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The aim of the International Journal of Euro-Mediterranean Studies is to promote intercultural dialogue and exchanges between societies, develop human resources, and to assure greater mutual understanding in the Euro-Mediterranean region.

L'objectif de la Revue Internationale d'Etudes Euro-Méditerranéennes est de promouvoir le dialogue interculturel et les échanges entre les sociétés, développer les ressources humaines et assurer une compréhension mutuelle de qualité au sein de la région euro-méditerranéenne.

Namen Mednarodne revije za evro-mediteranske študije je spodbujanje medkulturnega dialoga in izmenjav, razvoj človeških virov in zagotavljanje boljšega medsebojnega razumevanja v evro-mediteranski regiji.

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GUEST EDITORS *Rune Ellemose Gulev and Francesc Prior Sanz*

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Seeking Business and Economic Stability within Euro-Mediterranean Countries

THE GLOBAL ECONOMIC CRISIS has left scars on most countries around the world – countries in Europe and the Mediterranean basin are no exception. Spain is experiencing record levels of unemployment, rising cost of basic foods such as rice, bread and cooking oils has worsened Egypt's food crisis for the poor and inflation runs ramped in several other North African and Southern European countries. Add to this, the bleak economic outlook for Greece with its insurmountable growing debt and its subsequent questionable continuance within the Eurozone and we have a much deflated depiction of the region's economic stamina.

Ironically, the countries that had the least to do with the onset of the crisis have felt its tyranny the most. Hence, as the wake of the crisis seems to be subsiding, it is time to critically evaluate how we can best proceed from here. How do we decrease the vulnerability of countries in the Euro-Mediterranean basin to such global economic shocks and, at the same time, set forth prosperous economic agendas that do not miss out on global opportunities?

Within this thought line, numerous proposed strategies exist that seek to achieve better global market positioning for the region. However, common for these and other promising proposals is that they are hugely underdeveloped, unstructured and uncritically assessed; the how and what of realistic business and economic opportunities and stability remains unresolved.

Within the current issue of IJEMS, I am proud to bring you six articles that address the topic of bringing sustainable business and economic stability to the region, in coherent, structured and intelligent ways. The concerns of the Euro-Mediterranean area are not easily solved but the points brought up by the authors published in this issue go a long way towards getting the region onto the right track and finding that all delicate balance between meeting the needs of the common woman/man without stifling the economic base of corporations that require financial manoeuvrability to be able to compete.

The issue begins with a portrayal of how Egypt has weathered the wrath of the financial crisis and critically assesses the options that are available for Egypt now. From this, Assem Reda Abu Hatab sets forth several well founded policy recommendations that are grounded both in realism and optimism.

The second article by Vito Pipitone emphasizes the role of technological progress in the economic growth of Mediterranean countries. By estimating results related to total factor productivity within 24 countries in the region, the author is able to propose a synthesis of factors, related to technological progress, that are key to affecting the economic growth and prosperity of those countries. Accordingly, being aware of and facilitating these is thus an important step towards achieving stability and growth.

The third article cuts to the core of the current theme. The authors, Francesc Prior and Javier Santomá, address the problem of lack of access to basic financial services for companies, a cardinal hindrance for economic growth, in the countries Algeria, Egypt, Morocco and Tunisia. They adopt a unique approach of utilizing micro-financing that meets the financial requirements of companies in the Maghreb but that also serves the interests of the lowest income segments. This leads to an elucidation of several best practices that can be implemented in order to extend access to basic financial services to a larger proportion of the population of these developing countries.

The fourth article by Jelena Vapa-Tankosić scrutinizes current trade policies undertaken by the European Union and how these effect the economic viability and strength of Serbia. Gauging from the current business economic circumstances within Serbia, the article concludes that fostering increased trade is important for Serbia's ability to weather the financial crises. The fifth article by Vesna Damnjanović, Milena Kravic and Tarek Abdul Razek similarly addresses the issue of policy assessment, this time with regards to the tourism industry in the Mediterranean region, specifically Italy, Serbia and Lebanon. The authors are able to identify current brand positions related to tourism aspects within the Mediterranean region and they propose future opportunities for developing branding communication strategies for better global market positioning.

The final article by Elisabetta Pavan takes a different and refreshing approach to the debate. The author tackles the issue of stimulating economic growth within the Mediterranean Region by addressing it through cultural variances and interpersonal communication between Italians and their Greek and Algerian counterparts. It is concluded that transcending these cultural barriers, of which there are several interesting examples given, would act as a vehicle for greater economic success. All articles included in the current issue of IJEMS are noteworthy and interesting to digest. I wish you happy readings and urge the discussion to continue on how we, within the Euro-Mediterranean countries, can and must grow in unison and with prosperity.

Rune Ellemose Gulev
Guest Editor

Egypt within the Framework of the Global Financial Crisis: Impact, Response and Way Forward

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IN THE SECOND HALF OF 2008, the world economy went through a serious financial upheaval that sparked off in the United States and spread to Europe and the rest of the world. The negative consequences of this financial crisis had bitten the Egyptian economy in many fields. Egypt's growth rate witnessed setbacks and may have posted its slowest annual growth in half a decade in 2008–2009 as the global crisis hit revenue from tourism, migrant labor remittances, the Suez Canal, export revenues, and investment. The severity of the crisis and its uncertainties demonstrated the need for urgent action to restore financial stability, lead the economic recovery and secure a sustainable future for the country. This paper therefore critically discusses the current global financial crisis and its impact on Egypt. It presents an overview of the Egyptian economy prior to the crisis, followed by an assessment of the depth and impact of the crisis on sectors of the Egyptian economy. Additionally, the paper highlights the actions taken by the Egyptian government to weather the effects of the crisis and concludes with some policy recommendations for the Egyptian economy to cope with this crisis.

INTRODUCTION & BACKGROUND TO THE SITUATION OF THE EGYPTIAN ECONOMY PRIOR TO THE GLOBAL FINANCIAL CRISIS

The intensification of the global financial crisis GFC, which sparked off in the United States and has spread to Europe and the rest of the world, including Egypt, has made the current economic and financial environment a very difficult one for the world economy and central banks. The fall out of the current GFC could be an epoch-changing one for the world economy and financial systems. It is, therefore, very important for Egypt to investigate the current crisis accurately and to identify its causes and impact on economy, so that we can then find, first, appropriate crisis resolution measures and mechanisms; second, understand its subsequences and impact and, finally, think of the longer term implications for the economy and for monetary policy and financial regulatory mechanisms. However, an attempt to examine the repercussions of GFC on the Egyptian economy should begin with a presentation of the economic situation of the country prior to the crisis in order to obtain a better understanding of that impact.

Egyptian economic performance since 2004 has, generally, been impressive, underpinned by a supportive external environment and the structural reform program that has included the liberalization of foreign trade, investment, the exchange market, the privatization of state entities, tax reform, management of public finance, monetary policy, and measures to strengthen bank balance sheets and banking supervision.

As a result of these reform programmes, annual GDP growth in the post-reform period was more than double the average of the previous decade, driven by large-scale foreign and domestic investment. During FY 2007/2008, the Egyptian economy achieved real growth of 7.2 percent, up from the 4.1 percent achieved just half a decade earlier in 2003/2004. Real GDP per capita income also increased by 5.2 percent in 2007/2008, compared to just 1.2 percent half a decade earlier. Signs of increased productivity in the Egyptian economy are also noted.

Unemployment continued declining to less than 8.4 percent in the last quarter of 2007/2008 from 8.9 percent in 2006/2007, and down from 11.1 percent in 2003/2004. The accumulation of a strong and advanced capital base, as reflected in the breakdown of FDI and structure of commodity imports and exports, reflected a major structural change in the drivers of economic growth in Egypt.

Results of fiscal balances for FY 2007/2008 reflected continued improvements in the main fiscal indicators. The overall deficit for 2007/2008 dropped further to 6.8 percent of GDP, down from 7.5 percent of GDP in 2006/2007, and compared to 6.9 percent as targeted in that year's original budget. The deficit was estimated at 1.0 percent of GDP, but down from 3.5 percent just three years earlier. This improvement occurred despite increased social-related outlays which took place in 2007/2008, and also in spite of larger exceptional revenues windfalls realized during 2006/2007 compared to 2007/2008.[1]

Meanwhile, debt indicators improved significantly. Total gross debt of the budget sector entities was reported at 82 percent of GDP as of end June 2008; some 38 percentage points below its ratio in 2004/2005. The net debt also declined by some 12 percent to 68 percent of GDP, and down from 92 percent of GDP in 2004/2005.

Building on such advancing economic performance, total revenues increased by more than 21 percent in 2007/2008 over the previous year's receipts to EGP 219 billion. Total tax revenues increased by one-fifth to EGP 137 billion (15.8 percent of GDP). Taxes on goods and services increased by 27 percent to some EGP 50 billion (5.7 percent of GDP), due to higher economic activity and recent reforms in the stamp duties area. Further, taxes on international trade increased by 35 percent to some LE 14 billion (1.6 percent of GDP).

With stable macroeconomic policies, a liberalized foreign exchange system, increasingly active and deepening inter-bank market, declining budget deficit, and advancing financial sector, monetary policy had gained greater flexibility. Credit growth to the private sector during the year ending June 2008 increased by 12.6 percent, up from 4.5 percent in June 2004. Meanwhile, net foreign assets of the banking sector increased by 39 percent for the twelve-month period ending June 2008 to USD 57 billion (35 percent of GDP), whereas dollarization in broad money continued declining to 20.8 percent in June 2008, down from 23 percent a year earlier and 28.4 percent in June 2004.

Average annual inflation for FY 2007/2008 recorded 11.7 percent, in comparison to 11 percent a year earlier. Actually, the inflationary episode was mostly imported and was of cost-push origins, where it is mostly reflected in domestic price increases of energy, basic food items, and primary goods.

Egypt's external position was rousted, as indicated by a healthy and strong growth of exports of goods and services as well as large foreign direct investments (FDI) inflows. The overall balance of payments maintained a surplus of some 3.4 percent of GDP during FY 2007/2008, with net FDI recording USD 13.2 billion, more than double its level in 2005/2006. The current account remained in a small surplus of 0.6 percent of GDP, despite the increasing of import volumes and fueled by higher international prices. Non-oil exports increased by 25 percent to slightly less than USD 15 billion, and remained the country's largest source of foreign exchange current flows, recording some 23 percent of total current account receipts.

Meanwhile, total external debt as percent of GDP continued declining to less than 22 percent of GDP in March 2008, whereas net international reserves increased by more than one-fifth to USD 34.6 billion in June 2008 (21 percent of GDP); covering 7.9 months of commodity imports. Last but not least, total external debt service stands at only slightly higher than 4 percent of the country's current accounts receipts in 2007/2008, down from some 10 percent of receipts half a decade earlier.

Unfortunately, GFC has occurred at a time when the Egyptian economy has been enjoying years of good growth. After the second half of 2008, the negative consequences of the financial crisis began to bite the Egyptian economy in many fields, particularly the revenue of tourism, exports, Suez Canal receipts and other contributing sectors to the country's GDP. The crisis was striking in its sheer magnitude, the speed of its contagion to the global financial sphere, as well as in its persistence. These factors made it one of the most impressive and unprecedented events in recent financial history. Therefore, what this paper attempts to do is to provide an interpretation of the impact of GFC on Egyptian economic sectors; to analyze Egypt's policy response to weathering the crisis; and, finally, identify the remaining challenges and provide some policy recommendations for the way forward.

It is worth noting that because of the common difficulty in data collection in Egypt, as in other developing countries, and also because the study was conducted just few months after the emergence of the GFC, which made it more difficult to find a trusted source of dependable data, the study could not apply a proper qualitative analysis to measure the impact of the crisis on sectors of the Egyptian economy. We employed the available data to depict how the GFC, in this early stage, had influenced the Egyptian economic sectors, so as to draw the attention of the policymakers and economists to the expected repercussions and in turn to take adequate actions to mitigate its negative impacts on the country's economy.

The paper includes four sections. In the next section, an analysis of the impact of GFC on the Egyptian economic sectors is provided. Section 3 addresses the actions taken by the Egyptian government to cope with the effects of the crisis. The fourth section summarizes the challenges and the way ahead and concludes with some policy implications for the Egyptian economy to cope with this crisis.

REPERCUSSIONS OF THE GLOBAL FINANCIAL CRISIS ON THE EGYPTIAN ECONOMY

Although the epicenter of the crisis was the US sub-prime mortgage market, the shockwaves of the crisis are still being felt in all over the world. The shock has been felt in Egypt's economy as well, since we are far more exposed to international markets after our macro-economic reforms of 1991. As the financial sector is fully integrated with the real economy, the burgeoning crisis in the financial sector poses a threat to the real economy. Macro-economic fundamentals like growth, investment, exports, tourism, employment and other segments are bound to be affected. The present section focuses on the impact and analysis of GFC on Egypt's economic sectors, including the macro-economy's indicators, real economy, capital market and some major social impacts.

Macroeconomic Impact

The impact of the crisis has been mainly reflected in the decline in almost all the macroeconomic indicators, representing almost a reversal of the impressive performance of the previous four years. In the following, a portrait of this impact will be outlined.

Setback in Real GDP *Growth Rates.* During the 4 years prior to the crisis, the Egyptian economy maintained its robust real GDP growth, at around 7 percent. In the second half of last year, Egypt's economy growth rate witnessed setbacks due to negative impacts of the prolonged GFC on the economy. The Egyptian economy may post its slowest annual growth in half a decade during this fiscal year, as GFC hits revenue from tourism, export, remittances from expatriate workers, the Suez Canal and investment.

Therefore, it is expected that real GDP growth would likely fall to about 5–5.5 percent in 2008/2009 and further to about 4.5–5 percent

in 2009/2010. This decline will pose challenges for the government, mainly concerning providing jobs to fresh graduates, offering services or increasing the living standards of average citizens. The repacking up of the growth rate will be to some extent dependent on the recovery of the international economy.

Decline in Foreign Direct Investment. This strong economic growth has enabled Egypt to be an attractive FDI destination, rising by 19.4 percent in FY 2007/2008, reaching USD 13.2 billion. But, in the shadow of GFC, the FDI has already dropped to USD 9.56 billion in 2008/2009. The flow of FDI which had amounted to almost 9 percent of GDP in 2007/2008, declining by 60 percent during the first half of 2008/2009 compared to the first half of 2007/2008. It is expected to continue its decline between 1.5 percent to 2 percent because of the investors' need for liquidity and also due to the high interest rates. The crisis is likely to further undermine FDI flows and make investors more cautious. What makes the situation more serious is that two-thirds of foreign investments in Egypt comes from US and European countries, while a number of them are either already in – or are entering into – recession.

Sharp Decline in Remittances from Expatriate Workers. Remittances from Egyptians abroad are ranked third as a source of foreign exchange, after tourism and the Suez Canal. In the fiscal year of 2007/2008, remittances from expatriate workers reached USD 8.56 billion, up 99.0 percent in comparison to 2004/2005 and a certain 6.5 percent of GDP. The Egyptian emigrant workers are mainly concentrated in the Gulf countries 95 percent, Europe 3.4 percent, North and South America 0.05 percent and, lastly, 0.17 percent in Asia and non-Arab African countries.[2] The largest proportion of these remittances comes from USA, which amounts to 37.4 percent of the total value of remittances. Remittances of Egyptian workers in Saudi Arabia, where there is the largest number of permanent Egyptian migrants, rank second by a proportion of 16.8 percent, whereas remittances from Western Europe, Switzerland, Britain, Germany, France and Italy, contribute 14.9 percent to the total value of remittances.[3]

Due to two aspects, GFC would definitely affect the remittances of emigrant workers. First, the largest proportion of remittances comes from the USA. Second, the largest percentage, 95 percent, of workers is in the Gulf countries. Since these two main destinations are struggling to get rid of the negative impacts of the financial crisis, it is expected that numerous factories, companies and institutions would lay off part of the employees and reduce the size of their labor force to avoid the specter of bankruptcy. This would lead to the return of a large number of Egyptian workers during the next few months. European, America and some Gulf states estimate the reduction in the size of their labor force in different proportions, ranging from 15 percent to 40 percent. Some Egyptian workers in Gulf countries have been already laid off due to shrinking investments. It is reported that some 30,000[4] Egyptian workers in Gulf countries are expected to return home. Furthermore, economists have predicted that the number of returnees may be calculated at more than a quarter of a million workers (El Ahwany 2009), out of the five million people working abroad. This number will join the jobless, which exceeds 10 million unemployed.

Increased Deficit in Balance of Payments. Egypt has experienced a surge in non-oil exports, thus contributing to growth and employment during the recent years. However, the economic slowdown in the US and EU is likely to have a significant impact on the Egyptian economy as a whole, especially for formal enterprises of the larger size in key export sectors. Taking into account that two-thirds of Egyptian exports enter into and are imported by the US and the EU, that have suffered the most harm from the financial crisis, the volume of Egyptian exports will definitely decline. Clients in these countries are expected to cut their needs. Moreover, the fact that Egypt has a low value-added structure of exports with very little processing makes Egypt more vulnerable, because these exports are likely to drop in quantity and price, and are likely to drop even more sharply, because of being closer to the end of the value chain. Thus, Egyptian authorities expected that exports could slide by between 10 percent and 20 percent.[5]

The decline in demand for Egyptian goods (exports) and services (Suez Canal, tourism, workers abroad) has been negatively reflected on the external balance of the country, thus ending the short-lived surplus of the pre-crisis period. Exports have been severely hit. The growth rate of exports is expected to slow down by more than a third of its current pace, from 25.5 percent in 2008 to 5.9 percent in 2009. Although imports are also slowing down from 27.9 percent growth to 14 percent, they will not be hit as hard as exports. According to the Egyptian Central Bank, the current account deficit for Q1 2007/2008 has increased 7-fold in Q1 2008/2009, when it jumped from USD 131 million to USD 966 million.[6]

The impact of all these factors on Egypt's balance of payments is quite severe, where the 2008 surplus has been converted into a deficit in the first half of 2009. Furthermore, the strain on Egypt's international reserves has been amplified. International reserves currently cover only half of the year's imports, while last June they used to cover at least 9 months.

Impact on Capital Market

A number of factors have combined to exacerbate the performance of the Egyptian Stock Exchange, which began its decline long before the crisis. By late 2007, there was a rush by foreigners to liquidate their assets in order to bail out their enterprises in their home countries in the wake of the mortgage crisis. This was followed by a second shock caused by the so-called May economic decrees which were interpreted by investors as a sign of rolling back reforms, especially those related to investment incentives. Added to that, was the unprecedented inflation wave resulting from the increase in food prices which negatively affected investors' expectations about the performance of the stock exchange and the Egyptian economy as a whole. As a result of these factors, the EGX 30 index dropped by 20 percent at the beginning of August 2008. The situation was made worse by the onset of the global crisis which led to the continued drop estimated at 43 percent up to the end of 2008. The total decline is thus estimated at 56 percent in one year, which suggests that the Egyptian Stock Exchange was one of the worst hit.

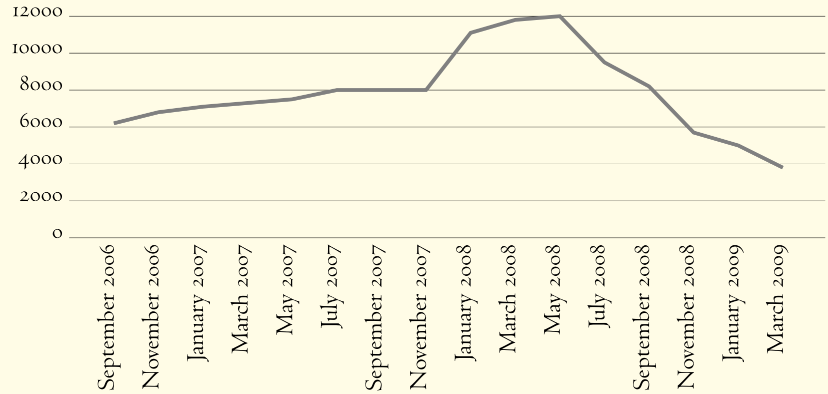

FIGURE 1 Performance of EGX 30 index (adapted from *Egypt Weekly Market Review,* 1 March 2009)

Impact on the Real Economy. Almost all sectors of the real economy had been affected by GFC by the middle of 2008. These sectors recorded declines in growth starting with tourism, which declined to a negative growth of –7.8 percent, followed by the Suez Canal –2.5 percent as well as manufacturing, where growth was halved and building and construction which dropped from 15.4 percent to 9.3 percent. Communications and petroleum presented the only two sectors that escaped this fate. In other words, the growth of employment-intensive sectors declined, thus aggravating an already serious unemployment situation. The following provides a more detailed picture of the impact of GFC on some key sectors of the Egyptian real economy.

Drop in Tourism Revenues. The tourism industry has always been one of the major industries in Egypt. The country occupies the 23rd position among 50 best international tourist hubs and ranks as the number one tourist destination in North Africa. During the period 2003–2008, the tourism sector witnessed an increase in the number of tourists, which reached 12.8 million people and brought some USD 11 billion to the country's revenue, or some 8.5 percent of the Egyptian GDP. Moreover, the tourist sector attracts a huge number of man power resources and has created job opportunities for the youth, which increased to reach 2.5 million workmen in 2007/2008.

Statistics indicate that the overall tourist arrivals in Egypt declined

TABLE 1 Performance change of Suez Canal

Item	2.2007	2.2008	% change*	2.2009	% change*
No. of transits	1511	1676	+ 10.9	1272	−24.2
Net tonnage**	63366	72937	+15.1	53085	−37.2
Revenue***	354.9	399	+12.4	327	−22.0

NOTES * Over the corresponding month of previous year; ** million *t*; *** million USD. Source: Suez Canal Authority (see http://www.suezcanal.gov.eg/scnewsdetails.aspx?show=5).

by 12 percent from September 2008 until March 2009.[7] December, which was the peak of the winter tourism season in Egypt, had the lowest rate of tourist arrivals after many foreign tourist operators cancelled their reservations. According to the Egyptian Travel Agencies' Association, the increase of foreign tourists in the next four years is predicted at only 6 percent, compared to some 16.6 percent in the past four years.[8] The decline is attributable to the slowdown in arrivals from European countries, affected by GFC, which represent more than 70 percent of tourist arrivals in Egypt.

Decline in Suez Canal Revenues. The Suez Canal, which represents a vital shortcut between East and West, is considered one of the main sources of Egypt's revenue. Egypt has been heavily dependent on the fees it charges ships to go through the Canal. In FY 2006/2007, Suez Canal revenue represented 3.3 percent of GDP and 11 percent of government revenue. However, statistics revealed by the Suez Canal Authority reveal that GFC has shed its negative impact on the canal revenues. A look at table 1 can reflect the picture.

The slowdown of the international trade flows can be seen in the decline of the net tonnage, which fell by 37 percent over the period February 2008 to February 2009. Revenues of the canal have also dropped from some USD 355 million in February 2008 to USD 327 million in last February, or about 22 percent lower than in the same month of 2008.

Manufacturing Sector. The economic and social development plan for the fiscal year 2009/2010 reported that the fast-growing sectors are most affected by GFC, as it is expected that growth in the manufacturing sector will drop from 8 percent in 2007/2008 to 3.8 percent in 2009/2010, whereas, growth in the transportation sector will decrease from 8.1 percent to 5.3 percent. Furthermore, in the light of the uncertainty in the dimensions of GFC, the sectors will be affected to varying degrees during the next fiscal year; the ICT sector will be reduced from 11 percent to 10 percent and the wholesale and retail trade sector will decrease from 6.3 percent to 5.8 percent. In March 2009, the industry development authority[9] estimated the decline in industrial production, including oil, at 4.1 percent, and it also expected that it will drop to 5.4 percent in 2008/2009 and 5.1 percent in 2009/2010.[10]

Major Social Sequences

Rise in Unemployment. Unemployment, which has been a chronic problem even with the rapid growth of the pre-crisis period, represented the quickest shown impact of GFC. Job opportunities during the second quarter of 2008–2009 dropped to 128,000 jobs compared to 181,000 in the same quarter of the previous year, i. e. by 30 percent. Similarly, the unemployment ratio registered 9.4 percent during the first quarter of 2009, against 9.0 percent in the same quarter of 2008.[11] As per the economic and social development plan for the fiscal year 2009/2010,[12] it is reported that the unemployment rate will grow to 10 percent in 2009/2010. The plan had built its hypothesis on the expected decline in the rate of growth, since a drop of 1 percent in growth rate, led to an increase of approximately 150 thousand in the number of unemployed. Additionally, the Center for industry modernization expects that the plants will tend in the coming period towards demobilization, which is likely to reach 45 percent of the current employment.[13]

In its report on the impact of GFC on the employment lay-offs, the Centre for Trade Union and Workers' Services (CTUWS) revealed that the number of workers have been laid off was about 6100 workers during April 2009, and the report also expected lay-offs to increase over the next few months (*Kalam Sanaieiaa,* 22 December 2009).

Growth in Poverty. Thanks to the strong growth over the last five years prior to GFC, poverty – which has always been a key socio-economic challenge to Egyptian policy makers – declined from 23.4 percent in

TABLE 2 Estimates of the GFC impact on employment at the national and sectoral levels

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Agriculture	0.34	3.4	3.1	2.6	1.6	–1
Industry	0.56	7.8	4.5	4.4	2.8	–1.6
Petroleum & Electricity	0.42	3.8	6.8	1.6	2.2	0.6
Building & Construction	0.48	15.6	9.4	7.5	5.0	–2.5
Productive Services	0.73	11.5	5.3	8.4	2.5	–5.9
Social Services	0.79	3.3	3.5	2.6	2.0	–0.6
Total	0.62	7.5	5.0	2.1	1.6	–5.0

NOTES Column headings are as follows: (1) sector, (2) employment intensity to GDP, (3) GDP growth during the first half 2007/2008 (%), (4) employment growth during first half 2008/2009 (%), (5) = (2) × (3) employment growth during first half 2007/2008 (%), (6) = (2) × (4) change in employment after crisis 2008/2009 (%), (7) = (6) – (5) change in employment after crisis. Source: Metwaly and El Megharbel 2009, 34.

2005 to around 18.9 percent in 2008 (World Bank 2008). But it has also been noted that the dynamics of poverty are such that as certain groups get out of poverty, while others fall into the poverty trap. The impact of the crisis on poverty can be assessed. First, large numbers of households are just above the poverty line, some 20 percent so called 'near poor,' who are likely to fall into poverty as a result of external shocks. Secondly, the position of the poor is fragile as they suffer disproportionately from unemployment (12 percent for the poor compared to 7 percent for the non-poor). Moreover, the poor are concentrated in agriculture, construction, and manufacturing – particularly in the informal activities of those sectors, while these are the sectors most affected by the GFC. All this points to the importance of social protection, and the role of economic and social safety nets in coping with the repercussions of the present crisis.

MAIN AXES OF EGYPT'S GOVERNMENT RESPONSE TO GFC

In a response to the adverse effects and consequences of GFC, presented in deteriorating figures of export levels, stock prices, inflows of worker's remittances, and foreign direct investment, Egypt has responded effectively to these macroeconomic and social impacts of the GFC. The state has introduced its 'first' fiscal stimulus package of some LE 15.5 billion, or 1.5 percent of GDP, in 2008/2009, mostly to finance accelerated investments in public utilities and to sustain economic performance. Though the additional outlays were formally ratified by Parliament in March of 2009, several projects under the package were already off the ground in September 2008 financed through budgeted contingencies.[14]

The provision of such a package helped serve a dual purpose; on one hand, it helped stimulate domestic demand and precluded a sharp decline in economic activity, and on the other, it accelerated the execution of several crucial infrastructure projects with high social value such as drinking water, sewage and roads. These projects will also help the recovery of the domestic economy once global demand rebounds.

It is worth mentioning that the 2009/2010 budget includes some LE 5.5–6 billion that can be marked as part of a 'second stimulus package.' Those funds include some 2.5–3 billion in accelerated or additional investment expenditures that go beyond the normal increases in the annual investments budget. Most of those extra outlays are directed to financing investment projects, in addition to allocations for exports promotion and internal markets development programs, besides the completion of the one-year sales tax rebate on capital goods that was launched as part of the first stimulus package. Preliminary sustainability indicators also suggest the possibility of injecting further stimulus should the global outlook remain to be grim, without impacting medium-term fiscal and debt sustainability.

In addition to this rescue package, the state adopted monetary stimulus measures. At the onset of the crisis, the CBE has affirmed that it continues to guarantee all deposits in the banking sector. Though formally promulgated by law, this move was introduced to prevent possible panics or runs on deposits. In addition to this step, a monetary stimulus package was designed to supplement the abovementioned fiscal stimulus.

Meanwhile, the rapidly changing global economic landscape has painted a mixed picture about the required policy action. As inflationary pressures subsided, and as pressures from the current global

TABLE 3 Breakdown of the fiscal stimulus package

Overall stimulus package	15.53
I. Investment expenditure	10.83
I.I For general budget sector	
Potable water and sewage projects	7.03
Building roads and bridges	1.00
Domestic development projects in various governorates	1.00
Building basic health care centers	400
Building schools	150
Others	652
Total investment in the budget sector	10.23
I.II For Economic Authorities	
Improving the efficiency of railways	400
Executing infr. projects for the development of East Port-Saed sea port	50
Improving the capacity of Red Sea ports	150
Total investment in economic authorities	600
II. Current expenditure (transfers/subsidies)	2.70
Increasing competitiveness of Egyptian exports	2100
Supporting industrial zones in the Delta	400
Supporting logistic areas for internal trade	200
III. Reductions in Customs Duties and Sales Tax	2.00
Reducing custom duties on some industrial inputs and capital goods	1.50
Temporary lift of sales tax on capital goods	500*

NOTES * Another 500 of foregone sales tax on capital goods are estimated to take place during FY 2009/2010. Source: Ministry of Finance 2006.

financial turmoil filtered into the domestic economy, CBE resorted to cutting the corridor spread rates by 250 basis points over three consecutive Monitory Policy Committee (MPC) meetings from February to May 2009, narrowing down the corridor by 50 basis points during the last meeting.[15] CBE cited the decline in inflation on the back of a sharp decline in international commodity prices, softening in growth momentum as external demand dwindles, and the grim outlook shed by the global financial turmoil as the drivers behind its recent policy rates cuts. The CBE also reiterated that it will continue to take the necessary measures to cushion the effect of the global crises on the domestic economy provided that this does not conflict with its primary objective of price stability. Further, the CBE board decided to exempt banks' deposits, equivalent to the size of the loans extended to finance Small and Medium Enterprises (SME) from the 14 percent legal reserve requirements. Facilitating finance to SMEs, known for their labor-intensive nature, is intended to help economic activity and employment. The package also included banning corporate sector investment in financial instruments of more than 3-year maturity, in order to encourage the private sector to reinvest their residuals. It is worth noting that, in addition to the measures taken by the CBE, Egypt's two largest state-owned banks are set to launch a LE 10 billion initiative of retail banking to stimulate private household consumption. Such funds will be allocated to the financing of personal loans, car loans, and purchase of durable goods.

CHALLENGES AND THE WAY AHEAD

Albeit the Egyptian economy demonstrates relative resilience to the global crises as compared to other developing and emerging economies, the prolonged slowdown in global demand and volatility in some basic commodity prices continues to constitute a threat to economic growth and employment. According to recent IMF World Economic Outlook figures, world output and trade are forecasted to shrink in 2009 by 1.3 percent and 11 percent, respectively. Having external demand and foreign investment playing an important role in spurring domestic growth in the past few years, this grim outlook for the global economy does not come without its own challenges to the domestic economy. Weakening exports of goods and services and foreign direct investment are likely to hold back economic growth, and interrupt record rates achieved in the past four years. Meanwhile, Government stimulus policies are anticipated to prevent sharp drawbacks in economic activity. The government is nevertheless committed to carrying ahead its reform program set in motion since 2004. The rapidly deteriorating global economic conditions are expected to affect the pace of reform; however, this does not undermine the commitment to the reform program.

Therefore, even with the crisis far from over, it is already evident that a number of lessons and questions for the Egyptian economic policy management and crisis response should be placed on the table for discussion. Unlike the policies discussed in the previous section, which focus on the immediate crisis response, these are lessons concerning

economic management that can help in mitigating this financial crisis and avoiding future crises:

1. The significant uncertainty about whether the shock is temporary or long-lasting argues for systematic, comprehensive, decisive, coordinated and cautious policy responses, as government revenues in the years ahead may remain weaker than in the recent past.
2. The slowdown in growth in the Egyptian economy, along with the world financial disorder, are expected to partially affect many business segments in Egypt, and may cause various companies to default on their loans, which represents a prospective risk that must be faced the banking sector. Therefore, this raises the need for of credit and risk-management institutions to stimulate economic growth, and to ensure the correct functioning of the financial sector.
3. Strengthening public financial management systems would contribute to improving expenditure rationalization and increasing spending efficiency, by ensuring that resources reach their intended users. This is important in light of the difficulty of raising revenues through quality measures in the short run. Reducing unproductive expenditures should be the first option.
4. It is critically important that Egypt keeps an adequate level of infrastructure investment to support private sector activity in general and enhance competitiveness and diversification in particular.
5. Supporting the financial sector:
   - In the short term, it will be critical to monitor the risks and take actions that focus on reducing uncertainty and engender confidence.
   - Raising the financial culture and the development of information infrastructure of the financial sectors so that citizens

will have access to direct and free advice on how to deal with the financial sector institutions, obtain financial services and take sound investment and finance decisions.

- Expanding acquisition of shares by the government or its agencies to shore up the stock market.

6 Coordination between the government, the central bank, and supervisory agencies is also important. This will facilitate anticipation of liquidity and solvency problems. The central bank of Egypt must have reliable access to financial information from all regulated financial institutions.

7 Treating the decline in foreign investments through encouraging funding the industrial sector, by presenting good interest rates during the period of the crisis.

8 Diversifying the Egyptian export map, as an economic diversification tool, especially of exports, must be given high priority as it always provides safe havens, by:

- Attracting new trade partners and additional support for exporting to non-traditional markets, especially in Africa and Asia.
- Increasing allocations for supporting exporters by increasing export funds and supporting the export insurance mechanism through the Egyptian Company for Exports Insurance. Along with this, the government should develop a special interest in programs for the promotion and marketing of Egyptian exports.

9 Employment and incomes should be a central focus of the government's fiscal stimulus packages:

- Priority should be given to public spending programmes that have a high multiplier effect on employment.
- Labor-intensive infrastructure projects can be effective in providing income support to the poor while simultaneously delivering fiscal stimulus.

10 Protecting the poor and the vulnerable by building effective social safety net programmes and supporting the poor.

11 Last but not least, GFC has also shown how important the international cooperation is, as global problems may require a global approach in dealing with such issues. This cooperation is required simply in order to limit the potential devastating effects such a crisis could have in the future both on the financial system and the real economy.

NOTES

1 2006/2007 witnessed large exceptional receipts from the sales of the third mobile licenses. Those stand at nearly double the one-off receipts recorded in 2007/2008 from the sales of cement and steel licenses and permits to use 3G technologies in mobile phones. Meanwhile, both years' budgets were burdened with necessary exceptional outlays, mostly related to the restructuring of main public entities, including Egypt Railways.

2 Central Agency for Public Mobilization and Statistics (CAPMAS), see http://www.capmas.gov.eg.

3 Cabinet's Information Center Information and Decision Support Center, see http://www.idsc.gov.eg.

4 Central Agency for Public Mobilization and Statistics (CAPMAS), see http://www.capmas.gov.eg.

5 Egypt's minister of trade and industry, Rachid Mohamed Rachid, in an interview with Dow Jones Newswires at the World Economic Forum, January 30, 2009.

6 Central Bank of Egypt, quoted in Economist Intelligence Unit 2009, 15.

7 Egyptian tourism minister, Zoheir Garana, during a press conference, January 1st, 2009.

8 First deputy of Egyptian minister of tourism, Hisham Zazouaa, Interview with Al Mal newspaper, April 11th, 2009.

9 See the official website of Industrial development Authority at http://www.ida.gov.eg/ida/ehsa2eyaat_en.html.

10 Ministry of Trade and Industry, Statistics bulletin, March 2009.

11 Ibid.

12 Egyptian minister for economic development, Osman Mohamed Osman, during a press conference for announcement of the 2009/2010 economic and social development plan, March 23rd, 2009.

13 Executive director of the Center for the modernization of the industry, Adham Nadim. Speech at a symposium held by the Businessmen's Association, March 24th, 2008.

14 Prime Minister of Egypt, Ahmed Nazeef. Speech, at the Egyptian parliament, on the government actions plan towards global financial crisis, December 15th, 2008. Http://www.ndp.org.eg/ar/News/ViewNewsDetails.aspx?NewsID=45013.

15 During the last MPC meeting the overnight deposit rate was cut by 50 bps to 9.5 percent, while the overnight lending rate was cut by 100 bps to 11 percent. Accordingly, the width of the corridor has been narrowed from 2 percent to 1.5 percent.

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The Role of Total Factor Productivity in the Mediterranean Countries

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The aim of the present work is to focus attention on the role of technological progress in the economic growth of Mediterranean countries. The Mediterranean is an area that has only partially been covered by international statistics and by the specialized literature. Therefore, it has been necessary to start measuring the data of the 24 observed countries using a consistent methodology. Based on the estimated data, it has then been possible to estimate total factor productivity, which we have considered to be a synthesis of many elements that affect the overall efficiency of the economy. Estimates of the TFP also made it possible to break up the growth rate of aggregate output per worker into the contribution of physical capital, human capital and TFP.

INTRODUCTION

In recent decades there has been an explosion of empirical studies on economic growth. The new debate is characterized by the interest in the determinants of growth and, in particular, the contrast between those who consider the accumulation of capital as the key factor for growth and those who emphasize the centrality of the total factor productivity (TFP). This dispute dates back to the famous debate between Dale W. Jorgenson, Zvi Griliches and Edward F. Denison (Jorgenson and Griliches 1967; Jorgenson, Griliches, and Denison 1972) and sets the boundary line between the neoclassical approach and the endogenous growth theory.

The aim of the present work is to enter into this lively debate, focusing attention on the role of technological progress in the economic growth of a particular geographical portion of our world, the Mediterranean. According to the historian Anthony Molho (2002), the historical density, the diversity and complexity of the Mediterranean social interaction, offer an exclusive point of view, an observation point that continues to receive very little attention in economic literature.

[28] In this paper we choose to adopt quite a broad definition of the Mediterranean area, as it includes 24 countries: Albania, Algeria, Bosnia and Herzegovina, Croatia, Cyprus, Egypt, France, Greece, Israel, Italy, Jordan , Lebanon, Libya, Malta, Morocco, Palestine, Portugal, Serbia and Montenegro, Slovenia, Spain, Syria, Macedonia, Tunisia and Turkey. The time frame, which we focus on, covers the period 1970–2008.

The work is organized as follows. In the next section we will focus on the concept of TFP and describe the different methods used for its estimation. In section three we will try to summarize the results of the existing literature on the Mediterranean. In the fourth section the estimates will be developed for the determination of physical capital stock, of human capital stock and the relative share of physical capital to production. These time series are essential for estimating the TFP, which will be developed in section five. Section six will provide the breaking down of growth rates of aggregate product per worker, in order to identify the key factors leading to economic growth in the Mediterranean countries. Finally, the conclusion will offer a synthesis of the study.

CONCEPTS AND ESTIMATION METHODS OF TOTAL FACTOR PRODUCTIVITY

Before addressing the estimation of the TFP, it is interesting to focus our attention on the concept of total factor productivity. Actually, there is no universally accepted concept, but rather different variations, often in contradiction with each other. Zvi Griliches (1996), for example, seems very doubtful that the TFP could be something really useful: 'all of the pioneers of this subject were quite clear about the tenuousness of such calculations and that it may be misleading to identify the results as measures of pure technical progress. Abramovitz labelled the resulting index "a measure of our ignorance."' On the contrary, Charles Hulten (2000) considers that the TFP can provide interesting information, especially about factors without market price: 'To the extent that productivity is affected by innovation, it is part of cost-technical change that it captures. This "Manna from Heaven" may reflect spillover externalities thrown off by research projects, or it may simply reflect inspiration and ingenuity.' By placing greater emphasis on the TFP, Nicholas Crafts (1996) and Robert Barro (1999) stress the importance of this measure as a proxy of technological change. Crafts, for example, writes: 'It is clear that British capabilities for the transfer and improvement of technology were strong and improving during the first industrial revolution, and this undoubtedly was central to the (otherwise surprising) steady acceleration in TFP growth.' And Barro, in one of the first issues of the *Journal of Economic Growth,* says: 'Growth accounting provides a breakdown of observed economic growth into components associated with changes in factor inputs and a residual that reflects technological progress and other elements.'

Similarly to the concept of TFP, there are different approaches used to estimate the TFP. A first non-parametric methodology, known as the Data Envelope Analysis (DEA), recently implemented by Subodh Kumar and Robert Russell (2002). The basis of the idea is to use combinations of input-output data in order to obtain an approximation of a production frontier. Based on this approach, DEA attempts to identify the contribution of technological change, the speed of technological convergence and the role of physical capital in labor productivity. The advantage of this method is that it requires no strong assumptions about the initial structure of markets nor the absence of their imperfections. However, the disadvantage of reconstruction is that the technological frontier is only an approximation of the real one, with the result that sometimes the results are not very plausible (such as the evidence of lack of technology that should be attributed to declining efficiency). A solution to the problem of the econometric estimation of TFP is suggested by Nazrul Islam (1995). Starting from the convergence proposed by Mankiw, Romer and Weil (1992), Islam introduces the idea that differences in the levels of TFP are correlated with other explanatory variables. Since the correlation does not imply the consistency of OLS estimates, Islam uses an appropriate technique to panel fixed effects. According to this specification, the TFP of a coun-

try is well represented by the sum of a first term that captures the growth rate of a technological frontier (assumed as a constant for all countries) and a second term (different for each country) which takes account of several unobserved factors such as institutions or technol-
[30] ogy. However, the main problem with this method is that, by definition, the TFP grows at the same speed in all countries (equal to the value of the first term). Consequently, the degree of heterogeneity of TFP is unchanged over time and no process of convergence can take place.

Another method of estimating the TFP, which is particularly widespread in the empirical literature (Klenow and Rodriguez-Clare 1997; Hall and Jones 1999; Aiyar and Feyrer 2002; Abu-Qarn and Abu-Bader 2007) and used in this work, is called 'growth accounting.' It was formally introduced by Robert Solow (1957) and measures the TFP in an indirect way, as a residual component of GDP that is not explained by the variations of inputs. The starting point for this method is an aggregate production function, which expresses the relationship between inputs and product aggregate. Among the different specifications, the most widespread production function is the homogeneous of first grade Cobb-Douglas, $Y = AK^{\alpha}L^{(1-\alpha)}$, where Y is the aggregate product (output), A the efficiency factor, K the physical capital stock, L the number of workers and α the relative share of physical capital to production.

PREVIOUS EMPIRICAL STUDIES

Empirical studies on growth have only marginally dealt with the Mediterranean countries. In fact, the attention of economists has focused on the MENA countries (Middle East and North Africa), a particular geographical area defined by the classifications of the World Bank and only partially referring to the Mediterranean.

Among the most recent studies, the contribution of Vikram Nehru and Ashok Dhareshwar (1993) deserves to be mentioned. It was carried out on a sample of 93 countries covering the period 1960–1990. The results for the MENA countries underline an interesting aspect: physical capital is an important factor of economic growth during the period. However, the growth rates of the TFP record the lowest values in the world, becoming negative in the periods 1980–1990 (with the exception of Turkey).

Another paper that used a large sample of countries is Susan Collins and Barry Bosworth's (1996). Their study aims to analyze the experience of the emerging Asian countries and uses the results for the other world regions (including the MENA area) for comparison. The results confirm the central role played by physical capital in the growth of income per capita in the MENA countries, while the role played by the TFP continues to appear negligible. The contribution of human capital is also equal to one third of the whole output variation.

The contribution of Amer Bisat, Mohamed El-Erian and Thomas Helbling (1997) is one of the few studies in which the MENA area is observed as a 'region.' The authors found that during the period 1971–1996, most of the observed countries (9 out of 13) showed negative growth rates of TFP, evidence that leads the authors to state: 'Arab countries suffered from the effects of factors which reduced the aggregate production efficiency over time.' Moreover, the econometric estimates reveal another element of particular importance: the relative contribution of physical capital to production is much higher than that normally used in growth accounting studies (between 0.3 and 0.4). However, the use of the highest values of the relative share of physical capital to production does not produce any significant difference in annual growth rates of TFP: the rates remain negative.

Abdelhak Senhadji (2000) performed a growth accounting exercise on 88 different countries, observed during the period 1960–1994, in order to grasp the differences in the levels of the TFP. The results show that the relative contribution of physical capital in the MENA production fluctuates between 0.63 and 0.54, depending on the different ways of expressing the explanatory variables. Repeating the methodology by panel estimates (fixed effects and random effects), Senhadji obtained values between 0.63 and 0.69. The estimates allow us to break up the output growth rate and proceed to focus attention on its very determinants. They show that the accumulation of physical capital justifies more than 75% of the economic growth of the MENA countries, while the contribution of TFP is particularly low in the period 1960–1973 and negative in the years after 1973. However, Senhadji shows that a slow process of convergence in the levels of TFP is taking place.

A similar result comes from Samir Makdisi, Zeki Fattah and Imed Limam (2000) who observed 92 countries over the period 1960–1997.
 The breaking down of the aggregate GDP growth rate underlines, once again, the centrality of physical capital in the processes of economic growth in the MENA area. However, the growth rates of TFP record positive values only in countries that have experienced the highest growth rates of GDP (such as Egypt, Israel, Morocco, Tunisia and Turkey). According to the authors, the levels of TFP in the MENA countries are also weakly correlated to both the quality of institutions and human capital.

Finally, in the recent contribution by Aamer Abu-Quarn and Suleiman Abu-Bader (2007), 10 MENA countries were observed over the period 1960–1998. Although different specifications of the production function were used, the results converge in demonstrating that the relative contribution of physical capital to production in the MENA countries is greater than 0.4, reaching values that exceed unity. The role of TFP in economic growth is marginal, whereas the contribution of physical capital and improvements in the quality of the workforce seem very interesting.

DATA AND SOURCES

The statistical data on aggregate product, physical capital stock, human capital stock and the relative share of physical capital to production are indispensable elements in order to estimate the TFP and carry out a debate about the sources of economic growth.

However, the attempt to analyze 24 Mediterranean countries makes it impossible to use the physical capital and human capital database of Fischer (1993), Nehru and Dhareshwar (1994) or Easterly and Levine (1999), due to the sectional limits of the same database (for example, relative to Libya, Lebanon, Palestine, Albania, or to the new states of the former Yugoslavia). Therefore, an appropriate measure of inputs is needed, a measure that is often problematic and requires many assumptions.

In our case, the data on the aggregate product of the 24 Mediterranean countries, expressed in US dollars and 1990 constant prices, have been taken from the National Accounts Main Aggregates Database of the United Nations, a source that has the advantage of offering consistent statistical information from 1970 to over 200 countries (and, of course, for all the Mediterranean countries). Data on the workers have been extracted from the Total Economy Database (the Conference Board and Groningen Growth and Development Center, see http://www.ggdc.net) and integrated with those of the International Labor Organization. This integration has concerned Libya, Lebanon and Palestine, countries not included in the sample of 125 economies recorded by the Total Economy Database. The integration has been justified as a result of consistently high correlation between the two databases, which have a correlation coefficient near unity.

Table 1 shows the average annual growth rates of GDP per worker, by country. The value of the 'Mediterranean' is the average of the 24 countries observed.

The table draws attention to the time and the sectional high variability of the Mediterranean countries. The 70s seem to be the period of highest growth, followed by a slowdown in the first half of the 80s, culminating at the end of the decade. The 90s marked an economic upswing, which was particularly significant in the second half of the decade, while the first eight years of the 21st century record a moderate growth. Among the 24 countries, only Egypt, France, Israel, Malta, Portugal, Slovenia, Tunisia and Turkey have a positive growth rate of GDP per worker, in all sub-periods. Besides, the annual averages of GDP growth of Libya and Algeria are negative and closely related to the international oil market. In fact, during the 70s, the two oil producing countries had the highest average growth rates of their GDPs, followed by a long and deep recession that has attenuated only in recent years, again as a consequence of the world's increasing demand for oil.

The Measure of Physical Capital

In order to measure the physical capital stock, we have used the perpetual inventory method. The method moves from the assumption that the stock of physical capital (K) in a given year is equivalent to the cap-

TABLE 1 Average annual growth rates of GDP per worker (%)

Country	1971–1975	1976–1980	1981–1985	1986–1990	1991–1995	1996–2000	2001–2005	2006–2008
Albania	0.0089	0.0100	−0.0060	−0.0234	−0.0042	0.0627	0.0844	0.0585
Algeria	0.0156	0.0336	0.0085	−0.0359	−0.0408	−0.0116	0.0097	−0.0079
Bosnia-Herz.					0.0630	0.1892	−0.0213	0.0176
Croatia					−0.0442	0.0136	0.0413	0.0281
Cyprus	−0.0463	0.0962	0.0428	0.0509	0.0269	0.0249	0.0017	0.0146
Egypt	0.0312	0.0527	0.0421	0.0304	0.0344	0.0221	0.0185	0.0322
France	0.0297	0.0252	0.0185	0.0231	0.0130	0.0137	0.0102	0.0058
Greece	0.0450	0.0312	−0.0120	0.0051	0.0070	0.0199	0.0278	0.0231
Israel	0.0416	0.0016	0.0088	0.0172	0.0153	0.0211	0.0003	0.0138
Italy	0.0255	0.0352	0.0139	0.0224	0.0196	0.0091	−0.0036	−0.0032
Jordan	−0.0251	0.1063	−0.0080	−0.0440	−0.0410	−0.0010	0.0219	0.0383
Lebanon	0.0012	−0.0455	0.0618	−0.1933	0.0622	0.0028	−0.0027	0.0337
Libyan Arab Jam.	0.0120	0.0455	−0.0713	−0.0498	−0.0167	−0.0253	0.0250	0.0314
Macedonia					−0.0239	0.0258	0.0157	0.0116
Malta	0.0896	0.0796	0.0318	0.0523	0.0381	0.0392	0.0023	0.0043
Morocco	0.0155	0.0238	0.0024	0.0120	−0.0196	0.0105	0.0291	0.0301
Palestinian Ter.	0.0758	0.0610	−0.0358	0.0329	0.0588	−0.0111	−0.0081	−0.0392
Portugal	0.0249	0.0409	0.0037	0.0283	0.0213	0.0192	0.0059	0.0075
Serbia-Mont.					−0.1401	0.0230	0.0596	0.0774
Slovenia					0.0035	0.0454	0.0324	0.0285
Spain	0.0475	0.0338	0.0299	0.0129	0.0228	−0.0012	−0.0072	0.0066
Syrian Arab Rep.	0.0911	0.0344	−0.0099	−0.0567	0.0271	−0.0106	−0.0017	0.0106
Tunisia	0.0477	0.0226	0.0132	0.0016	0.0070	0.0237	0.0142	0.0314
Turkey	0.0363	0.0064	0.0355	0.0347	0.0112	0.0277	0.0404	0.0254
Mediterranean	0.0299	0.0366	0.0089	−0.0042	0.0042	0.0222	0.0165	0.0200
Standard Deviation	0.0344	0.0344	0.0304	0.0565	0.0433	0.0406	0.0237	0.0227

NOTES Source: author's calculations based on data from the United Nations, the Conference Board and Groningen Growth and Development Center and the International Labour Organization.

ital stock of the previous year, net of depreciation (δ), plus investment (I) of the current year. In formula,

$$K_t = I_t + (1 - \delta)K_{t-1}. \quad (1)$$

Since the reconstruction of the series is based on the investment process, the estimate of the initial capital stock is a crucial step.

TABLE 2 Correlation coefficients between different estimates

	Our data	Nehru and Dhareshwar	Easterly and Levine	Kamps	Timmer, Ypma, and van Ark
Our data	1	0.69	0.99	0.99	0.97
Nehru and Dhareshwar		1	0.61	0.99	0.99
Easterly and Levine			1	0.99	0.41
Kamps				1	0.98
Timmer, Ypma, and van Ark					1

Following Arnold Harbenger (1978), we have hypothesized that capital stock at time zero is positively correlated with investments in the following year and inversely related to the average annual growth rate of GDP and depreciation rate.

In formula,

$$K_{t-1} = \frac{I_t}{g + \delta}, \qquad (2)$$

where g is the average annual growth rate of the aggregate product and δ the depreciation rate. It is interesting to note that this formulation coincides with the equation that defines the physical capital stock at the steady state in Robert Solow's model (1956).

Data on investment (gross fixed capital formation) have been extracted from the National Accounts Main Aggregates Database of the United Nations, in US dollars and 1990 constant prices. In the absence of specific micro surveys or information about various tax legislation, the depreciation rate has been set at 5%, a choice in line with other studies, such as Bisat, El-Erian and Helbling (1997) or Abu-Quarn and Abu-Bader (2007).

To test the accuracy of the measurement, we have correlated 'our data' and those of other authors, such as Nehru and Dhareshwar (1993), Easterly and Levine (2001), Kamps (2004) and Timmer, Ypma and van Ark (2005).

Because of the various timespans and the different sets of countries considered in the scientific studies, a full overlay of different sources is not possible. Therefore, the correlations presented in table 2 are only partial. The Dhareshwar-Nehru data, for example, refer to 13 countries, those of Easterly-Levine to 15, those of Kamps and Timmer-Ypma-van Ark to only 5 (the five OECD Mediterranean countries). While the data of Nehru-Dhareshwar and Easterly-Levine cover the period 1970–1990, those of Kamps the period 1970–2002 and those of Timmer-

Ypma-van Ark the period 1980–2004. Despite these limitations, the overall information that can be drawn from the table seems to validate the methodology we have used to construct the physical capital stock series.

Table 3 provides a representation of growth rates of physical capital stock per worker. A simple reading is sufficient to capture the high variability in the accumulation of physical capital in the Mediterranean countries. Of the 24 countries, 11 have a positive growth rate in all subperiods: Bosnia-Herzegovina, Croatia, Cyprus, France, Greece, Italy, Malta, Morocco, Portugal, Slovenia, Turkey. Nevertheless, it is also interesting to observe the average annual growth rate of physical capital stock per worker in France and Italy, which decrease progressively. Among the countries which have experienced a planned economy, Albania, Croatia and Slovenia stand out for having the highest Mediterranean annual average growth rates of physical capital per worker in the last eight years.

The measure of Human Capital

The object of human capital measurement is to weigh the number of workers on the basis of their specific capacity. The idea is to take into account the characteristics that influence the marginal labor productivity, such as education, age or gender, avoiding the mistake of considering employees as a consistent set.

In the majority of comparative studies on growth, however, the emphasis falls only on training because of the lack of information (which we usually have) about the labor force structure. The first empirical studies concerned with changes in the educational level of workers have frequently used the rates of school enrolment, data which only provide a reasonable estimate of the educational level if close to steady-state. More recently, empirical studies have avoided the use of school enrolment rates, using instead estimates of the average number of years of schooling of the population, as produced by Nehru, Swanson and

TABLE 3 Average annual growth rates of physical capital stock per worker (%)

Country	1971–1975	1976–1980	1981–1985	1986–1990	1991–1995	1996–2000	2001–2005	2006–2008
Albania	0.0154	0.0157	0.0155	0.0044	−0.0066	0.0089	0.0660	0.0489
Algeria	0.0148	0.0504	0.0197	−0.0189	−0.0368	−0.0326	−0.0189	0.0037
Bosnia-Herz.					0.0821	0.1204	0.0598	0.0261
Croatia					0.0143	0.0104	0.0397	0.0443
Cyprus	0.0288	0.0320	0.0348	0.0248	0.0121	0.0134	0.0004	0.0188
Egypt	0.0538	0.1174	0.0649	−0.0047	0.0136	0.0191	0.0221	0.0499
France	0.0522	0.0328	0.0293	0.0203	0.0249	0.0086	0.0198	0.0185
Greece	0.0465	0.0308	0.0013	0.0029	0.0046	0.0079	0.0261	0.0243
Israel	0.0514	0.0140	0.0094	−0.0011	0.0133	0.0215	0.0050	0.0001
Italy	0.0325	0.0220	0.0218	0.0185	0.0274	0.0108	0.0106	0.0089
Jordan	0.0534	0.1096	0.0351	0.0009	−0.0540	−0.0039	−0.0143	0.0081
Lebanon	0.0035	−0.0247	0.0100	0.0266	−0.0412	−0.0250	−0.0331	−0.0289
Libyan Arab Jam.	0.0428	0.0535	0.0154	−0.0353	−0.0487	−0.0499	−0.0260	−0.0100
Macedonia					0.0054	−0.0073	0.0008	−0.0263
Malta	0.0309	0.0328	0.0845	0.0510	0.0470	0.0538	0.0248	0.0059
Morocco	0.0466	0.0820	0.0199	0.0068	0.0032	0.0124	0.0270	0.0400
Palestinian Ter.	0.1216	0.1143	0.0323	0.0279	0.0332	0.0248	0.0034	−0.0183
Portugal	0.0388	0.0314	0.0238	0.0060	0.0404	0.0259	0.0306	0.0190
Serbia-Mont.					−0.0219	−0.0119	−0.0048	0.0332
Slovenia					0.0279	0.0520	0.0448	0.0330
Spain	0.0665	0.0567	0.0401	0.0098	0.0426	−0.0032	0.0068	0.0258
Syrian Arab Rep.	0.0796	0.1083	0.0495	−0.0261	−0.0174	−0.0168	−0.0013	0.0095
Tunisia	0.0360	0.0428	0.0395	−0.0098	−0.0013	0.0003	0.0021	0.0077
Turkey	0.0825	0.0491	0.0283	0.0470	0.0456	0.0459	0.0350	0.0497
Mediterranean	0.0472	0.0511	0.0303	0.0080	0.0087	0.0119	0.0136	0.0163
Standard Deviation	0.0272	0.0389	0.0200	0.0224	0.0335	0.0339	0.0253	0.0228

NOTES Source: author's calculations based on data from the United Nations, the Conference Board and Groningen Growth and Development Center and the International Labour Organization.

Dubey (1995) or Barro and Lee (2000). It seems clear, however, that the direct use of the average number of years of schooling is an imprecise indicator of the quality of workers. Workers with no schooling, in fact, Would have a weight equal to zero and, consequently, small changes in levels of schooling produce large variations in the quality of work.

To avoid problems related to a direct use of the average number of years of schooling, we have followed Robert Hall and Charles Jones

(1999). Therefore, in order to estimate the stock of human capital (H) we have used the following equation:

$$H = Le^{f(scol)}, \tag{3}$$

where L is the number of workers, $e^{f(scol)}$ the human capital per worker, $f(school)$ a function specified in linear form and *scol* the average years of schooling. In particular, the slope of the function $f(school)$ was established at 0.082, that is equal to the average rate of schooling return estimated by George Psacharopulos (1994) for Europe, the Middle East and North African countries. The estimate of Psacharopulos followed the methodological approach of Jacob Mincer (1974): the logarithm of wage is linearly related to years of schooling, years of professional experience and their squares. Accordingly, the coefficient 0.082 can be interpreted as the average marginal return to an additional year of schooling in the Mediterranean countries.

Assuming perfect market competition, the wages percentage difference between workers with different years of schooling is equal to the human capital percentage difference, a factor that has led Mark Bils Mark and Peter Klenow (1998) to consider the specification as the most appropriate way of incorporating the years of schooling in an aggregate production function.

The average years of schooling required to measure human capital have been taken from Robert Barro and Jong-Wha Lee (2000), with reference to the population over 15 years old. Despite the 142 countries observed, Barro and Lee's contribution does not cover 8 Mediterranean countries, namely Albania, Bosnia-Herzegovina, Lebanon, Macedonia, Malta, Morocco, Palestine and Serbia-Montenegro. As the statistical information relating to these countries is not even available in the data set compiled by Nehru, Swanson and Dubey (1995), it has been necessary to estimate them. Accordingly, we used the following equation:

$$scol_{i,t} = scol_{W,t}\frac{HDI_{i,t}}{HDI_{W,t}}, \tag{4}$$

where $scol_{i,t}$ denotes the average years of schooling in country i at time t, $scol_{W,t}$ the world average of years of schooling at time t, $HDI_{i,t}$ the

TABLE 4 Average annual growth rates of human capital stock per worker (%)

Country	1971–1975	1976–1980	1981–1985	1986–1990	1991–1995	1996–2000	2001–2005	2006–2008
Albania	0.0028	0.0099	0.0055	0.0091	0.0009	0.0076	0.0057	0.0058
Algeria	0.0074	0.0110	0.0128	0.0130	0.0095	0.0089	0.0087	0.0094
Bosnia-Herz.					0.0027	0.0047	0.0034	0.0036
Croatia					0.0034	0.0036	0.0035	0.0035
Cyprus	0.0161	0.0051	0.0151	0.0208	0.0033	0.0039	0.0126	0.0108
Egypt	0.0028	0.0130	0.0200	0.0115	0.0118	0.0087	0.0163	0.0143
France	0.0059	0.0107	0.0041	0.0002	0.0077	0.0072	0.0038	0.0047
Greece	0.0085	0.0180	0.0043	0.0120	0.0052	0.0057	0.0107	0.0093
Israel	0.0123	0.0092	–0.0010	0.0003	0.0013	0.0025	0.0111	0.0073
Italy	0.0023	0.0039	0.0044	0.0054	0.0059	0.0054	0.0043	0.0047
Jordan	0.0085	0.0084	0.0156	0.0118	0.0085	0.0072	0.0108	0.0102
Lebanon	0.0028	0.0096	0.0046	0.0108	0.0064	0.0041	0.0064	0.0064
Libyan Arab Jam.	–0.0043	0.0280	0.0021	0.0216	0.0119	0.0119	0.0119	0.0119
Macedonia					0.0027	0.0047	0.0034	0.0036
Malta	0.0033	0.0098	0.0070	0.0137	0.0045	0.0047	0.0081	0.0076
Morocco	0.0019	0.0094	0.0069	0.0103	0.0050	0.0059	0.0052	0.0059
Palestinian Ter.	0.0027	0.0095	0.0045	0.0106	0.0024	0.0042	0.0068	0.0061
Portugal	0.0028	0.0166	0.0011	0.0174	0.0092	0.0066	0.0072	0.0080
Serbia-Mont.					0.0025	0.0044	0.0032	0.0034
Slovenia					0.0034	0.0044	0.0038	0.0039
Spain	–0.0007	0.0203	–0.0026	0.0102	0.0064	0.0074	0.0086	0.0080
Syrian Arab Rep.	0.0113	0.0133	0.0134	0.0105	0.0061	0.0048	0.0137	0.0112
Tunisia	0.0130	0.0110	0.0066	0.0098	0.0097	0.0080	0.0102	0.0097
Turkey	0.0038	0.0093	0.0046	0.0075	0.0159	0.0028	0.0061	0.0068
Mediterranean	0.0054	0.0119	0.0068	0.0109	0.0061	0.0058	0.0077	0.0073
Standard Deviation	0.0051	0.0056	0.0060	0.0055	0.0038	0.0022	0.0037	0.0030

NOTES Source: author's calculations based on data from the United Nations, the Conference Board and Groningen Growth and Development Center and the International Labour Organization.

Human Development Index in the country *i* at time *t* (or the next time t available) and $HDI_{W,t}$ the world average Human Development Index at time *t*. To test the reliability of the equation, it was applied to the other 16 Mediterranean countries and the data obtained were compared with Barro and Lee's data. The result is a correlation of 0.85. Moreover, we have estimated data up to 2008, on the assumption that the growth rate of schooling is constant during the period. Finally, to move from five-year data (reported in Barro and Lee) to annual data we have implemented linear interpolations.

Table 4 shows the average annual growth rates of human capital per worker. This allows us to focus only on the effects of schooling,
[40] regardless of employment dynamics.

Table 4 reveals a slow but steady growth of human capital per worker. The low values of standard deviation also provide us with evidence of a reduced sectional variability in the growth rates. However, this variability is lower than the variability recorded for the physical capital per worker. During the observed sub-period, the growth rates of human capital per worker have two peaks, in coincidence with two particular historical moments: the oil crisis of the late 70s and the Depression of the late 80s.

The Estimation of the Relative Share of Physical Capital to Production

A crucial step in the estimation of the TFP is the determination of the relative share of physical capital to production, that is the α parameter in the Cobb-Douglas function.

Since of the scarcity of national accounts data in developing countries and the incorrect range of α parameter obtained by Angus Maddison (1987) and Steven Englander and Andrew Gurney (1994) when applied to developing countries, we have decided to estimate directly an aggregate production function, using a logarithmic transformation of all terms. Since these estimates are frequently associated with problems of multicollinearity and heteroscedasticity, we have used the intensive form of the production function, which reduces the heteroscedasticity and eliminates the multicollinearity.

In particular, we have used two specifications of the production function, assuming both the constant returns to scale. The first takes into account (as explanatory variables) the physical capital stock and the number of workers. In formal terms, the equation in intensive form is:

$$\ln y = a + \alpha \ln k + \varepsilon, \tag{5}$$

where $y = Y/L$ (GDP per worker) and $k = K/L$ (physical capital per worker).

The second specification of the production function explicitly introduces the measure of human capital. From a formal point of view, the equation in the intensive form is identical to the previous one, that is

$$\ln \bar{y} = a + \alpha \ln \bar{k} + \varepsilon, \tag{6}$$ [41]

but where $\bar{y} = Y/H$ is the GDP per unit of human capital and $\bar{k} = K/H$ physical capital per unit of human capital.

For each of the two specifications we have considered three different cases. They address the two-dimensional nature of the available data (relating to 24 countries observed for 36 years) which combine sectional and time characters. Known as the pooled regression, the first case moves from the assumption that the estimate contains only a constant term, valid for all observed countries. In this case, the OLS estimator provides consistent and efficient estimates, unless we experience problems of individual heteroscedasticity, autocorrelation and cross-correlation. These problems are possible in an environment where any differences between countries can be captured only by the error term (ε_{it}). Defined as fixed effects, the second case releases the hypothesis of a single constant in favour of a set of individual constants, which reflect the specific national characteristics. If the unobserved individual effects are correlated with the explanatory variables, as assumed in the case of fixed effects, the OLS estimator is biased and inconsistent. For this reason we use the LSDV estimator (least squares with dummy variables), that is able to grasp the within variability. The third case, called random effects, removes the possibility that the individual differences are not correlated with the error term. Individual constants (typical of the fixed effects) have been replaced by one constant and many stochastic differentials, one for each of the observed countries. The presence of a composite error as $\upsilon_{it} = \mu_i + \varepsilon_{it}$ (with μ_i stochastic differential of the country i) makes the LSDV estimator inefficient and requires the use of the GLS (generalized least squares) estimator. In particular, the latter is able to exploit not only the information on the within variability (as the LSDV estimator) but also information about the between variability.

Because the fundamental difference between the second and third cases lies in accepting or not accepting the hypothesis that the individual unobserved heterogeneity is correlated with the error term, we have applied the Hausman test. This tends to compare the results of the alternative estimators, just to test the null hypothesis of no correlation between random effects and explanatory variables.

The estimations also raise a very important question about the data to be used: in levels or in first differences. In the literature there seems to be a preference for first differences data, because they reduce the problem of unit roots and therefore the problem of non-stationary series. Nevertheless, some remarks are instructive. If it is true that the first differences reduce the problem of unit roots, on the other hand they remove all the long-term information contained in the data because they cancel the low frequencies, emphasizing the short period fluctuations. In addition, due to the high variability of GDP growth rates compared with the variability of inputs (capital and labor), the fitted value of the regression (in first differences) is normally very low. For all these reasons, we have decided to use both the data in levels and in first differences, in order to provide a means of comparison.

Table 5 shows the results of regressions of the two specifications adopted in the three functional forms described (pooled, fixed effects and random effects) and this, as we have just said, using data in levels and in first differences. Altogether, 788 cases have been observed for regressions in levels and 764 for the regressions in first differences.

Several interesting insights emerge from table 5. The first outstanding issue is that the relative share of physical capital to production in the Mediterranean countries is well above the range 0.3–0.4. Evidence is in line with the previous studies on MENA countries.

Analyzing table 5, we can see that the goodness of fit of the regressions is particularly high. In such cases, the Hausman test rejects the hypothesis of absence of correlation between explanatory and random effects, emphasizing that fixed effects estimates are not only consistent but also efficient. The absolute rejection of the test to verify the absence of individual fixed effects suggests a prevalence of the fixed effects estimates also with respect to the pooled case. In fact, the use of data in levels does not remove the information contained in long-term data and exalts the individual differences that are captured by the

TABLE 5 Results of regressions

Estimation methods		(1)	(2)	(3)	(4)	(5)	(6)	(7)
Data in levels	Pooled	*Y K L*	0.97	−0.69	0.00	0.93		
			108.23	(−7.44)				
		Y K H	0.97	−0.72	0.00	0.92		
			100.1	(−7.53)				
	Fixed effects	*Y K L*	0.70	2.1	0.00	0.93		0.00
			42.33	12.33				
		Y K H	0.67	2.24	0.00	0.92		0.00
			34.01	11.55				
	Random effects	*Y K L*	0.73	1.75	0.00	0.93	35.08	
			46.05	10.32				
		Y K H	0.71	1.8	0.00	0.92	35.81	
			38.11	9.5				
Data in first diff.	Pooled	*Y K L*	0.73	0.00	0.00	0.13		
			11.06	0.00				
		Y K H	0.74	0.00	0.00	0.13		
			11.27	−0.79				
	Fixed effects	*Y K L*	0.74	0.00	0.00	0.13		0.99
			9.68	−0.04				
		Y K H	0.74	0.00	0.00	0.14		0.99
			9.79	−0.80				
	Random effects	*Y K L*	0.73	0.00	0.00	0.13	0.02	
			11.06	0.00				
		Y K H	0.74	0.00	0.00	0.14	0.02	
			11.27	−0.79				

NOTES The *t*-statistic is reported in parentheses; in random effects regressions, the value in parentheses shows prob. $>\chi^2$ Source: Author's regression based on data from the Barro-Lee dataset (2000), the Conference Board and Groningen Growth and Development Center and the International Labour Organization.

set of individual constants. According to the fixed effects, the α parameter assumes value 0.67 when education is included and value 0.70 when it is not. Therefore, the exclusion of education seems to overestimate (although rather modestly) the relative share of physical capital to production. Shifting attention to the first differences, we can see a significant reduction in the goodness of fit of the regressions. As we already remarked, this is the result of processing data in growth rates and the greater volatility of the GDP compared to production inputs. Table 5 shows that the null hypothesis of the Hausman test cannot be

rejected. Therefore, the fixed effects give way to random effects. This is not a surprising conclusion, because the elimination of low frequencies contained in the data produces a levelling of the same and the reduction of the individual specificity. It is interesting to note that the
[44] values of α which occurred in the random effects are similar to the value estimated by the pooled regressions. That is a sign of poolability (at least partial) of statistical information. In other words, the data referring to 24 countries observed over 36 years would appear similar to the data of 24x36 different cases. Focusing attention on the estimation of α, it fluctuates between 0.74 when education is included and 0.73 when it is not. Unlike the case of data expressed in levels, here the exclusion of education does not produce any significant overestimation of the relative share of physical capital to production. The reason is once again to be found in the nature of the first differences. They eliminate the long-term information contained in the data and, Thus cancelling the effect of education on production (typically long-term effect).

ESTIMATE OF THE TFP

Using all the data, we can now try to estimate the TFP. The method chosen is growth accounting, which refers to the TFP as residual. In particular, the growth of the TFP is attributed to the growth of GDP that is not adequately explained by the growth of physical capital and human capital. Accordingly, the formula is:

$$\frac{d}{dt}\ln A = \frac{d}{dt}\ln y - \alpha\frac{d}{dt}\ln k - (1-\alpha)\frac{d}{dt}\ln h. \tag{7}$$

Table 6 shows the average annual rates of the TFP in four subperiods. For the estimated rates, the values of the α 0.30 and 0.74 have been used. The first value is the minimum value of the relative contribution of physical capital to production normally used in studies of growth accounting. The second value is the maximum value estimated in the previous paragraph.

As we can infer from the analysis of the table, the data have a high sectional and temporal variability. Under these conditions, it is difficult to track a representative evolutionary path of the Mediterranean

TABLE 6 Average annual rates of the TFP, by countries and sub-periods (%)

Country	$\alpha = 0.74$				$\alpha = 0.30$			
	1970–1979	1980–1989	1990–1999	2000–2006	1970–1979	1980–1989	1990–1999	2000–2006
Albania	−0.0029	−0.0121	0.0094	0.0314	0.0012	−0.0107	0.0078	0.0527
Algeria	0.0038	−0.0207	−0.0049	0.0075	0.0141	−0.0234	−0.0242	−0.0020
Bosnia-Herz.			0.0572	−0.0392			0.1019	−0.0191
Croatia			−0.0283	0.0044			−0.0231	0.0183
Cyprus	−0.0012	0.0183	0.0157	0.0011	0.0063	0.0255	0.0195	−0.0005
Egypt	−0.0164	−0.0030	0.0180	−0.0044	0.0159	0.0074	0.0212	0.0028
France	−0.0052	0.0005	−0.0019	−0.0051	0.0103	0.0104	0.0035	0.0006
Greece	0.0093	−0.0078	0.0042	0.0058	0.0218	−0.0100	0.0035	0.0123
Israel	−0.0036	0.0042	0.0041	0.0053	0.0073	0.0057	0.0111	0.0030
Italy	0.0100	0.0031	−0.0032	−0.0093	0.0210	0.0101	0.0031	−0.0072
Jordan	−0.0232	−0.0391	−0.0080	0.0283	0.0069	−0.0308	−0.0248	0.0209
Lebanon	−0.0216	−0.0634	0.0410	0.0293	−0.0283	−0.0591	0.0249	0.0125
Libyan Arab Jam.	−0.0020	−0.0675	0.0142	0.0361	0.0140	−0.0730	−0.0131	0.0212
Macedonia			−0.0042	0.0230			−0.0056	0.0171
Malta	0.0638	−0.0093	0.0009	−0.0110	0.0748	0.0150	0.0217	−0.0056
Morocco	−0.0305	−0.0064	−0.0105	0.0020	−0.0033	−0.0032	−0.0110	0.0142
Palestinian Ter.	−0.0263	−0.0340	0.0277	−0.0323	0.0225	−0.0198	0.0374	−0.0339
Portugal	0.0045	0.0041	−0.0069	−0.0139	0.0169	0.0083	0.0015	−0.0054
Serbia-Mont.			−0.0610	0.0607			−0.0710	0.0632
Slovenia			−0.0066	−0.0002			0.0092	0.0159
Spain	−0.0083	0.0028	−0.0064	−0.0129	0.0151	0.0130	0.0006	−0.0113
Syrian Arab Rep.	−0.0125	−0.0457	0.0235	−0.0044	0.0238	−0.0405	0.0122	−0.0091
Tunisia	0.0027	−0.0093	0.0166	0.0142	0.0150	−0.0044	0.0116	0.0118
Turkey	−0.0266	−0.0021	−0.0169	0.0060	0.0021	0.0098	−0.0010	0.0219

NOTES Source: Author's estimates based on data from the Barro-Lee dataset (2000), the Conference Board and Groningen Growth and Development Center and the International Labour Organization.

TFP. However, some elements of homogeneity seem to be due to the period 1980–1989, which saw a concentration of the worst average performance of TFP. If we examine the first part of the data ($\alpha = 0.74$), the highest growth rate of the TFP in the 80s (in Cyprus) appears clearly below the best performance recorded in the earlier (in Malta) and later (in Serbia-Montenegro) sub-periods. Shifting attention to the data in the second part of the table ($\alpha = 0.30$), the previous conclusions remain unchanged, with average annual rates proportionately higher. In addition, it is interesting to note the moderate contraction in the gap between the maximum and minimum of the annual average growth rate of the TFP. If the range has a spread of 0.1031 in the period 1970-1979, it measures 0.0973 in the last period.

KEY FACTORS OF ECONOMIC GROWTH IN THE MEDITERRANEAN COUNTRIES

The estimate of TFP and the measure of physical capital and human capital time series justify the last step in understanding the determinants of economic growth. This step is accomplished by breaking down the growth rates of the aggregate product into the contributions of accumulation factors and productivity.

Table 7 shows the average annual growth rates of GDP per worker and the contributions of each component to GDP. The first column in the table reproduces the growth rate of GDP per worker over the period 1970–2008. The second column represents the contribution of physical capital per worker to production. In particular, it is calculated as the product of the average annual growth rate of physical capital per worker and the relative share of physical capital to production (in this case 0.74). The third column represents the contribution of human capital per worker to production. Like the previous column, it has been calculated as the product of the average annual growth rate of human capital per worker and the relative share of human capital to production (in this case equal to 0.26). The fourth column shows the average growth rates of the TFP. Finally, columns five, six and seven show once again the breakdown of GDP per worker into the three different components, assuming a value of the relative share of physical capital to production equal to 0.30 and a value of the relative share of human capital equal to 0.70. As we note, the breakdown of the GDP into the three different components is a simple exercise of calculating, where the TFP component absorbs everything that is not explained by the variation of inputs.

Table 7 gives us a framework of interesting information. Observing the production share assigned to inputs and technology, obtained by taking 0.74 as the relative share of physical capital to production, it seems correct to argue that the main determinant of economic

TABLE 7 Average annual growth rates of GDP per worker and the outputs' contribution (%)

Country		$\alpha = 0.74$			$\alpha = 0.30$		
	Y/L	K/L	H/L	A	K/L	H/L	A
Albania	0.0220	0.0145	0.0015	0.0060	0.0059	0.0042	0.0120
Algeria	–0.0034	–0.0020	0.0026	–0.0040	–0.0008	0.0071	–0.0096
Bosnia-Herzegovina	0.0671	0.0572	0.0009	0.0090	0.0232	0.0025	0.0414
Croatia	0.0077	0.0187	0.0009	–0.0120	0.0076	0.0025	–0.0024
Cyprus	0.0271	0.0153	0.0029	0.0089	0.0062	0.0077	0.0132
Egypt	0.0330	0.0308	0.0032	–0.0010	0.0125	0.0085	0.0120
France	0.0180	0.0194	0.0014	–0.0028	0.0079	0.0039	0.0062
Greece	0.0181	0.0131	0.0024	0.0026	0.0053	0.0065	0.0064
Israel	0.0150	0.0111	0.0014	0.0026	0.0045	0.0037	0.0069
Italy	0.0158	0.0145	0.0012	0.0001	0.0059	0.0032	0.0068
Jordan	0.0042	0.0128	0.0026	–0.0112	0.0052	0.0071	–0.0080
Lebanon	–0.0123	–0.0099	0.0017	–0.0041	–0.0040	0.0045	–0.0128
Libyan Arab Jamahiriya	–0.0081	–0.0053	0.0031	–0.0059	–0.0021	0.0083	–0.0143
Macedonia	0.0068	–0.0035	0.0009	0.0094	–0.0014	0.0025	0.0058
Malta	0.0442	0.0320	0.0019	0.0103	0.0130	0.0051	0.0261
Morocco	0.0121	0.0216	0.0017	–0.0112	0.0088	0.0044	–0.0011
Palestinian Territory	0.0197	0.0337	0.0015	–0.0155	0.0137	0.0041	0.0020
Portugal	0.0196	0.0203	0.0022	–0.0030	0.0082	0.0061	0.0053
Serbia-Montenegro	–0.0031	–0.0038	0.0009	–0.0001	–0.0015	0.0024	–0.0039
Slovenia	0.0273	0.0297	0.0010	–0.0034	0.0120	0.0027	0.0125
Spain	0.0188	0.0229	0.0019	–0.0060	0.0093	0.0050	0.0045
Syrian Arab Republic	0.0105	0.0177	0.0027	–0.0099	0.0072	0.0073	–0.0040
Tunisia	0.0196	0.0111	0.0025	0.0059	0.0045	0.0068	0.0083
Turkey	0.0273	0.0354	0.0018	–0.0099	0.0143	0.0050	0.0080

NOTES Source: Author's estimates based on data from the Barro-Lee dataset (2000), the Conference Board and Groningen Growth and Development Center and the International Labour Organization.

growth in the Mediterranean is the accumulation process of physical capital. Except for a few national cases, such as Algeria, Lebanon, Libyan, Macedonia and Serbia-Montenegro, the share of production attributable to physical capital per worker is always positive and prevailing compared to human capital and productivity. It should also be noted that while the TFP contribution is particularly variable, the contribution of human capital is always stable and positive, although its impact on growth seems very modest.

Shifting the emphasis on α equal to 0.30, the reality is shown in a different light. As we expected from the implemented calculation techniques, the share of aggregate production due to physical capital is reduced significantly, to the benefit of human capital and productivity. Human capital continues to offer a positive contribution to aggregate output in all countries, but its magnitude continues to be lower than the physical capital one. The only exceptions are Cyprus, Greece, Jordan, Syrian and Tunisia, which recorded higher contributions of human capital in comparison to physical capital contributions. However, the major changes occur on the TFP side. In fact, the contribution of the TFP to economic growth increases considerably. In Albania, Bosnia-Herzegovina, Cyprus, Israel, Italy, Macedonia, Malta, Slovenia and Tunisia, for example, the TFP is the main determinant of growth. In other countries, such as Egypt, France and Turkey, the TFP contributions are substantial and sometimes greater than the contribution of human capital.

CONCLUSIONS

The focus on the Mediterranean showed the advantages and disadvantages of working in an area that has only partially been covered by international statistics and by the specialized literature. Therefore, it has been necessary to start measuring the data of the 24 observed countries using a consistent methodology. Physical capital was measured by the perpetual inventory method, while human capital measurement was carried out to extend the estimates of Barro and Lee, using the human development index. The early data showed the high diversity of developments in the product and the aggregate of physical and human capital stock.

On the basis of the data, it has been possible to estimate total factor productivity, which we have understood to be a synthesis of many elements (technical, institutional, social, etc.) that affect the overall efficiency of the economy. In order to estimate TFP we have followed the growth accounting method, which attributes to TFP the residual growth rate of aggregate product that is not explained by the variations of inputs.

The average annual growth rates of TFP show high sectional and time variability. Despite these difficulties, it is nevertheless possible to indicate the 80s as the decade with the worst average performance. In addition, it has been important to point out the moderate contraction in the gap between the maximum and minimum average annual growth rates.

Estimates of the TFP also made it possible to break up the growth rate of aggregate output per worker into the contribution of physical capital, human capital and TFP. Our analysis shows that the physical capital is the key factor of economic growth. The contribution of human capital seems rather low, although it has a positive value. The role of TFP is particularly variable, but it is significant in many transition countries and in all the countries which have recorded the highest economic growth rates.

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Access to Financial Services in the Countries of the Maghreb: Comparative Review of the Provision of Microfinance Services in Algeria, Egypt, Morocco and Tunisia

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THE PURPOSE OF THIS STUDY is to analyze how in the countries of the Maghreb private and state-owned financial institutions try to solve the problem of lack of access to basic financial services. In this document we assume that this problem is essentially due to an inadequate supply of microfinance services. The supply of microfinance services to the low-income population in Algeria, Morocco, Egypt and Tunisia is too expensive, and the sales networks through which such services are distributed have insufficient coverage, do not use the necessary risk analysis mechanisms and are subject to inappropriate regulatory regimes. In this study we aim to present the business models used by the leading institutions involved in microfinance in the countries of the Maghreb. We also propose to analyze the policies adopted by the governments of these countries to ensure that the lowest-income segments have access to financial services. Our ultimate objective is to identify best practices in the implementation of existing innovations in the banking industry that can be combined with best practices in the formulation of public policy affecting the finance and microfinance sectors in order to extend access to basic financial services to a larger proportion of the population of developing countries.

INTRODUCTION

The purpose of this study is to analyze how in the countries of the Maghreb private and state-owned financial institutions try to solve the problem of lack of access to basic financial services. In this document we assume that this problem is due basically to an inadequate supply of microfinance services. The supply of microfinance services to the low-income population in Algeria, Morocco, Egypt and Tunisia is too expensive and the sales networks through which such services are distributed have insufficient coverage, do not use the necessary risk analysis mechanisms and are subject to inappropriate regulatory regimes.

As a result, there is an unmet demand for financial services among very large segments of the population. These segments are therefore obliged to resort to considerably more costly and inefficient informal services, preventing them from attaining higher levels of economic development. The solution would be to develop a supply of financial services for the lowest-income segments in order to overcome the problems we have identified.

The methods we use in our analysis are as follows: first, we review the economic context in each country; second, we analyze the financial industry, especially the banking industry; third, we describe the microfinance sector and identify the main institutions involved in providing microfinance services; fourth, we consider the problem of lack of access to financial services in light of the supply factors described previously, i. e. prices, distribution networks, credit analysis methods and regulatory context; fifth, we consider the flows of emigrants' remittances received by each country; lastly, we examine the business models of the countries' main microfinance service providers and see how these institutions apply best practices in implementing their business models.

In this research paper we aim to present the business models used by the leading institutions involved in microfinance in the countries of the Maghreb. We also propose to analyze the policies adopted by the governments of these countries to ensure that the lowest-income segments have access to financial services. Our ultimate objective is to identify best practices in the implementation of existing innovations in the banking industry that can be combined with best practices in the formulation of public policy affecting the finance and microfinance sectors in order to extend access to basic financial services to a larger proportion of the population of developing countries.

TABLE 1 Financial depth in Algeria, Egypt, Morocco and Tunisia, 2003 (in %)

Country	Loans to the private sector/GDP		Deposits/GDP	
	1990	2003	1990	2003
Algeria	44.4	11.4	73.5	63.9
Egypt	30.6	61.5	87.9	106.6
Morocco	34.0	56.0	61.0	92.3
Tunisia	66.2	66.6	N/A	59.1
Average developed countries	125.8	158.3	92.8	104.3
Medium-income	43	64.2	42.2	81.4
Medium-low income	39.3	58.6	41.1	76.9
Low income	22.3	27	36.2	51.9

NOTES Based on data from 2005 World Development Indicators (see http//www.worldbank.org).

ACCESS TO FINANCIAL SERVICES IN THE COUNTRIES OF THE MAGHREB

The level of financial depth in the countries of the Maghreb can be described as low or very low, depending on the country and the indicator used. Access to basic financial services among the general population is estimated at 45% in Morocco, 42% in Tunisia and 30% in Algeria. These figures are low compared to developed countries such as Spain (98%) or the United States (90%). However, they are higher than in some developing countries with higher income per capita, such as Ecuador (34%) Colombia (45%) Peru (35%) and Mexico (25%). And they are considerably higher than in other African countries with lower income per capita, such as Kenya (10%), Uganda (6.7%) and Tanzania (6.4%).

Macroeconomic indicators measuring the depth of the regulated financial system lead to similar conclusions. In the countries of the Maghreb included in this study the ratios of loans to the private sector to GDP and of bank deposits to GDP are lower than in developed countries but above the average for medium to low-income countries. As of 2003 only Algeria had indicators lower than the rest of the countries in the region, due to the political and economic crisis that devastated the country at the end of the nineties.

A common characteristic of the countries under study (except Tunisia), and of developing countries in general, is an excess of liquidity in their regulated financial systems. The excess of liquidity (measured as the difference between the ratios of deposits to GDP and

of loans to the private sector to GDP) is particularly large in Egypt and Morocco, owing to the high level of deposits in their financial systems. In Algeria the excess of liquidity is also high, though basically due to the failure of the country's financial system to generate loans, owing to political and economic instability.

The low level of access to credit, and to microfinance services in general, is attributable, first, to the regulation of the prices of microfinance services. Second, the scant reach of financial distribution networks does not allow mass access to financial services. Third, the use of inappropriate credit analysis methods prevents inclusion of the informal economy. Lastly, the inadequate regulatory and policy framework does nothing to solve the problems of supply.

Regulations imposing maximum interest rates (usury rates) are one of the main factors contributing to the lack of access to credit in Tunisia and Morocco (CGAP 2005). In Morocco regulated financial institutions are subject to central bank-imposed interest rate caps, while microfinance associations are not. These associations lend at market rates (averaging 20% to 30%), which explains their growth, without this having diminished the demand for microcredit. In Tunisia, too, regulated financial institutions must respect interest rate caps imposed by the central bank. Moreover, unlike in Morocco, the interest rate at which microcredit associations are permitted to lend is capped at 5%.[1]

In Algeria and Egypt, by contrast, interest rates are unregulated. In Algeria prices have been liberalized and interest rate caps were abolished in 2001; at present the average rate for consumer loans is 25% to 30%. In Egypt, too, prices are liberalized; the average rate for loans by specialized microfinance institutions is currently around 30%.

The second reason for lack of access to financial services in the countries under study is the scant reach of banking distribution networks. This deficiency of the banking networks is offset, however, by the density of these countries' postal services networks. The large postal network is an inheritance from a shared French colonial past

TABLE 2 Banking and postal distribution networks in Algeria, Egypt, Tunisia and Morocco (density per 100,000 inhabitants)

	Bank and Postal service	Banking agencies	Postal agencies	ATMS
Tunisia	20.16	9.04	11.12	8.29
Egypt	17.03	3.51	13.51	1.00
Morocca	12.73	7.26	5.47	7.56
Algeria	13.46	3.43	10.03	1.06
Western Europe		44.66		66.81
Asia		8.13		9.40
Easern Europe		7.39		13.78
Latin America		7.02		12.48
Africa		2.06		3.48

NOTES Based on authors' calculations and Beck, Demirguc-Kunt, and Martinez Pereira 2006.

and an asset which, properly used, could be a catalyst for growth in banking penetration. In Morocco and Tunisia, moreover, the postal and banking networks are complemented by a network of microcredit associations. As of September 2006 this network consisted of 800 branches in Morocco and 200 in Tunisia.

The third factor explaining the low level of access to credit in the countries of the Maghreb is the use of inappropriate credit assessment methods by lending institutions. The methods used are inappropriate to the informal economies in which these institutions operate, as they take no account of income for which there is no documentary evidence. Lack of experience in the granting of small loans on a large scale is another factor that has prevented institutions from developing efficient credit analysis systems.

An alternative is to develop centralized credit analysis systems where credit risk is analyzed on the basis of an individual or company's payment record with other institutions. A centralized system of this kind is known as a central credit bureau and may be state-owned or private. However, the credit bureaus that exist in the countries of the Maghreb are of no use, as they report only high value loans. Consequently, in Algeria only 0.2%, in Egypt 1.5%, in Morocco 2.3% and in

TABLE 3 Credit registry coverage in Algeria, Egypt, Morocco, and Tunisia

Region or Economy	(1)	(2)	(3)	(4)
East Asia & Pacific	5.0	1.9	3.2	10.1
Europe & Central Asia	5.5	2.9	1.7	9.4
Latin America & Caribbean	4.5	3.4	7.0	27.9
Middle East & North Africa	3.9	2.4	3.2	7.6
OECD	6.3	5.0	8.4	60.8
South Asia	3.8	1.8	0.1	1.3
Sub-Saharan Africa	4.2	1.3	1.5	3.8
Algeria	3	2	0.2	0.0
Egypt	1	2	1.5	0.0
Morocco	3	1	2.3	0.0
Tunisia	3	3	11.6	0.0

NOTES Column headings are as follows: (1) legal rights index, (2) credit information index, (3) public registry coverage (% adults), (4) private bureau coverage (% adults). Adapted from World Bank 2006.

Tunisia 11.6% of the population have a credit history in their country's public credit bureau. In none of the countries are there any privately owned credit bureaus.

The fourth reason for the low level of access to financial services in the countries of the Maghreb is the lack of an appropriate legal framework for finance and microfinance activities. While the regulated financial sector in the Maghreb has been liberalized in recent years, the microfinance sector remains over-regulated and under-supervised.

Moreover, economic and financial theory shows that lending to the private sector is fostered by the development and enforcement of property laws. According to World Bank statistics, the laws of the countries of the Maghreb do not protect creditor's rights and so are not conducive to lending. The World Bank assigns Algeria, Morocco and Tunisia a score of 3 out of 10 and Egypt 1 out of 10. This is below the average for the countries in the region (3.9 for the Middle East and North Africa) and for OECD countries (6.3) (see World Bank 2006).

Looking at the countries individually, in Tunisia the regulatory context is unfavorable to microfinance, not only because of the 5% interest rate cap on microloans, but also because the state-owned Banque

Tunisienne de Solidarité has a monopoly and is not adequately supervised. In Egypt there is no legal provision for the necessary institutions, such as non-bank financial institutions, to carry out microfinance activities in the regulated sector. In addition, supervision of the unregulated sector is inadequate.

In Morocco the government has enacted a Microcredit Associations Law to solve the problem of interest rate control in the regulated financial sector. However, the prohibition on deposit-taking by microcredit associations threatens these institutions' future development. In Algeria, finally, the right policies, in terms of institutions and pricing, are in place; the challenge is to ensure that the supervisory system allows the microfinance sector to develop.

ECONOMIC ENVIRONMENT AND REGULATED FINANCIAL SYSTEM

The countries of the Maghreb included in this study are medium-low income countries on a global scale. In 2004[2] Morocco had a per capita income of USD 1,730, Algeria USD 2,730, Tunisia USD 1,520 and Egypt USD 1,250. Only Algeria, thanks to its substantial oil revenues, had a per capita income above the average for the Middle East and North Africa region (USD 2,241) and for the medium-low income countries (USD 1,918).

In macroeconomic terms all the countries in our sample have enjoyed sustained economic growth, both absolute and per capita. The trend in macroeconomic prices also has been favorable in recent years, with stable exchange rates, low inflation and (for developing economies) relatively low real interest rates.

Remittances have contributed to the countries' positive performance. As a proportion of GDP they go part of the way to explaining economic growth in some of the countries. And as a source of foreign currency they have contributed to the macroeconomic stability mentioned earlier, thanks to their beneficial impact on the current account balance and interest rates.

Remittances have played a particularly important role in Morocco, where they reached USD 4,200 million in December 2004, accounting for 8.4% of GDP. Egypt stood second in volume of remittances

TABLE 4 Macroeconomic trends in Algeria, Egypt, Morocco and Tunisia, 2005

Country	(1)	(2)	(3)	(4)	(5)	(6)
Algeria	3,9	1,6	18,35	25,9	13,8	4
Egypt	4,7	4,9	4,8	38,4	–6	10
Morocco	3,6	1,0	0,1	35,3	–3,3	3,25
Tunisia	4,9	2,0	–2,8	66,5	–2,6	N/A

NOTES Columns headings are as follows: (1) change of GDP 1995–2005 (%), (2) inflation: consumer price index (%), (3) balance of payments on current account (% GDP), (4) government debt (% GDP), (5) government deficit/surplus (% GDP), (6) discount/interest rate (%). Based on data from 2005 World Development Indicators (see http//www.worldbank.org).

TABLE 5 Economic impact of remittances per income quintile, 2004 (in %)

Quintile	Morocco	Algeria	Tunisia	Egypt
Quintile 1	27,55	9,70	17,74	8,47
Quintile 2	16,90	5,86	10,34	6,02
Quintile 3	12,10	4,22	7,19	4,73
Quintile 4	8,41	2,99	4,91	3,57
Quintile 5	3,84	1,59	2,25	1,67

NOTES Thors' calculations based on data from 2005 World Development Indicators (see http//www.worldbank.org).

received, with USD 3,300 million in 2004, equivalent to approximately 4.19% of its GDP. Algeria was third, with USD 2,500 million, or 2.94%, while Tunisia received USD 1,400 million, representing 4.96% of its 2004 GDP.

However, any analysis of the economic impact of remittances must consider not only the macroeconomic indicators, but also other indicators that take account of the extreme distribution of wealth in these countries. A relevant indicator for this purpose is the ratio of remittance income to individual income by income quintile. Bearing in mind that remittance recipients generally belong to lower-income groups, a relevant comparison would be between remittance income per capita and the gross income of the lowest-income groups. The table below shows this comparison, prompting highly relevant conclusions.

As can be seen in table 5, in 2004 remittance income as a percentage of the total income of the first income quintile was 27.55% in Morocco, 9.70% in Algeria, 17.74% in Tunisia and 8.47% in Egypt. Remittance flows are therefore very important for the low-income segments of society and so need to be included when estimating their income. In particular, they need to be included in any credit risk analysis, as income from the informal economy is part of the ability to pay and so must be taken into account when deciding whether to grant credit.

The regulated financial sectors of the countries under study are at different stages of liberalization and de-nationalization. They are also characterized by low profitability, high levels of default, high liquidity and high capitalization. Algeria could be said to be the country that started to liberalize most recently, as its financial industry is still dominated by state-owned banks, which control 92.6% of banking assets and 93.3% of bank deposits (CGAP 2006), and at present its priority in financial policy is to strengthen its financial system by developing infrastructure and regulations that help improve the efficiency of banks and other organizations such as Algérie Poste and the country's cooperatives.

Egypt is at a slightly more advanced stage of the regional liberalization process. Following the privatization of the Bank of Alexandria in 2006, state-owned banks account for 43.70% of banking assets. Egypt's financial policy is currently focused on rescuing the state-owned banking sector through further privatizations and divestments of public-private joint ventures. The profitability of state-owned banks is very low (ROA, 0.2%), as a result of their high ratio of non-performing loans to total loans (24.2%), due to widespread corruption (USAID 2006).

Tunisia has reached a third stage of liberalization. Private-sector commercial banks outweigh the public sector, accounting for 39.1% of the assets of the regulated financial system, thanks to the privatization process begun in 2002. However, private-sector banks are not very profitable (ROA 0.6%, ROE 7%), owing to high rates of default (20%) (according to Association Professionnelle Tunisienne des Banques et des Établissements Financiers, http://www.apbt.org.tn/) following the 2002 banking crisis, privatization and the banking law reforms of 2001 and 2006, the aim is to reinforce credit risk controls.

Of the four countries studied, Morocco is the one that has gone

TABLE 6 Distribution network of the national postal service by country

Algeria	3,271 post offices, one per 10,000 inhabitants
Egypt	10,000 post offices, one per 7,400 inhabitants
Tunisia	1,112 post offices, one per 9,060 inhabitants
Morocco	1,673 post offices, one per 18,290 inhabitants

NOTES Adapted from CGAP 2005; 2006.

furthest in liberalizing and privatizing its financial system. Its financial system has little state ownership, although the royal family holds shares in the leading private-sector bank (ATW), while the leading cooperative bank (BCP) is state-controlled. These two entities lead a highly concentrated banking industry, with the top three institutions accounting for more than 40% of the loans and deposits of the regulated financial system (Bentaleb 2006).

OVERVIEW OF THE SUPPLY OF MICROFINANCE SERVICES

The colonial past of the four Maghreb countries studied here explains the importance of the postal system as a leading player in the provision of microfinance services. In all four the postal service, with its extensive distribution network, is the leader in microsavings and distribution of remittances. In none of them, however, does the postal service have the legal power to lend; in none of them, therefore, does it provide microcredit. Optimizing the postal service distribution network for the distribution of microfinance services would thus lead to significant financial deepening in Algeria, Morocco, Tunisia and Egypt.

Of the four countries studied, Algeria has the least developed microfinance sector. The Algerian government is therefore encouraging the distribution of microfinance services via the postal distribution network, which has a considerable reach. Egypt is the only one of the four countries in which the banking industry has a significant presence in microfinance. In Morocco the microfinance sector is dominated by microcredit associations, whose development is a regional best practice. Lastly, in Tunisia the microfinance industry is a state-owned monopoly, organized around Banque Tunisienne de Solidarité (BTS).

The Microfinance System in Algeria

Algeria's microfinance system, like its regulated financial system, is the least developed of those studied. A wide variety of institutions offer microfinance services, although the supply is insufficient to meet the potential demand. Part of the reason for the inadequate supply is that the banks lack the means to penetrate the microfinance market and are not strategically oriented to do so.

Algérie Poste, the postal service provider, is Algeria's largest financial service provider. There are also fifteen non-governmental organizations (NGOs), some of which provide microfinance services. In third place is the Algerian cooperative system, which is the largest provider of microfinance services in rural areas. As part of the ongoing reform of the country's financial system, the Algerian government has taken measures to strengthen these providers. It has also adopted a variety of public policies aimed at increasing the availability of such services.

Algérie Poste, the postal service provider, is currently Algeria's biggest provider of microfinance services. It has the country's largest branch distribution network, handling 7.1 million current accounts with more than a million transactions per day. Algérie Poste has three organizational layers: a central services division, eight territorial management units and 48 postal units, each responsible for its province or *wilaya.*

At present Algérie Poste offers a wide range of microfinance services, either directly or under third-party agreements. It can be considered the only provider of microfinance services in Algeria and unique in the region, given its size, network density and information system capacity. Its star product is the postal checking account, although it also distributes savings accounts (in association with CNEP Banque), transfers of remittances (in association with Western Union), mortgage loans (in association with CNEP Banque) and its own ATM cards for cash withdrawals (180,000 as of year-end 2005).

In 2002 Algérie Poste became a government corporation, with the capacity to offer both postal and financial services. As a public corporation Algérie Poste was made organizationally and functionally independent of the Ministry of Telecommunications and Postal Services, which became the regulatory authority. This means that Algérie Poste must be self-financing. The financial services area generates approximately 80% of the corporation's revenues and employs almost 1,400 of its 25,000 employees. Algérie Poste manages 7.1 million postal checking accounts, representing deposits of approximately USD 3.9 billion. It also has 3.6 million savings accounts, with some USD 2.86 billion in deposits. As of December 2005 total funds deposited with Algérie Poste came to USD 6.76 billion, representing 12% of the total deposits in the country's financial system. Remittances are another important financial service provided by Algérie Poste, which in 2004 handled 31 million transactions in a total amount of approximately USD 34 million.

Algérie Poste has 3,271 post offices, all of which offer financial services. This total breaks down into 1,636 main offices and 1,635 secondary offices, with an average density of 9,100 inhabitants per post office. The density is higher in the capital, Algiers, and other large cities such as Oran and Constantine.

Algérie Poste's technology platform allows it to offer an online account management system and electronic payment facilities. At year-end 2005 Algérie Poste had more than 200 ATMs and was planning to increase the number to 1,400 by the end of 2008 (CGAP 2006). This expansion of the ATM network was to be accompanied by the installation of 1,000 point-of-sale terminals in the period 2008–2009.

Through its alliance with the French postal service Algérie Poste hopes to significantly improve the capacity and quality of its financial and postal services. At present Algérie Poste does not have authorization to originate loans, although it could enter into distribution agreements with banks or finance companies to provide loans through postal checking accounts. It has a partnership agreement with CNEP Banque and is negotiating with finance companies specializing in consumer credit.

Before Algérie Poste can become a major catalyst for banking penetration in Algeria, it must meet certain challenges. First, it must develop and optimize its technology platform. Second, it must improve its internal audit and control systems, especially as regards liquidity management. Third, it must improve the efficiency of its processes to ensure profitability and not have to rely on government subsidies.

Fourth, it must seek distribution alliances with credit providers and so become de facto a universal postal bank. Fifth, it must deal with overcrowding in some city post offices, especially in Algiers, where the number of customers per branch is very high. Sixth, it must diversify its sources of revenue, as currently 64% of its income comes from investments in government debt. Lastly, it must optimize its large customer base, especially the approximately 50% of inactive customers, through cross-selling.

The Microfinance System in Egypt

Of the four countries of the Maghreb studied, Egypt is, together with Morocco, the one in which microfinance has developed most significantly in recent years. According to UNCDF (Brandsma and Bujorjee 2004), the development of microfinance in Egypt is attributable to two factors: first, the diversification of the products offered by NGOs, including group risk analysis methods and loans aimed primarily at women; and second, the development by Egypt's banking industry (unlike that of any other country in the Maghreb) of specific strategies for serving customers who demand microfinance services.[3]

As the following table shows, as of June 2004 NGOs served more customers in the microfinance segment than banks. However, almost 50% of the portfolio of microloans was granted by banks. The figures in this table are approximate, as there are no exact data on microfinance services in Egypt. The table does not include the microloans provided either by the Principal Bank for Development and Agricultural Credit or by NGOs not financed by USAID. Even so, we believe it gives a rough idea of how the portfolio of customers and loans was shared among the various providers.

Since then, however, despite not having up-to-date data on the activities of all the NGOs and banks, we believe, based on the performance data provided by Banque du Caire, that the portfolio of microloans generated by banks is much larger than that generated by NGOs.[4] The regulatory context is much more favorable to the provision of microfinance services by banks than by NGOs.

In recent years the banks have become the leaders in microfinance in Egypt. Their extensive branch network, their excess liquidity and their

TABLE 7 Provision of microloans in Egypt by type of provider, June 2004

Provider	Active customers	EGP loans	USD loans
NGO	183.262	219.162.564	35.348.797
ABA	39.917	52.497.503	8.467.339
ASBA	49.432	48.834.300	7.876.500
DBACD	26.752	30.808.235	4.969.070
ESED	39.097	52.150.467	8.411.365
SEDAP	5.078	6.862.083	1.106.787
SBACD	15.585	19.054.168	3.073.252
LEAD	3.474	1.820.414	293.615
SPDA Fayoum	2.397	2.558.750	412.701
SCDA Sohag	1.164	3.755.372	605.705
Aswan	366	821.272	132.463
Banque du Caire	63.426	118.341.519	19.087.341
National Bank For Development (2003)	22.600	50.840.002	8.200.000
Banque Misr (Sept. 2003)	9.000	27.000.000	4.354.839
Principal Bank for Development and Agricultural Credit	N/A	N/A	N/A
Total	278.288	415.344.085	66.990.977

NOTES Adapted from USAID 2006; Iqbal and Riad 2004.

technology platforms have allowed them to take the lead in a market previously led by NGOs. So far, however, the banks have concentrated on offering individual microloans and have not exploited the potential for cross-selling.

The National Bank for Development (a privately owned commercial bank) was the first commercial bank to start a microfinance business, in 1987, backed by USAID. Subsequently, Banque du Caire (a state-owned commercial bank), and Banque Misr (a state-owned commercial bank) also started operating in the microfinance segment, the former in 2001 and the latter in 2004. In addition, the Principal Bank for Development and Agricultural Credit, with its large branch network, has been responsible for the distribution of subsidies and loans to the rural segment. Since 1993 it has also distributed microloans, though only in the rural areas in which it operates.

At present, therefore, three state-owned banks and one privately owned commercial bank are active in the microfinance segment. The three commercial banks serve the customers with the highest purchasing power in the microfinance segment. The Principal Bank for Development and Agricultural Credit specializes in financing microloans in the rural sector. The NGOs that specialize in microfinance and community development programs make up the rest of the supply, aimed at the lowest-income segments.

The Microfinance System in Morocco

Morocco has become the regional leader in terms of the development of its microfinance sector, with approximately 42% of the total number of active borrowers in the whole MENA region (Brandsma and Bujorjee 2004). This development is not only very substantial but also quite recent. The microcredit law passed in 1999 gave NGOs, among other privileges, the ability to offer microcredit without being restricted by the price caps that regulate credit in the financial industry. The positive attitude of regulators and supervisors has also greatly assisted the development of the industry.

The microfinance industry in Morocco has also benefited significantly from financial sector deregulation. In recent years, deregulation has allowed microfinance institutions to get funding from the country's banking and financial industry. As the financial sector has gained in solvency and stability, banks and finance companies have been able to offer better rates and conditions of funding to MFIs.

Currently, under the 1999 law regulating microcredit associations and following the merger of Zakoura and Fondation Banque Populaire, there are 10 NGOs with a license to grant microcredit in Morocco. Under this legal framework all associations must register with the Ministry of Finance but are supervised by the Central Bank under delegation from the Ministry.

Commercial banks have established close relations with microcredit institutions. Crédit Populaire du Maroc (CPM) controls the third-largest microcredit association, Fondation Banque Populaire pour le Micro-Crédit (FBPMC). This association was founded by CPM and receives operational support and funding from its parent. CPM envisions that its foundation will not only promote economic and social development through microcredit, but also will allow CPM to gain new customers, migrated from its microcredit subsidiary. CPM has established a global strategy in which it starts by offering services at the base of the pyramid (FBPMC) and then, once these customers become bankable by CPM, migrates them to the parent institution. CPM also finances the development of other microcredit associations, with the result that the industry leaders are among its most important corporate customers.

The 10 active microcredit associations that operate in Morocco are very different, however, in terms of size, growth, target segment, credit methodology used and product offering. The microfinance sector is highly concentrated, with three organizations controlling approximately 95% of the sector's active customers and outstanding credit. These three organizations have a national profile and extensive presence in urban areas (except ARDI) through a very dense and growing distribution network that allows them to enjoy significant growth in assets. Furthermore, the flexible, balanced approach adopted by the regulators and supervisors of the microfinance sector in Morocco has allowed MFIS to expand their product offering to services other than microcredit. The growth of the three leading associations has been funded by local commercial banks, which have realized that these institutions are properly managed and represent highly profitable, low-risk investments.

The other microcredit associations are smaller and very different, not only from the majors but also from one another. Some are focused on serving remote rural areas; others concentrate on serving the poorest of the poor. These smaller organizations have low efficiency ratios, are not financially sustainable and so are donor-dependent for their operations. In order to become sustainable like the other three majors, they would need to merge, gain scale and improve their efficiency ratios.

The recent crisis has hit both the major and minor microcredit associations. Indeed, business growth (since 2001 microcredit associations have seen yearly customer growth of 40%) has not been matched by an increase in organizational ability to follow up their customers' loan repayment performance. As a result, the second most important microcredit association (Zakoura) had to be rescued by merging it with Fondation Banque Populaire. Although it seems that the worst of the crisis has already passed, most microcredit associations will still suffer from high delinquencies in 2010. As a result, in order to strengthen the sector and enforce stricter supervision, the Ministry of Finance is considering ways of transforming the microcredit associations into regulated financial institutions.

The credit risk analysis methodologies most commonly used by microcredit associations in Morocco are group-based. In recent years, however, leading microcredit associations have also started to grant individual credits, using individual credit analysis. The law that regulates microcredit associations originally only allowed the financing of commercial activities, but the regulator has now also authorized microcredit associations to grant home loans for improvements in sanitation, water and electricity. As a result, microcredit associations have been able to enlarge their product offering. However, microcredit associations do not yet provide remittances, payments, savings or insurance.

The thin line that separates consumer lending and microcredit in most developing nations does not apply to Morocco. Because of price caps, neither commercial banks nor finance companies can compete with microcredit associations. Consumer finance is therefore offered to totally different customers, while banks and financial companies cannot profitably serve the customers of microcredit associations. This is one of the reasons why banks such as CPM and Crédit Agricole have created microcredit associations: to be able to serve these customers without being limited by price capping regulation. In addition, these institutions plan to serve these customers throughout the cycle of their expected economic development, migrating them to the parent institution when the time comes.

The strengthening of the relationship between microcredit associations and banks is one of the sector's main development opportunities. The Fédération Nationale des Associations de Microcrédit (FNAM) was originally created under the microcredit associations law in order to strengthen these alliances and promote synergies between banks and microcredit associations. This law forces all registered microcredit associations to be part of FNAM.

FNAM should represent all microcredit associations when dealing with government institutions and supervisory entities. In theory, its main goal is to support the sector by bargaining collectively for resources and developing an internal code of conduct that defines clear operating standards for the sector. This type of representative federation exists also in the banking and financial industry, where there are several different associations, likewise with forced membership for banks and financial companies.

In the case of the microfinance sector, however, FNAM has not been very successful in representing the sector. Its short history has been full of internal problems among its members, due to differences between bigger and smaller entities. In spite of the technical assistance provided by international donors such as Planet Finance and USAID (action for strengthening microfinance associations), FNAM has very limited resources for undertaking its responsibilities. Its ability to represent the industry has also been seriously damaged by internal differences among members, especially with the federation's president. However, the current crisis which the sector is suffering may enhance FNAM's position in terms of its ability to enforce the supervision of the sector and create economies of scale.

Summarizing, Morocco is a unique case in terms of the development of its microcredit industry. Although, as in neighboring countries, the Postal Service is the leading institution in the collection of microdeposits thanks to its distribution network, the competitive microcredit business model that microcredit associations have developed in Morocco is unparalleled. In Tunisia for example, microcredit is offered almost exclusively by the government-run Banque Tunisienne de la Solidarité. On the other hand, Egypt is the only country in the region where the banking industry has some participation in microfinance, in particular in microcredit.

Despite the current crisis, we believe that microcredit associations are the best practice for the supply of microfinance services, especially microcredit, in the region. The success of their business model is explained not only by their specific value proposition, tailored to the needs of the unbanked, but also to the synergies they have generated with the banking and financial sector. However, the current restrictions on the products they are allowed to offer do limit their potential for growth.

The Microfinance System in Tunisia

The microfinance system in Tunisia has developed significantly in recent years, with an estimated 63,736 active borrowers at the end of 2003, placing Tunisia third in number of active borrowers in the Middle East and North Africa region (Brandsma and Burjorjee 2004). Approximately 84% of these customers were customers of the microlending program of Banque Tunisienne de Solidarité (BTS), the government-owned entity responsible for managing the state-subsidized microfinance program. The rest were customers of the microfinance NGO ENDA Inter-Arabe.

There are no banks engaged in microlending, due to interest rate caps of 5% imposed on such activities. These caps are the greatest problem for the development of sustainable microfinance in Tunisia. Therefore, despite the liberalization of the financial and banking sector, the microfinance system suffers from strict, suffocating regulation that prevents its development.

Under the 1999 Microcredit Law, BTS oversees the Tunisian microfinance sector. Approximately 200 associations currently hold permits from the Ministry of Finance to operate as microlenders in Tunisia under the BTS microlending program. Under the Microcredit Law these association receive interest-free loan capital from the BTS, which must be onlent at a rate not exceeding 5% per annum.[5] To continue participating in the program they must maintain a principal repayment record of 80% of the funds borrowed from the BTS. However, the lack of data on the management of this program prevents efficient monitoring of either the associations' payments to BTS or end customers' payments to the associations.

Under the Microcredit Law all the recipients of BTS funds must be registered as associations in accordance with the 1959 Law on Associations. However, they do not need to form a separate association dedicated exclusively to microlending in order to operate in the BTS-funded microlending program. As a result, the institutions participating in this program are very heterogeneous and very often lack the technical expertise to carry out the activity efficiently. They have neither in-house training programs for their employees nor access to BTS-financed training programs.

Furthermore, due to the 5% interest cap for microfinance services and the estimated high rate of default, income does not cover the management costs of the microloans. The associations therefore rely on highly motivated but not always professionally qualified volunteers. Another option used by the Tunisian associations is to subsidize their microlending activity by attracting foreign donations or carrying out other activities. The unsustainability of the model also makes it impossible for the associations to obtain funding from organizations other than BTS,[6] which prevents them from developing.

Another requirement of the BTS lending program is that no participating association may have more than 4,000 active customers. This limitation makes it impossible to achieve internal economies of scale within the microfinance institutions operating under this program. BTS also directly manages, through its own branch network, a lending program to young graduates for business start-ups. This program has an estimated default rate of more than 40%. Furthermore, the loans are in larger amounts than those offered by the microfinance associations, up to USD 7,000 for undergraduates or USD 36,000 for graduates.

Most BTS lending is government funded. BTS started its operations with initial capitalization of USD 22 million, most of it rolled over from the Fonds de Solidarité National (National Solidarity Fund), or Fund 2626. This fund was created as a national development fund, financed in part by contributions made by Tunisian businesses and individuals during an annual 'national solidarity day' held every December 8. At the end of 1999 the Tunisian government created the National Employment Fund, which partly funds the program managed by BTS. Lastly, BTS also receives revenues from excise taxes such as the cigarette tax and exit taxes paid by Tunisians and foreign residents every time they leave the country. From all these sources combined, BTS receives approximately USD 59 million per year.

Additional funding has come from the public sale of its shares and debentures on the capital markets. To complement the funding of its program BTS sold 46% of its shares to the public, although the state continues to hold a controlling 54% stake. The sale of shares was complemented by a USD 11 million bond issue. In both cases investor motivation was not speculative, as neither the shares nor the bonds offer competitive returns.

Third, the BTS program has also received approximately USD 40 million from international development agencies, including Japan, the Islamic Development Bank and the Kuwait Fund. However, as donor organizations have started to pay more attention to the sustainability of microcredit programs, BTS is having difficulty in raising new funds internationally. To make up for this lack of funding, BTS has started marketing savings products to the general public through its 25 retail branches. This new funding strategy will force it to lend its funds using different methods from those it uses at present, which may lead to a change in the conception of the program and of the institution itself.

The associations that participate in the BTS program, like the commercial banks and other credit institutions, are obliged by law to contribute to the National Guarantee Fund. The National Guarantee Fund guarantees 90% of the principal of the loans granted by the associations. BTS is responsible for paying the premiums to the National Guarantee Fund and so collects a 4% fee from the associations on the funding granted. If a borrower defaults, an association may call on the National Guarantee Fund to cover the loss, provided the association can demonstrate that it used all the means at its disposal to recover the loan.

CONCLUSIONS

The development of microfinance in the four countries of the Maghreb we have studied shows four different models of microcredit supply in countries with similar microfinancial contexts. However, all four countries have postal systems with extensive networks, which act as their countries' biggest microdeposit-taking institutions. It could therefore be argued that the four countries have a common microdeposit supply model but different microcredit supply models.

The postal service is the main supplier of microdeposits and remit-

TABLE 8 Microfinance service supply model by country

Country	Loans	Deposits	Ownership
Algeria	Banque Postal (currently being established)	Postal Service	Public
Tunisia	BTS	Postal Service	Public
Morocco	Microcredit associations	Postal Service	Private and Public
Egypt	Banks and NGOs	Postal Service and Banks	Private and Public

tances in all four countries. Optimizing the postal service distribution network should be a priority public policy objective in all the countries of the Maghreb. This should include the distribution of microcredits, whether through direct lending or through distribution agreements with third parties. The expansion of the postal service product offering could therefore be the catalyst for the financial deepening that these countries need in order to achieve equitable economic development.

Of the microcredit supply models we have analyzed, Morocco's microcredit associations represent a best practice. Their success is attributable not only to specialization but also to synergies with the regulated financial sector. However, the prohibition on deposit-taking reduces their impact on financial deepening in Morocco and makes it difficult for them to operate.

A field study carried out in Morocco in collaboration with Morocco's leading microcredit association, Al Amana,[7] shows that the use of electronic payment systems could solve this problem. The business case analyzed shows that distributing microdeposits and microloans through electronic payment systems could improve the efficiency of microfinance associations and so help them bring the unbanked population into stable banking relationships. The use of electronic payment systems has benefits for the distributing microfinance institutions and for the banks that ensure their success and sustainability.

The collaboration this would involve between issuers of electronic payment instruments (banks, finance companies or even the postal ser-

TABLE 9 Estimated income statement for the distribution of electronic payment instruments with microdeposit and microloan functionality by Al Amana to its customers

Average microloans outstanding	6.286.835
Cash balance held on deposit	10.607.532
Banking of remittances	2.383.715
Total Income	19.278.083
Central costs	600.000
Cash management costs	900.000
Cash transport	100.000
Card issuance	7.062.860
Total Costs	8.662.860
Result	10.615.223

vice) and microcredit associations would be beneficial to both sides. For a bank, partnering with a microcredit association would be a means of gaining remittance business by effectively extending the distribution network. This enhanced capacity to handle immigrants' remittances would be particularly important for banks that have only a small share of cash transactions but a large share of credit transfers. Second, the banking partner in any such alliance would be able to acquire customers who currently are served only by microcredit associations but who, in time and given economic development, have the potential to become customers of the traditional banking system. Lastly, banks would benefit from cross-selling products that microcredit associations themselves cannot legally sell, under co-branding arrangements.

For a microcredit association (in this case Al Amana) the first benefit of partnering with a bank or finance company would be the increase in the range of products it can offer, as by law such associations can only offer microloans to micro-businesses and households. Second, it would lay the foundations for the creation of a central credit database that would help tackle the problems of cross-borrowing and a possible increase in default. Third, it would increase banking penetration and so contribute to the country's economic development. Fourth, it would encourage the use of bank remittance providers, which have significantly lower fees than non-bank providers, thus increasing the flow of remittances into the country and thus also the use of banks by the population. Lastly, microcredit associations would be able to provide better service and added value to their customers at no extra cost, thus reinforcing the relationship.

The development of microcredit associations in Morocco should be a model for the other countries of the Maghreb. In Algeria, where there are no microcredit associations, the government's Banque Postal project should be accompanied by efforts to develop such associations. In Tunisia, where the BTS-run microcredit system is constrained by an unsustainable model of government subsidization, notice should be taken of the Moroccan example, which shows the results that can be achieved by allowing free market distribution of microloans. Lastly, in Egypt, the business model of the microcredit associations should be imitated not only by specialized microfinance institutions such as the National Bank for Development but also by the leading banks, which are planning to create specific units to serve the lowest-income segments of society.

NOTES

1 Except for ENDA, an NGO which has been authorized to lend at market interest rates.
2 Per capita income measured by the Atlas method (based on World Development Indicators, see http//www.worldbank.org).
3 So-called downscaling strategies.
4 Banque du Caire doubled its loan portfolio between 2003 and 2005.
5 Including all types of fees.
6 They are, however, legally authorized to receive bank loans, multilateral development funds and funds from bilateral development aid agencies.
7 This research was carried out with the help of Fouad Abdelmoumni, Director of Al Amana. The research in Morocco also included interviews with the Director of Morocco's second largest microcredit association (Zakoura) and senior officers of the Central Bank of Morocco and the Ministry of Finance.

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Fostering Trade and Export Promotion in Overcoming the Global Economic Crisis

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THE GLOBALIZATION of production, the increased regionalism, the emergence of trade blocs, and especially the global financial crisis, have played a vital role in reshaping the international trade framework. On the other hand, great economic and social damage has influenced the trade flows and export growth has been reduced by more than two-thirds from 2007 to 2009. Still, the European Union is determined to continue to make the trade play a key role in curbing the current economic slowdown. This article will explore the current trade policy crisis measures concentrating on the European trade policy and the trade and export promotion in a pre-accession country, the Republic of Serbia, in the light of the global economic crisis. The current business economic circumstances, structural changes, growth of the competitiveness of the domestic economy, as well as the economic and political changes from the year 2000 underpin the importance of fostering trade and export promotion in transition economy reforms, especially in the time of global economic crisis.

> Trade is more than just the contents of shipping containers. I see it as creating the conditions by which investment, skills, experience and opportunity can spread around the world, and into the places where they are often needed most. The goal of trade policy is not trade for trade's sake: it is a more prosperous, stable and equitable world.
>
> *Catherine Ashton, European Commissioner for Trade*

INTRODUCTION

Currently financial markets are in a severe crisis that has started to spill over to the real economy. Policy makers around the world are working

TABLE 1 World trade volume annual change (%)

Institution	2007	2008*	2009*
IMF	7.2	4.1	–2.8
ECFIN	6.7	3.6	–1.8
World Bank	7.5	6.2	–2.1

NOTES Sources: IMF 2009; European Commission 2009a; World Bank 2008. * Forecasts.

hard to restore confidence in the financial system. Global trade finance activity was impacted by events in the financial markets while consequently trade flows were rapidly and substantially affected. World trade activity has fallen in 2009, which would be the first annual decline in global trade since 1982. The tension in the market was firstly reflected in the Baltic Exchange's Dry Index, a measure of the cost of moving raw materials by sea (more than 80 percent of international trade in goods is carried by sea), which fell to a nine-year low in November 2008, 11 times lower from its record high in May 2008.

The International Chamber of Commerce (2008) stresses that global trade slowdown is a product of several contributing factors:

- Slowing of demand from OECD buyers of Asian goods;
- Higher losses by trade banks due to deterioration in credit quality, fraud and commercial disputes;
- Rapid fluctuations in commodity prices;
- Foreign exchange rate volatility;
- Increased counterparty risk aversion which results in significantly higher risk pricing (confirmation commission/discounting etc.); and
- Lack of US dollar liquidity which also results in significantly higher borrowing costs (resulting in high liquidity premiums as well as risk premiums).

The availability of short-term trade finance has become a major concern of the international financial and trading communities worldwide. During periods of extreme financial crisis, situations of credit crunch reduce access to trade finance (in particular in the short-term segment of the market), and trade, which usually should be the primary vector of recovery of balance-of-payments as outlined in the special study of the World Trade Organization (1999). The credit crunch can affect both exports and imports to the point of stoppage.

In a discussion paper 'Improving the Availability of Trade Finance during Financial Crises' by the World Trade Organization (2003, 4) the following variables were identified as having a direct impact on macroeconomic decline:

1 Large swings in exchange rates which have exacerbated the fundamental weaknesses (financial fragility, external vulnerability, and poor governance) and created a vicious circle of depreciation of currencies bringing more financial institutions and their customers into insolvency, and further weakening confidence;
2 The scarcity of short-term trade-financing facilities (in particular the opening of L/Cs and subsequent confirmation). 'Cross border' international trade finance for imports became a particular problem at the peak of the crisis. In light of a general loss of confidence in a local banking system, international banks forced up confirmation fees or inter bank loan margins, and reduced or cancelled 'bank limits' as well as 'country limits.'

In a times of crisis, the government steps in and increases its support for export insurance (official export credit) provided by export credit agencies (ECAs). Stephens (1998) analyses in detail the role of trade financing and related government policies in preventing and emerging from crisis. Export credit agencies, government guarantees, or central bank schemes to secure trade financing and working capital can be useful complements in times of financial sector turmoil and disruptions in orderly trade financing.

This article describes the nature of the problem faced by the international trading community concentrating on the case of the European Union. At the same time it discusses the importance of implementing economic reforms in a pre-accession transitional country, such as the Republic of Serbia, with adequate crisis measures and trade support during the current crisis.

EUROPEAN UNION AND TRADE

The European Union has become one of the world's key economic engines, accounting for about 30% of global GDP and 20% of global trade flows, while the Euro has emerged as a key international currency. Starting as a free trade area of six members, the EU with five waves of enlargement has expanded to become a federation of 27 sovereign states. By joining the European Monetary Union, 15 countries have replaced their national currencies with the Euro and given up their independent monetary policy to the European Central Bank.

The process of integration has brought more variety to the Union and has required a set of policies to support it. The single market is the core of today's Union and its greatest achievement. The process started in 1985 with the fragmented economies of 12 Member States and now the internal market amounts to 500 million citizens and over 20 million businesses. With trade barriers removed and national markets opened, trade is a major vehicle which enhances growth. Competition between imports and local products lowers prices and raises quality. The disappearance of trade barriers within the EU has made a significant contribution to its prosperity, by increasing growth and employment. Since its beginning in 1992, the Single Market has created nearly three million extra jobs. The Single Market programme is supported by a range of supporting instruments: anti-trust/competition, trade, monetary and cohesion policies.

Under the Global Europe framework (European Commission 2006) European trade policy has adapted to new priorities. Its aim is to focus manufacturing and export industries on sectors in which the EU is internationally competitive, keep markets open to trade and focus resources on ensuring that others were open to trade with the EU. As well as being a firm defender of the WTO and the Doha Round of world trade talks, the EU has signed new free trade agreements with India, Korea and the South East Asian countries, and established a close new trade dialogue with China.

Thanks to some of its key assets such as chemicals, pharmacy products, motor vehicles and non-electrical machinery, the European Union's trade balance for manufactured products has improved, reaching a surplus of EUR 162 BN in 2007. The EU has managed to maintain its world market share at 19.5% for merchandise trade (excluding energy), while the US and Japan now respectively account for 13.0% and 9.5% of the world market. The EU's good performance is due to an upgrading of the quality of its products, combined with the ability of EU companies to sell products at premium price because of quality, branding and related services. These products now account for a third of world demand and represent half of EU exports, not only in luxury consumer goods, but across the whole range of products, including intermediary goods, machinery and transport equipment.

Two thirds of EU extra-EU imports are incorporated as inputs in the production process. This very high share of inputs in total EU imports, even when energy products are excluded, demonstrates very clearly that the EU as a whole relies heavily on global sources for inputs incorporated in its production process. In the field of exchange of services, the EU is the leading exporter with 26.9% of the world market. With regard to foreign investments, the European Union is the world's biggest investor and the principal host. When intra-EU stocks are excluded, the EU owns 33% and hosts 29% of world investment stocks.

By the end of 2008 the EU economy was already in recession, with GDP falling by 1.4% in the last quarter of 2008 compared to the previous year. The downward trend continued into 2009 and industrial production in the EU fell to some 15% below that of the previous year. EU merchandise exports first dropped in November 2008, by 11% year-on-year. In January 2009, they were down almost 25% compared to January 2008. Imports have also been slowly falling. The Commission's forecasts predicted ever deeper falls in GDP for 2009, although a moderate recovery in 2010 was expected.

EU TRADE CRISIS SUPPORT

The EU in December 2008 adopted an Economic Recovery Plan as the financial crisis began spilling into the real economy. The EU in a rapid and coordinated manner reacted to the financial turmoil, with the primary aim of stabilizing financial markets, unlocking credit flows, implementation of guarantee and recapitalization schemes for banks and other affected financial institutions.

In the context of a changing global environment, having the right internal policies and ensuring openness to trade and investment as well as greater openness are critical and linked requirements for European

TABLE 2 Import and export values

Country	September 2008	October 2008	November 2008	December 2008
Import values (y-o-y)				
EU	15.6%	4.4%	–4%	–7.8%
US	6.7%	3.4%	–13.3%	–14.7%
China	21.3%	15.6%	–17.9%	–21.3%
Japan	28.9%	7.4%	–14.4%	–21.5%
Export values (y-o-y)				
EU	11.5%	3.3%	–11%	–0.9%
US	8.4%	4.4%	–3.7%	–8.4%
China	21.5%	19.2%	–2.2%	–2.8%
Japan	1.5%	–7.8%	–26.7%	–35%

NOTES Source: European Commission 2009b.

Union trade policy. EU trade support measures are based on the commitment to open markets, recognition of the importance of trade and investment in order to help the economy to escape from crisis, through which is a key priority for Europe in the months ahead.

EU support measures comply with strict state aid rules, with the European Commission monitoring national aid schemes to avoid potential distortions to competition. Assistance is only allowed on a temporary basis and must be linked to restructuring plans. In the case of the European Union, financial instability can be increased through trade protection. Depending on the EU liberalization strategy pursued, trade can promote both economic growth and financial stability on the trajectory of crisis solution.

If countries resort to restrictive trade measures during financial crises in a misguided attempt to protect their domestic producers, this gives rise to inefficiencies at home, and might worsen the financial position of exporters in other countries. The adverse effects of the Great Depression on output, employment and financial stability around the globe would have been much less severe if trade protection had not taken hold. The risk of protectionism is to be kept to ensure that the rules of the single market are respected.

Regarding intra EU protectionist pressures, (for example the rescue package for the car industry proposed by the governments) there is no general trend toward protectionism among the EU27. However, there is great political awareness that this is a risk. Evidence of this is the fact that the presidency of the EU called for an extraordinary summit to discuss the issue of protectionism. World Bank, IMF and UN are also playing important roles in identifying and putting in place measures aimed at support of trade finance. Developing countries have resorted more to border measures (e.g. Argentina, India, Russia, Indonesia) while in developed countries other types of measures are being used, namely public procurement clauses (e.g. 'Buy American') and subsidies (e.g. rescue packages for the car industry). [85]

Trade Policy Review of the European Communities (2009b) underlines that there are no 'Buy European' type requirements attached. The financial and fiscal packages of the EU are providing a stimulus to overall demand for foreign and domestic goods and services alike. Thereby, they are trade creating. There can be no mixing up of these stimulus programmes with tariff or non-tariff measures that directly restrict trade. The EC has introduced none of these. On the contrary, the EU has allowed unimpeded flows of imports and made active efforts to facilitate trade by stepping up official export credit and insurance to fill the gap in trade financing left by private banks. Yet, for trade to be part of the solution to the crisis the EU must ensure that the G20 commitment is respected and the DDA is finalized.

Very concrete commitments at the G20 forum in April 2009 on resisting protectionism and promoting global trade and investment were made (G20 2009):

- within the next 12 months, the countries will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions or implementing WTO inconsistent measures to stimulate exports;
- the countries will minimize any negative impact on trade and investment of their domestic policy actions including fiscal policy and action in support of the financial sector. They will not retreat into financial protectionism, particularly into measures that constrain worldwide capital flows, especially to developing countries;

- the countries will take steps to promote and facilitate trade and investment; and ensure availability of at least USD 250 billion over the next two years to support trade finance through export credit and investment agencies and through the MDBs;
- the countries shall strive to reach agreement this year on modalities that leads to a successful conclusion to the WTO's Doha Development Agenda (DDA) with an ambitious and balanced outcome.

THE CURRENT ECONOMIC SITUATION IN THE REPUBLIC OF SERBIA

The Republic of Serbia is a country located in both Central and Southeastern Europe. Its territory covers the southern part of the Pannonian Plain and the central part of the Balkans. Serbia borders Hungary to the north; Romania and Bulgaria to the east; the Republic of Macedonia to the south; and Croatia, Bosnia and Herzegovina, Montenegro and Albania to the west.

Serbia has a population of 7.5 million. Between 1991 and 2002, the population decreased by a net 80 000. The under-16s population fell by more than 300,000 as a result of low birth rates. This was partly offset by large inflows of refugees from Croatia and Bosnia and Herzegovina, and internally displaced people from Kosovo. The population is predominantly Serb, with a significant and ethnically diverse minority; 83% of the total population in Serbia (not including Kosovo) are Serbs. The largest minority groups are Hungarians (3.9% of the total population), Roma (1.4%), Croats (0.9%) and Albanians (0.8%).

Serbia has entered the transition with a 10 year delay from the rest of the Western Balkan countries, as a destroyed country set 'back in the past' at least 50 years ago. In the period from 1991–2000, when the Western Balkan countries were using the transitions for building and strengthening of their economic systems and state institutions, Serbia passed through a five year civil war, isolation and the sanctions imposed by the international community, hyperinflation, escalation of terrorism and secessionism in Kosovo, and NATO bombing.

The population in Serbia has managed to survive by leaning onto the gray economy. After the removal of former Federal Yugoslav President Milošević, in October 2000 the country experienced some faster economic growth, and has been preparing for membership in the European Union, its most important trading partner. The opening of the economies has had an impact on the increasing trade flows, foreign direct investment increase, and slow integration of financial markets. Internally, with 7.5 million people, the Serbian market is the 2nd largest in South East Europe.

Since the year 2001 Serbia has grown into one of the premier emerging investment locations in Central and Eastern Europe. FDI inflow in the country has exceeded EUR 12 billion, while in the past three years, Serbia attracted over EUR 9 billion of inward foreign direct investment. The average net monthly salary rose from EUR 91 in 2001 to EUR 402 in 2008. Coupled with rapid consumer loan expansion, this fueled a sharp increase in local demand, which was reflected in a double digit growth of retail trade turnover on an annual basis. Corporations that are investing in Serbia include: US Steel, Philip Morris, Microsoft, FIAT, Coca-Cola, Lafarge, Siemens, Carlsberg, Lukoil, Gazprom, and major SEE banking groups.

The GDP growth rate has increased by 6% (2005), 5.6% (2006), 7.1% (2007) and 5.6% (2008), as one of the fastest growing economy in the Western Balkans region. In the past seven years, high GDP growth rate was recorded due to high privatization proceeds and strong credit growth. The first version of GDP growth rate for 2009 (2%) is revised, as an effect of changed global economic conditions, to the level of –2% for 2009 and flat for 2010.

The country still suffers from a large labour surplus, high export/import trade deficit, considerable national debt and the restructuring of the economy. Access to land, formalization of real property, together with secure ownership and the ability to exchange land are still critical for the investment climate (particularly for FDI flows). Restrictions on land use and state ownership, the unresolved issue of restitution, continues to create uncertainty.

According to the World Economic Forum classification, Serbia is among the group of transitional countries undergoing the second development stage (1st stage resource-driven economies, 2nd stage efficiency-driven economies, 3rd stage knowledge and innova-

TABLE 3 FDI in Republic of Serbia 2008

Company	Country	Sector	Type of invest.	Value*
Telenor	Norway	Telecommunic.	Privatization	1,602
Fiat	Italy	Automotive	Joint venture	700
Philip Morris – DIN	USA	Tobacco	Privatization	611
Mobilkom	Austria	Telecommunic.	Greenfield	570
Banca Intesa – Delta banka	Italy	Banking	Capital market	508
Plaza Centres	Israel	Real estates	Greenfield	500
Stada	Germany	Pharmaceuticals	Capital market	475
Embassy group	India	Real estates	Greenfield	428
Interbrew – Apatinska pivara	Belgium/Brazil	Food/beverage	Capital market	427
National Bank of Greece	Greece	Banking	Privatization	425
Biotech Energy	USA/Hungary	Oil	Greenfield	380
US Steel – Sartid	USA	Tin/steel proc.	Brownfield	250
Mercator	Slovenia	Retail	Greenfield	240
Fondiaria SAI	Italy	Insurance	Privatization	220
Lukoil – Beopetrol	Russia	Oil	Privatization	210

NOTES * Mil. EUR. Source: Serbia Investment and Export Promotion Agency (www.siepa.gov.rs).

tion economies). Especially relevant for Serbia are the factors affecting the efficiency enhancement. Passing through stages of development is followed with structural changes and change in the relative importance of competitiveness factors. In this stage the state role is still important in completion of the necessary infrastructure, creation of an integral market and increase in technological capability of the economy.

Based on the USAID analysis (2008, 3) the National Competitiveness Council of the Republic of Serbia, at the session held on October 9, 2008 proposed the following policy measures:

1 Increase public administration efficiency by: reducing time required for issuing permits; introducing E-government; coordinating and improving inspection services; implementing Government Annual operational planning, and continuing implementation of the Public Administration Reform Strategy.

TABLE 4 Republic of Serbia GDP growth

Year	GDP (USD billions)	GDP growth rate	GDP per capita (USD)	GDP (PPP) per capita*
2000	8.7	4.5%	1,160	5,713
2001	11.5	4.8%	1,536	6,177
2002	15.3	4.2%	2,036	6,512
2003	19.8	2.5%	2,640	6,857
2004	23.8	8.2%	3,186	7,638
2005	25.3	6.0%	3,408	8,357
2006	29.7	5.6%	4,009	9,141
2007	39.9	7.1%	5,387	10,071
2008	50.0	5.6%	7,054	10,792

NOTES Source: IMF 2008. * Geary-Khamis dollars.

2. Directing capital investments from the budget into infrastructure projects of national importance.
3. Continuing education reform by: linking strategy with budgetary policy; implementing successful pilot programs in secondary vocational schools; strengthening the role of the private sector in formulating education policy, and introducing a system of continued (lifelong) learning.
4. Continuing implementation of the Export Promotion Strategy for the period 2008–2011.
5. Promoting competition by amending the Law on Protection of Competition.

The structural adaptation of the economy and economic transition has also put significant pressures on the Serbian labour market. The World Bank (2004) has stressed the need for implementing reforms for improving flexibility of the formal labor market, with removal of legal/administrative and institutional barriers for functioning of the formal labor market (including lowering severance pay burden for employers, further growth of flexible forms of employment, and a more prominent role for employers in social dialogue).

According to the OECD review (2008) almost two-thirds of employment is now in the private sector, where labour turnover is on average much higher than in the public sector, and the average size of enterprises has declined significantly. However, a worrying weakness in Serbia's recent labour market performance has been the anaemic growth of employment in new small firms. Non-farm self-employment still plays a modest role by international standards. The authorities have sought to facilitate business start-ups by streamlining administrative procedures, but international comparisons show that these are still relatively cumbersome.

REPUBLIC OF SERBIA TRADE POLICY AND THE FINANCIAL CRISIS

Historically, since the year 2000 and the breakup of the Socialist Federal Republic of Yugoslavia, exports from the FRY accounted only for USD 1.7 billion compared to USD 5.8 billion in 1990. Foreign trade volumes as a percentage of GDP had declined significantly, and trade deficit was widening. By 2000, Serbia had lost a lot in terms of its trade openness, while exports had declined to less than 30 percent of their 1990 level. Their share o f GDP fell from 42 percent in 1989 to 29.6 percent in 2000.

The whole economic situation was in chaos, having in mind the limited access to finance, poorly managed banks, high perception of political risk, poor public infrastructure. All these issues have increased the difficulties for exporters to compete in foreign markets, regain lost markets, and/or identify new buyers. Exporters did not have any kind of support for their activities since the domestic banks did not have the financial status and the credibility necessary to support exporters in international markets.

Foreign companies or banks would not accept to take a risk of non-payment by a domestic enterprise or bank, thereby preventing exporting enterprises from importing materials essential to performing export contracts. In particular, guarantees issued by Serbian banks were not deemed acceptable by overseas buyers or bond-giving banks.

From the year 2000 market reforms, together with the Stabilization and Association process (SAP) launched by the EU in 2000, concerning trade integration with the EU and with neighboring countries, Serbia has taken significant measures to expand free trade markets with other countries and improve the level of economic cooperation with them. Presently, Serbian exporters are concentrated on the markets of the European Union (over 50% of the total exports is to Italy, Germany and Slovenia) and CEFTA countries (90% of the total exports is to Bosnia and Hercegovinia, Montenegro, and Macedonia), which receive around 88.2% of exports, which makes the exporters particularly vulnerable to the problems experienced by these countries.

In the last couple of years, apart from its free-trade agreement with the EU as its associate member, Serbia is the only European country outside the former Soviet Union to have free trade agreements with the Russian Federation and Belarus. The recently signed Free Trade Agreement with Turkey will take effect as of January 1, 2010 together with the Free Trade Agreement with European Free Trade Association (EFTA) trade bloc which includes Iceland, Lichtenstein, Norway, and Switzerland.

Still Serbia's large current account deficit reflects very low exports rather than high imports. Yet, Serbia has still not diversified its exports away from agriculture and a few low-processed manufacturing goods, nor have its producers managed to integrate into international networks and clusters of production and distribution. Unfortunately, the main obstacles in comparison to other transition economies lay in openness and structural transformation.

'The key constraints to export growth indicate the relative importance of domestic structural, institutional and supply constraints. First, the recent mix of macroeconomic policies fueled growth in domestic demand and the appreciation of the real exchange rate, and introduced an anti-export bias into the economy, by promoting rapid import growth while providing a disincentive for exporters to seek export opportunities. Second, the slow restructuring of enterprises and loose budget constraints has left Serbia with outdated productive structures with little capacity for trade and export. Third, the unfavorable business environment is hindering FDI and limiting opportunities for upgrading and modernizing production structures. Moreover, 'institutions to support exports have been weak.' (World Bank 2004, 59.)

The current global financial and economic crisis has not bypassed the Republic of Serbia. A major outflow of capital, increase in inter-

TABLE 5 Export by sector (in mil. USD)

Year	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
2000	253	13	111	4	17	145	499	208	265	43	1,558
2001	270	13	89	50	18	132	505	241	358	45	1,721
2002	477	17	107	77	19	168	549	251	362	48	2,075
2003	499	32	138	61	17	249	690	569	458	43	2,756
2004	749	90	211	95	74	431	1,243	413	548	25	3,879
2005	899	86	216	182	53	545	1,656	485	764	12	4,898
2006	1,065	114	278	225	31	650	2,418	711	925	11	6,428
2007	1,355	176	409	231	98	915	3,085	1,264	1,248	44	8,825
2008*	813	147	324	209	84	721	2,372	1,127	904	50	6,751

NOTES Column headings are as follows: (1) food, (2) beverages and tobacco, (3) raw inedible substances, (4) mineral fuels and lubricants, (5) animal and vegetable oil and fat, (6) chemical substances, (7) processed products, (8) machinery appliances and transportation means, (9) different finished products, (10) products and transactions, (11) total. * January–August. Source: Serbia Investment and Export Promotion Agency (www.siepa.gov.rs).

est rates, depreciation of the exchange rate and downfall of the market prices of stocks as consequences of the financial crisis have been registered firstly in the financial sector. The abovementioned has spread onwards to the economic activity followed by the decline of industrial production, slow-down of the entire economy and consequently by the decline of budget revenue (Government of the Republic of Serbia 2008).

From the data of the Statistical Office of the Republic of Serbia the overall external trade in the Republic of Serbia for the period January up to June 2009 amounted to EUR 8193.1 million, which was a 27.7% decrease compared to the same period in 2008. Expressed in Euros, the value of exports amounted to EUR 2804.5 million, which was a decrease of 23.0%, compared to the same period in the previous year. The value of imports amounted to EUR 5388.6 million, which was a 30.0% decrease when compared to the same period in the previous year.

In the period January up to June 2009, the trends of decreased imports and exports continued, as they did at the end of the previous year. The main cause of such a situation is the world financial crisis,

TABLE 6 External trade in Serbia

	2000	2001	2002	2003	2004	2005	2006	2007	2008
(1)	1,558	1,721	2,075	2,477	3,523	4,553	6,428	8,825	10,973
(2)	3,330	4,261	5,614	7,333	10,753	10,575	13,172	18,554	22,999
(3)	−1,772	−2,540	−3,539	−4,856	−7,230	−6,022	−6,744	−9,729	−12,026
(4)	46.8	40.4	37.0	33.8	32.8	41.1	48.8	47.6	47.7

NOTES Row headings are as follows: (1) exports (mil. USD), (2) imports (mil. USD), (3) Trade Balance (mil. USD), (4) Exports/Imports (%). Source: The Statistical Office of the Republic of Serbia (see http://webrzs.stat.gov.rs/axd/en/index.php).

as it has caused a decrease in economic activity throughout the world, which has certainly reflected on the external trade of Serbia.

Decreased exports have been caused by decreased prices of primary products on the world market, as they represent a great share in the structure of our exports. As already mentioned, Serbian export economy is highly concentrated in developed markets, with primary products, and very few internationalized companies. The main cause of the decreased imports is the fall in the industrial production and domestic consumption in Serbia.

The importance of export promotion in the Republic of Serbia, as a pre-acession country, which belongs to a group of relatively poor small countries with modest resources, must be emphasized especially now in the times of global economic crisis. In December 2008, the Government of Serbia adopted the Framework on Minimizing the Impact of the Crisis. The Framework mainly consists of three groups of measures:

- savings measures;
- a package of incentives to boost economic activities;
- conclusion of arrangements with international financial organizations (Serbia was the first country in the region to seek a financial arrangement with the IMF as a precautionary measure in line with the wish to implement transparent economic policy under the IMF umbrella).

The first set of measures, savings measures, of the Serbian government concern the balancing of the budget expenses and revenues. The plan was to reduce the public administration expenses by nearly EUR 850 million in this year (which included decrease and freezing of wages, decrease of subsidies, expenses for representation, business trips, and a ban on new employment).

Further measures for stimulating the economy can be divided into:

- the Government will increase liquidity by issuing sovereign guarantees for the benefit of the National Bank of Serbia which would approve loans to banks (which would then offer loans to businesses on favorable terms);
- providing incentive loans from the Development Fund, loans for infrastructure development (World Bank USD 388 million, EIB EUR 540 million, and EBRD EUR 150 million) and loans for the development of small and medium size enterprises (APEX loans) in the amount of EUR 250 million;
- increasing exports through providing working capital under favorable terms for export related activities, higher level of export contracts insurance, eliminating customs and duties barriers, and financial support to product certification.

Additional funds will be obtained for the increase of the export of products of larger added value, having in mind the structure of the export of the Republic of Serbia and the processing industry in which sectors with lower added value dominate (70% of the production of the processing industry are intermediary products). The implementation of production processes, directed towards gaining high quality products according to the highest European standards, should support the highly developed technological sectors (information technology, biotechnology, etc) which contribute to the country's greater competitiveness.

Exporters in the Republic of Serbia need the aid of the state for export revitalization. The moment should be used for further simplification of the trade regime and enhancing the export orientation of the economy in conformity with the adopted national Export Promotion Strategy. Similar to the developed countries, building of the effective institutions for export promotion cannot be achieved without the support of the government.

For the Serbian exporters it is imperative that the Government has the foresight and expertise to implement the National Export Promotion Strategy. Export oriented enterprises should be provided with institutional support for the promotion of export (especially because of the expected membership in the EU). Consulting services and education of exporters form a very important segment. The support for strengthening the capacities of small and medium size enterprises for export and development of separate products for this target group must not be left out.

CONCLUSION

The post-World War II era has been characterized by high growth rates in the world economy with a progressive reduction in barriers to international trade and investment. Productivity increases in agriculture and manufacturing, and more recently in services have been a major driver in the generation of income and wealth. Trade policy is a major European economic pillar. Today, Europe is the world's biggest exporter, accounting for 20% of global imports and exports, the world's biggest investor and the world's biggest market for foreign investment. Roughly a fifth of world trade in goods and close to a third of the global services market belongs to the EU as it is the largest entity in international trade in goods and services.

Trade growth can be an important vehicle for emerging from crisis, and well-conceived trade liberalization and exchange rate adjustment can contribute to this aim. This article focuses on the role of trade in financial crises, opting for a liberalization strategy and suppressing any kind of protectionism. The theoretical channels between openness and productivity are clear, as they lead to reallocation of resources, more competition, greater variety of products, innovation, and knowledge spillovers (Nicodème and Sauner-Leroy 2007). Output has also risen more rapidly in transition countries with high average growth rates of exports, underlining that openness and export orientation are important determinants of growth.

Serbia has great potential to expand its exports under the right set of policies with the strengthened institutional framework for trade policy. Reforms should be based on modernization of standards and technical regulations to achieve compatibility with the EU and international standards. It is clear that without the increase of export the Serbian economy cannot go further onto the development of an open market economy.

This should take place when the country's external liquidity is secured through a new, EUR 3 billion worth, Stand-By Arrangement with the International Monetary Fund. Further, with state-subsidized 'soft' banking loans aimed at boosting production, exports, and consumer demand, the government of Republic of Serbia should be focused on finishing the process of setting a clearly defined institutional system of trade support (export oriented), which creates the basis for a long and sustainable economic development.

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Tourism Branding Strategy of the Mediterranean Region

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This paper presents the influence of the future role of tourism, which is related to the branding strategy of the Mediterranean region. Developing the branding strategy in the period of global economic crisis between North (the European Union) and South (the Mediterranean coastal countries that do not belong to the European Union and non-member 'northern' countries – the Balkans) will be critical in the new global geostrategic situation. In this study we have identified current brand position related to the tourism aspect of the Mediterranean region, and future opportunities for developing a branding communication strategy for ensuring a better global market position. We have investigated opinions of young people from different regions (Italy, Serbia and Lebanon) and compared results about the Mediterranean (how do they perceive the region for tourism, do they have positive or negative associations, what is the first thing that they have in mind when someone says 'Mediterranean')? We suggest a framework for tourism offers related to elements of the branding strategy of the Mediterranean region: brand identity, brand positioning and brand image. The second part of the study should provide directions for better communication of the brand strategy of the Mediterranean region in order to secure a more stable global market position in tourism.

INTRODUCTION

Brand represents the connection that is made between a buyer and a brand (Schultz and Barnes 1999). When we interpret a brand, we use both our 'brain' (i. e., reference function) and our 'heart' (i. e.

emotional function). This is an important difference because intellectual explanation and emotional communication are in principle two ways of communicating a message (Urde 1999, 126). For David Jobber branding represents a process by which a company differentiates its offer from competitors (Jobber 2004). Brand differences are often related to attributes or benefits of the product itself (Kotler and Keller 2006). Leslie de Chernatony and Malcolm McDonald, as the most important thing in defining brand, mention added value that matches buyers' needs most closely: a successful brand is an identifiable product, service, person or place, augmented in such a way that a buyer or user perceives relevant, unique, sustainable added value which matches their needs most closely. Brand is mentioned as a place in this definition (Chernatony and McDonald 2003).

Geographic locations, like products and people, can also be branded. In this case, the power of branding is in making people aware of the location and then linking desirable associations. Increasing mobility of both people and business and growth in the tourism industry have contributed to the rise of place marketing (Keller 2003).

It is in the context of tourism that a geographic location is (or includes) a destination brand. A destination brand is defined as a 'name, symbol, logo, word or other graphic that both identifies and differentiates the destination; furthermore, it conveys the promise of a memorable travel experience that is uniquely associated with the destination; it also serves to consolidate and reinforce the recollection of pleasurable memories of destination experience' (Kerr 2006, 277). The product of tourism, more complex than most products, is an experience rather than a tangible good (Gartner 1986, 643). According to Baker and Cameron, the effect of globalization has been that the place marketing (of a country, region, city) represents a very important strategic process, because of the existence of the competition between many destinations that wish to attract investors and visitors. Destination branding has a significant importance nowadays, because there is a need for a particular destination (a region, country, city) to be positioned in buyers' and stakeholders' awareness (Baker and Cameron 2008, 88). The author identifies a problem concerning destination branding. It refers to a claim that the same destination product can be perceived differently depending on target groups (Hankinson 2005, 12).

The aim of this work is to define: (1) what are the main attributes of a brand image of the Mediterranean region that are important for the younger population (from 18 to 30 years old), as well as (2) what are the differences between the examinees according to the criteria of choosing a destination depending on the country they are living in, age, gender, employment, marital status and frequency of traveling, and (3) what ways of communication regarding the tourism offer are the most preferred by people from 18 to 30 years old?

THE MEDITERRANEAN REGION AND THE GLOBAL ECONOMIC CRISIS

New locations appear on the global market, and they become appealing to the competitors, but also bring new possibilities. Considering the global competition, it is very challenging for the brand management of the Mediterranean region to attract investors and visitors.

The Mediterranean region includes the area of: European countries – Spain, France, Monaco, Italy, Malta, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Albania and Greece; Asian countries: Turkey, Cyprus, Syria, Lebanon and Israel as well as African countries: Egypt, Libya, Tunisia, Algeria and Morocco.

The Mediterranean region is the leading touristic destination. Mediterranean countries traditionally presented special travel offers for their countries and competed between each other. Tourism is mainly concentrated in the coastal areas which receive 30% of international tourist arrivals. The most widely used tourism development model in the region is based on seaside summer holidays and the attainment of quantitative goals. International tourist arrivals (excluding domestic arrivals) in 1999 totaled 219.6 million (a 4.7% increase over 1998). Projections show that this figure could reach 350 million by 2020. 84% of the tourists in the Mediterranean come from Europe, mostly from northern and western countries. Germany is the largest market, followed by the United Kingdom, France and Italy. Altogether, Spain, France, Italy, and Greece receive almost 80% of Mediterranean tourism (Stefano 2004).

There are over 500 regions and 105,000 single communities in Europe competing for the scarce resource of investment, capital, talented people, visitors and residents. Over 300 regions in the world have over one million inhabitants (Rainisto 2003, 2). The current economic crisis is affecting countries, their 'nation brands' and is also affecting the Mediterranean region in the tourism industry. In 2008 international tourism achieved the number of 924 million tourists, and the estimated value of their spending is around 1000 billion USD. The decline in tourism is associated with the economic crisis. If we analyze the results of the international tourism in 2008, we can observe that there has been a growth of 1.8% in the number of people travelling internationally. The best results were achieved in Middle East countries, with a growth of 11.3%; then comes the African region with an estimated growth of 4.6%; and the American region with a growth of 3.6%. These three regions show better results in comparison with the world's average. On the other hand, the Asian and Pacific region marked the a of 1.6%; the European region had a growth of 0.1%. The economic crisis has influenced the changes in the behavior of tourists from Great Britain and Germany, who represent the largest part of the Mediterranean tourists. There is a certain stagnation of the Mediterranean countries. This especially relates to Spain, Greece, Italy and Cyprus (UNWTO 2009).

In the period between January and April of 2009 the growth of international tourism was negative in all regions of the world, except in Africa (+5%) which bucked the global trend (UNTWTO 2009, 3). Europe (–10%) and the Middle East (–18%) were the regions that were affected the most. Central and Eastern Europe (–13%) suffered the worst decline of European sub-regions. Southern Mediterranean Europe had lower growth than western Mediterranean, including Portugal, Spain, Andorra and Malta. Both Spain and Portugal appear to have lost to non-EU destinations, such as Turkey (–1.5%), Egypt and Tunisia (European Travel Commission 2009, 3).

Some regions create their image on the basis of images of particular companies and products. The process of mutual transferring image between two objects provides support for the place-product co-branding strategy (Azevedo 2004, 110). This strategy has decreased marketing costs and opened up new opportunities for transferring positive images for the whole region. There are certain differences in strategies for developing the brands of products and places. The goal of product branding is profit, meanwhile the goal of branding a location is connected with political success. Activities that are used for product branding are placement of the product on the market, while rebranding of the place image normally exists even in the absence of branding endeavors. The brand of the product is the property of the organization, meanwhile the property of the place is unknown (Pasquinelli 2009).

Nations all over the globe have recognized the importance of collaborative efforts in fighting the current crisis with joint resources and partnerships. The Euro-Mediterranean Partnership, founded in 1995, was re-launched as the Union for the Mediterranean (UfM) at the Paris Summit for the Mediterranean in July 2008. The European response is the Union for the Mediterranean that requires increased economic coordination between regions and countries. The UfM emphasizes the importance of close coordination between the two shores of the Mediterranean, in order to help southern Mediterranean countries by supporting sectors at risk (Alessandrini 2009, 51). The common interests and problems of these counties would make it easier to reach and maintain agreements by using the cooperative branding approach. Considering the current world economic crisis it is crucial to unite the Euro-Mediterranean space. J. Piqué has come to the conclusion that integration may help the Mediterranean region to confront the challenges posed by the crisis, by allowing them to enlarge markets and to increase trade flows, investments and joint projects. Secondly, the creation of a common space will allow countries to play a common role, and it will strengthen the relations between them, by making a new balance in the region. All of the foregoing will contribute to a regional scenario of peace and stability, which is especially important for the world at large, not to mention its specific impact on the conflict in the Middle East (Piqué 2009, 50). According to Yorghos and Sevil it is necessary for countries to connect regionally in order to achieve a stronger position on the global tourism market (Yorghos and Sevil 200, 382).

Caldwell and Freire have presented the difference between country branding, region branding and city branding in their works. They explain that for country branding many variables regarding the region have to be included in the analysis. For example, the region does not have a political agenda or an independent army and economic events that on the other hand characterize every country (Caldvel and Freire 2004, 54). Certain studies indicate the concept of nation branding where the historical development of the nation is being respected and analyzed (Olins 2002, 243).

Exogenous changes are caused by factors beyond the control of destinations. For example, changes in fashion and consumer tastes can account for rise and fall from an exogenous demand perspective, as in the case of many spa and mountain resorts in Europe. Similarly, changes in transport technology can affect tourism flows from an exogenous supply aspect: many British seaside resorts entered into a phase of gradual but permanent decline when air transport enabled their sunlusting tourists to visit the Mediterranean region (Papatheodorou 2004, 220).

There are certain problems that have to be analyzed when it comes to branding a region. The Balkan region name has been changed into South Eastern Europe, because the former was considered as a negative term by the West because of the wars that took place in this region. (Hall 2001, 328). Every country tends to build its own country brand and because of that considers other countries its competitors. According to a study (Konecnik and Go 2008, 184) the biggest Slovenian competitors are countries including Austria, Croatia, the Czech Republic and Hungary. Each of these countries offers similar tourism products and attempts to attract the same target tourism markets. Vitić and Ringer (2007, 127) examine the challenges and opportunities of promoting Montenegro as the destination for sustainable tourism in the post-civil war era of the former Yugoslavia, by giving the country unique branding status. The terms imaging and branding are of great importance especially for post war countries that have a negative past. Bosnia and Herzegovina is a country that until recently was associated with war. To change their image Bosnia and Herzegovina should first distance themselves from their negative past (Duboroja and Mlivic 2008, 3). Croatia has a similar problem because it is perceived as a pots-socialist, post-Yugoslav and post-war country (Martinovic 2002, 315).

Gilmore explains the example of successful Spain branding where a positioning diamond is used. The positioning diamond considers core competences for better brand positioning, it includes physical and human assets, according to which the Mediterranean region should focus on its sea and friendly people (Gilmore 2001, 287). The similar example of branding by people and place is presented in another study (Foley and Fahy 2004, 209). The message used to articulate this positioning is 'Ireland, an emotional experience.' Essentially, the image of a friendly host population ('people') and unspoiled and beautiful scenery ('place') are the 'core values' for Irish tourism.

DESTINATION BRANDING STRATEGY

Choosing a strategy for destination branding is a very complex strategic move. Place branding is an intricate activity and the chances of doing it successfully rest on a proper understanding of the factors that influence the outcomes (Gelder 2008, 5). The aim of this work is to formulate the strategy for positioning (the target group are young people from 18 to 30 years old) considering the criteria that are important for choosing a touristic destination as well as the communication channel for the Mediterranean region. In a previous study (Strizhakova, Coulter, and Price 2008, 62) the opinion of a younger population considering global brands was determined, and it was pointed out that in developing countries, research indicates that young consumers, who seek to better their economic position and that of their country are likely to embrace brands as a discourse of power and to believe that buying global brands enables them to participate in that global arena by empowering their own local companies and nations. According to Morgan, Pritchard and Piggott, young people look for new experiences and traveling to new destinations. Such consumers are often very web-wise, complementing other advertising and public relations media activity (Morgan, Pritchard and Piggott 2003, 294). Today's tourists are not asking 'What can we do on holiday?' but 'Who can we be on holiday with?,' they are increasingly looking less for escape and more for discovery, and that creates a basis for emotional connection (Morgan, Pritchard and Piggott 2002, 338), There are many different studies that analyze destination branding. The study of Dubai branding summarizes a check list for destination branding that consists of six Ps: Purpose: What is the objective behind destination branding? People: Who will benefit (internal and external)? Performance: What is the current status (SWOT)? Product: What portfolio of products will you offer for which you need to create a brand strategy? Positioning: What do your target customers value? and Process: What system change do you need? (Balakrishnan 2008, 84). Certain authors see the similarity between destination brands and corporate brands, concluding that corporate brands, in contrast, share similarities with destination brands and that they can be characterized by five underlying themes: (1) the role of top management, (2) the influence of corporate culture, (3) departmental coordination, (4) stakeholder communications, and (5) partnerships (Hankinson 2007, 251). Destination marketing activities are synonymous with creating images and 'selling of places,' while standard tourism marketing activities are creating state tourism brochures and advertising campaigns (Jamrozy 2007, 117). Balakrishnan has identified the key destination branding components: vision and stakeholder management, target customer and product portfolio matching, positioning and differentiation strategies using branding components, communication strategies and feedback and response management strategies (Balakrishnan 2008, 67). Other authors have more thoroughly explained the brand components. Product portfolio is presented in the work through the conceptual model of a destination product and it describes the connection between the environment, infrastructure, quality, value and the intention to return (Murphy, Pritchard, and Smith 2000, 47–49). The Carmen study initiates the need for destination branding: creating the image as the element of a strategic stream and vision, the recognition – brand awareness, differentiation, consistency as the elements of the positioning, brand message as the strategic communication as well as creating expectations for the target group (Carmen, Stuart, and Brent 2005, 335–36). Positioning strategy and destination brand development can be explained with the help of the terms brand image and brand identity. They are presented in figure 1.

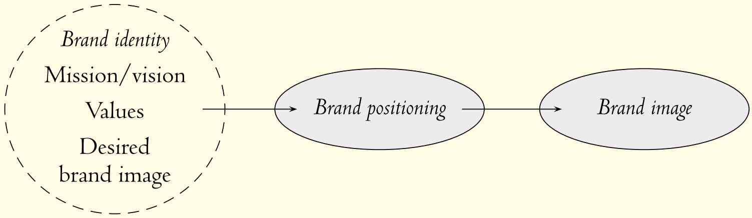

FIGURE 1 Brand identity, brand positioning and brand image (adapted from Baker and Cameron 2008)

Risitano explains that the destination brand identity is based on six elements: brand culture, brand character, brand personality, brand name, brand logos (and symbols), brand slogan (Risitano 2009, 7). Previous studies suggest a model that conceptualizes the brand's identity in terms of its vision and culture, which drives its desired positioning, personality and the subsequent relationships, all of which are then presented to reflect stakeholders' actual and inspirational self-images (Chernatony 1999, 166). Brand image considers brand associations – destination brand knowledge, the core of the brand equity perceived by tourists (Risitano 2009). Images are the sum of beliefs and impressions people hold about a place. Images represent a simplification of a large number of associations and pieces of information connected with a place (Kotler and Gertner 2002, 249). The study identified 11 categories of image attribute, where the first three are: activities and facilities; history, heritage and culture and ambience – character of the environment (Hankinson 2004, 9–10). Hosany, Ekinci and Uysal (2006, 639) explain the difference between the brand image and the brand personality in connection with a touristic destination.

Positioning implies the identification of brand elements that are important for a better position of the destination on the market as well as the communication towards the target group. Tourism marketing typically involves 'mass marketing' approaches (e. g. media advertising) by government and industry associations, and both mass and more focused approaches (such as personal selling and incentives to travel agents) by associations and individual firms (Papadopoulos and Heslop 2002, 310). Because tourism embodies services and experiences designed for travelers that cannot be evaluated prior to purchase, word of mouth becomes an important factor when deciding which destinations to choose. In this respect, this finding is not surprising – personal and social communication channels are the source of trustworthy information about a potential destination (Sönmez and Sirakaya 2002, 195). Places are becoming increasingly substitutable and difficult to differentiate, and a slogan provides the link between the brand identity and the actual brand image (Pike 2005, 258). Based on the previously presented findings, it is necessary to determine the existing brand image of the Mediterranean regions as well as the prime brand associations, and based on this to improve brand identity and positioning strategy towards target groups.

RESEARCH METHODOLOGY

The purpose of this research is to define the perceptions that young people aged from 18 to 30 years old have about the Mediterranean region as a touristic destination. The previous study report suggests that Euroconsumers could be segmented into three categories according to social grouping and behavioral patterns: young people, trend setters and European business people (Dalgic 1992, 36). The plan of the research was previously defined. All in all, 298 people responded in Italy, Serbia and Lebanon, 100 people in each country. Two questionnaires were incorrectly filled. 50% of the sample contains people aged from 18 to 24 years old, and the other 50% are people from the age of 25 to 30 years old. Italy and Serbia represent the European part of the Mediterranean region, while Lebanon represents the Asian part. The goal of the research is to define the similarities and the differences in brand associations with this region as a touristic destination according to the place of living of the people who took part in the questionnaire, as well as to define what the key factors for the young population are, and take these factors into consideration while developing brand strategies for the Mediterranean region.

The research was conveyed through questionnaires. The questionnaires consisted of some general question: gender, age, country of living, employment, marital status, the frequency of trips during a year. The second part of the questionnaire referred to more concrete questions which are connected with the object of the research. Using the test of associations, where you write the first thing that pops into your head when you hear a certain word. People in the questionnaire were asked about their associations with the Mediterranean region, travel and touristic destination.

Previous researches have analyzed factors that are important when choosing the destination of your trip. Baker and Cameron have identified 33 factors that are crucial when branding a destination, and have divided these factors into four groups: strategic orientation, identification of the identity and the image of the destination, involvement of the stakeholders and the implementation and control of the branding process (Baker and Cameron 2008, 93).

According to other authors, factors that influence the choice of the destination can be classified into 5 groups: push factors (psychological motives, relaxation, value for money, education); pull factors (manmade, natural, social cultural and physical attractions); available time (amount of travel time and vacation time), total travel cost; exogenous factors (political and social environment, health threats, terrorism) (Orth and Tureckova 2001, 250).

The study by Chen and Gursoy took into consideration 17 variables for choosing the touristic destination, attributes of certain behaviors which have an influence on the loyalty to certain destinations; as well as the relation between the previous experience in travelling, attributes that influence the choice of the destination (security, transport, cultural differences) and loyalty to the destination (Chen and Gursoy 2001, 81). Three factors from this study were taken into consideration: price, accommodation and transport. Correia do Valle and Moço explain that specific behaviors exist when exotic destinations are in question (Correia, Valle and Moço 2007, 48). In this study seven factors are analyzed: the price of the touristic arrangement, destination, company of the people one is travelling with, accommodation, the way of paying for the touristic arrangement, transport and the total quality of the offer.

For this research Likert's scale was used and the ranking was from 1 to 5, where 1 meant strongly disagree and 5 was strongly agree.

Apart from this, in the research certain ways of communication that young people use when they want to get information on a certain

TABLE 1 Associations with the words that are given according to the frequency of their repetition

Words	Associations
Mediterranean region	Sea (50.7%), Greece (7.7%), Lebanon (6.7%)
Travel	Vacation (21.1%), tourism (8.7%), sea (6%)
Tourism destination	Greece (8.1%), Spain (7.4%), Paris (7.0%)

touristic offer were analyzed. In this research, only the ways of communication that are applied to advertizing tools are presented: global television, radio, newspapers, magazines. Ways of communication that are supported by the development of information technologies are also included: web sites, social networks: Facebook and MySpace. The third group of the ways of communication represents personal ways of communication: recommendation from a friend, organization of special events, tourism fairs, through the intermediary of the touristic agency. Questions were multiple choice.

RESULTS AND ANALYSIS

The statistical analyses that were used in the research are T-test, Anova test as well as descriptive statistics. Using the test of associations for the words Mediterranean region, travelling and touristic destination, certain frequencies were defined, and are given in Table 1.

We were comparing the age factor with the criteria for choosing destinations so that we would be able to observe whether there is a statistically significant difference between the two age groups; for this criterion we used the statistical method called the T-test. The critical value for the level of significance was taken at 0.05. The T-test showed that the age groups have a significant difference when it comes to the way of paying (sig. = 0.43).

Another thing that was noticed was that for the criterion that concerns the people one is traveling with, the level of significance was at 0.71, which shows that if the level of significance of the test was to rise to 0.1 we could claim that, according to this criterion, there is a certain difference among the age groups. That is why we recommend that this field should be more thoroughly examined. Also we used the T-test to compare the gender factor with the criteria for choosing destinations

TABLE 2 Anova test choosing the destination and the country of people participating in the questionnaire

Dependent variable		(1)	(2)	(3)	(4)	(5)
Price	Between groups	31.394	2	15.697	15.196	.000
	Within groups	304.727	295	1.033		
	Total	336.121	297			
Destination	Between groups	15.720	2	7.860	8.276	.000
	Within groups	280.176	295	.950		
	Total	295.896	297			
With whom to travel	Between groups	22.474	2	11.237	11.877	.000
	Within groups	279.100	295	.946		
	Total	301.574	297			
Accommodation	Between groups	19.350	2	9.675	8.724	.000
	Within groups	327.150	295	1.109		
	Total	346.500	297			
Way of payment	Between groups	1.281	2	.641	.525	.592
	Within groups	359.900	295	1.220		
	Total	361.181	297			
Transport	Between groups	44.862	2	22.431	18.080	.000
	Within groups	365.997	295	1.241		
	Total	410.859	297			
Total quality offer	Between groups	41.479	2	20.740	22.270	.000
	Within groups	274.726	295	.931		
	Total	316.205	297			

NOTES Column headings are as follows: (1) sum of squares, (2) *df*, (3) mean square, (4) *F*, (5) sig.

and have come to the conclusion that a statistical dependence higher than the level of significance at 0.05 does not exist.

For the analysis of the people participating in the questionnaire from three different countries and the criteria for choosing the destination, we used the Anova test. The null hypothesis in this case is that there is no difference between the criteria for choosing the destination and those relating to people from Serbia, Italy, Lebanon.

For the level of significance we took the recommended value of $p = 0.05$. For the criteria for choosing the touristic destination (the price of the touristic arrangement, destination, company of people one is travelling with, accommodation, transport and the total quality of the offer) except for the way of paying for the touristic arrangement, it was concluded that the answers of the people from three countries (Serbia, Italy and Lebanon) statistically differ greatly. Because of the fact that the level of significance is lower that 0.05 for five criteria for choosing the destination, we are declining the null hypothesis. Anova is limited because it does not show between which groups significant differences exist. That is why it is necessary to do the Post-Hoc test, thanks to which we will clearly see between which groups a significant difference does exist. Because of the fact that equal variances are not assumed in the further analysis we used the Tamhane T2 multiple comparison.

We used the Anova test for researching the connection between the variable that is referred to the frequency of travel during the period of one year and the criteria for choosing the touristic destination. The null hypothesis is that there is no difference between the criteria for choosing the touristic destination when the frequency of travel is in question. For the level of significance we took the recommended value of $p = 0.05$. For the criteria for choosing the touristic destination (the price of the touristic arrangement, company of people one is travelling with, the way of paying for the touristic arrangement and the total quality of the offer) statistically they differ greatly, that is why the null hypothesis is declined. Using the Anova test it was concluded that a certain statistical difference between the criteria for choosing the touristic destination and the employment status does exist, and also that when transport is in question sig. = 0.30, as well as for criteria relating to whom you travel with sig. = 0.48. It was also concluded that there is no statistical difference between the criteria for choosing the touristic destination and marital status, because the level of significance (sig.) was higher than 0.05 for all criteria.

Ways of communication through which young people prefer to be informed about a certain touristic offer were also analyzed. The results of the research are given in table 4 in ascending order.

According to the results it is easy to notice that the first place goes to the the Internet sites (69.8%), after that we have events (69.7%) and in the third place we have recommendations from friends (66.1%).

TABLE 3 Multiple comparisons

Dependent variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Price	Serbia	Italy	.481*	.163	.010	.09	.87
		Lebanon	–.310	.130	.053	–.62	.00
	Italy	Serbia	–.481*	.163	.010	–.87	–.09
		Lebanon	–.791*	.140	.000	–1.13	–.45
	Lebanon	Serbia	.310	.130	.053	.00	.62
		Italy	.791*	.140	.000	.45	1.13
Destination	Serbia	Italy	.444*	.156	.015	.07	.82
		Lebanon	–.080	.120	.880	–.37	.21
	Italy	Serbia	–.444*	.156	.015	–.82	–.07
		Lebanon	–.524*	.137	.001	–.86	–.19
	Lebanon	Serbia	.080	.120	.880	–.21	.37
		Italy	.524*	.137	.001	.19	.86
With whom to travel	Serbia	Italy	.574*	.153	.001	.21	.94
		Lebanon	–.020	.127	.998	–.33	.29
	Italy	Serbia	–.574*	.153	.001	–.94	–.21
		Lebanon	–.594*	.134	.000	–.92	–.27
	Lebanon	Serbia	.020	.127	.998	–.29	.33
		Italy	.594*	.134	.000	.27	.92
Accommodation	Serbia	Italy	–.199	.158	.507	–.58	.18
		Lebanon	–.610*	.142	.000	–.95	–.27
	Italy	Serbia	.199	.158	.507	–.18	.58
		Lebanon	–.411*	.149	.019	–.77	–.05
	Lebanon	Serbia	.610*	.142	.000	.27	.95
		Italy	.411*	.149	.019	.05	.77

Continued on the next page

Some of the ways of communication that were not on the list, but that were mentioned by respondents, were Google Search, direct phone calls from agencies and information about offers, as well as information given in the faculties for the younger population that is still studying.

CONCLUSION

The sector of tourism is a sector which is employing a large number of people around the world. UNWTO's suggestions that concern the

TABLE 3 *Continued from the previous page*

Dependent variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Way of payment	Serbia	Italy	–.076	.177	.964	–.50	.35
		Lebanon	–.160	.144	.605	–.51	.19
	Italy	Serbia	.076	.177	.964	–.35	.50
		Lebanon	–.084	.149	.922	–.44	.28
	Lebanon	Serbia	.160	.144	.605	–.19	.51
		Italy	.084	.149	.922	–.28	.44
Transport	Serbia	Italy	–.108	.163	.880	–.50	.28
		Lebanon	–.870*	.152	.000	–1.24	–.50
	Italy	Serbia	.108	.163	.880	–.28	.50
		Lebanon	–.762*	.159	.000	–1.14	–.38
	Lebanon	Serbia	.870*	.152	.000	.50	1.24
		Italy	.762*	.159	.000	.38	1.14
Quality offer	Serbia	Italy	.523*	.154	.003	.15	.89
		Lebanon	–.390*	.120	.004	–.68	–.10
	Italy	Serbia	–.523*	.154	.003	–.89	–.15
		Lebanon	–.913*	.136	.000	–1.24	–.58
	Lebanon	Serbia	.390*	.120	.004	.10	.68
		Italy	.913*	.136	.000	.58	1.24

NOTES Column headings are as follows: (1) country I, (2) country J, (3) mean difference (I–J) (4) std. error, (5) sig.; 95% confidence interval: (6) lower bound, (7) upper bound.

global economic crisis are: potential for tourism and travel sectors to support short-term stimulus actions, namely those aimed at creating and sustaining jobs, as well as transforming to the green economy.

It is feasible for the Mediterranean region to communicate the 'Mediterranean brand' to potential travelers and investors while managing to assure synergy in other marketing functions (distribution, pricing, promotion) globally (Yorghos and Sevil 2000, 388).

The crisis has also resulted in the increased focus on the importance of branding a region as a touristic destination, because of the decreased investments in place branding in comparison to the investments for brand positioning for each country. This is a very important fact because new trends are indicating that customers will be expecting

TABLE 4 How do you prefer to hear about specific touristic offer?

Media	Frequency	Percent
Internet site	208	69.8
Events	181	69.7
Recommendation from firends	197	66.1
Touristic agency form your country	196	65.8
Newspaper	196	65.8
Magazine	181	60.7
Global TV channel	178	59.7
Touristic fair	154	51.7
Facebook	145	48.7
By personal e-mail message	97	32.6
My space	88	29.5
Other	80	26.8

a higher number of touristic offers, despite the popularity of traditional resort tourism.

Through this research we have come to certain conclusions. First of all there are only positive brand associations when it comes to the words Mediterranean region, travel and touristic destination. Mediterranean region is mostly associated with the sea, and also with countries such as Greece and Lebanon. It is important to mention that 20% of the people from Lebanon who participated in the questionnaire relate the word Mediterranean with their own country.

Less frequent answers concerning the associations with the Mediterranean region are related to countries such as Italy, Spain, Montenegro – natural beauties, climate, beach; and feelings that are related to stays at touristic destinations – beauty, wonderfulness, pleasure and relaxation. It is interesting that a smaller number of people from Italy associate the Mediterranean region with the cuisine.

When travelling is in question, people mostly associate it with vacations, they often see travelling as tourism and they like to travel to the sea. Some other associations with travelling are entertainment, adventure, money and summer.

When a touristic destination is in question, there is a big diversity in answers. Most people associate a touristic destination with Greece

(8.1%) and Spain (7.4%), in the third place we have Paris (7.0%). Apart from this, the term touristic destination associates people with Italy, Cuba, Egypt and Turkey. A smaller number of people from Italy associates this word with Corfu, while a smaller number of people from

Serbia (0.03%) associated a touristic destination with Cuba.

Second of all, if we analyze the criteria for choosing the touristic destination and countries of people taking part in the questionnaire we can conclude that a certain difference – when it comes to prices of touristic arrangements – does exist between Serbia and Italy, sig. = 0.010, Italy and Lebanon, sig. = 0.000, however the difference does not exist between Serbia and Lebanon sig. = 0.053.

If we analyze the criterion of destination using table 3, it is easy to conclude that a certain difference does exist between Serbia and Italy sig. = 0.015, Italy and Lebanon sig. = 0.001, but the difference does not exist between Serbia and Lebanon sig. = 0.880. While analyzing the criteria regarding total quality of the touristic offer, we have come to the conclusion that differences exist between Serbia and Italy sig. = 0.003, Serbia and Lebanon sig. = 0.004, Italy and Lebanon sig. = 0.000.

Thirdly of all, an adequate communication strategy can ensure a better positioning of the Mediterranean region as a touristic destination. The results of this study only point out the ways of communication that are necessary for brand positioning of a touristic destination.

The use of on-line communication tools is also noticeable: internet sites, Facebook, MySpace, for informing the younger population about the touristic offers. According to the results it is easy to notice that it is necessary to use the strategy of integrated brand communication which allows one to integrate advertising tools (Global TV, magazines); on-line ways of communication (Internet sites, social networks Facebook, MySpace); through intermediary of the touristic agency, through recommendations from friends, organizing special events and tourism fairs.

The further course of the research will include more age groups, if we take into consideration that in this study only the younger population was included, which represents a certain limit. It is possible to define different aspects of communicating strategies including a strategic framework (Balakrishnan 2009, 621) for the purpose of building a brand for the Mediterranean region.

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Communicating in the Mediterranean Area: A Matter of Intercultural Awareness

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ECONOMIC GROWTH in the Mediterranean Region has strengthened the emphasis on interpersonal communication in an intercultural setting. Interpersonal communication is a form of communication that involves a small number of people who can interact with one another and who therefore have the ability both to adapt their messages specifically to the others and to obtain immediate interpretations from them. Within an intercultural setting, nonverbal and verbal communication emphasize the differences in cultures: the way we act and the things we say (and the ways we say such things) determine whether or not we belong to a certain culture. Intercultural communication is a central process in international business; in this paper I will try to formulate a practical model providing some principles useful to the development of skills and methods appropriate to doing business in the Mediterranean Region. The focus of this paper is on communication between Italians and their Greek and Algerian counterparts, giving a key to communication within the management of difference. Examples have been selected from research carried out in Greece and Algeria. The research is supported by theories and perspectives from a field where lines from social psychology, education, linguistics and applied linguistics cross.

INTRODUCTION

An economic crisis marked the end of the first decade of the new millennium. This led to critically evaluating which could be the best practices to adopt in an area such as the Euro-Mediterranean basin, in which so many different resources can contribute to the improvement of business and economic stability.

The Barcelona Process encouraged cultural and economic cooperation between the European Community and countries surrounding the Mediterranean Basin; The Barcelona Declaration proposed a plan of action to fix the framework and establish the priorities of Euro-Mediterranean dialogue.

[122] The European Commission has been promoting many different actions in order to develop a Euro-Mediterranean Partnership, with the objective of avoiding the emergence of new dividing lines between the enlarged EU and its neighbours and instead, as the European Neighbourhood Policy[1] advises: 'strengthening the prosperity, stability and security of all concerned.'

One of the strategies to achieve a better global market positioning for the region could be that of improving the exchanges between Europe and its immediate neighbours by land or sea, and being aware that collaboration is a key to any kind of program. Economic growth in the Mediterranean Region has already strengthened the emphasis on interpersonal communication in an intercultural setting. In many domains, including business, teamwork is being recognized as a key to effectiveness, knowledge sharing and innovation.

Collaboration implies communication. Working across the borders of the Mediterranean results in communicating with people who are different in language, nationality, ethnic heritage. Hence intercultural/interpersonal communication implies a dialogue that involves a small number of people who can interact with one another, and who, therefore, are able both to adapt their messages specifically to the others and to obtain immediate interpretations from them. Within an intercultural setting, nonverbal and verbal communication emphasize the differences in cultures, so these cultural differences need to be managed carefully, requiring sensitivity on both sides.

As underlined in the background objectives of the Euromed Heritage Project[2] of the European Union, culture has been recognized as an essential element for people's mutual understanding and improved perception of each other across the shores of the Mediterranean.

Intercultural communication, the practice of exchanging meaningful and unambiguous information across cultural boundaries, preserving mutual respect and minimizing antagonism, is the place where culture and interaction come to a synthesis, it is an essential competence in all of the projects promoted by the EU because all of them assume the accomplishment of an intercultural management.

Intercultural communication is therefore a central process in the Euro-Mediterranean dialogue. In this paper I will try to formulate a practical model providing some principles useful for the development of appropriate skills and methods to improve communication in the Region. The examples in this paper deal with communication between Italians and their Greek and Algerian counterparts, giving a key to communication within the management of difference. They have been selected from research carried out in Greece (Lobasso, Pavan, and Caon 2007) and Algeria (Pavan 2009).

The research is supported by theories and perspectives from a field where lines from social psychology, education, linguistics and applied linguistics intersect.

ADVANTAGES AND PITFALLS OF A LINGUA FRANCA

The use of English, or French, as a *lingua franca* and the growing awareness that while it might resolve a specific communication problem between people, could not provide a basis for real communication. It is a useful shortcut and may help, nonetheless, according to Crystal (1997) language has no independent existence, it lives in some sort of mystical space apart from the people who speak it. It exists in the brains, mouths, ears, hands and eyes of its users, and when they succeed on the international stage, their language succeeds, and when they fail, their language fails.

When two people conversing are from different countries, speaking in a language which is a foreign or a second language for one of them, or which is foreign to both of them, they may still be highly aware of their national identities. This awareness leads to feeling the other as different, and such a situation may influence what they say and how they say it, because they see the other person as a representative of a country, or a nation. This focus on national identity, and the accompanying risk of relying on stereotypes, reduces the individual from a complex human being to someone who is seen as representative of a country or 'culture.'

Regardless of the language, individuals must thus be sensitized to what underlies communication: the fact that using a lingua franca is not always a suitable or successful solution to all the problems. They must learn to cope with the complexities of intercultural communication, where grammatical or lexical correctness, important though they

are, may not be the decisive factor in communicative success. Neither may a satisfactory control of language functions be enough (Jackobson 1963; Halliday 1973), however essential it may be. Even a basic generalized knowledge of the foreign language's culture may not be a guarantee of success, as it may lead to or enhance existing stereotypes (Steele and Suozzo 1994).

THE AIM OF COMMUNICATION

The benefits that would accrue from the existence of a global language, and the use of a lingua franca, are considerable. However, of as much if not greater value in determining communicative success, is the ability to create a 'common ground' in an interaction.

The aim of communication, by means of language, is to exchange messages, and both in the sender's and receiver's mind the result of the exchange must be successful for the communication to be positive.

The success of communication is mainly emotional: according to Meharabian (1972; 1981) who carried out research on face-to-face interpersonal communication, there are three levels of communication: verbal, paraverbal, nonverbal. Only 7 % concerns verbal aspects (linguistic), because 38 % of the emotional meaning of a message concerns aspects of the voice (paralinguistic), and 55 % has to do with facial expression. He concluded that 93 % of the emotional aspects that influence a message are transmitted using nonverbal codes.

However, not all behaviour can, or should, be interpreted as communication. Thus we should specify that in this paper the term 'communication' will be used to refer only to those acts of communication in which the recipient perceives the message as containing a meaning thus decodes, interprets and reacts as a result, giving a feedback.

Context in Communication

An element crucial to a successful interaction is the overlap between the participants' reading of the context in which they communicate.

According to Hymes (1972) the key to understanding language in context is to start not with the language but with the context itself. Close friends, and sometimes relatives, who share their native tongue and culture, need to re-establish their relationship in terms of language if they meet after an absence; context deserves even more attention when the people are speakers of different cultures, speak diverse languages and meet for the first time.

As Hymes highlighted, communicating is not only a question of language, it is especially a question of context, i. e. the role of the participants and the subject they deal with. According to Willems (2002), foreigners who meet for the first time usually feel the need to negotiate a context before they 'get down to business' of whatever kind. This 'negotiation of context' process is fraught with problems and requires insight into the nature of culture, a willingness to establish real contact and the possession of the linguistic and pragmatic skills necessary to do it.

CULTURE AND COMMUNICATION

An anthropological definition considers culture as opposed to nature: Lévi-Strauss (1963) assumes that the unique cultural quality of humanity rests on that which is not natural; culture is the heritage of the learned symbolic behaviour that makes humans human.

Sometimes we tend to consider as 'natural' or 'logical' that which instead is 'cultural': we consider something logical in the sense of 'the presupposed knowledge in the conduct of everyday life' (Holland and Quinn 1991).

An attractive and modern definition by Hofstede (1991) is 'the collective mental programming which distinguishes the members of one group or category of people from another.' He considers the human mind as a computer which needs programming before it can start doing what it is supposed to do, and it takes a lot of effort to acquire another sort of 'logic,' or even open up to other 'logics.'

In other words culture is a shared pattern of categorizations, attitudes, beliefs, definitions, norms, values, where it is important to remember also the subjective nature of culture, since each individual can be different. Even what we mean by lying, inviting, rewarding and apologising, appears to have diverse social effects in different cultures, they are not universals which only vary at the level of verbal utterance.

Intercultural vs *Cross-Cultural*

[126] The term intercultural is normative and carries values, as opposed to cross-cultural which is considered neutral, a mere description of elements that may vary in different cultures.

Interculturality has moral and ethical dimensions for it incorporates respect for what is different and underlies a contact, a change in both the sender and the receiver, which, after the encounter, will be an irremediable change. Being an intercultural speaker implies being able to engage with complexity and multiple identities, and so avoiding the stereotyping which accompanies perceiving someone through a single identity. It is based on perceiving the interlocutor as an individual whose qualities are to be discovered, rather than as a representative of an externally attributed identity. According to Kramsch (1998) this implies a language learner who acts as a mediator between two cultures, interprets and understands other perspectives, as well as questions what is taken for granted in his/her own society.

From Description to Modelling

Being an intercultural speaker implies developing a solid intercultural awareness, and the practice described above indicates a shift from description to modelling, in order to design a process of competence building. Descriptions cannot be taught, they can be memorized and are useful only when the right situation appears, while models can be taught and competences, based on models, can be developed and adapted to many different situations (Balboni 2007).

Balboni (2007) states that, a model is a generative framework, i. e. a pattern or a structure which can include all possible occurrences, it is able to generate behaviour and it is often internally structured in a hierarchical manner. He also states that the higher the level of a model, the greater its complexity, which does not necessarily lead to complexity *in extensio,* but rather *in profundis,* exactly like a website homepage, and finally he affirms that models are forms of declarative knowledge which must generate procedural knowledge. Balboni concludes that, since intercultural communication competence is a competence, it cannot be

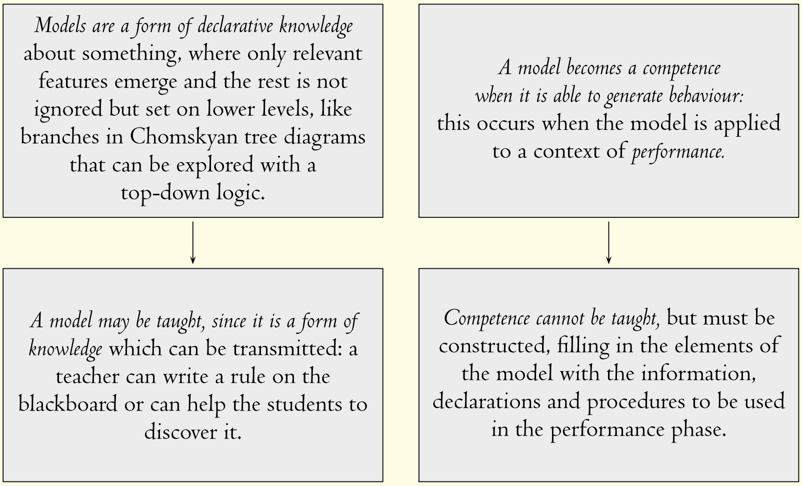

FIGURE 1 Models and competence (adapted from Balboni 2007)

taught, nonetheless once a reliable model of it has been provided, it can be built up.

Respect for cultural models is central to developing cultural awareness, a knowledge sometimes taken for granted. However it is often difficult to understand one's own models because we tend to assume that our behaviour is natural and we do not realise that it is conditioned by our culture(s).

Balboni's explanation leads to performance, and to intercultural awareness, which is the foundation of communication and involves the ability to stand back from ourselves and become aware of our cultural values, beliefs and perceptions, a crucial knowledge we must have when interacting with people from other cultures.

As the Council of Europe (2001) states, intercultural awareness is the knowledge, awareness and understanding of the relation (similarities and distinctive differences) between the 'world of origin' and the 'world of the target community.'

A Model of Intercultural Communication Competence

Balboni (2007) identifies three components that are crucial to a model of intercultural communication competence and adopting Hofstede's metaphor, proposes the following three definitions:

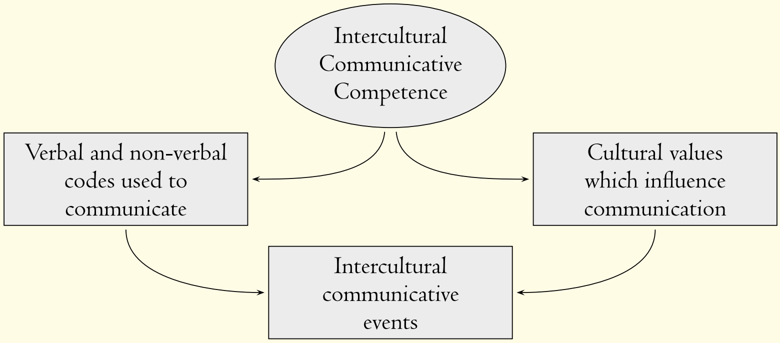

FIGURE 2 Intercultural communicative competence (adapted from Balboni 2007)

1. *the software of the mind,* which refers to the cultural factors which affect communication;
2. *the communication software,* which refers to the codes used, both verbal and nonverbal;
3. *the context software,* which refers to the socio-pragmatic software that governs the beginning, the course and the conclusion of an interaction, of a communicative event as described by Hymes (1972).

The first two elements, cultural and communicative, constitute the competence, the ability to do something, while the third, the 'context software' makes it possible to move from competence to performance, the setting where 'real' communication occurs.

COMMUNICATING IN THE MEDITERRANEAN AREA

Since verbal and nonverbal communication vary from culture to culture, we must try to describe a few barriers to intercultural communication and outline a model to be applied in an international context, which, in this paper, is a part of the Mediterranean region.

We will follow the model of intercultural communicative competence presented above we will map some key communicative problems between Italians, Greeks and Algerians, analysing the main cultural values that influence communication, verbal and nonverbal codes and events. The list is not meant to be exhaustive but rather an exemplification.

The examples been selected from research carried out in Greece (Lobasso, Pavan, and Caon 2007) and Algeria (Pavan 2009).

Cultural Values

Most of the literature on intercultural communication is of an anthropological or sociological nature, and sometimes the communicative dimension tends to be to some extent peripheral. In the model presented in this paper it is indeed the centre around which the whole model revolves. Within this strictly communicative perspective cultural values, which form the nucleus of the software of the mind, are fundamental.

Unlike verbal and nonverbal codes, which are closed systems, cultural values form an open set, which every single person can fill in, update and integrate depending on his/her needs and experiences. This means that the cultural values that one has to be aware of to be competent in intercultural communication change according to one's role (an international manager, a teacher, a diplomat, etc.)

Time. A picture easy to figure out shows a row of sand dunes stretching towards the horizon, and on it a set of footprints coming from nowhere and disappearing in the distance. The sense of time and space in Arab cultures is derived, rooted, in the image of a boundless desert, where space just crossed is not different from the space about to be crossed, where time is not measured by an everchanging succession of rivers, towns and woods, but rather by the progress of the sun through the sky, and will be different from that derived in a Northern European country. Arab people are also used to festivals being set by the lunar calendar, so the start of *Ramadam* is brought forward by eleven days each year. Thus it is hardly surprising that they are not punctual or reliable in their organisation of time in the same as way North Europeans are, who have been raised with an idea of time which is fixed, permanent, emphasized by fixed festivals and events which mark time passing during the year, with the only exception being Easter (Balboni 2007). This different conception of time may lead to relational and communicative problems.

In Greece and Algeria time is not perceived as a value in the way Americans do (*time is money*), consequently it can be wasted.

Greeks highly appreciate and defend their freedom, time cannot be slavery: they do not schedule their day, and events happen sometime in the future. Punctuality, thanks to the increasing contacts with foreign business, is high in working venues that place value on leisure time, but always in a flexible way and with some disorganisation. A foreign manager, waiting for an answer that was announced for *misimeri* (midday), pressing for the response, was badly informed by the secretary who underlined that *misimeri* could mean up to 4 p. m. This situation would be difficult to cope with for a Northern Italian manager, who strongly values time, but much more acceptable to a Southern Italian, closer to the Mediterranean style and similar to the Greek attitude.

In Algeria things scheduled will take place 'about/sometime' in the future. In Islam humans submit to God's will in all matters. God is the ultimate creator, authority and judge for all people. The first expression that sojourners will learn upon arrival in Algeria is *Insha'Allah* – the translation is 'If God wills.' Muslims do not question their fate, because God alone knows their destiny. When they say *Insha'Allah,* it may not mean they will do their best to achieve something; sometimes they say that they will reach a place in thirty minutes, and they are 100 km away, or that they will do something for the following day, and they actually handle it after a week. Women handle time in a different way, they are much closer to the Italian attitude, and so the too Berbers, an ethnic group who have inhabited today's Algeria since long before Christ.

As far as meetings and appointments are concerned, in Greece they are seldom scheduled well in advance. Greeks tend to do anything at the very last moment and in the best possible way, so when approaching the scheduled time it is important to call and ask for a confirmation. They tend to postpone things to the following day, considering the future uncertain they make a good use of extensions, sometimes even to their disadvantage. When they talk they point their arms forward indicating the past and backward indicating the future: the past is in front because they can see it clearly, while the future is unknown and lies beyond their vision.

In Algeria, during the *Ramadam,* it may be risky to assume that people will be available, even if they affirm: 'Il n'y a pas de problèmes.'

Deadlines are always postponed; even when the contract has a penalty clause, this can be negotiated, indeed, each contract is a font of permanent discussion, and planning is very difficult. Emotional factors have a strong influence too.

Time may be used as an indicator of power, for example having someone kept waiting at an appointment. In Greece and in Italy it is not a common habit, even if sometimes it may happen, especially on the Greek side, because of bad organisation. On the contrary, it is a habit in Algeria, nonetheless it is of paramount importance to be on time, especially for Europeans and particularly in Algiers, where the fear of terrorism is stillvery real and there are security checks almost everywhere which can cause delays.

The agenda connects contents in temporal succession in meetings: in a Greek environment it can be considered perfectly right to twist it. This is normal praxis in Italy as well, and can be extremely efficient, but it can also be irritating and leads to more aggressive moves by foreign participants who are faced with the Mediterranean chaos for the first time.

Time can be an indicator of personal space: a quick and overlapping turn taking in conversation may lead to the conclusion that whoever interrupts is invading the other person's space. Greeks, Italians and Algerians consider what they have to say important enough to interrupt the order and to offer help or suggestions to the speaker.

Silence in conversation is not acceptable to the Greeks, Italians and Algerians, so small talk is preferred, but it is fundamental to pay attention to the topics, because there may be inappropriate subjects. In Algeria silence could mean somebody doesn't agree.

Space. Space, like time, is a value that may influence interpersonal communication. Since behaviours, as we have seen, are culture bound and not natural, we must consider some communicative problems linked to space. We already indicated in turn taking an element close to space: those who interrupt may be felt as an invaders, and so causing a feeling of imprisonment and a subsequent reaction with aggressive communicative moves, which may be not understood by the 'invaders.'

As far as public and private space are concerned, in the Greek society public space is considered as belonging to everyone and no-one, cooperation is difficult and people take more care of private property and less of municipal space. Even the concept of Agora, that was developed in Greece, has faded away. The situation may be different outside Athens, especially on the islands.

Greeks and Italians do not like open space at work, they accept it as something that cannot be avoided. Algerians tend to occupy other people's space and prefer to have a private space. Even common spaces like a locker room and the showers in a factory must guarantee some privacy, especially for men, who find it hard to accept nudity.

In Greece and Italy many working tensions may be solved in a public space, drinking a coffee: in Italy standing in a bar and in Greece seated at a table. This usually happens in public space inside the companies, where people start talking about the time and carry on talking about work. Both Greeks and Italians easily shift from the personal to the working sphere, with the same person in the same moment. In Algeria relational problems are discussed between the persons involved, and work related questions are discussed at work.

Hierarchy, Respect and Status. Hierarchy may be explicit or implicit: the first is made evident by signs, which may range from the size and position of a table or of an armchair in an office, to the position of the office itself; the second is determined by understatement, making it difficult for an outsider to work where their interlocutor is in the hierarchy and means they may choose the wrong person as their qualified interlocutor. Hierarchy may be permeable and/or impermeable; in the first case communication is possible even across hierarchical divides.

In Greece hierarchy is direct and explicit and a bit more elastic than in Italy, in where the 'authority' is often perceived as an annoyance. In Algeria it is explicit and strongly impermeable. In a working environment Greeks do not trust foreigners as being able to understand them fully, relationships are warm and productive, but they do not rely on the ability of the foreign manager to comprehend quickly the way things go. The sentence Italian managers will usually hear during their first meetings with the Greek CEOs is: 'It's always been done like that.'

Hierarchy and status determine the degree of respect due to the interlocutor. Respect can take various forms: body movements, body distance and linguistic expressions.

It is common, in Greece, for a high status person to shout at somebody else, even in the presence of people not directly involved. It is a demonstration of power that Italians may perceive as improper or anomalous. It is important to underline the fact that both in Greece and in Algeria a person in charge must provide solutions, be decisive and solve problems, and above all he/she will show, in an explicit way, who is the boss. This is not always true in Italy, where such a charisma is not felt as an essential feature.

Three fundamental values in Algerian culture are tradition, relationship and hierarchical devotion. When meeting a superior an Algerian will express his/her greetings with verbosity, smiles, many salaams, questions about family and all the relatives they may have heard of, for a time that can be as long as ten minutes. If a foreigner tries to do the same it is not accepted, they feel it as something false.

In Greece until a few years ago it was compulsory to indicate one's own religion on the identity card. It is not compulsory anymore, nonetheless many people ask to have it recorded. The Orthodox faith is propagandist and very close to the State, offending the Greek religion is, in some way, perceived like offending the State. However the religious orientation is very intimate and therefore less visible.

In Algeria they pretend there are no differences, only because they usually prefer not to talk about discriminations.

The Sense of History, Nationalism. In Greece nationalism is very strong, and when criticisms and comments come from a foreigner they are turned down with rage. On the contrary, when critics come from in-group people, they can be fierce and the debate harsh. Nationalism can also be seen as a lost identity, after four centuries of Ottoman Empire domination and before the Byzantine period. Greeks resent that the old continent kept on evolving while they were stuck in bad faith – they positively feel Italians had the Renaissance that Greeks couldn't have – and resent their inability to emulate their ancestors' actions. Italians are felt to be close and preferred to other foreigners, like lucky cousins and, because of that, easily criticised.

In Algeria the nationalism is very strong too and they do not accept any criticism coming from a foreigner; this is related to a feeling of having lost their identity during the French rule and the fact that they are trying to build much stronger roots. Italians are preferred to other foreigners, especially for historical reasons rooted in the recent dark period in their history, this means they feel closer to Italian people and it also implies they feel they can criticise us.

The Concept of Family. The Greek and Algerian concept of family is rigid and extended, quite a sacred concept. When somebody has to make a decision, he/she will consider which member of the extended family/outgroup could be of any help. In business, people trust their relatives/friends most, and there are many family businesses.

On the other hand, in both Greece and Algeria a large company is not seen as a family, and critics of the company are not seen to be criticizing their own family.

Close to the concept of family is that of familiarity: Greeks and Southern Italians are very hospitable, generous towards foreigners. It is very common to be invited home after a short acquaintance, and being addressed with 'you' as a close friend, but this can be misleading.

In Algerian collectivism, family, social, and business are all relationships that are taken seriously and give them a great pleasure. Reassurance and warmth from familiar relationship are feelings they replicate in other relations. Nonetheless, if a solution implies the involvement of friend's and he/she suddenly disappears, it's better to look for another solution instead of looking for an answer or an explanation.

The Idea of Knowledge. The idea of knowledge may refer to the superficial repetition of notions or to a full and critical understanding.

In Greece knowledge is replication, a superficial repetition, students are asked to reproduce exactly what is written in a text. This is common in the Ottoman countries, but it is not in Italy, where the ancient Greek philosophy of speculation has survived to a greater extent.

Nonverbal Communication

Balboni (2007) defines nonverbal codes as a closed system in which he recognises three components: kinesics, proxemics, objectemics. Often people are unaware of these codes, and when they think about them, they strongly believe they are transnational. On the contrary, nonverbal codes are linked to a culture exactly as language is and, when communicating in English, people tend to concentrate so much on the language that they forget to pay attention to the nonverbal elements of communication.

Body Language/Kinesics. In Latin cultures much of the emotional state of the speaker is left to the expression of the face; words are for rational communication, facial expressions underline emotions and feelings. Italians smile a lot: to express consensus, approval, happiness, irony and superiority. In Greece smiling carries a connotation of sincerity and agreement, and Italians think that Greeks do not smile that much.

To look someone in the eye is perceived as a sign of frankness in Western cultures, but in many cultures of the Mediterranean Region and in Arab countries, looking a man straight in the eyes may be interpreted as a challenge, while looking at a woman in the same way may be felt as a sexual invitation. In Greece looking a person in the eyes is a sign of frankness, involvement in what is being said; to greet somebody one can use one's hands or simply look into the eyes. Raising the eyes skywards, and sometimes making a slight click of the tongue at the same time, as Sicilians do, in Greece indicates a negation. Yawning indicates boredom and tiredness both in Italy and in Greece, but in the Peloponnesus it also means that something related to an evil power is going on.

In the Arab world to cross legs is to reveal the soles of one's shoes, which indicates a lack of respect and is a serious offence; in Greece people tend not to cross their legs, especially in the presence of authorities or when there is a strong hierarchical difference.

Distance Between Bodies/Proxemics. All animals live in a sort of invisible bubble which protects their intimacy and indicates their safety distance, the minimum distance needed to defend themselves or to escape from attack. Hall (1966) developed a theory of proxemics, arguing that human perceptions of space, although derived from sensory apparatus that all humans share, are moulded and patterned by culture.

In Greece it is common to touch each other during a conversation and men can walk arm in arm; in Algeria people come even closer, and people can touch each other's chest as an indication of the truthfulness of what they are saying: they literally speak with 'their hearts in their hands.' A man greeting a woman can replace shaking hands with a sligh

movement of his hand in hers, an act of chivalry in Greece, but with a sexual connotation in Italy. Where Italians kiss, Greeks hug; as we said before, they usually greet with eye contact.

Objects/Objectemics – Offering and Rejecting. Money is an absolute value in Greece and therefore precious objects, such as cars, watches and mobile phones, must be visible, clear symbols of power and well-being. Hierarchy and status can be indicated by wearing Italian fashion clothes. Nonetheless, Greek and Algerian managers are far less formal than their Italian counterparts: they seldom wear a tie and pay less attention to colours and fabrics. High status Algerian love Italian fashion, and a parallel market, where anybody can buy anything fake, is a well known reality.

A present may be a hazardous matter: in Italy people tend to open it at once, in Greece they tend to open it later, but if the present is valuable the donor will insist on having it opened in front of the participants. In Greece people prefer local to foreign presents, nonetheless Italian gifts are always welcome. When invited to a home, one can take flowers, wine, liqueurs, sweets: it is important to remember that it is compulsory to bring something and that usually the present is for the lady, and is given on arrival and generally it is not opened. If the gifts are opened the expressions of surprise are so exaggerated that, to a Northern Italian, they may sound artificial. In Algeria it is common to bring sweets.

As far as tobacco and alcoholic drinks are concerned, Greeks still smoke and drink quite a lot. As regards offering and accepting, Greeks tend to insist when they offer something and even Italians may feel embarrassed in front of such a strong insistence, especially if they come from North Italy. Not accepting an offer may be considered an offence. Friendship is a strong value for Greeks, so any action that can lead to a kind of support towards the other will be full of passion and involvement.

Verbal Communication

According to De Saussure (1967), a language can be defined as *langue* (language, linguistic competence and textuality, lexicon, morphology and syntax) and *parole* (speech, linguistic performance, language production in use, the pragmatics aspects of communication).

A critical issue in textuality is the fact that not only communication but also discourse must be considered a cultural element (Scollon and Scollon Wong 1995). A text produced by an English speaker tends to go straight to the point, with short sentences made up of subject and verb, object and complements. In contrast, a text produced by an Italian tends to fuse all the segments, using pronouns, verbs and their many marked forms, building a much more complex, less direct structure.

Greek, and Algerian and Southern Italian texts contain many descriptions and digressions, and the main point of the argument often only comes after a long opening. Usually the speaker shows little if any desire to synthesize, and is even less willingness to get to the point of the matter in the short term. The approach is much more subjective, relative, than objective and abstract.

The style of a Greek text is mainly direct, using less conditional and far more imperative modes, the sentences contain plenty of subordinates. Greek people place more value on enthusiasm and spontaneity than do Italians, especially Northerners, who may feel this style of very direct conversation of being rather direct and not always acceptable because, to an unaccustomed ear, the conversation may seem and appear rude and aggressive, almost an argument. Sometimes the substance of a conversation is less important than the style, it is the communication that counts.

In interpersonal relations, both Greeks and Italians tend to switch easily back and forth from personal to business matters. As already mentioned, both Greek and Italian people need a space to share, be it in the office or outside, such as a bar or an open space like a piazza, where they can talk, argue, and solve conflicts.

Most of the time when Greek people are communicating and preference is expressed there will be a burst of enthusiasm expressed in tone and many exclamations. If unwillingness is expressed further discussion will be cut short, exactly as in the adage: 'if you can't say something good, don't say anything at all' – and objections are usually not directly expressed.

CONCLUSION

Intercultural communication is a central process in the Euro-Mediterranean dialogue, and I have presented a practical model offering some principles that could be useful to the development of appropriate skills and methods to improve communication in the Region.

This study seeks to extend the understanding of cultural differences and to contribute to the current literature on intercultural and cross-cultural studies applying the concept of intercultural communicative competence to the development of a model that can be generative, and produce behaviour.

To achieve this, managers and leaders should both become aware of the model of intercultural communicative competence described, and must continue to add the contents of the three icons on the basis of their experience of life, the books they read, the movies and TV programs and advertisements they see.

The long recognised fact that only when rules are broken do people become aware of their existence can be overcome with the development of an adequate cultural awareness related to people's own culture, and the development of an appropriate intercultural communicative competence based on their experience of conventions and practices.

However, it is important to state that the influence of culture is impossible to quantify and this paper is dealing mainly with culture as expressed within, in the way it affects, interpersonal communication as each person is the representative of his/her own cultural patterns that can be congruent, but sometimes not homogeneous, with that of the dominant culture.

ACKNOWLEDGMENTS

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NOTES

1 European Neighbourhood Policy, see http://ec.europa.eu/world/enp/index_en.htm.

2 Euromed Heritage Project, see http://www.euromedheritage.net/index.cfm?menuID=13.

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Résumés

L'Égypte dans le cadre de la crise financière globale : impact, réponse et marche à suivre

ASSEM REDA ABU HATAB

Dans la seconde moitié de 2008, l'économie mondiale a subi un bouleversement financier sérieux qui s'est déclenché aux États-Unis et qui s'est propagé en Europe et dans le reste du monde. Les conséquences négatives de cette crise financière ont affecté l'économie égyptienne dans de nombreux domaines. Le taux de croissance de l'Égypte a subi une régression et a, en 2008–2009, peut-être affiché sa plus faible croissance annuelle de ces 5 dernières années. En effet, la crise globale a touché les recettes du tourisme, les envois de fonds des travailleurs migrants, le Canal de Suez, les recettes d'exportation, et l'investissement. La gravité de la crise et les incertitudes qu'elle implique ont montré la nécessité de mesures urgentes afin de rétablir la stabilité financière, mener la reprise économique et assurer un avenir durable pour le pays. Ainsi, cet article scientifique traite d'un point de vue critique l'actuelle crise financière globale et son impact sur l'Égypte. Il présente une vue d'ensemble de l'économie égyptienne avant la crise, suivie d'une évaluation de sa gravité et de l'impact de celle-ci sur les secteurs de l'économie égyptienne. De plus, l'article met la lumière sur les mesures prises par le gouvernement égyptien pour endurer les effets de la crise. Il se termine en proposant quelques recommandations politiques afin que l'économie égyptienne parvienne à faire face à cette crise.

Le rôle de la productivité totale des facteurs dans les pays méditerranéens

VITO PIPITONE

L'objectif du présent travail est d'attirer l'attention sur le rôle des progrès technologiques dans la croissance économique des pays méditerranéens. La Méditerranée est un endroit qui n'a été que partiellement couvert par les statistiques internationales et par la littérature spécialisée. Cependant, il a été nécessaire de commencer à mesurer les données des 24 pays observés en utilisant une méthodologie uniforme.

Sur la base des données estimées, il a été possible d'évaluer la productivité totale des facteurs, que nous avons considérée comme une synthèse de nombreux éléments qui influent sur l'efficacité générale de l'économie. Les estimations de la PTF ont aussi permis de diviser le taux de croissance de la production totale par travailleur en contribution du capital physique, du capital humain et du PTF.

L'accès aux services financiers dans les pays du Maghreb

FRANCESC PRIOR ET JAVIER SANTOMÁ

L'objectif de cette étude est d'analyser comment, dans les pays du Maghreb, les institutions financières privées et celles appartenant à l'état, essaient de résoudre le problème du manque d'accès aux services financiers de base. Dans ce document, nous supposons que ce problème est essentiellement lié à un approvisionnement insuffisant en services de microfinance. Cet approvisionnement en services de microfinance à la population à faible revenu en Algérie, Maroc, Égypte et Tunisie revient beaucoup trop cher. Aussi, les réseaux de vente par le biais desquels ces services sont distribués, ne sont pas suffisamment couverts, ils n'utilisent pas les dispositifs nécessaires d'analyse de risque et sont soumis à des régimes de réglementation inappropriés. Avec cette étude, nous avons pour objectif de présenter les modèles de gestion utilisés par les institutions principales concernées par la microfinance dans les pays du Maghreb. Nous proposons aussi d'analyser les politiques adoptées par les gouvernements de ces pays afin d'assurer que les secteurs à faible revenu aient accès aux services financiers. Notre objectif final est d'identifier les meilleures pratiques dans la mise en œuvre des innovations dans le secteur bancaire pouvant être associées aux meilleures pratiques dans la formulation de politique publique touchant les secteurs de la finance et de la microfinance dans le but d'étendre l'accès aux services financiers de base à une grande partie de la population des pays en voie de développement.

Favoriser la promotion du commerce et de l'exportation pour surmonter la crise économique globale

JELENA VAPA-TANKOSIĆ

La mondialisation de la production, l'augmentation du régionalisme, l'émergence des blocs commerciaux et surtout la crise financière mondiale ont joué un rôle crucial dans la réorganisation du contexte commercial international. D'autre part, le grand dommage économique et social a influencé les flux commerciaux et la croissance des exportations a été réduite de plus de deux tiers de 2007 à 2009. Pourtant, l'Union européenne est déterminée à ce que le commerce continue à jouer un rôle clé dans la lutte contre le ralentissement économique actuel. Cet article explore les mesures actuelles de la politique commerciale de crise en se focalisant sur la politique commerciale européenne et sur la promotion du commerce et de l'exportation dans un pays candidat à l'adhésion, la République de Serbie, à la lumière de la crise économique mondiale. Les circonstances économiques actuelles, les changements structuraux, la croissance de la compétitivité de l'économie nationale ainsi que les changements économiques et politiques de l'année 2000 montrent l'importance d'encourager la promotion du commerce et des exportations dans les réformes de l'économie de transition, particulièrement en temps de crise économique mondiale.

La stratégie de marque du tourisme de la région méditerranéenne

VESNA DAMNJANOVIĆ, MILENA KRAVIC
ET TAREK ABDUL RAZEK

Cet article présente l'influence du futur rôle du tourisme concernant la stratégie de marque de la région méditerranéenne. Développer la stratégie de marque en période de crise économique mondiale entre le Nord (L'Union européenne) et le Sud (le pays riverains de la Méditerranée qui n'appartiennent pas à l'Union européenne et les pays du « nord » non-membres – les Balkans) sera primordial dans la nouvelle situation géostratégique. Dans cette étude, nous avons identifié l'actuel positionnement de marque lié à l'aspect touristique de la région méditerranéenne et les possibilités futures pour le développement d'une stratégie de communication de marque pour assurer un meilleur positionnement sur le marché mondial. Nous avons étudié les opinions de jeunes de différentes régions (Italie, Serbie, Liban) et comparé les résultats concernant la Méditerranée (Comment perçoivent-ils cette zone en ce qui concerne le tourisme ? Ont-ils des associations positives ou négatives ? Quelle est la première chose leur venant à l'esprit quand ils entendent le mot « méditerranéen' » ?). Nous proposons un cadre pour les offres touristiques lié à des éléments de la stratégie de marque de la région méditerranée : l'identité de marque, le positionnement de marque, l'image de marque. La deuxième partie de l'étude devrait fournir des orientations pour une meilleure communication de la stratégie de marque de la région méditerranéenne afin d'assurer une situation plus stable du tourisme dans le marché mondial.

La communication dans la région méditerranéenne : une affaire de conscience culturelle

ELISABETTA PAVAN

La croissance économique dans la région méditerranéenne a renforcé l'intensification de la communication interpersonnelle dans un contexte interculturel. La communication interpersonnelle est une forme de communication qui implique un petit nombre de personnes pouvant interagir entre eux et qui ont donc la capacité à la fois d'adapter leur message de manière spécifique aux autres et d'obtenir des interprétations immédiates de leur part. Dans un contexte interculturel, les communications verbale et non-verbale montrent des différences entre les cultures : notre façon d'agir, ce que nous disons (et la façon dont nous le disons) déterminent si nous appartenons à une certaine culture ou non. La communication interculturelle est un processus central dans les affaires internationales ; dans cet article nous allons essayer de formuler un modèle pratique offrant quelques principes utiles pour le développement des compétences et des méthodes appropriées pour faire des affaires dans la région méditerranéenne. Dans l'article, l'accent est mis sur la communication entre les Italiens et leurs homologues grecs et algériens, en donnant les clés d'une bonne communication dans le cadre de la gestion des différences. Les exemples sélectionnés sont tirés d'une recherche effectuée en Grèce (Lobasso, Pavan et Caon 2007) et en Algérie (Pavan 2009). Cette recherche est soutenue par des théories et des perspectives d'une spécialité où les grandes lignes de la psychologie sociale, de l'éducation, de la linguistique et de la linguistique appliquée se rencontrent.

Povzetki

Egipt v okviru svetovne gospodarske krize: vpliv, odziv in pot naprej

ASEM REDA ABU HATAB

V drugi polovici leta 2008 je svetovno gospodarstvo doživelo vrsto resnih finančnih težav, ki so se najprej začele v ZDA in nato razširile še na Evropo in ostale dele sveta. Negativne posledice te finančne krize so prizadele egiptovsko gospodarstvo na mnogih področjih. Stopnja rasti gospodarstva se je zmanjšala in je v letih 2008–2009, ko so se zaradi svetovne krize zmanjšali prihodki od turizma, nakazila Egipčanov na delu v tujini, prihodki od sueškega prekopa in izvoza ter naložbe, dosegla najnižjo raven v drugi polovici tega desetletja. Resnost krize in negotovost, ki jo je povzročila, sta opozorila na nujnost takojšnjih ukrepov z namenom doseganja finančne stabilnosti, spodbujanja gospodarstva in zagotavljanja prihodnosti za državo. Članek zato kritično presoja sedanjo globalno finančno krizo in njen vpliv na Egipt. Začenja s pregledom egiptovskega gospodarstva pred krizo, temu pa sledi ocena resnosti in vpliva krize na različne panoge egiptovskega gospodarstva. Članek poleg tega prikazuje tudi ukrepe egiptovske vlade za prebroditev krize, na koncu pa ji predlaga tudi nekaj ukrepov za obvladovanje krize.

Vloga skupne faktorske produktivnosti v sredozemskih deželah

VITO PIPITONE

Namen pričujočega dela je opozoriti na vlogo, ki jo ima tehnološki napredek pri gospodarski rasti sredozemskih držav. Sredozemlje je območje, ki je le delno zajeto v mednarodnih statistikah in specializirani literaturi, zato je bilo treba z uporabo enotne metodologije najprej primerjati podatke za 24 obravnavahih držav. Na podlagi ocenjenih vrednosti je bilo nato mogoče oceniti skupno faktorsko produktivnost, obravnavano kot vsoto sestavin, ki vplivajo na skupno učinkovitost gospodarstva. Ocene skupne faktorske produktivnosti so omogočile tudi določitev deležev produktivnosti dela, ki jih

prispevajo fizični kapital, človeški kapital in skupna faktorska produktivnost.

Dostop do finančnih storitev v deželah Magreba: primerjalni pregled zagotavljanja mikrofinančnih storitev v Alžiriji, Egiptu, Maroku in Tuniziji

FRANCESC PRIOR IN JAVIER SANTOMÁ

Namen študije je analizirati, kako skušajo v deželah Magreba zasebne in državne finančne ustanove razrešiti problem slabe dostopnosti osnovnih finančnih storitev. Naša predpostavka je, da do tega prihaja predvsem zaradi neustrezne ponudbe mikrofinančnih storitev. Za prebivalstvo z nizkimi dohodki v Alžiriji, Maroku Egiptu in Tuniziji so mikrofinančne storitve predrage, mreža ponudnikov teh storitev je nezadostna, poleg tega pa ne uporablja nujnih mehanizmov analize tveganja in je podvržena neustreznim regulatornim ukrepom. V študiji bomo prikazali poslovne modele, ki jih uporabljajo najpomembnejše ustanove, vključene v mikrofinančne storitve v deželah Magreba. Analiziramo tudi ukrepe, ki so jih vlade teh dežel uvedle, da bi zagotovile prebivalstvu z najnižjimi dohodki dostop do finančnih storitev. Naš končni cilj je poiskati najboljše načine vpeljave novosti v bančništvu, ki jih je mogoče združiti z najboljšimi načini oblikovanja javnih politik, ki vplivajo na finančni in mikrofinančni sektor, da bi večjemu delu prebivalstva držav v razvoju omogočili dostop do osnovnih finančnih storitev.

Pospeševanje trgovine in spodbujanje izvoza kot način premagovanja svetovne gospodarske krize

JELENA VAPA-TANKOSIĆ

Globalizacija proizvodnje, povečana regionalizacija in trgovinske povezave, predvsem pa svetovna finančna kriza, so imele odločilno vlogo v preoblikovanju mednarodne trgovine. Gospodarske in družbene posledice krize so vplivale tudi na trgovinske tokove, zaradi česar se je v letih 2007–2009 rast izvoza zmanjšala skoraj za dve tretjini. Evropska unija je kljub temu še vedno odločena trgovini nameniti ključno vlogo pri obvladovanju sedanjega zmanjševanja gospodarske rasti. V članku bomo preučili krizne ukrepe na področju trgovinske politike, pri čemer se bomo osredotočili na evropsko trgovinsko politiko in

spodbujanje trgovine in izvoza v državi pristopnici, kakršna je Srbija, v luči svetovne gospodarske krize. Sedanje poslovne in gospodarske okoliščine, strukturne spremembe, povečevanje konkurenčnosti domačega gospodarstva, kakor tudi politične spremembe po letu 2000, povečujejo pomen pospeševanja trgovine in spodbujanja izvoza v preoblikovanju tranzicijskega gospodarstva, posebej v času svetovne gospodarske krize.

Strategija blagovnih znamk na področju turizma v Sredozemlju

VESNA DAMNJANOVIĆ, MILENA KRAVIC IN TAREK ABDUL RAZEK

Članek obravnava vpliv, ki ga ima strategija blagovnih znamk v Sredozemlju na prihodnjo vlogo turizma. Oblikovanje strategije blagovnih znamk v času svetovne gospodarske krize na severu (v državah Evropske unije) in jugu (severnoafriške države in »severne« države, ki niso članice Evropske unije – tj. balkanske države) bo namreč odločilnega pomena v novih svetovnih geostrateških razmerah. V tej študiji smo določili sedanji položaj blagovnih znamk s področja turizma v sredozemlju in poiskali nove priložnosti za razvoj stategije marketinškega komuniciranja z namenom zagotavljanja boljšega položaja na svetovnem trgu. Preučili smo mnenja mladih iz različnih dežel (Italije, Srbije in Libanona) in primerjali njihove odgovore na vprašanja o Sredozemlju (kakšen se jim zdi s turitičnega vidika, ali imajo ob tem pozitivne ali negativne asocijacije, na kaj naprej pomislijo ob besedi »Sredozemlje«). Predlagamo okvir za turistično ponudbo z upoštevanjem elementov strategije blagovnih znamk v Sredozemlju: identitete, pozicioniranja in njihove podobe. Drugi del študije ponuja usmeritve za boljše trženjsko komuniciranje v sredozemlju, s čemer bi sredozemskemu turizmu zagotovili trdnejši položaj na svetovnem trgu.

Komuniciranje v Sredozemlju: vprašanje medkulturnega zavedanja

ELISABETTA PAVAN

Gospodarski razvoj v Sredozemlju je dal večji poudarek medosebnemu komuniciranju v medkulturnem okolju. Medosebno komuniciranje je oblika komuniciranja, pri katerem je udeleženo manjše število ljudi, ki vplivajo drug na drugega ter lahko zato sporočila prilagajajo točno določeni osebi in lahko od nje dobijo takojšen odziv. Verbalno in neverbalno komuniciranje v medkulturnem okolju poudarja medkulturne razlike: način našega obnašanja in to, kar izrečemo (in način, kako izrečemo), določata, če pripadamo določeni kulturi ali ne. Medkulturna komunikacija je osrednji proces mednarodnega poslovanja; v tem članku bom skušala oblikovati praktičen model, ki podaja nekatera načela, uporabna pri razvoju spretnosti in metod, primernih za poslovanje v Sredozemlju. Članek se osredotoča na komuniciranje med Italijani na eni ter Grki in Alžirci na drugi strani in daje ključ za komuniciranje skozi obvladovanje različnosti. Primeri so bili izbrani iz raziskav, opravljenih v Grčiji in Alžiriji. Raziskava temelji na teorijah in pogledih s presečišča med socialno psihologijo, vzgojo, jezikoslovjem ter uporabnim jezikoslovjem.

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