain human behavior theoretically, to understand in every intellectual level the causes for all un changed behaviors and to decide how to manage the changements practices.

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[6] European Commission Report (2004).

The concept of "*the other*" is natural, as well as cultural among Roma community. Skin color has shown them that differ strongly from the others and so will be forever. Old clothes, language, their "not intelligent" and not acceptable habits by the majority, have created their stigma, so the majority has difficulties to see them as people who simply have a different identity and must be respected.

Also the attributive errors referred to Roma, have fatal consequences, because they directly affect rehabilitation activities led by the majority and directed to Roma community. Saying always "They are the same!", "It`s just Roma thing" we increase the gap between the Roma minority and the majority population, in a few words, we prolong the isolation, although in our country the treatment of minorities has not known conflicts, these attributive attitudes reduce the integration speed of Roma in the whole life.

Forgiving and understanding are two different things. Understanding social distancing of Roma, it seems simple, but the facts always leave us at a crossroad, because the tendency which helps to explain the prejudice against the Roma life is poor.

When we talk about the education of Roma children, seem to measure the time whether or not Roma children are ready to attend public schools. This fact is an absurdity, which of course is based on the prejudices of the majority toward Roma people, but also on the Roma prejudice related to their never expressed intellectual abilities, due to illiteracy or partial education.

Theoretically and practically, the models derived from ethnic groups with difficult analysis of the culture origin, with the tepid economical, political and social cooperation, are difficulty accepted. In this case the degree of marginalization is quite large and the number of the problems for solution remains always great too. This affects the very low level of Roma community self efficiency.

Which part of the integration belongs to Roma children who since babies are faced with the rain, cold and the street? As I`ve mentioned out of this paper, in many discussions about Roma, it seems this way they`ve selected to be among the people (begging), in fact excludes them more. This "art of begging" nourishes the indifference and unwillingness to work among the majority of Roma community. The perspective of social capital capacity building, considered as a strong point of integration effects, is another challenge for Roma community.

This is directly related to the civilization level of the whole society.

Social capital resources of Roma community are dark and it brings "iceberg" obstacles to social, economic, cultural and political emancipation and development of these people.

I `d like to conclude this paper with the comment of Prof.Wiliam Chase, Pittsburgh University (2010), about the efforts we must do to understand the Roma"laziness" (thought that Roma people refuse to work): "... The most important and difficult too, is the need for all of us scholars, to learn how to get rid of, to learn

how to relate the limits with the validity. We all need to learn about the invisible barriers, as well as to learn how to get them out. So as a general plan we need to use visible and invisible barriers idea,, as a path,as a way to orient the Roma integration issues... ".

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DESTINATION MANAGEMENT AS A WAY FOR THE COMPETITIVE TOURIST DEVELOPMENT.CASE STUDY-SOUTH REGION OF ALBANIA

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Abstract

Destination management» represents the challenging task of serving the various needs of tourists and tourism-related businesses as well as the local communities, local businesses and industries in order to maximize customer value (WTO, 2007). It is very important in sustainable development of tourism in the region. The purpose of this paper is to identify the need of destination management in tourist region and to analyze the relationship between this concept and actual development of tourism in south region of Albania. This study is based on previous theoretical discussion regarding tourist destination and destination management and is based on previous researches on the tourism development.Results indicate that there is a great important that a tourist destination to manage with carefully in according to motivations and needs of tourists and community's needs.

Key words: current situation, destination management organizations, destination management, tourist region

JEL Classification: M30, M38

1. Introduction

In realizing this study, was used a methodology combining primary and secondary data. The questionnaire asked to tourists is made up to provide general information on tourist market profile, considering the object of visiting the destination, the information source used.Such information helps in determining new tourist developments in the destination which relies on nature activities aiming to preserve the tendency of tourist visits.

Gilbert. D (1990) suggests that destinations should differentiate their tourism products in order to achieve a unique« tourist product benefit».

The **goals** of destination management can be multifarious. The most common ones are summarized below: (J.Rehage,2010)

✓ Strengthening the tourism industry as economic sector
✓ Development of joint visions and strategies and securing their implementation

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✓ Decreasing competition thinking and strengthening the sense of belonging together"
✓ Using joint creative and innovative potentials
✓ Increasing readiness for private and public investments
✓ Qualification of (political) decision makers
✓ Exchange of information and networking
✓ Enhancing / ensuring quality of services and infrastructure
✓ Increasing visitors satisfaction
✓ Safeguarding natural resources and biodiversity

2. Literature review

Modern concepts of destination management build on three *principles*: (J.Kloiber,2008)

1) *Process orientation*: In the development of services, emphasis is given to the establishment of integrated supply chains for the various visitor segments rather than the traditional orientation along sub branches (hotels, restaurants, transportation services,).

2) *Demand orientation*: product development is not anymore driven by the question "What can

We offer?", but by the question "What do our (potential) visitors demand?" This approach requires a higher level of dynamic and flexibility.

3) *Stakeholder orientation*: destination planning and development is not only oriented towards the interest of shareholders, but it is aiming at the participation and satisfaction of the interests of all groups related to tourism.

In the academic literature regarding destination management there is so far no unified understanding about the specific tasks of destination management.Following C.Kaspar (1995), the functions and tasks of destination management, respectively of tourism organizations are including the following points:

- Overall local and regional tasks of tourism development (elaboration of tourism policies and funding mechanisms)
- Administrative tasks (disposition of Tourism Information Centres, complaint services)
- Tasks related to the collective determination, maintenance and operation of (public) tourism infrastructure and facilities

Destination image is an important aspect in tourism management and destination marketing. which plays an important role for destination marketers. (Yilmaz et al.,2009)

Martina G.Gallarza and al.,(2002) suggest that the importance of the tourist destination's image is acknowledged, since it affects the individual's subjective perception in destination choice.The study of tourism destination image is the subject of some researches, but there were some difficulties.According Martina G. Gallarza and al.,(2002), the first difficulty is the tourism product's characteristics such

as its complexity and multidimensionality.The second is that destination marketing involves the consumer physically moving to the behavior scenario.

Researches shows that tourist information is a valuable concept in understanding destination image and the destination choice process of tourists (Arturo Moline and al,2010) explains important factors for the analysis of tourist behavior.For instance, first, most of tourist behavior models incorporated the search of external information as an important component(Gursoy and Mc Cleary,2004). Second, some studies examine the influence of information sources on tourists' preferences and intentions. Third, other studies urge on the relationship between information sources, destination selection and travel decision.

But how does the destination make successful? There are some points, which must be in consideration :(Growing Destinations-www.tourismexcellence.com/Destination-Checklist)

✓ Identity (what makes the destination stand out from the rest?/what are its unique selling points?)
✓ Access (is the destination readily and cost-effectively accessible to the target market segments?)
✓ Quality product&infrastructure (are there sufficient attractions of significant interest and appeal to the target market segments and especially that align with the destination image?)
✓ Industry leadership and synergy (is there strong private-sector driven regional tourism organizations to work collaboratively with local tourism association?
✓ Service (are operators willing to learn and improve?)
✓ Effective distribution (are there systems to deliver information about the destination to people before they leave home?)
✓ Industry synergy(this often includes neighboring regions)
✓ Strategic planning
✓ Co-operative marketing(which maximizes the effectiveness of industry, local government and state government contributions)
✓ Adequate resourcing (is the resourcing sufficient to enable the local industry to have an impact in a very competitive marketplace?)

3. Destination management organizations

Destination Management Organizations (DMOs) have the responsibility for destination product and through incentives and policies facilitate the development of products, which is desirable from the demand side.DMOs should therefore be the guardians of the image and resources of destinations (D. Buhalis,Tourism Management Special Issue: The Competitive Destination)

In order to realize the above mentioned activities there is an obvious need of (professional) human resources, and an organizational structure which is responsible

for destination management. However, the tasks as described above do not necessarily have to be fulfilled by: (J. Kloiber, 2008)

♦ governmental institutions of all involved levels and departments
♦ tourism sector (tourism businesses, tour operators, agencies and tourism associations)
♦ main tourist demand segments
♦ environmental care takers (NGOs, protected area administration)
♦ other NGOs and citizens' initiatives (social- cultural, sport associations)
♦ other economic sectors (agricultural, trade, building), chamber of commerce
♦ (potential) private investors and public donors and supporting development agencies single tourism organization. Some of the tasks can be outsourced or they do vary depending on the organizations geographic level (local, regional or national) and size of its area of intervention.

But DMOs participate in major annual tourism and travel fairs in Berlin, London, Milan, Paris and elsewhere. There they have the opportunity to meet intermediaries and members of the public to promote their offerings. They produce brochures, which they distribute to all their partners in the industry and to consumers who require information on the destination. (D.Buhalis,Tourism Management Special Issue: The Competitive Destination),

Korca's Destination Management Organization (DMO)

DMO is a nonprofit organization in Korca's Region that contributes to sustainable tourism, cultural heritage and regional development, by enabling good governance, developing civil society and empowering.

The key roles of the DMO are: to coordinate the implementation of strategic plans affecting tourism in the region; to enhance public-private partnership within the tourism sector and to be the local point for the coordination of tourism planning and development in Korca Region. This structure has these departments: Marketing Department; Visitor Services; Development Department.

4. Brief overview of tourism in Albania

Albania is a country with ancient cultural tradition and a brilliant history. Albania is an important connecting bridge of Mediterranean Countries and as a such country, it has favorable conditions for the development of tourism.457 km of the total 1094 km national border line are a wonderful coastline. The nature has reserved a favorable climate to Albania, 120 sunny days, virgin and unexploited lands which inspire curiosity, a perfect nature and diversified relieve forms. International experts have uttered that Albania contains the necessary potentials to be a unique centre of European ecological tourism (www.albanian-giude.com). Due to its favorable geographic position, Albania has been called "the Balkan's Gate". It has some particular characteristics where are intertwined the geographical and geological features, the landscapes and relieve.

According to the 2011 Travel and Tourism Economic Impact for Albania prepared by World Travel and Tourism Council, the future of the Albanian tourism sector is positive.Key indicators of growth are as follow:

The total contribution of Travel&Tourism to GDP, including its wider economic impacts, is forecasted to rise by 5.4% from ALL 344.2 bn(26.3% of GDP) in 2011 to ALL 582.7bn (29%) by 2021.

While figures on tourist arrivals are growing year after year in Albania, the country has remained highly dependant on Balkan region tourist

The Ministry's Tourism Development National Strategy 2007-2013 replaces the 2002 Tourism Strategy. It presents the following vision statement (Vision 2013):

"Albania is a safe, high-value tourism destination featuring an unparalleled variety of world-class natural and cultural attractions in a small geographic area, managed in an environmentally and socially responsible manner, easily accessible to European tourism markets."

Tourism in the Korça's region

The city of Korca is situated in southeastern part of Albania. The area occupied by the city today is a former Illyrian settlement.The potential for tourism development in Korca and the surrounding area is high thanks to its historical, cultural and natural wealth.Korca is mentioned as a castle in 1280 and in 1431, as an inhabited castle. After 1484, the city started to expand and development gaining the feature of an urban and regional centre. The city has participated historically in intensive exchange of culture and trade with Byzantium and Greece.Korca's region illustrates and encompassed three of these areas:historical tourism; archaelogical tourism, religious tourism.*Historical tourism* encompasses the design, planning and application of historic elements used by tourism as a source of cultural attraction, such as monuments, tangible and intangible recourses and architecture. *Archaeological tourism* is very important for many tourists. So, Korca's region is well-known for the artefacts housed in the Archaeology museum, some of which date back to the early Iron Age, with others from the Hellenic, Roman and Byzantine periods.*Religious tourism* may be considered as the oldest manifestation of tourism.Korca's region is well-known for old churches and monasteries, such as Orthodox Cathedral, which is the biggest in the Albania.

Korca's destination as a city should not seen as separate from the tourist villages surrounding it, due to tourists are coming to the city to visit the city and tourist villages around, to take part in activities or to use the accommodations and traditional dishes. Municipal programs have transformed Korca to "The City of Holidays", so Korca is a famous city in Albania and the neighboring countries. The cultural activities help to increase the number of foreign and domestic tourists in rural areas, especially in summer time due to their favorable climate and fresh air.

Korca-the city of events!- The «Events Calendar 2010», is the first calendar in Albania. It has listed a number of important national and international cultural activities,fests and fairs held from April through December 2010.

4.1 The analysis of tourists in Korca's Region

The Visitor Survey was introduced in the Korca region in 2011, when it was distributed to guests at selected accommodation establishments.

General information as demographic characteristics and other information to tourists are important for understanding the psychological, educational and other needs of tourists The respondents were studied concerning the following:

~"*How many times have you visited this destination*?" The responses were: 43%- 1-2 times; 24%- visited it for the first time; 33%- more than twice.

So, we are able to notice that there is a continuous interest to visit these areas, enjoy the fresh air and the landscape, and also traditional cuisine that is often the main reason of visiting these rural areas.

~ Tourists that visit the destination, as far as *the nationality of tourists is concerned,* it results that most of them are native: 45% of them are Albanians from Albania; 19% Albanians from Greece; 10% are Albanians from Macedonia and 26% are foreign tourists, mainly Greeks about 10% followed from Macedonians, French, Germans, English and Asian people; about 1% are American people.

These data show that the interest of domestic tourists is still continuous and according the information gathered from the hotels of the area, there is a tendency of tourists to come during winter time to enjoy the snow and be able to skiing.

~ An important question to understand the tourists' profile is: "*What is the goal of visiting this destination?*"

To understand better tourists' preferences, they were asked as following: *"What was the reason you chose this place?* »defining the most attractive characteristics.

These data show that the tendency of being attracted by nature still persists. There is a need to look for a more vivid environment and adding services in the destination; attraction by culture inherited from generation to generation shows that these areas are attractive in this aspect, which makes tourists go and visit these areas even though most of them are accommodated in town. They spend an overnight or half a day with outdoor activities or enjoy the traditional cooking. Thus, the special thing about these areas is that there is a mingling of nature with culture, as the reason for sustainable tourist continuity.

Sport activities let us know about their early tradition, but those tourists who spend more time in destination should have the opportunity for organized activities such as riding horses as well as ski and mountain-climbing during winter time, going on thus with the sports tradition of these areas.

From previous research, (SNV- Netherlands Development Organisation, 2010)) there are some findings:

1) The annual average bed occupancy rate is estimated as 20%
2) The bed capacity in the region is 1500 bed spaces
3) The average length of stay in hotels/guest houses was 3.5 nights
4) The percentage of bed nights in private accommodation(home stay) is 10.1% and the average length of stay is 6.3 nights

5) 79% of all visitors stayed overnight

6) Average spend per day is 8576 lek

It is possible to calculate approximately: the value of tourism in the Korca Region

-the annual bed night capacity is 15008x 365 days/year= 547 500

-the number of bed nights occupied in the year is 547 500 x 20%= 109 500

- total visitor arrivals at hotels/guest houses is 109 500 /3.5=31285

-total bed nights in private accommodation are: [109 500/ (100- 10.1) x 10.1]=12302

- total visitors arrivals at home stay accommodation is 12302/6.3= 3905

- total visitors in the region who stay overnight is: 31285+3905= 35190

- number of day visitors is : (35190/79.2)x(100-79,2)= 9241.

So total visitor arrivals in the region are:35190+9241= 44431; number of total days spent in the region: 109500+ 12302+9241=131043 days.

In according to dates of Korca's DMO, average spend per day is 8576, so total expenditure from visitors in the region is 8576x131043= 112 382 4768 min lek or 1,1 bn lek.

In these conditions, we can think that tourism branch in this region will be very important about the economic development of the community. But it is very important to improve tourist services and to promote them.

4.2. General information for tourist units in rural areas

In this section provided an overview of tourist accommodation in the study area which represents with hotels of various capacities, but also provided with rental houses for tourists, a characteristic of rural areas in Korca.From the survey in rural areas showed that hotels were 24% of all rural accommodation and tourist rental homes were 76%.Accomodation units had different years in terms of activity in the tourism sector and to this question from the survey showed that 40% of them were about «4-6 years»; 36% had 1-3 years .40% owned by the themselves and 60% is leased.These dates showed that the community consider the tourism as an opportunity to improve the life.

The analysis of these dates showed clearly the largest number of tourist units were rental houses.This is characteristic for developing rural tourism destinations. The small number of hotels explains that tourist requires and «house village», while for a clientele group hotels meets their requirements.

Using wood as a heat source is connected with the fact that Korca is a mountain destination and tourists like very much the fire for warming.In these conditions should be implemented environmental protection policies as well as taking actions in relation to new forests. Setting up an environmental balance in the destination would be necessary to have tourist in a sustainable manner.

Based on theory arguments of tourism scholars and the characteristics of the area intended for study, let us propose the following hypotheses:

Hypothesis 1: *The higher the interest for the rich nature, the higher the frequency of visits in destination.*

For the **Hypothesis 1:** the following results were found: χ^2 llog=12.31, df= 8, p=0.04, χ^2 tab= 15. 5, F= 4.88 for p < 0.05.

So, χ^2 llog< χ^2 tab , that is why the **Hypothesis 1: was proved.** This showed that the *rich nature* of destination makes tourists come back again resulting in a factor which would increase the frequency of tourists' visits, making thus possible tourist sustainability from this viewpoint and specifically ecotourist one.

For hypothesis 2 -"If the community has the positive attitude towards tourism development, community increases the possibility that require a higher number of tourists", were found the following results: χ^2calc = 26.57, for p = 0,00 and F = 37.6, p = 0.000 and b = 0, 94; Cronbach's index = 0.7. **So Hypothesis 2 was proved.**

This shows that the community has the tendency of a higher number of tourists, given the improving economy through tourism, without causing economic and social problems.

Conclusions

Position of the destination is primary, so we have to stress one more the fact about the way how visitors perceive the destination and not what is it from the community's point of view. In this definition we should be leaded by the fact that destination **"is not what you say it is, but what all the others say***".*

The greatest market visiting the area was the *domestic market*; therefore the development policies will focus on it, aiming to expand the market of foreign tourists. Tourists who visited repeatedly the destination were considerable in number, which shows that the environmental and cultural sustainability were the main source of this flow. Thus, its retention would require high service quality to tourists.

As tourists frequented the area because of its natural features, the community would be encouraged not only to preserve the natural landscape, but look for opportunities of developing such activities as: riding, mountain-climbing, etc, required from tourists as the area possesses such environmental features.

From the study, it resulted that there is a tendency to be engaged in tourist businesses, fact which is obvious from their considerable number. These businesses though should add more services especially those dealing with activities mostly required from tourists like ski, mountain-climbing, hiking, etc. Houses intended for tourists should be encouraged to promote their business in order that tourists see what the rural destination offers to them, mainly the characteristic cuisine of the area. In these conditions, it is necessary to:

~ encourage the local businesses to develop activities like riding and cycling, rent equipments and improving passages with appropriate signals and compiling tourist guides.

~ encourage the improvements of hotels, guest houses to comply with tourists' standards (were needed).

~ Encourage the restaurants to offer and promote traditional cooking making use of the regional specifications and distinctions between villages.

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Tab1. Purpose of Visit (activities)

Purpose of Visit	%
Wonderful nature	33%
Heritage culture	23%
Hiking	21 %
Sports(ski)	15%
Leisure activities	8%

Tab.2: Purpose of visit (type)

Purpose of visit	%
Leisure	52.8 %
Visiting friends and relatives	20%
Business	13.2 %
Transit	10%
Other	4 %

Graphic no 1. Nationality of tourists

Nationality of tourists

Nationality	Value
albanian from Albania	45
albanian from Macedonia	10
albanian from Greece	19
international tourists	26
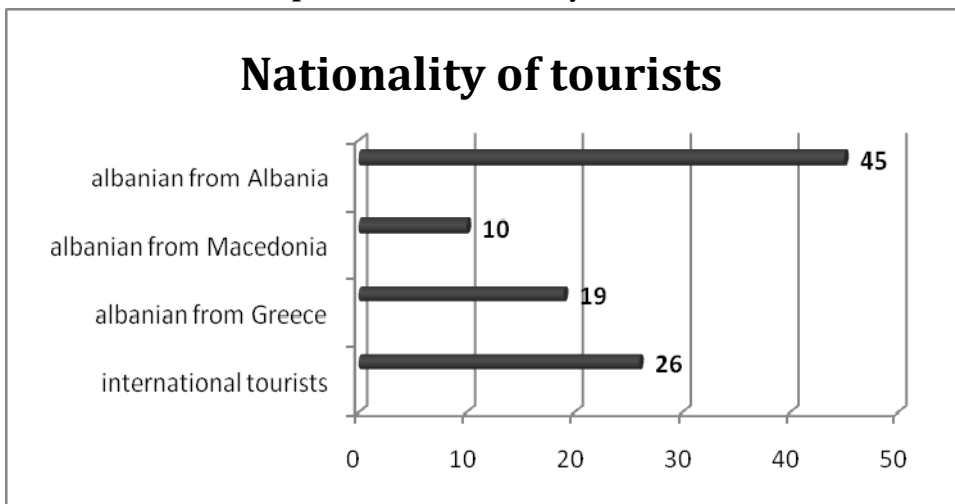
For hypotheses 1: Tabela a). Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.314	8	.138
Likelihood Ratio	15.351	8	.053
Linear-by-Linear Association	4.626	1	.031
N of Valid Cases	70		

Table (b): ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.647	1	2.647	4.887	.030
	Residual	36.838	68	.542		
	Total	39.486	69			

For hypotheses 4:

Table. Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	26.574	2	.000
Likelihood Ratio	30.416	2	.000
Linear-by-Linear Association	24.596	1	.000
N of Valid Cases	70		

Table: Reliability Statistics

Cronbach's Alpha	N of Items
.703	2

GOVERNANCE, FINANCIAL LIBERALIZATION AND ECONOMIC GROWTH: DYNAMIC PANEL DATA APPROACH

Amaira Bouzid[*]

Abstract

This paper aims to present an empirical analysis of the governance effects on economic growth. Our study presents the direct effect of governance on growth by using a dynamic panel model of nineteen emergent countries during 1990-2005 by using macroeconomic and financial variables. This article consists to discuss the direct effect of governance on the growth. It confirms the results of previous studies that show the positive effect of governance on economic growth for the countries adopted goods governance process and a negative relation for the countries adopted buds governance practice. These results can be influence the decisions of authorities on the economics politics approach.

Key words: governance, economic growth, dynamic panel data and GMM system methods.

Classification JEL : C23, G1 et G21

1. Introduction

In recent years, emerging economies have made substantial macroeconomic performance. To enhance these performances, the authorities of these countries have initiated several institutional reforms affecting the functioning of the economy in general. The major objective of these countries is to achieve the transition to "good governance". Indeed, improving the quality of institutions becomes fatal to reach a level of sustainable development and achieve a high economic growth rates. From a theoretical perspective and empirical, several studies show the existence of a limited relationship between the institutional framework and the growth of gross domestic product per capita (*Laurent Clerc and Hubert Kempf, 2006*).

Several economists have argued, in recent years that a major reason why growth rates differ between countries is that the quality of the economic environment in which agents operates are different. This environment includes laws, institutions, rules, policies and government regulations of the country.

Good institutions are characterized by structures and laws incentives that reduce uncertainty and support efficiency. They contribute to a stronger economic performance. Indeed, a favorable environment for growth is one that provides

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adequate protection for property rights and gives agents the incentive to produce, invest and accumulate skills.

The empirical studies of the relationship of institutions and growth have developed by the World Bank (2003) on the MENA countries. The study showed that since the 80s, the average annual per capita economic growth in the MENA region was 0.9%, a level below that of Sub-Saharan Africa. The origin of this delay in growth in the MENA region is the gap in governance. Indeed, simulations show that if UM could achieve an average quality of public sector administration comparable to that of a group of successful countries of South Asia-East, its growth rate would be higher, of nearly one percentage point per year.

Recognizing the importance of good governance in improving the business environment, competitiveness and attractiveness of the country, and the efficient management of human capital, public authorities in emerging countries have registered, a package of reforms aimed at launching a new impetus to development of the country, to create opportunities for the involvement of different partners and sectors of society and to launch the foundation for a new management development.

Measuring the quality of governance is a difficult task. The World Bank in 2003 developed a set of indicators to judge the quality of several aspects of governance.

Today, the dimensions and measures of governance we bring to explore the idea of distinguishing between governance at the macro and the micro-level governance.

In terms of macroeconomics, governance means "the traditions and institutions through which authority is exercised in a country" (*Kaufman, Kraay and Zoido-Lobaton, 1999 a and b*). This definition emphasizes that the effective mobilization of resources, formulation and implementation of appropriate policies depend on the ability of leaders. Governance is described as "good" or "poor", according to the mechanism of coordination between government, market and civil society. Good governance is defined by the credibility based on the availability and transparency of information, government accountability and participation in decision-making for society collectively. Instead, poor governance is expressed by the lack of law, the existence of corruption, the asymmetry of information...

In terms of microeconomics, "corporate governance" and corporate governance refers to "all the organizational mechanisms that have the effect of delimiting the powers and influence management decisions, in other words, that" govern "their conduct and define their discretionary space "(*Charreaux, 1997, p.1*). By this definition, ownership structure and various corporate partners play a crucial role in determining the organizational framework and rules.

This distinction seems difficult in the sense that the quality of corporate governance depends on the quality of corporate governance system which prevails in the country. Thus, the construction of an overall index of governance is not easy because, at the macro level, governance depends on several variables. Indeed, the diversity indicator is due to the complex and multidimensional governance.

The study by Kaufman et al. uses at least 250 indicators to measure the quality of institutions in a country. The information collected from twenty five different

sources and is produced by eighteen international organizations. This database covers 199 countries for the years 1996, 1998, 2000 and 2002. Each country receives a score that varies between -2.5 and +2.5. A higher value for a given country at a given date corresponds to better governance.

In total, the study by *Kaufman, Kraay and Mastruzzi (2003),* the aggregate governance index is calculated as the average of the following six measures: citizen participation and accountability, political stability and absence of violence, the effectiveness of government; the regulatory quality; the rule of law and the corruption.

1 - *The citizen participation and accountability:* Measures the ability of a country's citizens to participate and choose the government. It is based on a number of indicators measuring various aspects of the political process, civil liberties and human rights and political;

2 - *Political stability and absence of violence*: Measures the likelihood that the incumbent government will be destabilized or overthrown by unconstitutional means and / or violent or threatened by the public as terrorism;

3 - *The government effectiveness*: Measuring aspects of quality and availability of public service, the bureaucracy, the competence of civil servants, the independence of the administration of political pressure and the credibility and transparency of the Government in its reforms, its commitments and policies;

4 – *The Regulatory Quality*: Focuses on the policies themselves, including measures of the incidence of anti-market as price controls or inadequate bank supervision and monitoring as well as the perception of blocking imposed by excessive regulation in areas such as foreign trade and the business climate;

5 - *The rule of law*: Includes several indicators that measure the confidence of citizens in compliance with laws and rules of society. This includes perceptions of the incidence of crime, efficiency and predictability of the judiciary and the legal enforceability of contracts;

6 - *The corruption*: Measuring the extent of corruption, defined as the use of public power for personal interests and private profit in terms of wealth and corrupt gain.

The growth phenomenon has been developed by different economic theories. These theories show the importance of physical capital accumulation in the development process. They fall into three different schools of thought. The first approach has inspired of Keynesian theory, whose main proponents *Domar (1946 and 1947) and Harrod (1948).* The second approach has emerged in the mid-50's take the term "neoclassical", was essentially developed by *Solow (1956).* The third approach is the endogenous growth theory following the work of *Romer (1986) and Lucas (1988).*

After quoting the main theoretical considerations taken by these three schools of thought, our goal in this section is to assess whether financial liberalization has an effect on whether the long-term economic growth. We use an empirical model 'standard' growth.

We organize our study as follows. Section II will present theoretical models of economic growth, then, in Section III will cover the theoretical and empirical econometric methods and specify the model used, Section IV will present the empirical results and finally Section V concludes the study.

2.   Empirical modeling

The Solow model considers the investment rate, population growth and technical progress as exogenous. The two inputs, capital and labor are paid their marginal productivities. We assume a Cobb-Douglas production which at time (t) is given by:

$$Y_t = K_t^a [A_t L_t]^{1-a} \qquad \text{With } 0 < a < 1 \tag{2-1}$$

Y is the product, K is the capital, L is the labor and A is the technology level. L and A are assumed to grow at rates exogenous (n) and (g):

$$L_t = L_0 e^{nt} \tag{2-2}$$

$$A_t = A_0 e^{gt} \tag{2-3}$$

The number of work units thought effective rate (n + g). The model assumes a constant fraction (s) of the product is invested. Let (k) capital stock per labor unit ($k = \dfrac{K}{AL}$) and (y) the level of output per unit of work is given by: $y = \dfrac{Y}{AL}$

The evolution of K is such that:

$$K_t^{'} = sy_t - (n + g + \delta)k_t$$

$$K_t^{'} = sk_t^a - (n + g + \delta)k_t \tag{2-4}$$

With δ is the depreciation rate. Equation (2.4) implies that (k) converges to a stationary value (k^*) $sk^{*a} = (n + g + \delta)k^*$ or defined by:

$$k^* = \left[\frac{s}{(n + g + \delta)} \right]^{\frac{1}{1-a}} \tag{2-5}$$

At equilibrium, the capital - labor ratio is positively related to investment rate and negatively to the rate of population growth. Key predictions of the Solow model concern the impact of investment and population growth on real income. By replacing (k) as in equation (2.5) in the production function and by the logarithmic per capita income is obtained:

$$Log(\frac{Y_t}{L_t}) = LogA_0 + gt + (\frac{a}{1-a})Logs - (\frac{a}{1-a})Log(n + g + \delta) \tag{2-6}$$

The essential question is whether the data are consistent with the predictions of the Solow model on the determinants of living standards. Thus, Solow assumes that (g) and (s) are constant across countries, with (g) which reflects the level of advancement of knowledge that is not a specific country. The term (A0) reflects not only the technology but resource endowments, climate, institutions. It will differ between countries. (A0) thus contains some factors specific to each country.

Assume that $LogA_0 = \alpha + \varepsilon$

With (α) is a constant (ε) is a shock specific to each country. In this way, the logarithm of per capita income is:

$$Log(\frac{Y_t}{L_t}) = \alpha + gt + (\frac{a}{1-a})LogS - (\frac{a}{1-a})Log(n+g+\delta) + \varepsilon \qquad (2\text{-}7)$$

Equation (5.7) is the empirical specification of the basic Solow model. It assumes that the investment rate and population growth are independent of the specific factors that can affect production. In this case, this assumption implies that the equation (2.7) can be estimated by the method of least squares.

For the generalized model, we will incorporate into the base model all the factors affecting growth. Equation (2.1) can be written:

$$Y_t = K_t^a H_t^b [A_t L_t]^{1-a-b} \qquad (2\text{-}8)$$

Where (H) represents the stock of human capital, other variables are defined as in equation (1.1). (L) and (A) to grow rates (n) and (g) such that:

$$L_t = L_0 e^{nt} \qquad (2\text{-}9)$$

$$A_t = A_0 e^{(gt+X_q)} \qquad (2\text{-}10)$$

With (X) is a vector of political and other factors affecting the technology level and economic efficiency. In addition, (q) is the vector of coefficients for these policies and other variables.

Let (s_k) and (s_h) fractions of income invested respectively in physical and human capital. The assessment of the economy is determined by:

$$k_t' = s_k y_t - (n+g+\delta)k_t \qquad (2\text{-}11)$$

$$h_t' = s_h y_t - (n+g+\delta)h_t \qquad (2\text{-}12)$$

With $y = \dfrac{Y}{AL}$, $k = \dfrac{K}{AL}$ and $h = \dfrac{H}{AL}$ are quantities per effective units of work.

It is assumed that the same production function is applied to human capital, physical capital and consumption. Furthermore, we assume that human capital and physical capital depreciates at the same rate (δ).

Equations (2.11) and (2.12) imply that the economy converges to a steady state defined by:

$$k^* = \left[\frac{s_k^{1-b} s_h^b}{n+g+\delta} \right]^{\frac{1}{1-a-b}} \qquad (2\text{-}13)$$

$$h^* = \left[\frac{s_k^a s_h^{1-a}}{n+g+\delta} \right]^{\frac{1}{1-a-b}} \qquad (2\text{-}14)$$

Substituting the values of equations (2.13) and (2.14) in the production function, with logarithmic form, and by putting (), we obtain the per capita income equilibrium:

$$Log(\frac{Y_t}{L_t}) = LogA_0 + gt + X_q - (\frac{x}{1-x})Log(n+g+\delta) + (\frac{a}{1-x})Logs_k + (\frac{b}{1-x})Logs_h \quad (2\text{-}15)$$

Terms $\dfrac{x}{1-x}$, $\dfrac{a}{1-x}$ and $\dfrac{b}{1-x}$ are the elasticities of per capita income, respectively, compared to growth of population, the fraction of income invested in physical capital and the fraction of income invested in human capital. This model predicts that the sum of the elasticities with respect to (s_k) and (s_h) equals the elasticity with respect to (n + g + δ).

Similarly, the Solow model predicts conditional convergence after controlling for determinants of the steady state. In addition, this model makes quantitative predictions about the speed of convergence. Thus, let (y *) per capita income derived from equation   (2-15), the convergence rate is given by:

$$\frac{dLogy_t}{dt} = \lambda\left[Logy^* - Logy_t\right] \quad (2\text{-}16)$$

With λ = (δ + n + g) (1 - a - b) is the speed of convergence, is produced by the current head. Equation (2-16) implies:

$$Logy_t = (1 - e^{\lambda t})Logy^* + e^{\lambda t}Logy_0 \quad (2\text{-}17)$$

Subtracting (logy0) in Both Sides of equation (2-17) and Replacing (y *) we get:

$$Logy_t - Logy_0 = (1 - e^{-\lambda t})\left[\frac{-x}{1-x}Log(n+g+\delta) + \frac{a}{1-x}Logs_k + \frac{b}{1-x}Logs_h + X_q - Logy_0 + gt + LogA_0\right] \quad (2\text{-}18)$$

With t is a time index.

Thus, from the time index is introduced in the modeling, recent work developed by *JC Berthelemy and Varoudakis A. (1998)*, show that to obtain a satisfactory empirical explanation of real growth, we must introduce other explanatory factors than simply the progression of labor and human and physical capital that appear in the neoclassical model.

To this end, the extension of the Solow growth model allowed us to capture the effects of permanent governance through their effects on total factor productivity.

We consider two production functions (standard and modified) Cobb-Douglas with constant returns to scale and neutral technical progress. They are represented by equations (2.19) and (2.20) respectively:

$$y_t = A_0 e^{gT} k_t^{\alpha} \quad (2\text{-}19)$$

$$y_t = A_0 e^{(g_0 + g_1 GOUV_t)T} k_t^{\alpha_0 + \alpha_1 GOUV_t} \quad (2\text{-}20)$$

GOV: is a measure of governance.

3. Econometric Methods

Most econometric studies that were relevant to macroeconomic phenomena are limited to the use of static analysis. However, recent research attention has focused on the use of another analysis called "dynamic" to understand the decisions of countries in terms of establishing a financial policy, economic and institutional. Although our empirical modeling takes into account several common variables, it would be prior to the use of dynamic analysis in panel data. Since both approaches (static and dynamic) are complementary, we think it useful to present them to choose the estimation method is most appropriate.

3.1. Static method

The static model tests the conditional convergence hypothesis that the level of development is a random variable. The estimate by the method of least squares (OLS) of all data stacked assumes homogeneity of countries, which can lead to biased estimates. Structural differences in productivity levels between countries justify the source of heterogeneity of the model and therefore the non validity of the assumption of homogeneity. Furthermore, it seems important to introduce time dummies control for macroeconomic fluctuations that affect all countries. The panel econometrics to control the heterogeneity of individual observations in their dimensions or by the inclusion of a specific effect assumed certain (fixed effects) or by the inclusion of a specific effect unobservable (random effects). The time dimension is taken into account by introducing dummy variables. The fixed effects estimation that uses deviations from individual means eliminates the differences persist between countries. This procedure favors the intra individual. In addition, it also has the advantage of being able to identify and measure effects that are not directly observable cross-sectional or time series.

However, the fixed effects model is equivalent to introduce dummy variables for each individual and is therefore costly in terms of degree of freedom (*Greene, 1993*). The random effects model assumes for its independence between the error terms that takes into account the specific effects and explanatory variables. Two tests are criticized for validating the model specification. A Chow test to verify the existence of an individual effect (*Hsiao, 1986*) and a Hausman test, to validate the exogeneity of the specific effect compared to the explanatory variables (*Hausman, 1978*).

The static model is as follows:

$$y_{i,t} = \alpha + \beta Z_{i,t} + \varepsilon_i + \gamma_t + e_{i,t} \tag{3-1}$$

$Y_{i,t}$: The endogenous variable, which represents the economic growth of country i in period t.

The vector of exogenous variables.

ε_i: Specific effect to control unobservable differences, which between countries.

γ_t: Time effect to control the economic shocks affecting the economies.

$e_{i,t}$: random error, independent identically distribution (iid) and according to law normal with zero mean and variance σ^2.

One of the main problems that may arise in the fixed effects model and random effects are:

- For the random effects model, the problem is the possible correlation between explanatory variables and individual effects. Economically, this correlation reflects the influence of individual structural characteristics (a-temporal) on determining the level of the explanatory variables.

- For the fixed effects model, the problem of the provision of country-specific variables those were constant over time. This is the case of the variable of human capital and the variable GDP / capita. Perform a fixed effect regression would have led to these two variables arbitrarily out of all explanatory (*Eric Bernard, 2000, p 15*).

3.2. Dynamic method

The dynamic model is characterized by the presence of one or more lagged endogenous variables among the explanatory variables. In our case, there is only one lagged endogenous variable.

$$y_{i,t} = \alpha\, y_{i,t-1} + \beta\, z_{i,t} + \omega_i + e_{i,t} \quad \forall i \in [1, N] \text{ and } t \in [1, T] \qquad (3\text{-}2)$$

With $y_{i,t}$ is the endogenous variable, exogenous variables, (α, β) parameters estimation; individual heterogeneity $[w_i \rightarrow \text{iid } N (0, \sigma^2)]$ and the error term $[e_{i,t} \rightarrow \text{iid } N (0, \sigma^2)]$.

This approach has the advantage over cross-sectional data used in previous studies, to consider two effects: the effect of time series which allows controlling economic shocks hitting the economy and the specific effect to monitor unobservable differences that exist between countries. Similarly, this method can be regarded as the best way to address the phenomenon of growth because it provides dynamic information for many countries.

We will evaluate the model using three econometric methods: the method of least squares (OLS) with common effects, the method "within" with specific effects and country fixed the method of generalized least squares with random effects specific. To test the existence of individual effects, we will conduct the specification test proposed by *Hsiao (1986)*.

The use of panel data approach brings us to verify initially the degree of homogeneity or heterogeneity of the data generating process. To do this, it is first to test the equality of coefficients of the model studied in the individual dimension that is to say, to verify that the model studied is exactly the same for all countries, or conversely that each country has sample of specific individuals.

Our goal is to clarify the nature of the relationship between economic growth as measured by the growth rate of real GDP per capita and governance (GOV) with the introduction of control variables for emerging and N over T waves.

Is the logarithm of real GDP per capita, the governance index and the logarithm of the control variables and we assume that our production function Cobb-Douglass, the general model is written as:

$$y_{i,t} = \alpha_i + \beta_i GOV_{i,t} + \gamma_i Z_{i,t} + \varepsilon_{i,t} \qquad \forall i \in [1, N], \forall t \in [1, N] \qquad (3.3)$$

$$\text{With} \quad \varepsilon_{i,t} \xrightarrow{iid} N(0, \delta_\varepsilon^2) \qquad \forall t \in [1, N]$$

In economic terms, the specification test is primarily to clarify the possibility of assuming a production function completely identical for all countries (pooled model). In other words, the elasticity of financial liberalization and the control variables are identical for all countries and the technical productivity of the factors measured by the constants is the same for all countries. The model is written as:

$$y_{i,t} = \alpha + \beta GOV_{i,t} + \gamma Z_{i,t} + \varepsilon_{i,t} \qquad (3.4)$$

However, the use of aggregate data makes the likelihood that the growth function is strictly identical for all countries studied is quite small. If the assumption of complete homogeneity is rejected, then they should test whether the elasticities of the different factors are identical. Otherwise, there is no a priori structure of common growth across countries. In this case, the use of panel data approach is not justified and may even lead to biased estimates and therefore our estimates are done country by country.

Assuming that there is a similar relationship between economic growth and the explanatory variables for all countries, the problem of heterogeneity of the model can come from constants. However, there is no guarantee that the countries studied have the same level of technical productivity. Instead, some structural factors such as economic, commercial, geographical and political can lead to differences in productivity between countries.

It is first to test the hypothesis of a constant common to all countries. If this hypothesis is rejected, the model chosen is a model with individual effects and takes the following form:

$$y_{i,t} = \alpha_i + \beta GOV_{i,t} + \gamma Z_{i,t} + \varepsilon_{i,t} \qquad (3.5)$$

4. GMM system estimation: R. Blundell and S. Bond (1998)

The estimate presented here is the estimated GMM system *R. Blundell and S. Bond (1998)*. We limit ourselves to the results of this estimate because it eliminates any bias rigorously related to unobserved individual heterogeneity and provides therefore a better efficiency of the estimation results. The table below summarizes the main results of the regressions performed:

Table 4.1: GMM system Estimate: Total sample

Variables	R. Blundell *et S. Bond* Estimate (two steep)
LOGGDP$_{i,t-1}$	-0.223
	(-2.56)**
LOGINV	0.130
	(3.75)***
LOGINF	-0.0037
	(-1.71)*
LOGH	0.070
	(0.96)
LOGOUV	0.013
	(0.41)
ILF	-0.0626
	(-2.94)***
LOGDEPPUB	-0.122
	(-2.24)**
Governance	0.0037
	(0.60)
constante	-0.383
	(-0.89)
AR(1)	-1.735
pvalue	0.0827
AR(2)	-1.3916
pvalue	0.1640
Sargan test	12.414
p-value	1
Ob. Number	285

*** Significant at 1% ** significant at 5% and * significant at 10%
Values in parentheses are Student's t

This table shows regressions of economic growth on the lagged endogenous variable and the variables specific to each country. The sample covers 19 emerging countries on a minimum of twelve consecutive years during the period 1990-2005. LogGDP$_i$, t is the logarithm of real GDP per capita. From this variable we calculate the dependent variable, namely the growth rate of real per capita, by subtracting the log of GDP at time (t-1) to the logarithm of GDP of the time (t). (LOGINV) is the logarithm of the ratio (). Loginf is the logarithm of the inflation rate measured by the index of consumer prices. (ILF$_{i,t}$) is the index of financial liberalization, this variable is calculated in Chapter 3. Logouv as *Berthelemy and Varoudakis (1998)* used the logarithm of coefficient of trade openness measured by the ratio. (Logh) is the logarithm of human capital stock, this data was not available. So we chose instead a variable approximate. This variable was calculated by multiplying the total population

(1-ratio of the inactive population). This ratio is the sum of the population under 15 years and over 65 percent of the total population. This variable was calculated and already used by Fry (1998) for estimating the growth function of ten Asian countries.

The regressions are conducted with the estimator *Arenallo and Bond (1991)* which uses the generalized method of moments (GMM).

Moreover, the authors proposed the test of Sargan validity of instruments. 2(pk-1) is the degree of freedom. χ This is a test of over-identifying restrictions follows asymptotically i, t is essential that the estimator "GMM" is efficient.νHowever, the hypothesis of no autocorrelation of *Arellano and Bond (1991)* have proposed a test verifying the absence of autocorrelation of the first and second order AR (1) and AR (2) that asymptotically N (0,1). Thus, it is not autocorrelated, this test gives a valueνif the distribution of residual differentiated negative and significant at the first order and second order non-significant. Table 4.1 contains the regression results for the sample as a whole. The results appear conclusive; the three proposed tests (AR (1), AR (2) and Sargan) confirm the correct dynamic specification of the production function of emerging countries in our sample. Indeed, the results of the Hansen test are the instrumental variables are valid, while the autocorrelation test of second order Arellano and Bond autocorrelation indicates a lack of second order.

Several interpretations and conclusions can be drawn from these estimates. First, the negative and insignificant coefficient of the lagged endogenous variable indicates the non-convergence of GDP of these countries studied.

The findings are entirely consistent with model predictions. The coefficients (LINV) and (LINFL) each have the expected signs and both are highly significant. Indeed, investment is considered the engine of economic growth. For the parameter on the inflation variable, it is highly significant and has a negative effect on growth. The introduction of the inflation rate as a predictor of growth is the concept of financial repression. Indeed, a high inflation rate characterizes economies where financial repression is strong, so the real interest rate is negative reducing the weight of public debt. However, high inflation disadvantage of long-term investments and exerts a negative effect on growth. This coincides with the various theoretical analyzes that consider inflation as a factor detrimental to economic growth.

The parameter relating to the human capital variable (LH), as a direct factor of growth, is positive and statistically significant sample of the entire country. This result suggests that slow growth may be due to low human capital.

However, the degree of openness (LOUV) has the positive sign and not significant, indicating that more open economies has a conditioning effect on growth. This result is contrary to what the theory says about it. Insofar as this indicator is not optimal and is not very robust.

Increased public spending LODDEPPUB) is a fraction of significant reduction of economic growth. This result is consistent with that of *Barro (1997)* and contradicts other studies (*Devarajan, Swaroop and Zou, 1996*; *Caselli, Esquivel and Lefort,*

1996). In general, the relationship between public spending and economic growth is mixed and controversial.

The most important is the result in this regression for variable (ILF). For the total sample the variable has a negative coefficient and significant at 1% and 10% as shown in the regressions in Table 4.1. So the conclusion to be drawn from these estimates is that the positive effect of financial liberalization is conditioned by the existence of an institutional framework, business climate and a macroeconomic environment that can transform the resources available in profitable projects. This result seems inconsistent with the analysis of Mackinnon of the positive impact of financial liberalization on improving the product in developing countries. In the same context, the total effect of governance on growth is negligible and not significant which proves the fragility of institutions.

Given the difficulties in the implementation of financial liberalization policies, and result in additional costs in terms of banking and financial crises, it would be useful to reconsider a new financial policy most appropriate for growth, based on endowments institutional.

According to *Acemoglu (2003) and Ball (1999)*, the financial success of policies depends on the quality and functioning of institutions. Also, following criticism addressed to the theoretical financial liberalization, and *Steim Arestis (2005)* suggest that the failure of this policy is particularly focused on institutional issues.

Attempts today to enrich the pioneering work of studying the link "finance-growth" are to retain institutional variables (contract enforcement, law enforcement, corruption index, ethnicity, bureaucracy and level of risk) in our regressions.

The autoregressive term ($GDP_{i,t-1}$) is always negative and significant. This reflects the persistent nature of the growth process. To our surprise, there is no variable that has an influence on economic growth since none of these variables is considered significant, with the exception of two variables "ethnic" and "contract" that have a positive effect on growth.

- ♦ In a first model, we introduced the "corruption index" over this index, the higher the country is corrupt. This variable is significant and therefore it has an impact on the growth dynamics of these countries. However, analyzes *Gnégné Y. (2009)* showed that "The final effect of the race for the annuity and corruption on economic growth through under-investment and non-productive investments. There are at least three reasons that explain this: first, the race for the rent diverts resources away from investments that have the best social effects (*Auty, 2001b*), and secondly, corruption reduces profits and thus the amount of resources that finance new goods, services and technology (*Romer, 1994*) and thirdly, an environment where corruption reigns there is an uncertain environment. "
- ♦ In the second model we added the institutional variable "law", this variable measures the degree of enforcement for each emerging market, longer this index, the greater compliance with laws and their degree of application is important. In our case, this variable has a positive sign and slightly smaller, it

is not significant. It may be noted, also, that the ILF creates an adverse effect on growth and increases the likelihood of emergence of banking crises and financial fragility.

♦ In the third model we introduced the "ethnic" variable, this index is more, the greater civil liberties and media independence are respected. The coefficient on this variable is positive and statistically significant at 5% so it has significant benefits for economic growth. This result was confirmed by Kpodar (2004): "Ethnic Diversity accounts for about 28% of the growth differential between Africa and Asia." By cons, Easterly and Levine (1997) show that a high level of ethnic diversity is correlated with a low level of financial development, which in turn leads to low growth.

♦ In the fourth regression we added the variable "contract" is to honor the contracts of economic and financial order. The estimation results show that this variable has a positive effect on growth and is statistically significant at 1%. Thus, countries that commit themselves to respect the terms of contracts and honor are those who will experience high growth and sustainable. More importantly, this result is very interesting because it shows us the role of regulation on the implementation of commitments and clauses in contracts.

♦ The last two regressions show that five and six variables "risk" and "bureaucracy" have an important role in explaining economic growth since both variables are significant and have a positive sign.

**Table 4.2: Financial liberalization, institutional variables
and economic growth:**

Model	Blundell et Bond (1998), (two steep)					
Regression	**1**	**2**	**3**	**4**	**5**	**6**
Constante	-0.758	-0.373	-0.557	-0.531	-0.487	-0.619
	(-1.24)	(-0.73)	(-1.15)	(-0.70)	(-0.65)	(-0.97)
LOGGDP$_{i,t-1}$	-0.309	-0.127	-0.378	-0.221	-0.208	-0.224
	(-2.47)[b]	(-1.48)	(-2.91)[a]	(-3.18)[a]	(2.64)[a]	(-1.57)
LOGINV	0.149	0.096	0.158	0.128	0.128	0.104
	(3.92)[a]	(2.17)[b]	(3.66)[a]	(3.11)[a]	(3.31)[a]	(2.28)[b]
LOGINF	-0.004	-0.003	-0.004	-0.0011	-0.003	-0.003
	(-2.03)[b]	(-1.30)	(-1.44)	(-0.67)	(-1.34)	(-1.35)
LOGOUV	0.023	0.012	0.021	-0.016	0.015	0.008
	(0.73)	(0.36)	(0.71)	(-0.59)	(0.39)	(0.22)
LOGH	0.137	0.058	0.152	0.112	0.084	0.08
	(1.55)	(0.74)	(1.67)[c]	(0.86)	(0.70)	(0.90)
ILF	-0.055	-0.057	-0.066	-0.042	-0.063	-0.051
	(-2.78)[a]	(-3.21)[a]	(-2.79)[a]	(-2.84)[a]	(-3.39)[a]	(-2.67)[a]
LDEPPUB	-0.111	-0.069	-0.142	-0.114	-0.114	-0.04
	(-1.83)[c]	(-1.13)	(-2.84)[a]	(-1.81)[c]	(-1.80)[c]	(-0.61)

Corruption	0.012 $(2.13)^b$					
Rule		0.0033 (1.48)				
Ethnic			-0.015 $(-2.15)^b$			
Contrat				0.010 $(2.95)^a$		
Risque					0.0038 (1.59)	
Bureaucratie						0.010 $(3.07)^a$
AR(1) pvalue	- 1.2214 0.2219	-2.0898 0.0366	-1.4449 0.1485	-1.8447 0.0651	-1.7204 0.0854	-1.7902 0.0734
AR(2) p-value	-1.619 0.1055	-0.6669 0.5048	-3.3095 0.0009	-1.6081 0.1078	-1.307 0.1912	-0.9402 0.3471
Sargan test Pvalue	12.506 1	15.029 1	9.048 1	13.934 1	12.647 1	14.685 1
Ob. number	285	285	285	285	285	285

5. Conclusion

We concluded, sometimes, a divergence in the results. This discrepancy is due to the multitude of indicators for measuring the degree of governance. It is for this reason that we tried in this work to study empirically the relationship between governance and economic growth through the use of indicators measures adequate. To do this, we took a sample of 19 emerging countries during the period 1990-2005. We have used techniques in dynamic panel data.

In conclusion, it is important to highlight that the governance and growth are positively correlated and that the link between these two variables is statistically insignificant. This means that good governance is vital to any strategy for growth but is not a necessary condition.

The ways in which good governance promotes growth are mainly two in number: it helps the one hand, to accelerate the pace of investment is essential for improving growth and allows, secondly, to strengthen the productive sectors to facilitate capital accumulation and wealth distribution.

Within this framework, the dimensions of governance that require a development priority in order to enhance the efficiency of the production system are, firstly, those relating to the promotion of an enabling environment for investment to accelerate growth Economic and secondly, those relating to the establishment of a regulatory and institutional framework able to improve the effectiveness of public policy development, particularly those oriented towards building production capacity.

For the establishment of a framework conducive to growth, reforms should focus on strengthening the coherence and anticipation in the acts of the State, the establishment of a tax incentive system, putting Establishment of flexible labor legislation, the fight against corruption, reform the judicial system and changes in land tenure.

However, these results vary with the nature of governance "goods" or "buds" and the category of countries. In fact, governance has been the source of failure of financial and real sectors and the emergence of socio-economic discrimination in emerging countries, mainly in Africa.

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INCOME INEQUALITY AND ECONOMIC GROWTH: EMPIRICAL INVESTIGATIONS ON THE TRANSMISSION CHANNELS

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Abstract

The aim of this paper is to quantify the transmission channels of income inequality on economic growth. We try to determine what is the most important channel through which income inequality affects growth. To do this, we will estimate our basic model with variable rates. Then, we will use a simultaneous equations model to decompose the direct and indirect effects of income inequality on economic growth. According to the results, corruption is the most important channel, while trade openness channel is the least important.

Key words: income inequality; economic growth; transmission channels

JEL Classification : I3; O4; Q33

Introduction

The major economic problem in the world is the fight against poverty. In fact, it is necessary to take into account two aspects: economic growth and income inequality. There must be policy targets for effective redistribution of wealth in order to promote growth. This encourages the state to invest more in different sectors such as education, health, infrastructure, etc.. This allows subsequently to stimulate growth and then to slow down poverty. Economic research on the study of the relationship between income inequality and growth have always held an important place in research developing economy. However, they are contradictions in economic thinking. Some economists suggest that unequal distribution of income stimulates economic growth. While others say that income inequality decreases growth and contributes to increase poverty. In addition, Kuznets (1955), known by the famous *inverted-U*, connects the national per capita income and inequality. He says that the increase in productivity in the modern sector without redistribution in favor of the rural sector, led to a more unequal distribution of income. The Kuznets hypothesis postulates that an increase in inequality during the first period is followed by a decline since the late nineteenth or early twentieth century.

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The different channels of income inequality

We will empirically analyze the direct and indirect effects of income inequality on growth through five channels: human capital (Human), financial liberalization (Cp), political stability (Stab), corruption (Icp) and trade liberalization (Trade).

Analytical Framework

In a first step, we combine the technique developed by Papyrakis and Gerlagh (2006) and the methodology of Mo Pak Hung (2009). In fact, cross-sectional regression requires data averaged for a specified period. The study period is $t_0 = 1960$ and $t_T = 2011$. The growth rate of GDP per capita is $G^i = (1/T) \, Ln \, (Y_T^i / Y_0^i)$ which

depends on the initial income per capita «Y_0^i», income inequality" $gini^i$ "and the vector of explanatory variables representing the transmission channels" Z^i ". Then we will estimate the growth equation as follows:

$$G^i = \alpha_0 + \alpha_1 \, Ln \, (Y_0^i) + \alpha_2 \, gini^i + \alpha_3 \, Z^i + \varepsilon^i \qquad (a)$$

Which "i" is every year, "gini" reflects the impact of income inequality on growth and α_1 is intended to capture the effect of conditional convergence.

To determine the long-term effect of income inequality on the transmission variables, we use the technique developed by Papyrakis and Gerlagh (2006). To do this, we will first compare two different states (k and j). The basic assumptions made by the authors assume that:

H1: The two states of the initial vector "Z", the variable "gini" and the initial level of per capita income « $Ln \, (Y_0^i)$ » are identical.

H2: Permanent changes of characteristics related to the growth of the variable "gini" and the vector "Z" can assume that $gini^j \neq gini^k$ and $Z^j \neq Z^k$

H3: $\Delta Ln \, Y_0 = Ln \, (Y_0^j) - Ln \, (Y_0^k)$, $\Delta gini = gini^j - gini^k$ and $\Delta Z = Z^j - Z^k$

According to *Appendix 2*, a permanent difference of "gini" and "Z" shows the long-term effect on the income, that is to say:

$$E \, (\Delta Ln Y_\infty) = - (\alpha 2 / \alpha 1) \, \Delta gini - (\alpha 3 / \alpha 1) \, \Delta Z \qquad (b)$$

So, $\Delta Ln \, Y_\infty = Ln \, (Y_\infty^j) - Ln \, (Y_\infty^k)$ represent the long-term effect of the Logarithm of income .

The ratio $- (\alpha 2 / \alpha 1)$ captures the long-term (LT) effect of the income inequality indicator on growth. Similarly, the ratio $- (\alpha 3 / \alpha 1)$ detects the LT effect of variables of transmission channels on growth.

We can rewrite equation (b) introducing an exponential function to clear the long-run relative effect on income: $\Delta Y_\infty / Y_\infty = exp \, [- (\alpha 2 / \alpha 1) \, \Delta gini - (\alpha 3 / \alpha 1) \, \Delta Z] - 1 \qquad (c)$

For small values of $[(\alpha 2 / \alpha 1) \, \Delta gini]$ and of $[(\alpha 3 / \alpha 1) \, \Delta Z]$, we can conclude the following approximation: $\Delta Y_\infty / Y_\infty \approx [- (\alpha 2 / \alpha 1) \, \Delta gini - (\alpha 3 / \alpha 1) \, \Delta Z] - 1 \qquad (d)$

In our estimates, we will gradually add the determinants of growth that compose the vector Z^i to examine the impact of the Gini coefficient (α_2). The variables used are:

1- Dependant variable GR : growth rate of GDP per capita
2- Gini : Gini index
3- Y60 : initial GDP per capita
4- IY : the investment share of real GDP per capita
5- PopG : the growth rate of the population
6- Pright : index of political rights
7- Stab : measure of political instability
8- Human : the average years of schooling for the population over 15 years
9- Gov : the government as a % of GDP
10- IPC : Index of perception of corruption
11- Trade : Sum of exports and imports of goods and services as a % of GDP
12- CP : Private domestic credit as a % of GDP
13- Inf : Inflation relative to GDP

The sources of data are presented in *Appendix 1*.

Table 1: Growth regressions

	(1)	(2)	(3)	(4)	(5)	(6)
Constant	0,9261	-0,3920	0,9339	0,1429	0,0341	1,7462
	(0,83)	(-0,31)	(0,53)	(0,08)	(0,02)	(0,77)
Ly_{60}	-0,0181	-0,0523	-0,0855	-0,1148	-0,1138	-0,2281
	(-0,18)	(-0,43)	(-0,70)	(-0,96)	(-0,95)	(-1,92)
Gini	-0,0329	-0,0171	-0,0028	0,0007	0,0034	-0,0042
	(-1,51)	(0,73)	(-0,11)	(0,03)	(0,13)	(0,15)
Human		-0,1220	0,0483	-0,0508	-0,0739	-0,0871
		(1,36)	(0,41)	(-0,45)	(-0,66)	(-0,79)
PopG			-0,6004	-0,3523	-0,4434	-0,5465

			(-1,31)	(-0,72)	(-0,90)	(-1,10)
IPC				0,2631**	0,2227 *	-0,0706
				(2,02)	(1,67)	(-0,30)
IY					0,0216	0,0257
					(1,03)	(1,32)
CP					0,0196**	
					(1,97)	
Obs	78	66	66	65	64	64
R^2	0,036	0,054	0,116	0,165	0,215	0,275

Note : symbols ***, **, * represent significance levels of the coefficients to 1%, 5% and 10% respectively. Figures in brackets are standard deviations corrected for heteroscedasticity when the Breusch-Pagan test is significant.

	(7)	(8)	(9)	(10)	(11)
Constant	2,8585	3,0309	2,8616	5,6982**	5,9512**
	(1,25)	(1,19)	(1,90)	(2,25)	(2,33)
Ly_{60}	-0,2705**	-0,2732**	-0,2717**	0,3537 **	0,3660**
	(-2,11)	(-2,02)	(-2,00)	(-2,55)	(-2,57)
Gini	-0,0081	-0,0089	-0,0098	-0,0187	-0,0252
	(-0,31)	(-0,33)	(-0,36)	(-0,68)	(-0,60)
Human	-0,0766	-0,0787	-0,0934	-0,1062	-0,0996
	(-0,88)	(-0,89)	(-1,06)	(-1,24)	(-1,16)
PopG	0,3421	-0,3275	-0,3534	-0,2378	-0,2611
	(-0,83)	(-0,78)	(-0,85)	(-0,55)	(-0,59)
IPC	-0,0855	-0,1143	-0,0830	-0,2144	-0,2510
	(-0,35)	(-0,42)	(-0,28)	(-0,66)	(-0,75)
IY	0,0251	0,0249	0,0259	0,0252	0,0251
	(1,30)	(1,30)	(1,41)	(1,33)	(1,32)
CP	0,0215**	0,0217**	0,0200*	0,0207	0,0211
	(2,05)	(2,06)	(1,68)	(1,18)	(1,21)
Gov	-0,1077**	-0,1079**	-0,1119**	-0,1172 **	-0,1141**
	(-2,21)	(-2,20)	(-2,24)	(-2,38)	(-2,18)
Stab		0,0991	0,0126	-0,1915	-0,1340
		(0,28)	(0,03)	(-0,53)	(-0,34)
Trade			0,0042	0,0037	0,0030

		(0,87)		(0,73)	(0,55)
PRight				-0,3858**	-0,3905**
				(-2,09)	(-2,12)
Inf					-0,0012
					(-0,72)

Obs	64	64	64	61	61
R^2	0,348	0,349	0,355	0,401	0,405

symbols ***, **, * represent significance levels of the coefficients to 1%, 5% and 10% respectively. Figures in brackets are standard deviations corrected for heteroscedasticity when the Breusch-Pagan test is significant

Different tests :

Tests	(1)	(2)	(3)	(4)	(5)	(6)
Breusch-Pagan $\chi^2(1)$	9,70***	0,00	2,39	2,63	0,95	1,80
Ramsey (stat F)	0,71	4,63***	4,89***	6,86***	6,81***	4,08**

Tests	(7)	(8)	(9)	(10)	(11)
Breusch-Pagan $\chi^2(1)$	1,74	1,71	1,91	1,07	1,03
Ramsey (stat F)	4,18**	4,28**	4,05**	2,95	2,94

Interpretations :

- Autocorrelation (Ramsey test) :

In equations (1), (10) and (11), $F_{calculated} < F_{theorical}$, the probability of Fisher is more than 0.05. So, the tests are not significant and then we accept H_0. The assumption of no autocorrelation of errors is verified, the model is well specified. In contrast, in the equations (2) to (9) we see that the tests are significant at 1% and 5%. Hence, we must reject H_0 in favor of H_1 that implies the existence of autocorrelation.

- Heteroscedasticity (Breusch-Pagan test) :

With the exception of the first equation, the tests are not significant. This means that we accept the null hypothesis that assumes the presence of homoscedasticity. In Table (1) we estimated the growth equation (a) using the method of ordinary least squares. And in each regression, we introduced a transmission variable "Z". The coefficients in this table represent the coefficient α_2. In a first step, the dependent variable (the growth rate of real GDP per capita) depends only on the initial income per capita and the Gini coefficient, that is to say, we will study the overall effect of income inequality on growth. The results show that no variable is statistically significant. In contrast, we find that the Gini coefficient has negative effect on economic growth.

More specifically, an increase of one percentage point reduces the Gini coefficient growth of 0.0092% per year.

When the effect of income inequality on the growth continues, and according to equation (b) which reflects the ratio - $\binom{\alpha 2}{\alpha 1}$, this indicates that a 1% increase of income (ΔGini = 0.01) also raises the income level of long-term ($\Delta Y\infty / Y\infty = 0.01$) of 1%. The output of the first regression shows that an increase of 1% of income inequality led to a long-term effect of (-0.9261 / -0.0181)*0.01 = 0.51%.

Regarding the regressions (2) and (3), we introduced respectively the variables Human and PopG. We concluded that the initial income and the Gini coefficient remain negatives but not significant. In addition, when we added the variable Human, the Gini coefficient has increased. So, we can deduce that through the transmission channel "human capital" income inequality has an impact on economic growth. Indeed, the coefficients related to human capital often appear smalls and insignificant. This result is not surprising since there are many studies that have found a non-significant coefficient, and sometimes negative, concerning the impact of human capital on economic growth (Pritchett (1996), Benhabib and Spiegel (1994)). In addition, the results show that population growth has a negative and insignificant impact on growth. In this regard, some studies have shown that if the number of inhabitants is growing faster than production, the rate of population growth led to the impoverishment of countries mainly countries of the arrival of the South. In column (4), we see that the (Ipc) variable "index of perception of corruption", which is the channel of corruption, has a positive effect on growth. This effect remained positive and significant in regression (5) where we have added another determinant of growth; it is the share of investment in real GDP per capita (IY). The inclusion of the (Cp) variable "private domestic credit to GDP ratio" in regression (6) shows that financial liberalization has a positive and significant impact on growth. This result is confirmed by the empirical literature. In this case, initial income has a negative and significant effect on economic growth. This result also supports the hypothesis of conditional convergence of Mankiw, Romer and Weil (1992). These authors argue that developing countries tend to grow (and approach to the technological frontier) faster than developed countries. In regressions (7) and (8) we introduced respectively the following variables: Gov and Stab. The results are expected so that the coefficient associated with the variable Gov is negative and significant. In contrast, the variable Stab has a positive sign but it is not significant, which leads to the conclusion that political stability has a positive effect on economic growth. This is logical, because the political stability gives people the best conditions to produce more in order to promote the growth of their economy.

In addition, the coefficient associated with the variable (Trade) is positive but insignificant, it means that trade openness has a positive but insignificant impact on economic growth. The variable (Pright) represents the index Gastil of political rights. This is important insofar as it serves to control the effect of the level of development. According to our regression the coefficient of the variable (Pright) is negative and significant. In addition, the introduction of this variable affected the sign of the

coefficient associated with the variable Stab (it was negative). Finally, we include the variable (Inf), the estimates show that inflation has a negative and insignificant effect on growth. Indeed, the weakness of the Gini coefficient in the regression (11) can be explained by the introduction of new transmission variables in the previous regressions. The results of recent regressions show that conditional convergence is checked and that the Gini coefficient is weaker. This means that income inequality reduces the growth of real GDP per capita through the transmission variables. Therefore, the relationship between income inequality and growth can affect the political process and commercial economy. In conclusion, the results in Table (1) shows that the addition of variable transmission reduces the importance of the Gini index. In this case, we can say that income inequality is not harmful to economic growth, but they help to slow this growth primarily through the following mechanisms (education, corruption, trade liberalization, financial liberalization and political stability). That is to say that income inequality has not only a direct effect on economic growth, but it also has another effect on the determinants of growth. In fact, these transmission channels used to capture indirect effects since the estimation of Gini index shows that there is a negative impact of income inequality on growth. The regression results are not quite satisfactory, since some coefficients of the variables have unexpected signs. For this, we must correct the endogeneity bias of gini coefficient and test the robustness of the results by using the method of two stages least squares (2sls). To do this, we correct this endogeneity by approximating the variable (Gini) by the distance from the equator *(latitude)* and the indicator of political freedoms *(Ipf)*. According to econometric research of Atkinson ([2002], p10) and Clement and Meunié ([2008], p5), these instruments are correlated with the Gini coefficient and not correlated with real GDP per capita.

Table 2: Growth Regressions: 2SLS estimation

	(1)	(2)	(3)	(4)	(5)	(6)
Constant		3,0979	2,5350	1,3350	-1,5715	-1,0069	1,3375
		(1,68)*	(0,83)	(0,61)	(-0,55)	(-0,34)	(0,40)
Ly_{60}	0,0722	-0,0889	-0,0895	-0,0965	-0,1027	-0,2218*
	(-0,59)	(-0,63)	(-0,70)	(-0,79)	(-0,84)	(-1,73)
Gini	-0,0752	-0,0700	-0,0124	0,0396	0,0270	-0,0043
	(-2,47)**	(-1,35)	(-0,28)	(0,74)	(0,53)	(0,08)
Human		0,0645	0,0433	-0,0372	-0,0767	-0,0848
		(0,52)	(0,41)	(-0,34)	(-0,61)	(-0,77)
PopG			-0,5637	-0,4794	-0,5261	-0,5742

		(-1,31)	(-0,97)	(-1,07)	(-1,13)
IPC			0,2835**	0,2322 *	-0,0617
			(2,14)	(1,72)	(-0,25)
IY				0,0230	0,0261
				(1,07)	(1,32)
CP					0,0193*
					(1,91)

Obs	78	66	66	65	65	64
R^2	(.)	(.)	0,113	0,124	0,175	0,273

Note: The symbols ***, **, * represent significance levels of the coefficients at 1%, 5% and 10% respectively. Figures in brackets are standard deviations corrected for heteroscedasticity when the Pagan-Hall test is significant.

	(7)	(8)	(9)	(10)	(11)
Constant	2,7630	2,6557	2,8616*	5,1267	5,3855
	(0,79)	(0,79)	(1,90)	(1,52)	(1,61)
Ly_{60}	-0,2690*	-0,2671*	-0,2717**	-0,3435 **	-0,3568**
	(-1,90)	(-1,91)	(-2,00)	(-2,37)	(-2,43)
Gini	-0,0061	-0,0016	-0,0098	-0,0092	-0,0072
	(-0,13)	(-0,04)	(-0,36)	(-0,22)	(-0,17)
Human	-0,0761	-0,0766	-0,0934	-0,1024	-0,0949
	(-0,86)	(-0,85)	(-1,06)	(-1,15)	(-1,05)
PopG	-0,3486	-0,3532	-0,3534	-0,2727	-0,2998
	(-0,86)	(-0,87)	(-0,85)	(-0,65)	(-0,69)
IPC	-0,0834	-0,1028	-0,0830	-0,1925	-0,2322
	(-0,32)	(-0,35)	(-0,28)	(-0,55)	(-0,66)
IY	0,0252	0,0253	0,0259	0,0257	0,0256
	(1,31)	(1,31)	(1,41)	(1,34)	(1,33)
CP	0,0214**	0,0214**	0,0200*	0,0201	0,0205
	(1,96)	(1,96)	(1,68)	(1,11)	(1,15)
Gov	-0,1074**	-0,1068**	-0,1119**	-0,1153**	-0,1118**
	(-2,24)	(-2,24)	(-2,24)	(-2,40)	(-2,20)
Stab		0,0855	0,0126	-0,2056	-0,1425

	(0,24)	(0,03)	(-0,55)	(-0,36)	
Trade		0,0042	0,0036	0,0028	
		(0,87)	(0,72)	(0,52)	
PRight			-0,3738**	-0,3787**	
			(-2,14)	(-2,17)	
Inf				-0,0014	
				(-0,82)	

Obs	64	64	64	61	62
R^2	0,348	0,348	0,354	0,399	0,402

Note: The symbols ***, **, * represent significance levels of the coefficients at 1%, 5% and 10% respectively. Figures in brackets are standard deviations corrected for heteroscedasticity when the Pagan-Hall test is significant.

Different tests :

Tests	(1)	(2)	(3)	(4)	(5)	(6)
F stat	3,16**	3,24**	2,83	3,23**	2,89	3,64**
DWH ($\chi^2(1)$)	0,15	0,012	0,014	0,18	0,06	0,24
Pagan-Hall ($\chi^2(q)$)	2,40	4,83	3,78	2,86	3,33	3,91
Sargan ($\chi^2(1)$)	2,37	0,32	0,50	0,30	0,27	0,08

Tests	(7)	(8)	(9)	(10)	(11)
F stat	3,61**	3,19**	4,10**	3,30**	3,27**
DWH ($\chi^2(1)$)	0,45	0,37	0,31	0,05	0,06
Pagan-Hall ($\chi^2(q)$)	4,96	5,14	5,17	3,83	4,63
Sagan ($\chi^2(1)$)	0,26	0,32	0,29	0,01	0,001

Interpretations :

- Fisher statistic

Fisher test allows to know if a multiple regression model is globally significant or not. Except the equations (3) and (5), tests of other equations are significant. In addition, the values associated with the probability of Fisher are less than 0.05. So, we accept the alternative hypothesis H_1 whish confirms the global significance of the model.

- Durbin-Wu-Hausman

This test was conducted in two stages least squares regressions to ensure that the Gini coefficient is actually disencumber of the part of endogenous after the introduction of the instruments. According to the results, the DWH test is not significant, $F_{calculed} < F_{theorical}$ so we accept H_0 which means the absence of endogeneity of the Gini coefficient. So, in order to have consistent and unbiased estimators, we must use the method of 2sls. In another words, we must introduce valid instrumental variables.

- Pagan-Hall

This test is performed to check the constancy (homoscedasticity) of the residues in regressions with two stages least squares. According to the results, all chi-square statistics are not significant. Thus we accept the null hypothesis of homoskedasticity. So, to verify the validity of the instruments we should applied the Sargan statistics.

- Sargan

According to the results, all the coefficients are not significant. So, we accept H_0 which confirms the validity of the instruments.

▲ In table 2, the regression of equation (1) the Gini coefficient is negative and significant. The results are more robust than in Table 1. They confirmed the negative effect of income inequality on growth respecting the assumptions of the transmission channels. In the next section, we will test the empirical effects of income inequality on each determinant of growth (transmission channel).

The effect of income inequality on the transmission channels

To detect the importance of transmission mechanisms, we estimate the effect of income inequality on human capital, political stability, corruption, financial liberalization and trade liberalization. This step captures the indirect effect of income inequality on economic growth. First, we will estimate the dependence of the transmission variables on the measurement of income inequality (Gini):

$$Z^i = \beta_0 + \beta_1 \text{ gini}^i + \mu^i \tag{e}$$

With β_0 is the coefficient associated to the constant, β_1 is the coefficient associated to the variable « gini » and Z^i represents the vector associated to the different transmission channels. To test the robustness of our results, we use an alternative specification for the transmission channels. To do this we incorporate the variable "initial level of real GDP per capita" in equation (e).

The equation that describes the transmission variables becomes:

$$Z^i = \lambda_0 + \lambda_1 \text{ Ln}(Y_0^i) + \lambda_2 \text{ gini}^i + \sigma^i \tag{f}$$

Z^i represents the vector of transmission channels; λ_0, λ_1 and λ_2 are coefficients that reflect the influence of the constant, the effect of initial income per capita and that of income inequality on the transmission channel concerned. Since the Gini coefficient explains some of the variation in transmission variables. Then it will be possible to calculate the direct and indirect effect of income inequality on economic growth. Substituting equation (e) in equation (a), we obtain:

$$G^i = (\alpha_0 + \alpha_3 \beta_0) + \alpha_1 \text{ Ln}(Y_0^i) + (\alpha_2 + \alpha_3 \beta_1) \text{ gini}^i + \alpha_3 \mu^i + \varepsilon^i \tag{g}$$

Table 3 : Indirect Transmission Channels of Income Inequality

	Stab	Human	Trade	Cp	Ipc
Constant	0,0337	8,3849***	65,6605**	10,7854	5,0049**
	(-0,04)	(3,42)	(2,29)	(0,34)	(2,52)
Ly_{60}	0,1033	0,3207	2,1902	8,9209**	0,2890
	(1,34)	(1,18)	(0,63)	(2,42)	(1,45)
Gini	-0,0192*	-0,0746***	-0,1260	-0,7148*	-0,0686**
	(-1,79)	(-2,78)	(-0,32)	(-1,74)	(2,52)
Obs	78	66	78	77	77
R^2	0,075	0,121	0,008	0,150	0,153
Breusch-Pagan	0,02	0,81	5,94	2,15	4,57

*Estimated with OLS considering that Stab, Human, Trade, Cp and Ipc are respectively dependent variables. Note *, **, *** correspond to significance at the 10, 5 and 1%.*

The results of the different regressions show that there is a significant negative correlation between the Gini index, and political stability, human capital, financial liberalization and corruption. So, income inequality has a negative and significant effect on these transmission channels. In contrast, the relationship between the Gini index and trade openness is negative but not significant. This result may be due to the presence of the initial level of per capita income as an explanatory variable. For this reason, we estimate again equation (f) with elimination of the initial level of GDP per capita. The results are presented in Table (4).

Tableau 4: Gini index and transmission channels : Estimation with OLS

	Stab	Human	Trade	Cp	Ipc
Constant	0,7766**	11,8049***	85,9431***	95,0600***	6,8298***
	(-2,28)	(12,99)	(6,30)	(6,27)	(8,11)
Gini	-0,0184**	-0,1065***	-0,0089	-1,2035***	-0,0655***
	(-2,38)	(-4,99)	(-0,03)	(-3,58)	(3,52)
Obs	144	121	145	142	143
R^2	0,031	0,141	0,000	0,075	0,083
Breusch-Pagan	1,33	0,09	1,09	5,71	10,21***

Note that Stab, Human, Trade, Cp and Ipc are respectively dependent variables.
*, **, *** Correspond to the significance at 10, 5, and 1%.

After eliminating the initial level of real GDP per capita, we note that the results are almost the same interpretations as those in the previous table. So it is confirmed that the Gini coefficient has a negative and insignificant effect on trade liberalization. To test the robustness of our results, we will estimate equation (f) using the 2sls method.

Table 5: Gini index and transmission channels : Estimation with 2SLS

Stab	Human	Trade	Cp	Ipc	Constant
	13,789***	90,021**	101,503***	10,726***	2,929**
	(2,17)	(3,87)	(2,18)	(1,98)	(3,67)
Ly_{60}	0,033	0,231	-0,076	4,647	0,120
	(0,33)	(0,83)	(-0,02)	(1,24)	(0,55)
Gini	-0,079***	-0,191***	-0,456	-2,169**	-0177***
	(-3,43)	(-3,09)	(-0,65)	(-2,51)	(-3,55)
Obs	67	59	67	68	67
F	6,95***	28,60***	4,36**	5,30***	7,40***
DWH	14,67***	6,16 **	3,68	6,41**	10,02***
Pagan-Hall	2,69	3,42	3,45	5,96	3,05
Sargan	2,74	1,84	4,65**	2,28	3,17

Note that Stab, Human, Trade, Cp and Ipc are respectively dependent variables.
*, **, *** Correspond to the significance at 10, 5, and 1%.

R^2 is not on the table since the command Ivreg on stata removes R^2 in the regressions by two least-squares method when it is negative. In addition, the R^2 does not really statistical significance in the context of regression by 2sls, see (http://www.stata.com/support/faqs/stat/2sls.html)

Table 5 shows that income inequality has a negative and significant impact on the transmission channels except channel of trade openness. And that may be the cause of the existence of the variable "LY_{60}". For this reason, we will estimate again the regression regardless this variable to check the robustness of the results.

In fact, the Fisher statistics indicate that the models are statistically significant. In addition, exception of the equation of trade openness, the DWH test shows the endogeneity of Gini coefficient, so we had to settle for a regression with 2sls method. In addition, the Pagan-Hall test indicates that the residuals are homoskedastics, so we will apply the Sargan test. And this shows that the selection of instruments are valid for our regressions except for the variable "Trade" where the Gini coefficient is exogenous.

Table 6: Gini index and transmission channels: Estimation WITH 2sls

Stab	Human	Trade	Cp	Ipc	
Constant	2,856**	18,921***	90,021**	181,631***	12,169***
	(3,80)	(8,60)	(2,18)	(5,79)	(7,45)
Gini	-0,072***	-0,288***	-1,147**	-3,403***	-0,202***
	(-3,91)	(-5,35)	(-2,09)	(-4,42)	(-5,02)
Obs	116	102	116	114	117
F	15,32***	28,60***	4,36**	19,56***	25,22***
DWH	13,51***	23,93 ***	1,13	16,26**	21,70***
Pagan-Hall	3,42	5,97	2,97	3,15	2,75
Sargan	1,74	1,95	4,65**	2,28	0,17

Note that Stab, Human, Trade, Cp and Ipc are respectively dependent variables.

*, **, *** Correspond to the significance at 10, 5, and 1%.

R^2 *is not on the table since the command Ivreg on stata removes* R^2 *in the regressions by two least-squares method when it is negative. In addition, the* R^2 *does not really statistical significance in the context of regression by 2sls, see (http://www.stata.com/support/faqs/stat/2sls.html)*

We conclude that the indirect effects of income inequality on economic growth are confirmed. The Gini coefficient has a negative and significant effect on all variables. Thus, human capital, political stability, financial liberalization, trade openness and corruption are the transmission channels through which income inequality affects growth. In the next section, we will quantify the relative contribution of each transmission channel.

The total effect of income inequality
To distinguish between direct and indirect effects of income inequality on economic growth, we will use a simultaneous equations model, the proof can be found in *Appendix 3*. It should be noted that we use this model only to decompose direct and indirect effects and not to estimate these effects. In fact, to get the long-term effect of income inequality on the transmission channels, we rewrite the equation Z^i:

$Z^i = \beta_0 + \beta_1 \, Ln \, (Y_0^i) + \beta_2 \, gini + \varepsilon^i$

$E(\Delta Z^i) = \beta_0 + \beta_1 \, (\Delta Ln \, (Y_0^i)) + \beta_2 \, (\Delta gini) + \varepsilon^i$

Où $\Delta Ln \, Y_0 = Ln \, (Y_0^j) - Ln \, (Y_0^k)$, $\Delta gini = gini^j - gini^k$, $\Delta Z = Z^j - Z^k$

Then, we divide the last equation by $(\Delta gini)$ to release the long-term effect of income inequality on the transmission channels.

$E\Delta Z / gini = \beta_1 \, (\Delta \, Ln(Y_0) / gini) + \beta_2$

From this equation: $G^i = (\alpha_0 + \alpha_3 \beta_0) + (\alpha_1 + \alpha_3 \beta_1) \, Ln \, (Y_0^i) + (\alpha_2 + \alpha_3 \beta_2) \, gini + (\alpha_3 \mu^i + \varepsilon^i)$

We can conclude the value of (Δ Ln(Y_0)/ gini), and we obtain:

EΔ G^i/ gini = ($\alpha_1 + \alpha_3$ β_1) ΔLn (Y_0^i) / gini + ($\alpha_2 + \alpha_3$ β_2)

ΔLn (Y_0^i) / gini = - $\dfrac{(\alpha2\ +\ \alpha3\ \beta2)}{(\alpha1\ +\ \alpha3\ \beta1)}$

We replace this equation in   EΔZ / gini = β_1 (Δ Ln(Y_0)/ gini) + β_2 we obtain;

EΔZ / gini = β_1 [- $\dfrac{(\alpha2\ +\ \alpha3\ \beta2)}{(\alpha1\ +\ \alpha3\ \beta1)}$] + β_2

$\rightarrow$ *This expression represents the long-run effect of income inequality on the transmission channels.*

Table 7: Simultaneous equation model

	OLS	2SLS
Constant	6,0437*	6,0437*
	(1,66)	(1,66)
Ly_{60}	-0,1816	-0,1816
	(-0,90)	(-0,90)
μ_1 (Human)	-0,2459	-0,2159
	(-0,28)	(-0,25)
μ_2 (Cp)	-0,0588	-0,0622
	(-0,49)	(-0,52)
μ_3(Icp)	-2,2800	-2,2007
	(-1,48)	(-1,43)
μ_4(Trade)	0,0271	0,0261
	(0,58)	(0,56)
μ_5(Stab)	0,2477	0,1873
	(0,09)	(0,07)
Gini	-0,1252*	-0,1252*
	(-1,94)	(-1,94)
Obs	64	64
R^2	0,103	0,166

Simultaneous estimation with GDP per capita growth rate as dependent variable
*. **. *** correspond to 10. 5. and 1% of significance respectively

Returning to the analytical framework of Mo (2000-2009), the decomposition of the contribution of income inequality on economic growth through the channels of transmission are as follows: $\dfrac{dGR}{dGINI} = \dfrac{\partial GR}{\partial GINI} + \sum_{CT}(\dfrac{\partial GR}{\partial CT}\dfrac{\partial CT}{\partial GINI})$

Where $\dfrac{dGR}{dGINI}$ represents the total effect of income inequality on growth, $\dfrac{\partial GR}{\partial GINI}$ represents the direct effect of inequality on economic growth detected by the coefficient α_2 in the equation (a).

In addition, $\frac{\partial GR}{\partial CT}$ is the effect of transmission channels on growth captured by the coefficient α_3. Finally, $\frac{\partial CT}{\partial GINI}$ is the effect of income inequality transmission channels captured by the coefficient β_2. The total effect represented by this equation corresponds to the coefficient $(\alpha_{2+}\, \alpha_3\, \beta_2)$. We will estimate this coefficient in the following table. We have found that the coefficient is equal to 0,1914.

Table 8 : The importance of transmission channels

Variables	Direct Effect			Indirect Effect Contribution	Contribution Relative
	α_2	α_3	β_2	$\alpha_{2+}\,\alpha_3\,\beta_2$	
Gini		-0,0172		-0,0172	9%
Stab		0,2477	-0,0172	-0,0047	2,4%
Human		-0,2459	-0,0746	0,0183	9,5%
Trade		0,0271	-0,1260	-0,0034	1,7%
Cp		-0,0588	-0,7148	0,0420	22%
Icp		-2,2800	-0,0686	0,1564	81,7%
Total				0,1914	100%

This table presents the calculation of the relative contributions of income inequality and transmission channels on economic growth. The main result that emerges from these estimates is that income inequality affects growth primarily through corruption with a relative share of 81.7% of the total effect. Trade openness is the least important channel through which income inequality affects growth with a contribution of almost 1.7% of the total effect. This result confirms the insignificant effect of the Gini coefficient on the variable "Trade" in table (3) and (5).

Conclusion

The effects of income inequality occupy a major concern of economists. In fact, based on the work of Papyrakis and Gerlagh (2006) and the analytical framework developed by Mo Pak Hung (2000-2009), we analyzed the direct and indirect effects of income inequality on economic growth . Our study consist to examine the transmission channels through which inequality has an impact on growth.

To address the problem of endogéinisation of the Gini index, we adopted the regression with the method of two stages least squares. The results show that corruption is the most important channel, while trade liberalization is the lowest channel.

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Appendices
Appendix 1 : The data base sources

1- GR : World Bank and World development indiators 2011

2- Gini : World Bank, WDI, WIID World Income Inequality Database, LIS Luxembourg Income Study et Database de Deininger et Squire

3- Y_{60} : World Bank et World development indiators 2011

4- IY : Peen World Table 7

5- PopG : World Bank et World development indiators 2011

6- Pright: The Gastil index of political rights freedom house

7- Stab: WGI World Government Indicators

8- Human: Database de Barro et Lee 2010

9- Gov : Peen World Table 7

10- IPC : Web site of transparency international

11- Ouv: World Bank and World development indiators 2011

12- CP : World Bank and World development indiators 2011

13- Inf : World Bank and World development indiators 2011

Appendix 2 : The long term effect of income inequality on transmission channels and economic growth

To determine the long-term income effects of the transmission channels on economic growth, we re-write equation (a) as follows:

$(Ln\ (Y_T^i) - Ln\ (Y_0^i))/\ T = \alpha_0 + \alpha_1\ Ln\ (Y_0^i) + \alpha_2\ gini^{\ i} + \alpha_3\ Z^i + \varepsilon^i$

$Ln\ (Y_T^i) = \alpha_0\ T + (\alpha_1 T + 1)\ Ln\ (Y_0^i) + \alpha_2\ T\ gini^i + \alpha_3\ T\ Z^i + T\ \varepsilon^i$

In order to derive the expected difference in income followed by a change in Gini and the different transmission channels:

$E(\Delta Ln\ (Y_T)) = \alpha_2\ T\ \Delta gini + \alpha_3\ T\ \Delta Z$

Where $\Delta Ln\ Y_0 = Ln\ (Y_0^j) - Ln\ (Y_0^k)$, $\Delta gini = gini^{\ j} - gini^{\ k}$ et $\Delta Z = Z^{\ j} - Z^{\ k}$ **(H3)**

To assess the long-term effects of *Gini* and *Transmission Channels* on income, we assume that $\Delta Ginit$ and ΔZ constant over time, and we study the propagation of

income differences over time. After two periods of T years, income differences are equal to:

$E(\Delta Ln (Y_{2T})) = (\alpha_1 T + 2) (\alpha_2 T \Delta gini + \alpha_3 T \Delta Z)$

After three periods, we have:

$E(\Delta Ln (Y_{3T})) = [1 + (\alpha_1 T + 1) + (\alpha_1 T + 1)^2] (\alpha_2 T \Delta gini + \alpha_3 T \Delta Z)$

For $T \rightarrow \infty$, the first term at the right hand side vanishes and the other terms are reduced to:

$$[1 + (\alpha_1 T + 1) + (\alpha_1 T + 1)^2 + (\alpha_1 T + 1)^3 \ldots] = 1/ [1- (\alpha_1 T + 1)] = -1/ \alpha_1 T$$

So, we find the equation (b) : $E(\Delta LnY_\infty) = - (\alpha 2/\alpha 1) \Delta gini - (\alpha 3/\alpha 1) \Delta Z$

Appendix 3 : Simultaneous equation

The growth equation is :

$G = \alpha_0 + \alpha_1 Ln(Y_0) + \alpha_2 gini + \alpha_3 ouv + \alpha_4 cp + \alpha_5 human + \alpha_6 ipc + \alpha_7 stab + \varepsilon_1 (1)$

Transmission channels equations :

$Z^i = \beta_0 + \beta_1 Ln(Y_0) + \beta_2 gini + \varepsilon^i$

$ouv = \beta_0^1 + \beta_1^1 Ln(Y_0) + \beta_2^1 gini + \varepsilon_1^1$ (2.1)

$cp = \beta_0^2 + \beta_1^2 Ln(Y_0) + \beta_2^2 gini + \varepsilon_1^2$ (2.2)

$human = \beta_0^3 + \beta_1^3 Ln(Y_0) + \beta_2^3 gini + \varepsilon_1^3$ (2.3)

$ipc = \beta_0^4 + \beta_1^4 Ln(Y_0) + \beta_2^4 gini + \varepsilon_1^4$ (2.4)

$stab = \beta_0^5 + \beta_1^5 Ln(Y_0) + \beta_2^5 gini + \varepsilon_1^5$ (2.5)

The substitution of equations (2), (3), (4) and (5) into (1) gives :

$G = (\alpha_0 + \alpha_3 \beta_0^1 + \alpha_4 \beta_0^2 + \alpha_5 \beta_0^3 + \alpha_6 \beta_0^4 + \alpha_7 \beta_0^5) + (\alpha_1 + \alpha_3 \beta_1^1 + \alpha_4 \beta_1^2 + \alpha_5 \beta_1^3 + \alpha_6 \beta_1^4 + \alpha_7 \beta_1^5) Ln(Y_0) + (\alpha_0 + \alpha_3 \beta_2^1 + \alpha_4 \beta_2^2 + \alpha_5 \beta_2^3 + \alpha_6 \beta_2^4 + \alpha_7 \beta_2^5) gini + (\varepsilon_1^1 + \varepsilon_1^2 + \varepsilon_1^3 + \varepsilon_1^4 + \varepsilon_1^5)$ (3)

TOURISM AND TOURISM INFRASTRUCTURE FROM THE PERSPECTIVE OF TECHNOLOGICAL CHANGES

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Abstract

Tourism contribution, to both the Gross World Product formation and global employment level, transforms it into one of the global economy's most important and dynamic components. Over time, technological changes have strongly influenced the development of this sector, permanently revolutionizing the way touristic experience is perceived. Starting with the development of air transport and continuing with the way hotels and restaurants are built and with the innovative electronic devices used to streamline their economic activity and to improve their guests' experience, the evolution of technology has continuously offered new perspectives to tourism. Nowadays, the world's fastest growing industry is marked by a transition from the offline to the online environment, which makes it even more competitive and capable of offering outstanding and unique experiences to tourists.

Keywords: innovation in tourism, online tourism, Social Media, technological changes, tourism infrastructure

JEL Classification: L83, M31, O33

Tourism currently represents one of the fastest growing economic sectors worldwide. In 2012, its contribution to the Gross Domestic Product formation was of 9,3% (6.630,4 billion USD). Almost 8,7% of the world's employees (261,39 million jobs) come from tourism, meaning that one out of 11 jobs worldwide belongs to this sector. According to the World Travel & Tourism Council, in 2013, tourism's global contribution to the Gross Domestic Product formation will increase by nearly 3,2%, reaching 6.842,57 billion USD, while the sector's number of jobs will increase by 1,7% (265,83 million jobs worldwide). (WTTC Travel & Tourism Economic Impact 2013 – World, p. 1)

Although 2013 will continue to be influenced by the effects of the global economic crisis triggered in late 2008, according to forecasts, there will be a slight increase in the global economy and, therefore, in the tourism sector. Globally, the

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number of tourist arrivals will most probably increase by 3% to 4%. (UNWTO Tourism Barometer, 2013, p. 6) According to an European Travel Commission report, in 2013, the number of tourists worldwide will increase by approximately 2,3% for inbound tourism and by approximately 2,7% for outbound tourism. (European Tourism 2012 – Trends and Prospects, 2012, p. 25)

The number of worldwide tourists will be mainly influenced by the new emitters in the Asia-Pacific, Latin America and Eastern Europe; Thailand, the United Arab Emirates, South Korea, Chile, Nigeria and Singapore are some of the successful destinations. However, American tourists will pay particular attention to travelling to hard-to-reach countries until recently (for example, Libya, Cuba and Myanmar), following the easing of travel restrictions.

According to IPK International, a consulting company, the positive trend followed by the tourism industry nowadays is mainly due to the economic boom of the BRIC countries (Brazil, Russia, India and China). The World Tourism Organization (UNWTO) claims that this tendency is also supported by the developing countries in Asia and America; moreover, increases for Europe and North America will continue, albeit at a more moderate pace.

Over time, the continuous expansion of tourism has been due to many economic, social, political, cultural and technological changes. However, after the Second World War and once the air transport has started developing, easing worldwide movements, the technological evolution was the one to influence the tourism industry more and more; changes were not only felt in the tourism industry, but also in the adjacent sectors.

Transport, one of the key factors for tourism, benefited from important improvements thanks to technological changes, resulting in a sharp rise in global tourism. The development of air transport made possible travelling to different, previously hard-to-reach, parts of the world; such journeys would have required time and important financial resources, some of them only being possible by sea. The technological evolution caused permanent transformation of aircrafts, so that they can now carry more passengers, faster, with lower costs. Basically, benefiting from lower ticket prices, anyone could afford to travel anywhere in the world. Thus, technological changes have not only led to the emergence of a new means of transport, able to cover extremely long distances in a much shorter time and with lower costs, but also to its permanent evolution, by permanently reducing travel time and improving cost efficiency.

Hence, together with the development of air transport, tourism has taken on new dimensions; long and very long distance travels have been facilitated (journeys' internationalization and their costs reduction led to the development of mass tourism). However, facilitating the access to areas with low population or to isolated regions that were not normally easy to reach, except for those in the surrounding areas, has strongly influenced the indigenous people, both positively (tourism development led to economic growth in these regions and also to higher living standards) and negatively (pollution, cultural differences etc.)

Regarding the transport infrastructure, technology has played an important role in developing access routes. Thus, technological evolution has made possible the construction of once unthinkable road and rail access routes, offering new possibilities of travelling from one place to another. One example would be the Channel Tunnel, the undersea rail tunnel, built under the English Channel, which allows quick and easy access between Great Britain and France. Travelling between these two countries has been encouraged, resulting in an increase in tourism for both.

Technological changes have played a major role in the development of tourism-specific infrastructure. These have had a strong influence especially on accommodation and food units, starting with the construction phase (used building materials, construction technologies, design) and continuing with shaping services and experiences offered to tourists.

Developing increasingly novel constructions has become possible thanks to the technological evolution. Such an example would be the Willis Tower building, in Chicago. The skyscraper has become one of the city's main tourist attractions, due to the SkyDeck observation deck, opened to the public in 1974. It is located on the 103rd floor of the building and it consists of four covered balconies, entirely built of glass, which offer an unforgettable view over Chicago. SkyDeck attracts about 1,3 million visitors annually.[1]

With the passing of time and with technology development, constructions have become more and more innovative, a simple glass balcony being surpassed today by unusual construction materials and shapes of buildings (for example, ice hotels or underwater hotels) or by their positioning in places where, decades ago, that would have been unimaginable (for example, artificial islands built in the ocean, such as the one of the famous Burj Al Arab hotel).

Ecology is the trend that currently marks the tourism industry. Tourists' requirements are constantly evolving and the demand for tourism product and services that do not affect the environment is increasing. The emphasis is on social responsibility and on economic activity efficiency, the tourism investors' target being that of obtaining an optimal profitability, which not only means obtaining benefits, but also respecting the sustainability principles; so far, they wanted to obtain maximum profitability, sometimes at all costs, regardless of the negative effects that some forms of tourism have on the environment. Governments, investors and local communities are increasingly aware of the need to protect natural habitats and local specificity, but also of the fact that this cannot be possible unless sustainable development strategies are implemented. Frequently adopted measures refer to the reduction of greenhouse gas emissions, water and energy consumption, mainly by implementing sustainable policies at the level of accommodation units and also of regions, and by using the benefits of the technological evolution. From the tourism investors' perspective, the ecology trend actually represents a way of streamlining the

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[1] http://www.theskydeck.com/the-tower/facts-about-the-ledge

business and reducing costs without, however, affecting the quality and the variety of services offered to the clients. As a result, investors in the tourism sector are increasingly turning to this issue, whether it is about materials used for the construction of hotels or about the latest technology meant to reduce the accommodation units' operating costs and to offer, at the same time, quality services and unique experiences to the clients.

Nowadays, the trend in the hotel industry is to build green hotels and zero-carbon hotels, especially in Europe and Asia. Technological changes have enabled the use of new materials, these hotels being built mainly from recycled materials. Once the construction is completed, the focus is on reducing greenhouse gas emissions, water and electricity consumption. Any green hotel has to take into account any possibility of using alternative energy sources. The technological evolution has brought with it solar photovoltaic or passive water heating systems, waste to energy transformation systems, but also the possibility of using geothermal energy, wind energy or marine energy. The building's energy efficiency is also determined by the heating, ventilation and air conditioning system. For example, as technology advanced, heat pump systems or CHP (*Combined Heat and Power*) systems, which are more efficient than conventional boilers, have been developed. A hotel's lighting system is responsible for almost 20-25% of the building's energy consumption.[2] Therefore, the development of motion detectors and timers constituted another milestone in terms of hotels' energy efficiency. For an efficient use of water, an important role is played by wastewater recycling systems (particularly in regions where water is an expensive resource), rainwater collecting systems or sensors used to reduce water consumption.

In the current economic context, and focusing on the ecology trend, the tourism infrastructure is continuously marked by the use of the terms „reconversion" or „recycling" of buildings. Old buildings, with a different original destination, are converted into hotels. This is the case of historical or even industrial buildings that, once turned into hotels (usually boutique hotels), offer unique and unprecedented customer services. Building „recycling" not only allows reusing buildings that no longer fulfill their original functions and cannot be demolished (such as historical buildings), but also eliminates the negative environmental impact caused by a new construction (waste, greenhouse gas release, use of building materials which can be harmful for the environment etc.)

Technology represents an extremely important element for the existing facilities in hotels, both for clients, who are becoming more and more sensitive to the degree of technology of the tourism experience, and for the management, who, thanks to technology, streamlines the economic activity, reducing operational costs. On an increasingly competitive market, service diversification and technology innovation represent the key factors for revenue growth and customer loyalty. Some

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[2] http://www.fivestar-hospitality.ro/ro/articol-consultanta-24482

consequences of the latest technological advances in the hotel sector are the following:

• The replacement of hotel room keys with access systems based on magnetic cards allows synchronization with the lighting and heating/ventilation systems, which are turned off automatically when exiting the room. The technological evolution currently leads to the implementation of biometric access systems (fingerprint recognition or retina scan), which relieve the clients from taking care of their key or magnetic card.

• Classical closing/opening safe systems in hotel rooms can now be replaced with systems using the Bluetooth technology of mobile phones.

• Implementing infrared scanners in hotel rooms allows the detection of the tourists' presence in the room (using the human body heat), so that lighting and ventilation/heating systems are turned off in their absence.

• The use of microchips for room-service carts makes the Housekeeping Department's activity more efficient; once tourists have finished eating, all they have to do is take the cart out of the room and the microchip automatically alerts the Housekeeping employees.

• The replacement of conventional TV sets with Internet-connected LCDs becomes a real trend in the hotel industry, allowing the clients to access entertainment content online. Moreover, new trends regarding the design of bathrooms impose the use of „mirror TVs".

• Implementing computerized inventory systems, which use electronic sensors and radio-frequency identification technology, for mini-bars in hotel rooms makes it possible to avoid situations where certain products are missing from the mini-bar (these were not declared and paid on the departure of clients) or situations where products have exceeded shelf life. Once the products are removed from the mini-bar, the sensor is activated and they are automatically recorded into the system; this way, the system keeps track of consumed and remaining products, but also of their expiry date.

• More and more often, following the increasing number of electronic devices available in the hotel room and the fact that tourists are inseparable of their own laptops, tablets or mobile phones even when on vacation, the need for an employee specialized in technology rises. Thus, any urgent hardware or software issue can be solved by simply calling the „tech butler", with no need for the tourists to go to a specialized store in the area (most often, in some destinations, these do not even exist or their location is unknown to tourists).

In the near future, the technological evolution will continue to mark the hospitality industry through the use of Smart TVs, which are becoming more and more sophisticated. They integrate television with the technology of Internet and Social Media. The use of Smart TVs allows tourism companies to share videos and create their own Internet TV channels (which can, of course, be watched on Smart TVs). It is assumed that soon, simply watching a travel and tourism dedicated TV

channel could result into a real experience by being able to make a reservation directly through the Smart TVs (using Web links or dedicated applications). The focus will be on the emotional connection created by TV programmes; users will be able to make real-time reservations for the hotel or destination they have just viewed and appreciated.

Concerning the food units and the technology's impact on them, an important innovation in this regard was the implementation of Point of Sale (POS) systems. They are designed to automatize some of the employees' tasks, streamlining the units' activity. POS systems allow the electronic transmission of clients' orders to the kitchen and automatic issue of bills. Nowadays, thanks to technological progress, systems have evolved, being able to perform accounting functions, to display the cooking time for each type of dish (and, based on this and other statistics, to estimate the time required to free a table) or to follow the stages of the technological process at which various dishes are at different times. Current innovations in the field allow the use of a system similar to the POS systems for each table in a food unit, allowing the clients to take on some of the tasks traditionally performed by employees. Every client can make an order through the existing device on the table (the menu is integrated, so that the client is able to see not only the ingredients, the description and the price of each dish, but also the way it looks like), this being automatically forwarded to the kitchen; in the end, the client can issue the bill and also pay it via credit card. This way, the food unit's activity is more efficient, the waiting time of the clients being significantly reduced (the time required for one of the employees to bring the menu and to take the order, then the required time for bringing the bill).

Although the technological evolution has marked many changes over time in terms of means of transport, hotel construction or facilities in accommodation and food units, the greatest innovations in the tourism industry are due to the development of the information and communication technology (ICT). This is one of the key factors in the competitiveness of the tourism product and services market, but also in terms of strategic tourism management, reducing transactional and operational costs.

Since the emergence of the Internet, the evolution of the ICT has radically changed the perception of tourism services, contributing to increasing the quality of offered services. The use of the Internet has brought important benefits for tourism companies and continues to do so, especially considering the large amount of information that can be obtained regarding the requirements and consumption habits of the clients (the information automatically stored on web servers can be easily analysed, helping the tourism companies to offer products and services that correspond at an increasingly high rate to different categories of clients' requirements).

Travel agencies have benefited from technological progress with the advent of computer reservation systems (CRSs), which offer real-time access to airlines and hotel chains offers, easing the reservation process. Later on, CRSs have evolved,

turning into global distribution systems (GDSs) that link the travel agencies not only to airlines and hotel chains, but also, for example, to car rental companies.

The global spread of the Internet has led to the development of online tourism (referring to the entire process of searching for a holiday destination and of obtaining information, until booking the holiday). If, in the past, holidays could be booked only through travel agencies, the technological evolution has allowed online booking, in front of the personal computer. With the increasing degree of Internet penetration worldwide, the number of online information sources has increased, search engines and specialized sites facilitating the choices that tourists had to make when they wanted to plan a trip. At the same time, the number of online travel agencies (OTAs) has continuously increased and the advent of credit cards as a payment method determined the significant growth of the number of holidays booked online, drawing directions of a new trend in tourism.

Estimates currently show that over 50% of the leisure trips and over 40% of the business trips are booked online. (WTTC Travel & Tourism 2011, p. 22) Moreover, the evolution of online sales has started to become stronger than that of offline sales, one of the current trends being that of travel agencies operating fully online. For this reason, in the future, the technological progress can become a real problem for conventional travel agencies, whose activity will gradually cease to be profitable and will be forced to exit the market. The only option for them to survive is to reinvent their services and to offer consulting and custom-made services to their clients, according to their ever-changing requirements. In the near future, sales recorded by airlines will be the most successful in the online travel segment, travel agencies registering significant sales for hotel bookings.

Recently, the technological evolution has determined the advent of a new form of tourism. Virtual tourism is based on virtual reality and offers unforgettable experiences to the tourist; the so-called „cyber-tourist" is able to travel anywhere in the world, paradoxically, without leaving home. The technology of virtual reality systems continues to progress, so that the users' experience becomes more and more real. Virtual tourism removes any barriers, such as a too long distance to travel to a certain destination, high costs of travel or any existing hazards in a particular region (for example, wars or epidemics that may jeopardise tourists' health). Moreover, virtual tourism allows an efficient use of a tourist's most important resource: the spare time. Therefore, the vacation time can be strictly used for visiting the chosen destination(s), the time needed for transport from one place to another being eliminated.

The number of mobile phone owners with Internet access is constantly growing, so their access to the desired information regarding tourism companies becomes easier and quicker, whether it is about accessing offers or making a reservation or simply gathering information on a destination or a certain company throughout other tourists' feedback.

With the evolution of technology, the online promotion of the offers of tourism companies has become more and more important. Nowadays, online promotion

represents a key factor for the competitiveness of the companies and is an effective marketing tool that provides great benefits, like low advertising costs and the possibility to achieve customer segmentation and selection of target clients. Among the numerous tools used in online promotion it is worth to mention the Web sites, which become increasingly interactive (through virtual tours) and easy to use, the official promotion channels on YouTube (official videos of tourism companies, as well as videos posted by tourists, shaping a real image of the experience), the review sites (hotels' reputation depends more and more on tourists' reviews and specialized sites such as TripAdvisor or Yelp will be taken into consideration more often when it comes to the hotels' promotion policy) and, last but not least, the blogs. Blogs are becoming more and more widespread, be it blogs of tourism specialists (for example, travel consultants who promote various destinations or tourism services through their own blogs) or tourists' blogs (people who travel a lot and present their experiences). The upward trend followed by travel blogs is due to the fact that tourists prefer to find out, before actually purchasing services, information on the chosen destination or accommodation unit, either from tourism specialists or, more often, from people who have already experienced the product/service. This way, any inconveniences that tourists may encounter are almost entirely excluded; tourists consider that the information found on the official sites of accommodation units/destinations/travel agencies is not always true and fair, the presentation always being made in favour of the company.

Tourism companies currently largely adopt the tools of Social Media in order to demonstrate the quality of the products and services they offer. The recent expansion of Social Media fundamentally changes the way tourists seek for travel information, but also the way different destinations and accommodation units are presented. Moreover, this facilitates the interaction and even the collaboration between tourists and tourism products and services suppliers through social networks or blogs. Social networks (the best-known of these is currently Facebook) bring real-time access to information offered directly by tourism products and services suppliers, but also the possibility to interact with a large number of people who have already experienced that product or service. For tourism companies, social networks represent a means of networking with potential clients and, more important, a custom tool of quick and mass promotion of the offer. This way, companies also make a selection of clients – the use of social networks corresponds to a particular tourist profile (the educated, informed tourist, with a certain level of income).

A new concept aiming to become more and more popular in the tourism industry is that of „gamification" or the integration of game-specific dynamics into static environments in order to draw the attention on the brand and to gain the loyalty of clients. Such an example would be Cape Town, which already took the first steps in the „gamification" process for South Africa, by integrating an interactive game on its Facebook page; this intends to attract tourists and to present the

destination in a more dynamic way. It is estimated that more and more destinations and tourism companies will use interactive games in their Web pages, blogs or social networks.

The technological progress has also strongly influenced the tourism industry through the advent and development of mobile phones. The quick upward trend of mobile phones, both in terms of coverage and development of smartphones, together with changing living standards determine a constant growth in the number of worldwide smartphones; therefore, an important role is played by dedicated mobile applications. More and more applications are being developed, facilitating the direct booking process on mobile phones, whether it is a hotel reservation, flight booking (in this case, by switching to e-tickets, there have been developed special mobile applications that ease the check-in process by simply scanning the reservation code at the special devices in the airport), various shows or restaurant reservations or even booking of travel packages. The applications are being developed either as generic applications, which include products and services of several tourism companies, or official applications launched by travel agencies, hotels or airlines, strictly for products and services offered by each of them.

An innovation regarding mobile phones and the tourism industry is the use of QR codes (Quick Response Codes). These are, in fact, encodings of information that can be obtained by simply scanning the symbol through a mobile phone application and using the phone's camera. QR codes are used in hotels (tourists can find out more about the activities they can have in or near the hotel, but also information about the destination's main attractions), in restaurants' menus (this way, clients have access, for example, to videos showing how a certain dish is cooked or they can simply see how a dish looks like before ordering it) and in travel agencies, either in catalogues or on posters (QR codes offer further information regarding a certain offer, but also pictures and videos meant to encourage the purchase of a certain travel package). The development and use of such codes is intended to provide new experiences for tourists who own smartphones.

Conclusions

The tourism industry is the sector that is constantly developing and marking the fastest growth worldwide. Despite the current global economic crisis' effects, tourism is the only economic sector to have currently returned to the values recorded before its onset, evidence of the industry's high degree of adaptability to changes in the economic environment.

Over time, the tourism industry has been influenced by various economic, political, social or technological factors. However, the technological factor is the one that particularly contributed to the evolution of this sector, fundamentally changing the perception of tourism products and services.

The technological evolution has primarily facilitated the access to numerous tourist destinations, the key point being the use of aircrafts to transport passengers to previously hard-to-reach or even unreachable regions. Regarding tourism-specific

infrastructure and mostly the accommodation units' construction phase, technological changes have allowed the use of new construction materials (focus is currently on the use of recycled materials) and systems that help reducing water and electricity consumption, these being meant to streamline the activity and to follow the lines of a new trend, that of a sustainable development. Moreover, the constant development of technology has made possible the construction of accommodation units in previously hard to imagine places (for example, those on artificial islands built on sea or in the ocean) and, last but not least, original shapes of buildings.

With the development of the ICT and, therefore, the innovations in this regard, the tourist experience gained new dimensions and will move more and more from the offline to the online environment. The global spread of the Internet and the increasing degree of its use, the development of specific applications, the increasing popularity of online travel agencies and the emergence of virtual tourism are just some of the current trends that fit perfectly into the concept of „online tourism". Technological progress currently tends not only to facilitate and streamline tourism employees' activity and to increase the level of comfort felt by tourists during their holidays, but also to automatize an important part of the tourism industry. This seems to lead to robotics, the numerous technological devices that are constantly evolving already being able to replace a large number of employees, especially in the hotel sector.

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THE CHANGING LANDSCAPE OF INTERNATIONAL TRADE

Agnes Ghibuțiu[1]

Abstract

The paper addresses the structural changes shaping international trade. Drawing on insights from theoretical and empirical contributions and relying on available statistics, it explores some of the implications of this ongoing structural transformation. It identifies the dynamic expansion of TNCs' global production networks and the associated rapid integration of developing countries into the world economy as the common denominator of the forces underlying the steady pace of these changes. According to the findings of the paper, the increased vertical specialisation and integration, and the emergence of "global manufacturing" through TNCs' networks have triggered significant shifts in the patterns of international trade. These new dynamics have changed the scope and geographical spread of international trade, altering the sources of trade growth and the ranking of countries in global trade. These have also caused dramatic changes in the types and categories of traded goods and services, affecting not only the composition, but the very nature of global trade flows. The implications are manyfold and far-reaching, and raise major challenges in policy terms for all countries.

Key words: world economy, international trade, globalisation, structural shifts, developed countries, developing/emerging countries, TNCs, global production networks, trade in tasks

JEL Classification: F10, F14, F23

Introduction

Highly dynamic and large scale structural changes are currently reshaping the world economy and international trade. When compared with other similar experiences in economic history, remarkable is not only the fast pace of global transformations, but also their wide scope, affecting virtually the entire world.

The shift of economic power from the West to the East and from the North to the South, i.e. from industrialised economies towards the major emerging and developing economies, particularly China and India, lies undoubtedly at the heart of these transformations. The 20th century world dominated by the two pillars, the US, on the one hand, and the EU on the other hand, is increasingly giving way to the 21st century global scene – often epitomized as the *multipolar world* – in which the centres of growth are distributed across both developed and developing countries.

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Moreover, the weak and uneven recovery of the global economy and international trade following the deepest postwar recession has further accelerated the structural shifts under way in the world economy. Hence, discussion and analysis of these shifts has intensified over the past few years. The quite large number of prospective studies published in recent years on this topic do unanimously suggest that the structural transformations that were set in motion are unlikely to be reversed in the foreseeable future, being driven by a vast array of technological, economic, social, institutional and organisational factors.

Starting from this major shift in the balance of economic power in the world, the paper aims to identify the main structural changes shaping global trade and assess some of their implications, from both a quantitative and qualitative point of view. Relying on available statistics and drawing on insights from theoretical and empirical contributions, it takes a look at the major trends in global trade flows in terms of dynamics, geographical distribution and composition over the last two decades. In tackling the major forces driving the structural shifts in global trade, the paper brings to the forefront of discussion the prominent role of transnational corporations (TNCs), and particularly the close interaction between the dynamic spread of TNCs' global production networks and the increasing integration of developing and emerging economies into the world economy. It also explores, from multiple angles, the most striking implications of the changes afoot in the global trade landscape and highlights some of the major challenges arising in policy terms for all countries in the world. The paper concludes with a brief summary of the main findings.

1. Reshaping the global economy

The outstanding performance of emerging market economies – a group of middle-income countries that have become rapidly integrated into global markets since the mid-1980s – has been undoubtedly the success story of the past decade (Kose & Prasad, 2010). After being affected by different crises during the 1980s and 1990s – considered lost decades from a development perspective – their growth rates accelerated remarkably in the 2000s, and outpaced considerablyy the dynamics of advanced economies.

While advanced economies have suffered a sharp contraction during the 2008-09 crisis, developing economies have become the solitary engine of global GDP growth, and their direct contribution to global growth increased further in the post-crisis period. With an average growth rate of 4.7% per year between 2011 and 2025, these countries as a group will outpace by more than twofold the developed economies' 2.3% growth rate, according to World Bank (2011) projections. (The term "developing economies/countries" used hereafter covers both developing and emerging economies/countries, unless otherwise specified).

As a result, developing economies' share of world GDP has risen steadily, from less than one-third in 1990 to almost half in 2012 (Table 1). Conversely, advanced economies saw their *share in world GDP* diminishing continuously from 70% in 1990.

Moreover, OECD (2010a) predicts that developing economies will account for nearly 60% of world GDP by 2030.

Table 1: Share of selected countries in world GDP[1], 1990-2018
(Percentage)

Groups of countries/countries	1990	2000	2012[2]	2018[2]
Advanced economies	**69.3**	**62.8**	**50.1**	**44.9**
United States	24.7	23.5	18.9	17.7
EU	28.5	24.9	19.4	16.5
Japan	10.1	7.7	5.6	4.7
Emerging/developing economies	**30.7**	**37.2**	**49.9**	**55.1**
China	3.9	7.1	14.9	19.0
India	3.2	3.7	5.6	6.5

Notes: [1] GDP at PPP; [2] Projections.
Source: Data compiled by the author from IMF (2013) database.

Developing economies have also become the *main sources of global growth.* According to IMF (2011) estimates, these countries accounted for about half of global output and two-thirds of global growth (in PPP terms) in 2011, China and India being responsible for almost half of this contribution to global growth.

The shift in economic power towards the developing world has been accompanied by a similar shift in financial power. Owing to their remarkable export success and rising incomes, developing economies have managed to accumulate huge amounts of foreign exchange reserves, create sovereign wealth funds, raise capital on the international financial markets, attract a growing volume of FDI and invest also part of their financial assets abroad (Ahearn, 2011). For example, the cumulative share of developing and transition countries in global FDI inflows exceeded in 2011 50% for the second year in a row, compared to 20% in 2000, and their share in global FDI outflows grew from 11% to 27% in the same period. Hence, these countries saw their share in global inward and outward FDI stocks increasing from 24% in 2000 to 36% in 2011 and from 11% to 19%, respectively (UNCTAD, 2012). Moreover, their cumulative share in total global FDI inflows has further risen to 58% in 2012, as global FDI inflows declined by 18% to an estimated USD 1.3 trillion, a level close to the trough reached in 2009 (UNCTAD, 2013). While FDI inflows of developed countries fell sharply (32%), those of developing countries plummeted by only 3%. And, for the first time ever, FDI flows to the latter exceeded those to developed countries.

Not surprisingly, developing countries are now increasingly shaping the global macroeconomic situation and its outlook. These countries exert a major impact on competitiveness, global income, employment and commodity price developments, and are strengthening their position within international economic and financial

organisations. In short, they affect the development prospects in the rest of the world.

In addition to reversing the centres of economic growth and altering the distribution of global GDP across different groups of economies, the sweeping changes afoot in the global economy have dramatically affected the pattern of international trade.

2. The changing pattern of global trade

Over the last several decades, international trade has been a very dynamic component of economic activity worldwide and a driver of economic growth in numerous countries. The volume of world exports has grown at about twice the rate of world GDP on average, leading to an unprecedented increase of interdependence among economies. The ratio of trade (i.e. world exports of merchandise and services) to world GDP (in current dollar terms) has been increasing continuously, reaching in 2008 its peak value, with 33%. After dipping to 28% in 2009, this ratio returned close to its historical value, despite sharp slowdown in trade volume growth in 2011 and 2012 following the quick rebound in 2010 (WTO, 2013a).

Apart from dynamic growth, the patterns of international trade witnessed far-reaching changes, reflecting new production structures emerging under the impact of rapid advances in technology, falling transportation costs, shifts in the patterns of demand, changes in the regulatory environment, and last but not least steady expansion of global production networks operated by TNCs. All in all, these have altered not only the scope and geographical spread of international trade, by creating new sources of demand and supply and opening new markets, but have also given rise to new ways of trading internationally, affecting the structure and the very nature of global trade flows. Hence, what are the main trends shaping world trade?

A round-up of the major trends modelling world trade flows over the past two decades will help us to shed light on the ongoing structural changes and their underlying forces.

- ### *Developing countries: key drivers of global trade growth*

Over the last two decades, exports of developing economies have grown more dynamically than those of developed ones. The gap in terms of growth rates has deepened even further during the 2000s, when exports of developing countries increased on average two times faster than those of advanced economies (Figure 1). Between 2005 and 2012, for instance, the EU's merchandise exports and imports (in value terms) to/from the rest of the world grew at an average rate of 7%/7%, while the corresponding export/import growth was 17%/19% in India, 15%/16% in China, 11%/17% in Brazilia, and 12%/15% in Russia, in the same period (WTO, 2013a).

Figure 1: Growth in volume of merchandise exports in advanced and developing economies, 1990-2012 (Annual % change)
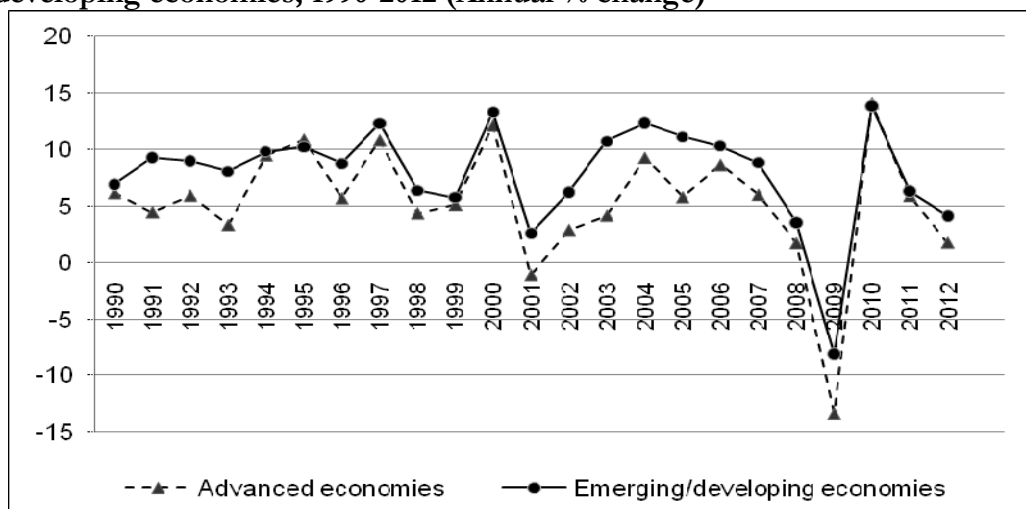
Source: Own calculations based on IMF (2013) database.

As a result, developing countries' share of international trade flows has risen to 45% in 2011 up from 25% in 1990. Reversely, advanced economies have seen their share in world trade dropping dramatically to 55% in 2011, down from 75% in 1990 (WTO, 2012a). More importantly, developing countries have emerged as the *main sources of global trade growth*, and this role became even more apparent after the historic trade collapse in 2009. These countries' import growth currently contributes to about half of world import demand growth, compared to 43% before the crisis (UN/DESA, 2013). By contrast, weak import demand in the developed world, particularly the EU, is mainly responsible for the sharp deceleration of global trade growth during the last two years (to 5.2% in 2011 and 2.0% in 2012), following the vigorous recovery in trade flows (13.9% in 2010) in the immediate aftermath of the Great Recession (WTO, 2013a).

Due to their high growth potential and increasing integration into TNCs' global production networks, trade in developing economies is expected to continue to grow faster than in developed economies. According to projections by Carnegie Endowment for International Peace, their share in global trade is likely to increase to 70% by 2050 (Dadush & Shaw, 2011). Subsequently, the traditional global players – the EU, US and Japan – are now confronted with a more and more visible redistribution of export market shares within the global economy in favour of developing economies (Figure 2).

- **Spectacular increase in South-South trade**

Much of the rise in developing countries' share of international trade flows has been due to the expansion of trade and investment ties among these countries, i.e.

South-South links, which promise to become one of the main engines of growth over the coming decade. Between 1990 and 2008, South-South trade multiplied more than 20 times, while world trade expanded only four-fold (OECD, 2010b). Accordingly, the share of South-South exports in world total went up to 23% în 2010 from just 13% in 2000. Wereas 60% of world trade was until recently made up by North-North relations, only a third is likely to be North-North in the future, a third North-South, and another third South-South (WTO, 2013b).

Figure 2: Evolution of relative merchandise export market shares of the EU[1], USA, Japan, China and India, 1990-2012 (Percentage of world total[1])
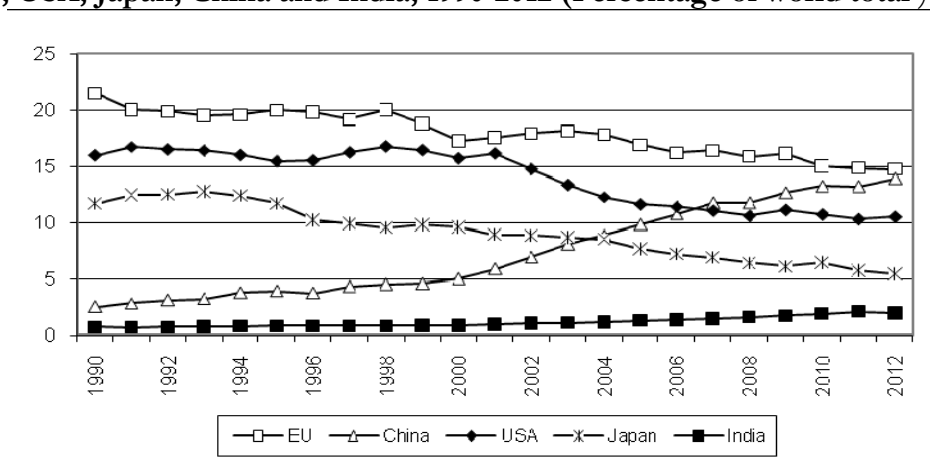
Note: [1] Excluding intra-EU trade.
Source: Own calculations based on WTO (2001, 2011-2013) database.

Not surprisingly, over the past two decades, developing countries have emerged as both important producers and export/import markets for other developing countries, with the share of South-South trade in their total trade exceeding the 50% mark already in 2006. Asian countries play a dominant role in South-South trade, accounting for more than 80% of this trade, the shares of Latin America and Africa being by far smaller, just 10% and 6%, respectively (WTO, 2013b). Actually, it is in this context that China managed to replace Germany in 2009 as the leading merchandise exporter in the world, and to overtake the US in 2010 as the world's largest producer of manufactured goods. However, other developing countries, like India, Brazilia, Indonesia and Mexico, are on the way to join the list of top exporters.

• *Growing attractiveness of developing countries as export and import markets for advanced countries*

The global network of imports and exports is no longer anchored in the North-South paradigm that defined the 20th century. Radical changes have also occurred in the patterns of trade between advanced countries and developing ones.

Due to the gradual *transfer of manufacturing capability* from advanced to developing countries and steady rise in the share of their exports accounted for by manufactured products, these countries have emerged as important producers and exporters of a wide array of more sophisticated and higher value added products. Accordingly, developing countries have become significant markets for advanced countries, with their share of advanced economies' exports rising from 23% in 1985 to 34% in 2009, according to the OECD (2010a).

On the other hand, we may see a *strategic reorientation of the major trading powers' trade flows* towards the more dynamic emerging markets and a visible decline of trade with their traditional partners, the industrialised economies. The ongoing repositioning of major economies in the world market place is particularly evident in the case of EU-China trade relations, the share of which increased dramatically in the last decade at the expense of advanced economies' market shares, especially the US, EU's main trading partner traditionally (Figure 3). These shifts also reveal that China's rise as a super-power in world exports is not independent of the relative decline of some traditional global players (Galar, 2012). Furthermore, the redistribution of world market shares on behalf of emerging economies, especially China, provides evidence on the performance of these economies in terms of competitiveness, owing largely to their intensive involvement in TNCs'networks and their specialisation in certain stages of production in both manufacturing and services.

Figure 3: Shares of major trading partners in total extra-EU[1] trade, 2000 and 2012 (Percentage)
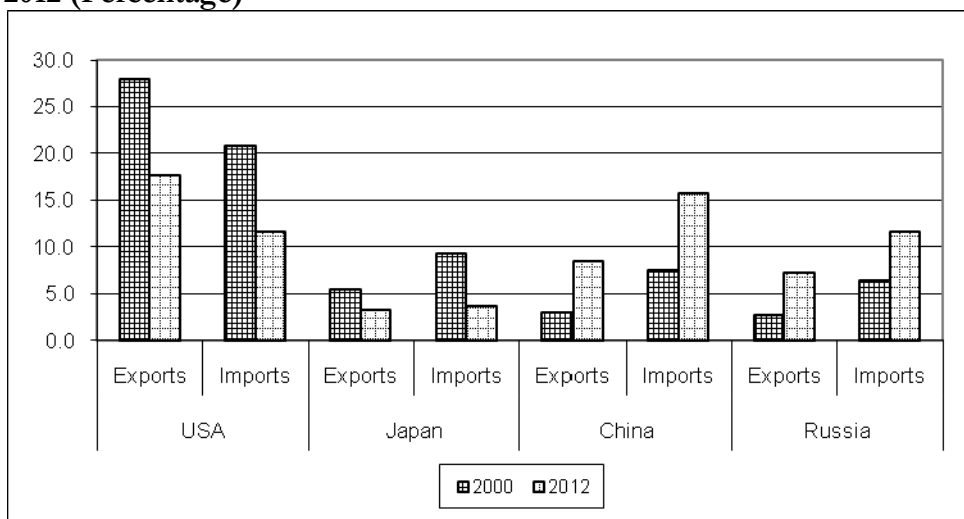
Source: Own calculations based on Eurostat (2013) database.

- ***Dramatic increase in trade in intermediate goods***

In addition to the reconfiguration of the actors in the international trading scene and the changing direction of trade, we are also witnessing new trends in the composition of trade and the way that goods and services are produced and traded. Probably the most striking change in the structure of trade flows over the past two decades is *the rising trade in intermediate inputs,* i.e. trade in parts, components and accessories, especially in the manufacturing sector, but also in services, which is now estimated to represent close to 60% of total international merchandise trade and 70% of services trade.

World exports of intermediate goods nearly doubled between 1995 and 2009 (to USD 5.4 trillion), exceeding in 2009 the cumulated amounts recorded for consumption and capital goods, and representing 51% of non-fuel merchandise exports (WTO/IDE-JETRO, 2011). Trade in intermediate goods constitutes more than half of the goods imported by OECD economies and over 60% of Asia's total imports, and close to three-fourths of the imports of large developing economies, such as China and Brazil. Asia's large and rising share of intermediates trade reflects its key role in the processing and assembling of manufactured goods within global production networks, but also in transforming imported intermediate goods into final goods for export.

Closely related to this structural shift is the *increase in the import content of exports*, from a world average of 20% twenty years ago to around 40% today, according to WTO (2012b) estimates. In other words, imported inputs account for a growing share of exports, blurring the line between exports and imports as well as between domestic products and imports (Draper & Dadush *et al.*, 2012).

These developments altogether are a reflection of the strong interconnection and interdependence among nations, and specifically the deep *industrial linkages* between contemporary economies. They also provide evidence on the increasingly intertwined trade and investment flows and the growing role of the latter in shaping global trade.

3. What are the forces behind the ongoing structural changes?

The above snapshot of the trends underlying the evolution of trade flows in the last two decades brings us to the assumption that TNCs and their global production networks constitute, without any doubt, the common denominator of the ongoing structural changes in world trade. What is more, there is a clear link between the dynamic expansion of global production networks and developing countries' outstanding economic and trade performance in recent decades. This link goes back to the mid-1980s as developing countries shifted from import substitution strategies to export-oriented development strategies. In fact, it is this close interaction between TNCs and developing countries that enabled the latter to increase their role in the global economy and, ultimately, to shift the balance of economic power in the world.

And while the steady spread of global production networks is not a new phenomenon *per se*, "global manufacturing" through these networks has acquired unprecedented dimensions in recent years as a result of accelerated relocation of economic activities. Accordingly, the intensity with which it shapes the current economic and commercial landscape has increased significantly.

While the rapid expansion of international trade over the past 20 years is often cited as evidence of economic globalisation, a large and growing percentage of trade flows is not arm's length in nature, but occurs within networks of firms pertaining to TNCs (through FDI) or associated with TNCs through contractual arrangements (i.e. non-equity relationships, such as contract manufacturing, services outsourcing etc.). Indeed, much of global trade takes place within various kinds of coordinated networks, which are economic structures that lie between the conceptual poles of markets and hierarchies (Cattaneo, Gereffi & Staritz, 2010).

The combination of rapid advances in ICT, falling transportation costs and liberalisation of trade and investment flows has enabled new ways of producing and trading goods and services, giving rise to what is known as the geographical fragmentation of production and its corollary, the relocation of economic activities. Through slicing up the production process of goods and services into stages and relocating certain stages ("tasks") outside their home country, in line with the comparative advantages of different locations, companies can reduce their costs and gain economies of scale by standardising their business on a global scale. The outcome is enhanced competitiveness. Actually, the integration of capital and advanced technologies from developed countries with cheap labour in developing countries is the essence of this efficient and profitable business strategy (Baldwin, 2011). This restructuring of production processes worldwide has led to a growing amount of *intrafirm trade*, which currently represents about one third of total world exports of goods and services (UNCTAD, 2012). But it has also triggered a rapid increase of *trade flows in intermediate goods*, i.e. trade in parts and components both in the manufacturing and services sector. Hence, rapid trade growth over the recent decades largely stems from the globalisation of consumption and, more importantly, of production under the impact of TNCs (WTO/IDE-JETRO, 2011).

4. The paradigm shift in international trade and its implications

Nowadays, production processes involve increasingly a sequentially and vertically integrated commercial chain that includes many countries, each country specialising in particular stages of the production process. Accordingly, specific industrial operations, from the conception to the assembly of final products, marketing and distribution, are no longer undertaken by a single company but increasingly outsourced within TNCs' networks.

This new trade reality emerging under the impact of TNCs is referred to in various ways in economic literature: *trade in tasks, vertical specialisation, global value chains, production sharing, fragmentation,* to cite just a few. However, each of these concepts

suggests that a significant proportion of trade today is made up of parts and components of goods (and services) that move from one economy to another before becoming part of a final traded product. Since the final product is the sum of the multitude of "tasks" dispersed worldwide and completed at specific stages of the production process, products are no longer made by a single country (i.e. "made in country X"), but rather "made in the world", i.e. in real "global factories", to cite the newly coined terms by the WTO for describing the new trade reality.

Owing to these new dynamics, the *nature of international trade* is changing in several important ways. These changes have led many eminent economists to consider that a *paradigm shift* is under way in international trade, that calls for a radical rethinking of trade theory, one that puts "tasks" rather than "goods" at the focal point (Grossman & Rossi-Hansberg, 2006, 2011; Baldwin, 2006, 2011). For example, Richard Baldwin, who is one of the world's leading trade theorists, suggests that at the core of the new trade paradigm defining the 21st century lies the "trade-investment-services" nexus, that reflects the intertwining of: (i) trade in parts and components, (ii) investments in production facilities, training, technology etc., and (iii) services to coordinate the dispersed production.

TNCs' global production networks are also altering the traditional organisation of international specialisation in trade, challenging the classic understanding of comparative advantages. As the performance of "tasks" within these networks is increasingly spread across the globe, and the value of many final goods contains an impressive share of outsourced production, international trade is less today a matter of countries' specialisation in particular industries and more about their specialisation in particular occupations and tasks (Grossman & Rossi-Hansberg, 2011). Accordingly, in the new situation, the trade pattern of a nation is inseparable from its position in the global production networks. Traditional trade in goods continues to be important in some goods and for some nations, but the most dynamic aspect of trade today is related to these networks and the associated "trade in tasks" (Baldwin, 2011).

This structural shift in the functioning of international trade has profound implications on several counts. Apart from redefining the very nature of trade relations among nations, reflecting a much closer inter-relationship and interdependence, these new trading interactions have deep implications for a wide array of policy questions, raising major challenges for all countries, whether developed or developing. The challenges in policy terms range from conceiving domestic strategies to increase competitiveness and promote education and training as well as R&D, to devising proper industrial and trade policies.

Multiple challenges are facing also the multilateral trading system and the WTO – the venue for international trade cooperation. The trade rule-book that is guiding currently trade relations as result of the Uruguay Round (1986-1994) no longer fits the new global trading scene, that entails both selling products to foreign markets and producing products through global production networks (Baldwin, 2012). Hence, the new trade rules are developed outside the WTO, particularly through

preferential trade agreements, the number of which is increasing exponentially. This threatens the very essence of multilateralism.

Finally, the new global trade landscape requires that the traditional statistical tool-kit used to measure trade be adapted in order to meet the new reality. In other words, the traditional measuring of trade – based on gross flows of products across national borders – conveys a distorted picture of world trade as it fails to account for the intermediate value-added in the final product. Recently, the WTO and the OECD launched a common project to develop new methodologies for measuring trade and new statistical data focused on "trade in value added" generated by each country, to evidence the national export content after deducting direct and indirect imports. The first results were made available to the public in January, 2013. Measuring trade in terms of value added will provide a complementary perspective on international trade flows, shedding new light upon the actual contribution of trade to national economies.

5. Concluding remarks

Sweeping changes are afoot in the global economic landscape. The shift of economic power from advanced economies towards the developing world lies at the core of these changes. Over the past decades, the world has witnessed the rise of developing economies to become a powerful force in international production, trade, and finance. The structural transformations that were set in motion will hardly be reversed in the foreseeable future as they are driven by technological, economic, social, institutional and organisational factors.

Developments in international trade are closely related to the ongoing structural shifts in the global economic landscape. In addition to steady growth, global trade relations have experienced far-reaching structural transformations under the impact of rapid advances in technology, falling transportation costs, changes in the regulatory environment, shifts in the patterns of demand, and dynamic expansion of global production networks operated by TNCs.

The dynamic expansion of TNCs' global production networks in association with the increasing integration of developing countries into the world economy are the major forces behind the steady pace of the ongoing structural changes in global trade. Deepening vertical specialisation and integration, and the emergence of "global manufacturing" through TNCs' networks have triggered significant shifts in the patterns of trade, changing the scope and geographical spread of trade, altering the sources of trade growth and the ranking of countries in global trade. These new dynamics have also caused dramatic changes in the types and categories of traded goods and services, affecting not only the composition, but the very nature of trade flows. Altogether, these transformations have given rise to a paradigm shift in international trade. At the heart of the new paradigm lies the deep intertwining of trade and investment, that is reflected in the steady rise of trade in intermediates, i.e. "trade in tasks".

The new trading interactions have deep implications for both traditional production processes and trade flows and social structures. They raise major challenges in policy terms for both individual countries and the international community, ranging from devising proper national development strategies and related economic and trade policies, to promoting international trade cooperation.

Evidently, the paper could only briefly touch upon the vast and complex issues involved in this topic. Accordingly, it should rather be considered as an attempt to give a broad overview of the ongoing structural transformations in the global trade landscape and the associated challenges. Hence, each of the issues tackled above calls for a more profound approach and a further deepening of research.

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TOURISTIC INVESTMENTS IN SARANDA REGION

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Abstract

Development of tourism, in general presuppose completing of significant capital investment by the state and the private sector. Many times, it happens that investments done by the state and private sector for the touristic development, of a country, or of a region are not enough for the development of tourism. In such a situation, it helps foreign investments, which help touristic sector completing the touristic offer. Touristic investments are the second essential element of general expenditure after the touristic consume. The purpose of this research study is to analyze the development of investments (public and private ones) in Saranda Region comparing them with general investments done in Albania and needs for investments in this sector. The given data belong to: Municipality of Saranda, INSTAT, Annual book of Statistics, Ministry of Tourism and Bank of Albania. Making a comparative analyze, we reached the conclusions that, to have the development of tourism, we required not only private investments, but even public investments and a strong collaboration between private and public sector.

Key words: touristic infrastructure and superstructure, public investments, private investments

JEL Classification: L83, H54, J61

Introduction

Economy of tourism in Albania after '90 has done a considerable effort for massive tourism in the whole country, applying projects to develop friendly spaces for the development of tourism, to prevent concentration of tourism in the same regions and the whole country. Ministry of Tourism has declared new objectives about Albanian tourism because tourism it may consist on sand, sea, and sun, but it should be concentrated in all 4 seasons and all regions of the country.

Central government, as well as local government, has undertaken a new high policy to expend the tourism sector seeing tourism as a way for development, transformation and empowering of economy. Economic role of tourism is complex because tourism is an amalgam of such industries as are, transport, housing, food, drinks, service, entertainment and travel agencies. Tourism it offers many possibilities for the sustainable economic development in the country. The increasing number of visitors and the profile of nowadays traveler are looking for change and enriching the touristic product offered to country and the development of respective infrastructure. In world literature is treated the close relationship that exists between tourism and tourist Investments, private and public, Triantafyllopoulos(2006); Gezici, F. et al., (2006); Stan, R.E. et al., (2009); Andergassen, R.&Candela, G.(2010); Kort.M.P. et al., (2002); Manente, M.& Zanette, M.(2010).

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Development of tourism in general presupposes the realization of significant capital Investments by the state and by the private sector.Public Investments are necessary for the execution of the objects of tourist infrastructure, while private initiative Investments are necessary for the execution of the objects of tourism superstructure. Therefore when it comes to tourism, it definitely means parallel invenstuese activity in tourism.Ηγουμενακης.N.,et al(1999)[2].

Investment in the tourism sector is a mixing of public and private resources that create difficulties for the assessment of economic effects and designation of a suitable strategy. Investment of infrastructure is of a great importance. Knowledge about their attributes is the essential contribution and a better programming of touristic development. Creation of a touristic infrastructure network distinguishes the tourism product, improve the touristic image of the country and promote the process of touristic development.Improvement of infrastructure qualities and services in the tourism sector, diversification of the offered touristic product are the basic instructions in Albania.Diversification of touristic product has the main purpose the extension of touristic period and can be included among the main objectives of touristic policies. As the result of infrastructure created, specialist classified the tourism forms as of the primary importance based on the resources we possess. In the first part, I do a theoretical description of touristic infrastructure as a component of touristic offer.In the second part, I introduce the importance of touristic investments for the development of tourism in Albania.The third and the fourth part is a case study of Saranda Region touristic investments divided into: private investments (foreign and domestic ones) and public investments into infrastructure of welcoming structures and completing structures compared with actual needs and touristic demand with needs and defined objectives in the long term strategic plan of country development.In the last section, I gave conclusions and recommendations how to do investments in the tourism field in, Saranda Region, in order to have a sustainable development of tourism and economy in this region.

The role of touristic infrastructure as a component of touristic component

Infrastructure is the third component of touristic offer, after the touristic resources and touristic accommodation where we base tourism policies. Touristic infrastructure not only enforce general existent infrastructure of the country, but also helps touristic development of different areas and helps in completing of touristic needs.Tourism is characterized by high costs of touristic infrastructure and superstructure.

Heytens J. (1974)[3] distinguish three main categories of touristic investments:
- Investments from which there are no touristic incomes, where we can mention infrastructure planning etc.

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[2] Ηγουμενακης.N.,Κραβαριτης.K,Λυτρας.Π, (1999) Εισαγωγη   στονΤουρισμοInterbooks, Αθήνα(1999), botimi i dyte('98, ' 99) pp240-244.

[3] Heytens J.-""Les effets du tourisme dans les pays en voie de developpement: implications economiques,financieres et sociales",C.E.T., Col. "Les Cahiers du Tourisme",C no 29.1974.pp7

⬥ Investments from which comes indirect touristic incomes, such are water supply, distribution of electricity power, vehicle roads, airports, touristic advertisements financed by hotel and flight companies etc.

⬥ Investments from which we get direct touristic incomes such are hotels, restaurants, pools, tennis fields, taxies entertainment centers etc.

These investments are financed by different investors who are collaborating to assess existent touristic resources. The two first categories belong to the state, despite the fact that, for the second category, there is collaboration between the state and private investors, meanwhile the third category it belongs exclusively to the private sector. The cost for any object of the infrastructure seems to be extremely high, and this fact create a total cost for the infrastructure objects that are impossible to be provided by national or regional economic budgets. The main problem of touristic infrastructure seems to be their seasonal escalation, combined with existent financial resources, in a way to affect as little as possible the public expenses.The infrastructures analyze through the goods production and consumption and final services prism and distinguish two essential types of touristic infrastructure: Entertainment infrastructure that it facilitates the touristic activity in the leisure time.Infrastructure of macroeconomic nature, or general infrastructure, which aims to satisfy as many as possible consumers categories such is the transport, distribution of electricity power, drainage channels etc.Financing of the first element belong both to private and public sector. The capital expenses of the first infrastructure category can be classified as positive ones for the level used by domestic population. In many developed countries, entertainment object seems to have the entire focus on international tourism. Financing of the infrastructure belongs to the second category since it is extremely difficult to distinguish the general infrastructure from the touristic infrastructure of a country, provided by public sector through public taxes and public borrowings. Except the infrastructure, touristic sector is the link with investments done by the companies which produce goods and services consumed directly by the tourists, or supply the intermediate consumption.

According to Fabre P.(1979)[4], the required investments for the touristic development of a country are of two categories:

- Investments done in businesses that sell goods and services consumed directly by the visitors
- Investments done in general infrastructure and public services.

The state contribution in touristic developments it distinguishes two main directions:

➢ Creation of a favoring investments atmosphere.
➢ The Favoring financing.

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[4] Fabre P. "Tourisme international et projets touristiques dans les pays en developpement",Paris 1979. Pp 65

About the first direction, there are several accepted factors which are able to fulfill the requirements of the first direction, and which can be as following:

- Perspective for a complete development.
- Public announcements of touristic developing programs.
- The role of government and administrative support.
- Creation of infrastructure.

Economic efficiency of touristic accommodation depends on a high level from the initial structure of invested capitals. The nature of investments in the tourism sector brings a series of features [5], listed as following:

- ✓ The incomes have a crucial role to the assessment of efficiency of touristic accommodation.
- ✓ Prices of offered services have a crucial role for the income. It requires of fix and variable operative costs, in order to have attractive prices and as a consequence to have sufficient incomes during the entire year.
- ✓ Occupation, duration of staying, periods of holidays, and tourist expenses are the key elements for the defining of investments efficiency.
- ✓ Quality of the service seems to be the most crucial factor for the tourist attraction.
- ✓ Constructions can represent damages in a short period, especially for the countries under development, a fact that increase the maintaining costs. Also, the effort to preserve certain parameters, creates extra problems
- ✓ Demand for long term capitals is often difficult as the result of lacking trusted methods, which are necessary to define out economic efficacy of investments in tourism field.
- ✓ Tourism shows the competition effects and its clients seem sensitive towards the market changes (fashion, quality, price, etc.)
- ✓ These features have to do mainly with the housing sector of tourism, but affect the investments done in infrastructure recreation etc. and investments done in other economic sectors which are part of touristic production.

Importance of tourism and touristic investments for Albania.

Erbes R.(1973)[6]stresses the fact, in connection with tourism "It is a heavy[7] industry", if we talk about investments because tourism does not represent real sector of the economy, but a set of activities subordinated by different sectors and branches (transport, construction, public objects etc). Development of tourism in general presupposes completing of crucial investments of capitals by the public and private sector.

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[5] Heytens J.-""Les effets du tourismedans les pays en voie de developpement: implications economiques,financieres et sociales",C.E.T., Col. "Les Cahiers du Tourisme", C no 29.1974. pp, 9-10

[6] Erbes R.-"Le tourisme international et l'' economie des pays en voie de developpement" Paris .1973. pp2

[7] Durand H ,Guirand P ,Spindler J .- "Economie et politique du tourisme" Paris.1994. pp116-119

Many times, it happens that the investments done by the public and private sector that have in consideration the touristic development of a country or, of a region are insufficient for the tourism development. In such a situation, the focus is on foreign investments in order to reach the goals. The role of tourism in Albania development is crucial.

Direct contribution of tourism in GDP during the year 2011 in Albania it was 81.4 billion ALL, or 6.2% of GDP. The total contribution of tourism in GDP during 2011 in Albania it was 287.9 billion ALL, or 21.8 % of GDP. Capital investments in the tourism sector, in Albania during 2011 have been 21.0 billion ALL. At Graph 1, I introduced contribution of trade sector, hotels and restaurants for the growing of GDP in Albania for the period 2001-2010.

Graph 1.The contribution of tourism in the real growth of GDP in Albania
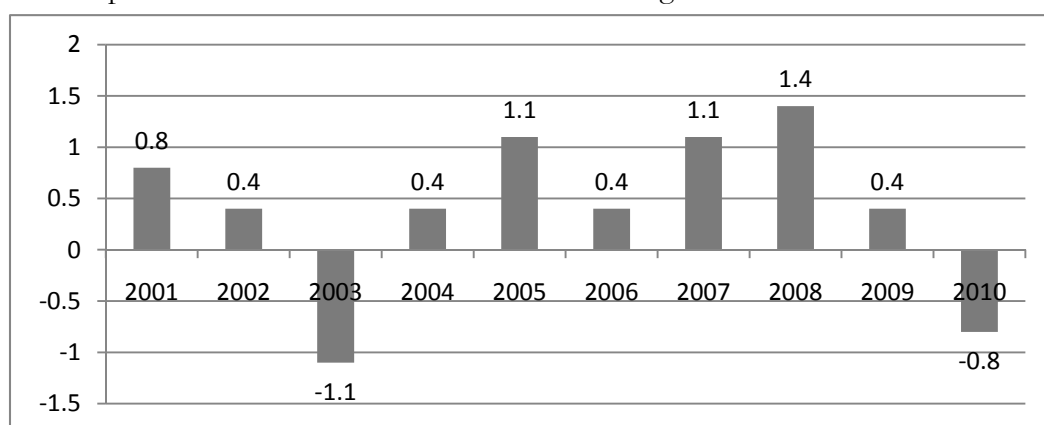
Source : INSTAT Albania

At graph 2, I introduced the capital investments done in the tourism field using the real prices of 2011 for the period 2006-2011 in billion ALL.

Graph 2. Capital investments in tourism in Albania
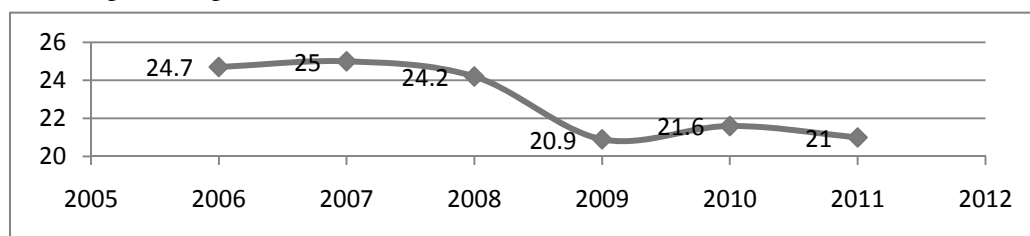
Source : Travel&Tourismm.Economic Impact 2012, Albania

Graph 3 introduces the foreign total investment and foreign investments in hotels and restaurants in Albania for the period 2007-2010 introduced in million euros.

Graph 3. Total foreign investments and foreign investments in hotels and restaurants.
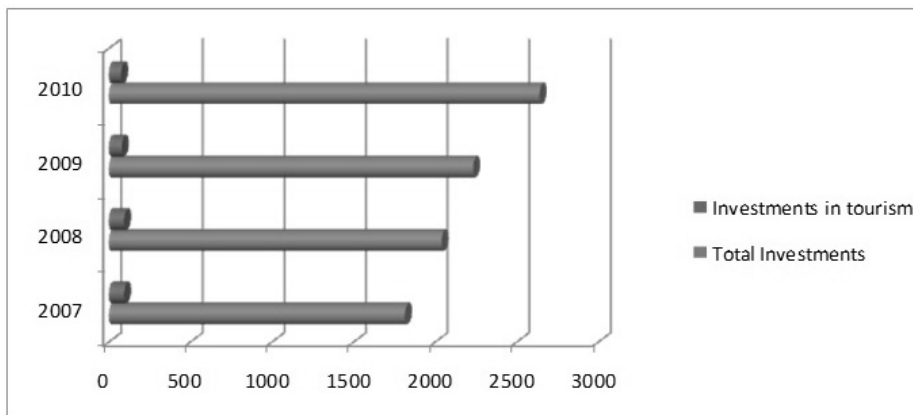

Source: Central Bank of Albania

In 2011, capital investments done in the tourism field, in Albania 0.2 billion US$, in Europe 187.3, billion US$, and in the whole world 743 billion US$ Contribution of capital investments in tourism filed in Albania during 2011 it was 4.8% (graph 5) meanwhile the world average for the same period it was 8.3% (graph 4) while the long term prediction for the year 2022 for the contribution of capital investments in the tourism field in Albania will be 4.6% and the world average it will be 5.3%.
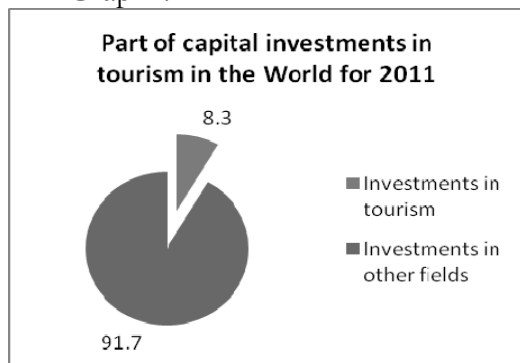
Graph 4.   Graph 5.
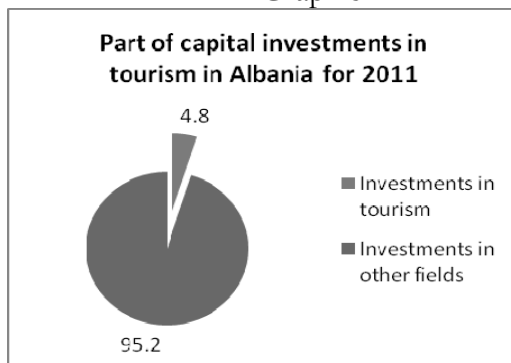
Source: Travel&Tourismm.Economic Impact 2012, Albania

The role of tourism, effect of public investments in tourism , development of private investments in tourism sector of Saranda region.

Saranda region is in the southern part of Albania. Saranda it has natural resources and is at the same time the meeting point of many cultures and many religions.It possesses a rich archeological and cultural heritage. Saranda is a region with cultural assets and values of antiquity monuments.This region has the greatest number of cultural monuments in Albania and the greatest potentials and resources

for the development of historical, natural and cultural tourism. Saranda Region possesses 116 natural assets and assets of cultural heritage.In Saranda region there is the ancient city of Butrint. Saranda is directly depended on tourism if we take in consideration the level of incomes gained from this sector. Tourists that visit Saranda are the main sources of incomes. Tourism industry is exclusively focusing on private sector. Number of tourists that have visited Albania during the period 2005-2011 consist in 20% of tourists who have visited. At Graph 6 is introducing the number of tourists who have visited Albania and number of tourists who have visited Saranda region for the period 2005-2011. At graph 7 is introducing the weight it has a number of tourists who visited Albania in the total number of visitors who visited Albania during the period 2005-2011.

Graph 6. Tourists who have visited the Saranda region and Albania.
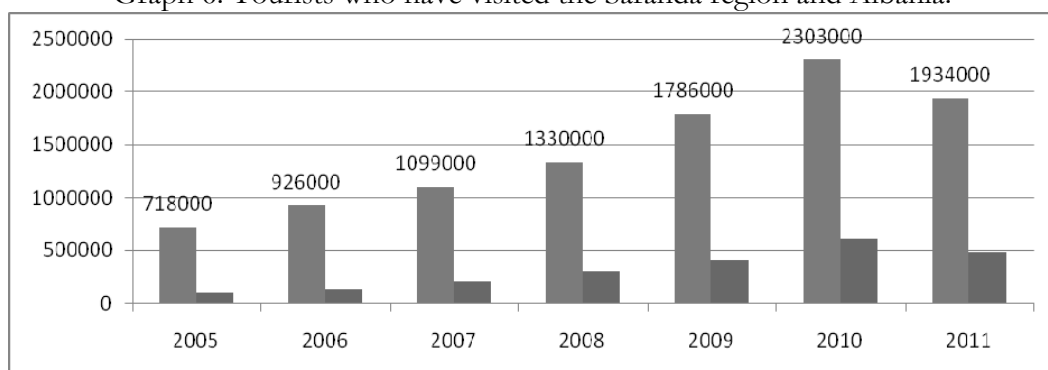
Source: Ministry of Tourism, Youth, Culture and Sports, Albania

Graph 7.Weight emphasis tourists visited Saranda to tourists visited Albania.
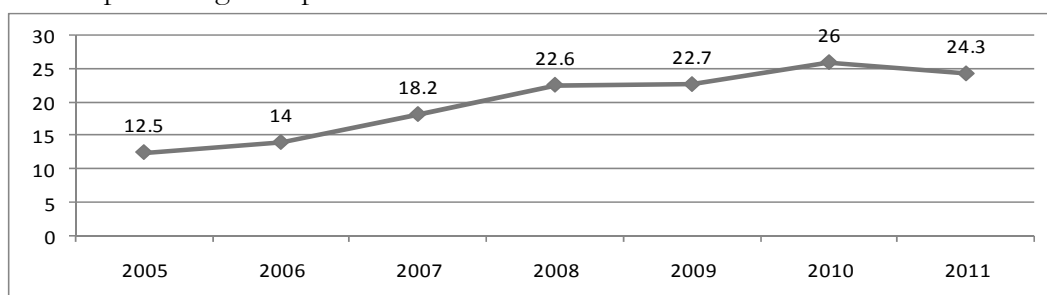
Source: Ministry of Tourism, Youth, Culture and Sports, Albania

Analyzing the private investments in tourism sectors in Saranda region, it is visible that Saranda region hold the third place behind the Tirana and Durres Regions if we compare the number of accommodation unit of all regions of Albania. Accommodation units, of Saranda region, consist in 10.3% of the whole accommodation units in Albania, number of rooms consist in 9.6% of the total number of the hotel rooms in Albania and 10.4% of the total hotel beds, in Albania.

Table 1 gives the weights that have hotels in Saranda region according to the number of rooms for 2011

Table 1. Hotels grouped according to rooms.

Number of hotel rooms	Percentage of the total number of hotels
Under 10 rooms	23.6%
11-20 rooms	51.1%
21-30 rooms	18.1%
31-40 rooms	1.8%
41-60 rooms	3.6%
Above 60 rooms	1.8%

Source: Ministry of Tourism, Youth, Culture and Sports, Albania

Based on the table's data, we notice that the average number of rooms for a certain hotel in Saranda is round 18 rooms.

Graph 8 introduces the number of touristic accommodation units, number of rooms and number of beds for touristic use in Albania during 2011.

Graph 8.
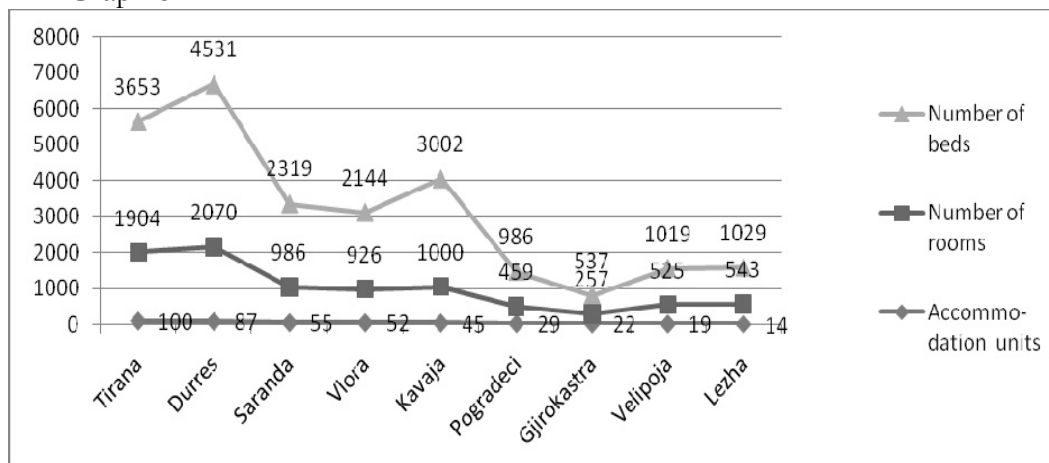
Source: Ministry of Tourism, Youth, Culture and Sports, Albania

In Saranda, the rapport of the number of inhabitants with the number of beds is 17.4 inhabitants per bed meanwhile the rapport of family number with the number of hotels is 220 families per hotel Tourism season in Saranda is characterizing by a short season that last up to 4-5 months When the touristic season is over all the hotels close their doors. Only 11.4% of the hotels continue to function all year long; meanwhile the rest close their activities and start to reactivate it at the beginning of the touristic season.

Saranda municipality has projected middle term and long term development of the region. Municipality of Saranda invests 40 % of it's budget for the development of the area and public investments. Graph 9 introduces the source of incomes for public investments in Saranda region for the period 2001-2010.
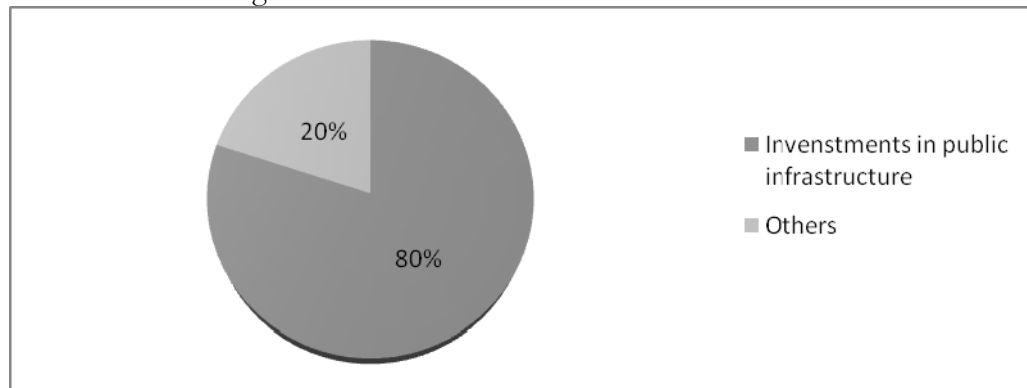
Graph 9. Source of income for Public Investments
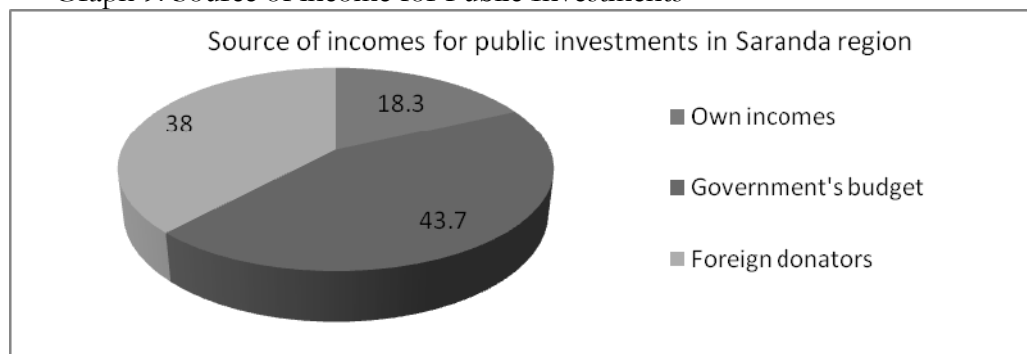
Source: Municipality of Saranda. Different indicators of local development for 2010

Most of the public investments belong to the budget of Albanian state.

Graph 10.Invenstments in public infrastructure occupy 80% of the total investments in the region of Saranda .

Source: Municipality of Saranda, 2010

The investments done by local government have helped the private sector of tourism with other policies. Hotels in Saranda region are paying 5 kind of taxes such are, tax of small business, tax of building, tax of boards, tax of sleeping, and tax of public. Local bodies have supported the hotel sector decreasing the building tax in 2005 with 30% of it's total value, have decreased with 20% the tax of sleeping in 2005 and 25% in 2011. In Saranda region number of hotels, restaurants and coffee bars is increasing every day, but their weight they have in general number of such businesses in the region is decreasing. The impact have the investments of urban

and public infrastructure for the rehabilitation of road infrastructure, establishing and asphalt of public places and dwelling places, planting of trees, water supplying, lighting drainage channels etc.

During the period, 2005-2010 a road of more than 35 km was opened, reconstructed and asphalted.

Some urban road of 132500 square m was asphalted.

There was improvement in the quality and space public lighting system. There are place 1070 new lights. In order to extend the green areas municipality planted 1700 decorative plants.

Development of tourism in Saranda region has given a prominent urge to the investments done for the construction of car roads in Saranda.The road of Coastline that connect Vlora with Saranda and passes through the coastline villagesThe road Sarande –Butrint passes through Ksamil, a touristic area frequented by many visitors.The road Sarande -Qafe bote, a road that connect Saranda with Greece.These three roads are investments done by Albanian government in collaboration with World Bank and other foreign donors.Other investments, of government and other donors in infrastructure have to develop tourism in Saranda area through the following investments;Cleaning, construction of sewage system, in a 12 km distance, far from the town of Saranda, it has a value of 5 million euro.It is an investment of World Bank and Albanian government.The port of goods was finished, an investment of Albanian government with a value of 3 million euro.Saranda is benefiting from the funds of World Bank from the program of Integrated Management and Cleaning of Coastline in a value of 20 million euro.Objective of this project is to help a sustainable development of the Albanian southern coastline improving the public environmental infrastructure and communal services improving architectural and cultural infrastructure.The project will support:

The construction of a damp site and a transferring station to improve the management of solid wastes at Saranda Municipality .Investments for the water supply of the Saranda town with a value of 2.5 million euro.Except the car road the tourist can reach Saranda even through the sea. Through the project of the World Bank with a value of 4.5 million Euros it will rehabilitate the road at the entrance of Saranda town, for the reconstruction of port objects in Saranda to make possible harboring of passenger cruise ships in the southern coastline. Saranda town is a frequented place by visitors who reach it's coastline by cruise ships, private yachts, and ferry boats of the line Sarande –Corfu. Every year the number of visitors is increasing with a quick pace bringing more incomes for the area. The project for the rehabilitation of port objects will increase the number of cruise ships that will visit the region. At graph 11,is introduced the number of cruise ships processed in Saranda harbor during the period 2005-2011, while at graph 12, is introducing the number of visitors that reached the Saranda coast through the cruise ships during the same period of time.

Graph 11.Number of cruise ship processed
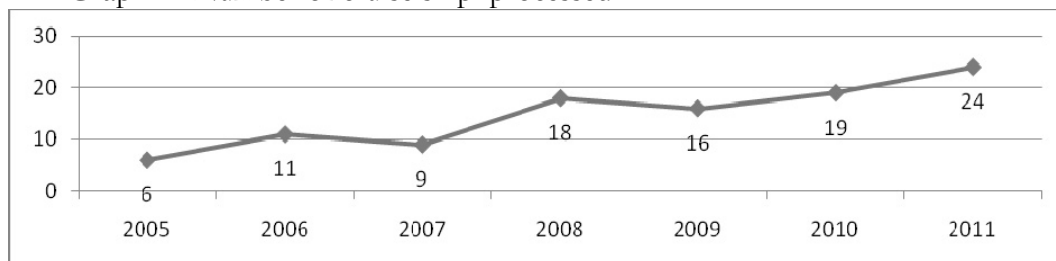
Source: Statistical Yearbook, Department of Statistics Saranda, 2011

Graph 12. The number of visitors coming with cruise ship
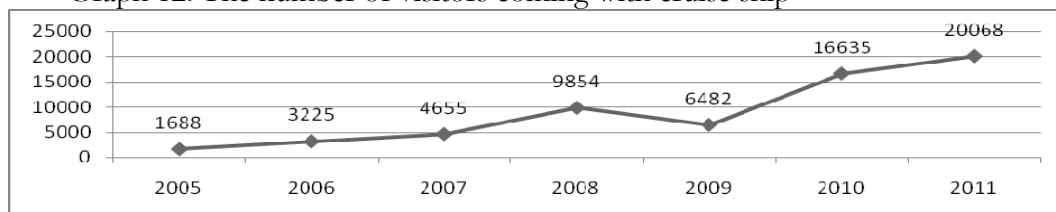
Source: Statistical Yearbook, Department of Statistics Saranda, 2011

In Saranda region the antient city of Butrint is situated, which is under the protection of UNESCO, and a place that attracts visitors from the whole world. In the project of World Bank, "Program for the integrated management and cleaning of coastline area" Butrint is including in the project for the management of self protected areas implemented on the pilot project for the sustainable management of National Park of Butrint This park affects the economy of the region for employment and income issues. The community of the region has benefited even from the reconstruction of the infrastructure. Graph13 introduces the number of visitors in this park during the period 2005-2010.

Graph 13.Number of visitors to Butrint National Park
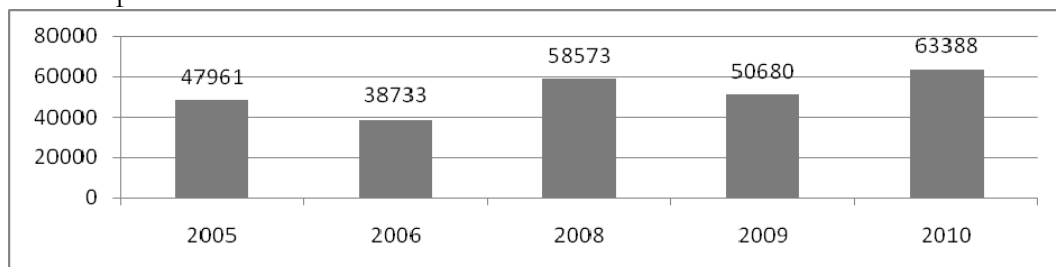
Source: Statistical Yearbook, Department of Statistics Saranda, 2011

Seasonal nature of touristic phenomena and the increase of the general consume of touristic services that are under the disposition during the period of visitors flux

affect the touristic investments that are complete within the country in collaboration with following factors:

- ✓ Geographical position of the region.

- ✓ Position of touristic places.

- ✓ The situation of existent infrastructure

Graph 14 it introduces the number of tourists according to the period 2009-2011 in the region of Saranda. Here is clearly evident the seasonal character of the tourists that reach the climax in August.

Graph 14.Numri of tourists by month..
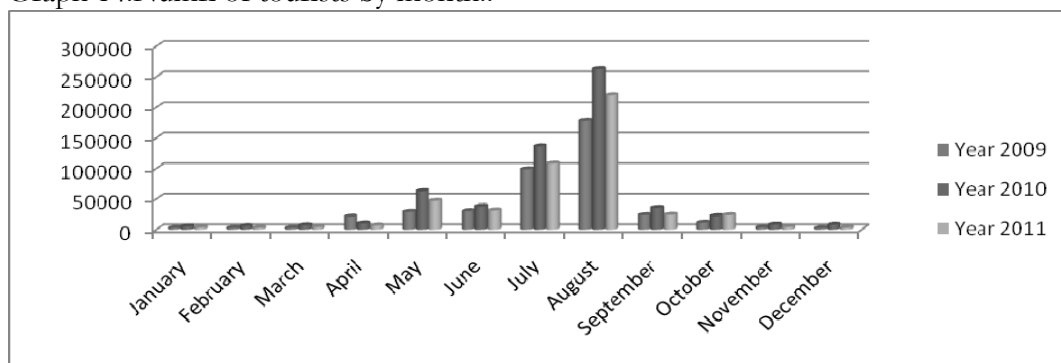
Source: Municipality of Saranda, 2011

Conclusions

During the last years, there is a progress in investments level done in Saranda region for the tourism sector, urged even from the strategy of tourism development that gave priority to investments of touristic areas. In the framework of this plan, Saranda region has absorbed a considerable part of investments done in the country. This level of investments is not sufficient to have a developed tourism and competitive in international level.

It should be done more investments by the public sector in such fields as:Investments in infrastructure, road network improvements, creation of airport, improvement of water supply system and investments in processing and recycling of urban wastes, investments that should be done by the public sector.

It should be paid a lot of importance and priority to investments in facilitating structures, which can make possible extension of touristic season, making more rentable the investments in this sector.

Rapport of foreign private investments with domestic investments is extremely low. The state, in collaboration with the private sector, should urge and create a favorable atmosphere, for the foreign investments, which have possibilities to do greater capital investments than those done by the domestic investors.

The increasing demand to visit Saranda should find a reaction by touristic offer in this sector, which can be able to complete these demands from the quantity point of view and the qualitative point of view.

The shortness of tourism period has an extra demand during the period July-August and under the use of existent infrastructure during the rest of the year. It is recommending the extension of touristic infrastructure and reducing of seasonality through the adding of alternative forms of tourism.

The touristic demand by the Albanian pupils and students in the period May-June is high, and this gives a better possibility to spread the demand all over the year.

Natural and cultural heritage is a competitive advantage for the Saranda region, so as a touristic destination, when are building up new touristic objects should be taken in consideration the followings:

a) To preserve balancing of dwelling place system and establishments of rural areas

b) Preservation of the natural environment and protection of the cultural heritage

Touristic objects build up in the region are new ones, and as the result, investments for the improving of existent objects are in low levels.

Policies of regional development in Albania have helped in considerable number touristic projects that have brought the changes of regional touristic infrastructure.

This is based on the fact that the amounts of the help, amount of general investments are at high levels and they affect the placement of the tourism industry model in Saranda region.

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NEED FOR A SYSTEMATIC PROCESS OF MARKETING PLANNING IN ROMANIAN SMALL AND MEDIUM ENTERPRISES

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Tudor Edu[*]

Abstract

The marketing activity of a successful enterprise represents a continuous effort to adapt itself to the dynamic factors of marketing environment, to re-evaluate and capitalise on the opportunities, based on a direct relation with its internal resources. One of major challenges of enterprises, irrespective of their object of activity or size, is the understanding of management methods for various marketing mix components in a consistent plan. This article is meant to analyse and support some grounds emphasising the importance of development and implementation of a support system for unitary evaluation and management of marketing components of an enterprise and its market trends, in view of identifying goals and strategies clearly oriented toward offering higher value to the targeted consumer while insuring competitiveness and economic efficiency. This goal, which consists of shaping a conscious activity direction through adaptation to the continuous market evolution, forces the contemporary enterprise to realise the importance of adopting marketing planning processes. The article approaches marketing planning in the context of particular needs and aspects of Romanian small and medium enterprises.

Keywords: strategic marketing planning, tactical marketing planning, small and medium enterprises, competitive advantage

JEL Classification: M31, L100, O29

1. Introduction

In a previous article[1] we tried to emphasise the strategic marketing tools that are recommendable for Romanian small and medium enterprises (SMEs). In general, the article proposed a consistent framework for the structure of the most important marketing operation tool – the marketing plan. In this article we intend to continue this approach and emphasise the importance of adopting systematic marketing

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[1] Edu Tudor, Negricea Costel and Dumitru Nicoleta-Rossela. 2011. *The Strategic Marketing Plan- an important tool for all small and medium enterprises (SME)*, Holistic Marketing Management, Vol.I, Issue 2, page 31-40.

planning within small and medium enterprises, taking into account the economic evolution in Romania.

From a marketer's perspective, the marketing activity of an enterprise represents a continuous effort to adapt itself to the numerous dynamic influence factors, to evaluate and capitalise on opportunities and resources. There are constraints that need to be taken into account by every enterprise, irrespective of size, due to the characteristics of the economic environment which has strived to find the balance between the internal forces, in the recent years, at macro- and micro-environment level. The process is on-going, and is felt by both the consumers and the enterprises.

The marketing planning responds to all these challenges faced by the entreprise in its internal and external environment, through the tool called – marketing plan; this tool helps the company to identify the main characteristics of the market and market trends, the characteristics of internal environment and targeted market, their specific needs, while creating conditions for added value in a framework of competitiveness and efficiency.

2. The role of marketing planning in the marketing activities of the enterprise

The enterprise management and strategy have become more and more focused on knowing, satisfying and retaining the consumer, in the context of social, economic and technological development, and the new intangible assets resulted from the evolution of society. This complex evolution process, encouraged by the new information and communication technologies, with impact on the entire social-economic life, has drawn attention on consumer's behaviour changes and the enterprise marketing frame. The number of competent and knowledgeable consumers has grown in many industries [Prandelli et.al., 2010], and so has the exigency toward the companies' offering. The new technologies allow a faster data collection, thus facilitating the segmentation of targeted market. The holistic marketing approach has become a necessity for successful companies; the enterprise's leadership has understood that satisfaction and retention of new consumer requires a higher organisational effort to integrate all organisational functions at a higher level.

Value delivered to consumer does not depend only on organisation and management of internal effort, the organisation needs to become more transparent, more communicative and responsible, it has to understand partnership; partnership management does not refer only to raw material suppliers or service providers, but to all enterprise's categories of stakeholders, the first place being given to the effective or potential consumer. The companies begin to understand that the consumer becomes a critical innovation partner in all organizational initiatives.

For Romanian small and medium enterprises, these evolutions bring bigger and bigger challenges, imposing the need to constantly use formal tools for evaluation and setting future directions. The challenge consists of making re-evaluation and dynamic, systematic adaptation efforts, in the context of limited resources.

Strategic planning is a simplified approach of the process by which strategies are produced [Grunig and Kuhn, 2008, page 8]. Ferrel and Hartline state that, by strategic planning, *a firm establishes an organizational mission and formulates goals, corporate strategy, marketing objectives, marketing strategy, and finally, a marketing plan* [Ferrel and Hartline, 2008, page10]. The marketing vision should always accompany and lead the organisational strategic planning in order to identify, for each level, the customer orientation and his current and future needs. This is possible by including, in the strategic planning, a set of marketing tools and processes - the marketing strategy and marketing plan.

Regardless the size of the enterprise, the enterprise's leadership may have marketing management difficulties. Any manager can realise that marketing management is not a very easy task; he will realise the need to find methods for systematic evaluation and identification of options in view of making a selection, under specific market conditions and implementation costs. This process is called marketing planning. *Marketing planning means co-ordination and focusing of the entire marketing efforts toward reaching the enterprise's goals.*

The marketing plan offers a conscious direction through logical steps that are easy to follow and implement. In case of non-profit enterprises, the marketing plan can ensure increased effectiveness of their efforts and fund-raising management. Although easy to understand, numerous enterprises of various sizes have found out that in fact the marketing plan is one of the most difficult marketing tasks, due to its complexity and need for correlation with other organisational functions.

In the existing organisations, the marketing function plays a central role in connecting the organisation to the market reality, providing future development directions and market vision, which is needed for the entire organisational process. The strategic planning of an organisation offers clear targets for the organisation as a whole. The second place in the ranking, below the organisational strategic plan, is held by the business plan. The strategic plan sets up projections for a five to ten year period, while the business plan details the strategic plan for two-three year span. The business plan includes specific plans for all the business functions - human resources, finance, the operations departments and marketing. The structure of a planning system varies depending on size and vision of the management team.

Therefore, the coverage of the marketing plan is smaller than that of a business plan, which can include a production plan, finance plan, human resources plan, etc.. At organisation level, the marketing plan identifies the methods for achievement of organisational strategic goals through marketing strategies and tactics, the focus being set on targeted market – consumer.

3. Understanding the difference between strategic marketing plan and tactical marketing plan

The relation between strategic marketing and organisational planning is the link between part and whole, having impact on all aspects influenced by the dynamic

adaptation to the target market and business environment evolution. The marketing strategy is focused on the positive differentiation from competitors, through higher value delivery to its customers.

Strategic de marketing consists of selection and satisfaction of a targeted market through value delivery under the market conditions. Thus, the strategic plan includes analysis of marketing opportunities, market targeting methods, value proposition, being mainly concerned with competitive advantage. Tactical marketing plan includes concrete elements based on which the strategic goals can be reached. The marketing tactics used within the tactical marketing plan refer to marketing mix elements such as: characteristics of product, included services, communication through price, sizing and motivation of distribution channels, promotion.

The difference between strategic marketing plan and tactical marketing plan is defined by the academic specialised literature. Within the small and medium organisations, this difference is rather influenced by the managers' vision. Taking into account the time frame and the characteristics of activities presented by Graeme Drummond, John Ensor and Ruth Ashford in their books, the difference between strategic marketing and tactical marketing is the following:

- *Strategic marketing* - takes a longer-term time frame and broadly defines the organisation's marketing activities. The process seeks to develop effective responses to a changing business environment by analysing markets, segmentation and evaluating competitors' offerings. Strategy focuses on defining market segments and positioning products in order to establish a competitive stance. Marketing strategy tends to embrace all of the mix, or significant components of the mix (e.g. distribution strategy, communications strategy, etc.).

- *Tactical marketing* - takes a shorter-term time frame and concerns day-to-day marketing activities. It translates strategy into specific actions and represents the on-going operational dimension of marketing strategy. Tactical marketing tends to deal with individual components of the marketing mix elements (e.g. sales promotion, advertising, etc.) [Drummond et. al., 2008, page 246].

As mentioned before, in practice it is difficult to separate the strategic marketing plan from the tactical marketing, as they make a whole. Planning needs to become a continuous process in order to easily respond to the fast changing market. The current market conditions have determined an increased realism through higher substantiation of the plan components and focus on consumer and competition.

Various specialists advise implementation of the marketing strategic planning in large organisation, due to complexity and high number of activities. In case of small and medium enterprises, marketing planning and its application are hampered by obstacles such as the low number of activities, financial constraints, lack of marketing experience and lack of staff mobilisation/ motivation to implement the plan [Huang and Brown, 1999, page 73–85]. However, in our vision, marketing planning is an activity that becomes a necessity for small and medium size companies, in the current social and economic context, considering the evolution of communications and information technologies. Certainly, there will be voices stating that it is a mistake to

include the small enterprises on this list. However, even in case of "one man show" or a small number of staff, strategic planning and particularly tactical planning represent a necessary effort, having in view that the implication of that person in various daily activities may determine him to deviate or lose direction.

4. Advantages of marketing planning in Romanian small and medium enterprises (SMEs)

A global view on the marketing planning will make us approach the process from two points of view: the marketing planning as a phase prior to the business start, and the continuation and adaptation of marketing planning after the effective start of marketing activity of the company. Planning of a new business should start with a strategic plan, determination and analysis of targeted markets, hence the need for a marketing vision.

Strategic marketing planning and marketing plan may be useful to small and medium companies due to the following reasons:
- Writing the business defining elements or the attempt to write them in brief is a step forward in understanding the existing situation and viability of strategies/ goals.
- This is a systematic and integrative process of assessing marketing opportunities and resources;
- Identification and concentration on the competitive advantages that the company can capitalise within the market, when faced with direct competitors;
- The possibility to draft marketing programmes and therefore follow up their implementation
- marketing plan helps to organise market activities, products/ services of organisation, and facilitate adaptation to the changing targeted market.
- marketing plan can be seen as a radiography of past activities, current situation and future aspirations; thus it can contribute to a better understanding of feasibility of goals.
- At any moment, a new employee or stakeholder will be able to understand the history, current situation and proposed strategies; thus, the marketing plan is more than a planning process, it becomes a communication and motivation tool.
- The discipline required by the elaboration of the plan may help achieve the goals by correlating the strategic options, the situation of business environment and organisation during the implementation process.

The elaboration of a marketing plan requires the enterprise's continuous effort to know the evolution of variable factors and systematic adjustment. Nevertheless, we consider that the benefits are higher than the efforts; changing the marketing planning into a systematic process is a first step toward rejection of drift in case of

any organisation. Marketing planning can emphasise elements that could be easily missed by a non-systematic activity; in addition, the organisation has the possibility to evaluate and correct potential factors of an undesirable evolution. The use of a specialised software may be an advantage toward building and systematically following the marketing plan.

Two types of strategic tools can be identified within the small and medium enterprises: the tools that are being implemented – realized strategy, and the tools that are planned for the next phase – intended strategy. There are companies that don't have any of the two categories. In their case, the activity is co-ordinated step by step through various separate decisions that are taken when needed.

The lack of strategic or tactical marketing planning within an organisation is a situation as dangerous as an existing planning that is not understood or trusted by the company management or staff. Even in case of large enterprises, sometimes the managers appreciate the existing marketing planning but only in theory, while in practice the marketing activities fail from various reasons. The most unsuccessful cases are related to human resources, implication and professional skills. It is possible to have correct marketing plans, while their implementation is lamentable. On the other hand, if the marketing plan comprises errors due to documentation, elaboration or sudden change of market conditions, any discrepancy can be adjusted through knowledge, implication and continuous reviewing.

For many Romanian SMEs, marketing may seem sometimes a rather general process related to many issues such as customer attraction, sales generation and profit. It is to emphasise that every marketing strategy is built on clear identification of the market, knowledge, offering, communication and value delivery to the target consumer. As the remarkable author Malcom McDonald asserts, the main confusions regarding the marketing are the following:

1. *Confusion with product management.* The belief that all a company has to do to succeed is to produce a good product also still abounds, and not Concorde, Sinclair's C5, the EMI Scanner, nor the many thousands of brilliant products that have seen their owners or inventors go bankrupt during the past thirty years will convince such people otherwise.

2. *Confusion with sales.* One managing director aggressively announced to everyone at the beginning of a seminar in Sydney, Australia: 'There's no time for marketing in my company until sales improve!' Confusion with sales is still one of the biggest barriers to be overcome.

3. *Confusion with advertising.* This is another popular misconception, and the annals of business are replete with examples – such as British Airways, which won awards for brilliant advertising campaigns, while failing to deliver what the advertising promised. Throwing advertising expenditure at the public is still a very popular way of tackling deep rooted marketing problems.

4. *Confusion with customer service.* The 'Have a nice day' syndrome is still having its heyday in many countries of the world, originally popularized, of course, by Peters and Waterman in *In Search of Excellence* (Warner Books, 1982). Many

organizations now know, of course, that training staff to be nice to customers does not help a lot if the basic offer is fundamentally wrong. [McDonald, 2007, page 11].

The lack of company's orientation, marketing vision and consistent framework for anticipation of its future activities is due not only to a lack of panning, but also to misunderstanding the role of marketing, as we showed above. We don't refer here to errors occurred following the application of marketing principles, but to lack of concern for understanding and adopting these principles. This can generate errors in conscious approach of the market, which may create two cases: misunderstanding the sale goals, cash flow decrease and low profits, or fluctuating sales, which may decrease gradually due to the lack of strategic vision. An effective marketing strategy and a real understanding of the marketplace are imperative for growing and developing a successful business.

In case of Romanian enterprises, the elaboration of a strategy or marketing plan is often a phase imposed by various organisation as a preliminary step for obtaining funds. Nevertheless, the existence of these tools does not determine changes of managerial behaviour, such as consulting, following, adapting these tool to market evolution and the new opportunities or needs of the company. Thus, the dynamic organisational tools lose their value in time, as they are not fructified.

The development and application of marketing plans and strategies within Romanian small and medium enterprises face implementation difficulties. Here are the most common difficulties met by the two authors while developing and following up the implementation of numerous marketing tools within Romanian enterprises:

- *Short term plans*, with no medium or long term guidelines.
- *Limited resources* (human, financial, informational) related to current activities, development, and implementation and updating of plans.
- *Lack of a defined structure* for business and budget
- *Entrepreneur's experience* in managing the specific marketing strategy tools and processes, from setting realistic targets to achievement and evaluation methods.
- There is *no organisational culture* orientated toward understanding and implementation of management and marketing tools.
- The *effort made for elaboration of marketing plan may be wasted* because of poor implementation and re-evaluation.

The lack of the marketing plan in an enterprise does not mean that there is no marketing in that organisation. As we said before, marketing does exist due to the entrepreneur's spirit oriented to capitalisation of specific market conditions and it is called entrepreneurial marketing. This kind of marketing is punctual, as the entrepreneur has the "secret" of marketing development and enterprise's marketing effort.

5. Conclusion

The marketing strategy and plan don't have to be obstacles for creative marketing initiatives. They are a framework that facilitates future evolution of the enterprise, the process being systematically supplied through adaptation to available resources and dynamic of the market. It is this innovative and creative nature of marketing activities that represents the secret success of any marketing plan or strategy, regardless the size of the enterprise.

In a strong competitive, highly complex environment, where thousands of internal and external factors interact, reducing or increasing the enterprise's marketing activity, and thus its income and profit, the marketing planning development and implementation should become a concern for numerous Romanian small and medium enterprises.

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