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Highlights

The Role of Cooperative Society

Customer Satisfaction and Service

Discovering Thoughts, Inventing Future

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Research on the Fragility of the Production Network in East Asian Region and the Industrial Development Strategies of our Country

By Cheng Xinxuan

The School of Management of Hebei University, China

Abstract- With the changing of international division pattern, the economy in East Asian Region has broken through the traditional "mode of wild goose travel" and formed a new type of East Asian production network, which has become an important part of the global production network. China, as the core of the production network in East Asia, has increased in trade in the region year after year. It is mainly embodied in importing a great deal of parts and components from the region and exporting finished products to such countries as USA, in EU, etc. outside the region after processing. China has been playing a part of intermediate hub in the "triangular trade" inside and outside East Asian Region. Although such typical trade characteristic improved the competitive power of the member countries in the production network of East Asian Region in a certain period of time, the impact of the American financial crisis on East Asian Region showed that the production network in East Asian Region was fragile to a certain degree.

Keywords: fragility, preferential rules of origin, production network in east asia, "triangular trade".

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Research on the Fragility of the Production Network in East Asian Region and the Industrial Development Strategies of our Country[1]

Cheng Xinxuan

Abstract- With the changing of international division pattern, the economy in East Asian Region has broken through the traditional "mode of wild goose travel" and formed a new type of East Asian production network, which has become an important part of the global production network. China, as the core of the production network in East Asia, has increased in trade in the region year after year. It is mainly embodied in importing a great deal of parts and components from the region and exporting finished products to such countries as USA, in EU, etc. outside the region after processing. China has been playing a part of intermediate hub in the "triangular trade" inside and outside East Asian Region. Although such typical trade characteristic improved the competitive power of the member countries in the production network of East Asian Region in a certain period of time, the impact of the American financial crisis on East Asian Region showed that the production network in East Asian Region was fragile to a certain degree. In recent years, more and more member countries have joined in the production network in East Asia with more and more industries covered. What changes has the fragility experienced? This essay makes a quite deep exploration from such aspects as the trade structure within the region, the production characteristics and the changes in the trade relations among China, Japan and Korea resulting from the political conflict between China and Japan and proves that the fragility of the production network in East Asia has been further increased. And it takes the American financial crisis as an example to analyze the mechanism of fragility transmission from industrial and financial levels. The author further studies the industrial distribution characteristics of China in the production network of East Asia, reflects a trade structure of "both ends being outside", which restricts seriously the industrial self growth ability of our country. Therefore, under the environment confronting returning of American manufacturing industry and initiation of trans-Pacific partnership (TPP) agreement, it is necessary to present the industrial development strategies of our country from both regional and national levels.

Keywords: fragility, preferential rules of origin, production network in east asia, "triangular trade".

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I. Introduction

Since 1990's in the 20th century, the international division pattern has had an in-depth change with the development of economic globalization. An evolution from the initial change among industries to the change within industries and finally to the change within products has been finished. Such a division production mode within products makes the production process for the same final product be divided into a number of links, which are dispersed in the countries or regions with the highest efficiency and lowest cost for production according to the comparative advantages of different countries. Such a new type of international production mode combines organically the participants and dominant players at different levels on the current international economic stage to form a global "international production network (IPN)". In recent ten plus years, such a global production division has created a new labor division mode among the economic bodies in East Asia, especially in Southeast Asia. The rapid development of the production network has changed the production mode and international trade mode of East Asia, with trade within the region having been expanded through transactions in parts and components across borders. According to the Asian input-output table of Japan External Trade Organization (JETRO), we can see that the international production fragmentation of Asia has developed and evolved from simple south-north oversea processing trade to a horizontally and vertically staggered regional production network, which is called "Asian Plant". [2]

Since entering into the 21st century, the free trade zone in East Asian Region has achieved a rapid development. As of Apr. 11, 2013, the number of RTAs that the countries in East Asia had communicated to WTO and executed had reached 45, accounting for 21%

[2] Baldwin,R.E(2008).Managing the Noodle Bowl: The Fragility of East Asian Regionalism, Singapore Economic Review, vol.53,No.3;pp.449-478.

[1] This essay is a stage result of the key project of national social science planning fund for 2014 as "Study on Influence of Rules of Origin of East Asian Free Trade Zone on the Industrial Position of our Country in the Region" (Project No.: 14AGJ013); a stage result of the supporting plan of the Education Ministry for excellent talents in the new century for 2012. a stage result of the supporting plan of the Educational Bureau of Hebei Province for high level talents: Study on Influence of Rules of Origin of East Asian Free Trade Zone on the Industrial Value-added of our Country in the Region" (Project No.: Gcc2014055)

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of the total number of FTAs/RTAs reported by the members to WTO. [3] With the rapid development of regional economic cooperation in East Asian Region, the unilateral custom duty level of different countries is reducing increasingly and the degree of division within the region has become finer. The degree of economic reliance among different countries is constantly increasing, and the division mode within East Asian Region is being adjusted constantly. The Asian Manufacturing Matrix has become more complicated. [4] Just as pointed out by Fukunari Kimura (2010), the development of the free trade zone in East Asia has promoted liberalization of trade and investment and further promoted the development of the regional production network. Such developed economic bodies with sufficient technologies and capitals as Japan, Korea, etc. have begun to engage in upstream production procedures for capital and technology intensive products and export such intermediate input products as parts and components, etc. to such developing economic bodies which are cheap in labor, abundant in natural resources and sufficient in land elements as China, Indonesia, etc. who complete labor intensive downstream production procedures. [5] East Asian Region has begun to exhibit such characteristics as being open, being dynamic, multiple routes and multiple speeds, etc., which make the degree of professional division among different countries in the region become constantly deepened with "production network fragmentation" having formed in East Asia, [6] and the intermediate product trade centralization within the region increasing. Therefore, the development of Asian international production network in the past 20 years is a dynamic result of trans-national companies adapting to changes in the trade and business environment, with the original "mode of wild goose travel" being broken through and a typical "triangular trade" characteristic exhibiting. Such a trade structure resulted in a great impact on the production network in East Asian Region during the American financial crisis in 2007, highlighting the fragility of the production network in East Asian Region. [7] The world trade volume of East Asia during the 14-month period from Apr. 2008 to Jun. 2009 fell by 20%. The whole area of East Asia fell by 32.5% during the same period. The import volume also fell by 33.1%, exceeding the world trade decrease level.[8]

With China being taken as a media, the decrease in import of final manufactured goods from China by USA rapidly resulted in decrease in export by other countries in East Asia. The American financial crisis generated a great impact effect on East Asian Region and this effect was closely related to the production network in East Asian Region (Arthkoralan and Kohpaiboon, 2010). [9] In recent years, the American economy has gradually recovered and the export by the member countries in East Asia has also resumed to a trend as strong as that in the past. However, the fragility of the regional production network is being enhanced. The degree of industrial participation in the region by our country is increasing, but the position is still locked at the industrial low end. Therefore, it is urgent to take some measures to increase regional self growth and upgrade the intrinsic competence of the industrial development of our country.

II. Judgment on Enhancement of Fragility of Production Network in East Asian Region

Fragility is a kind of instability and a representation of high external reliance and lack of self growth ability. Professor Chen Jianan raised instability of regional division system through analyzing the unbalance of the trade structure of East Asia; [10] Ikuo Kurowa analyzed the fragility of the production network in East Asian Region through impact of the American financial crisis on it. [11] The fragility of the production network in East Asian Region is a kind of intrinsic characteristic with the changing direction having to be analyzed from the regional trade structure and production characteristics, etc.

[3] Wto.org.cn

[4] Fukunari Kimura, FTA Networking in East Asia and Asia-Pacific: Where are we going? Economic Research Institute for ASEAN and East Asia, 2010,November.

[5] Ikuo Kurowa, Hiroshi Kuwamori, Impact of the US Economic Crisis on East Asian Economies:Production Networks and Triangular Trade through Chinese Mainland, China&World Economy/1-18,Vol.19,No.6,2011，p7.

[6] The production network in East Asia mainly includes the following parts: in Southeast Asia, including Singapore, Philippines, Malaysia and Thailand, who mainly import mechanical parts and components; in Northeast Asia, including Japan, China and Korea. At present, Indonesia, Vietnam, Burma, Cambodia, Laos, etc. are gradually participating in the production network in East Asian Region.

[6] Fragmentation: Initially by Jones and Kierzkowski (1990). The parts and components of one product are allocated in different regions or countries for production. Later, Cheng and Kierkowsk 2001, IDE, 2005, studied this issue relevantly, which basically contains "localization, division, internationalization, multi-stage production, outsourcing, perpendicular specialization, etc.".

[7] Ikuo Kurowa, Hiroshi Kuwamori, Impact of the US Economic Crisis on East Asian Economies:Production Networks and Triangular Trade through Chinese Mainland, China&World Economy/1-18,Vol.19,No.6,2011，p7.

[8] Wang Rongyan, Study on Mechanism and Effect of the Production Network in East Asia being Subject to Impact----Analysis Based on the Trade Structures of East Asia and China, Academic Library of Tianjin, Book 2, Page 1292.

[9] Arthkoralan and Kohpaiboon,2010，China and East Asian trade: the decoupling fallacy,crisis and policy challenges, in Ross Garnaut,Jane Golley and Ligang Song,eds, China:The Next Twenty Years of Reform and Development,Canberra: Australia National Univerisity E-Press,pp.193-220.

[10] Chen Jianan, Industrial Division System of East Asia and its Structural Unbalance, Study on World Economy, Issue 4, 2008, pages 72-79.

[11] Ikuo Kurowa, Hiroshi Kuwamori, Impact of the US Economic Crisis on East Asian Economies: Production Networks and Triangular Trade through Chinese Mainland. China&World Economy/1-18.vol.19,No.6,2011

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a) The enhancement of "triangular trade" structure increasing reliance on European and American countries

"Triangular trade" structure means that a country or region imports parts and components for processing and assembly and then exports the final products to other countries or regions. Kim, Won Bae (2011) pointed out that a mode of reliance with each other by taking China as the center had been formed in East Asia. In recent years, the trade surplus of China with Europe and America has increased rapidly. At the same time, the import by China from other countries in East Asia[12] has increased substantially. In electronic, mechanical aspects, China has created a great trade deficit with Japan, Korea, China Taiwan and Malaysia. This forms in East Asia an important processing and assembly export platform as China, who imports from Japan, Korea intermediate products with a high capital, technology intensive degree, imports from such ASEAN countries as Malaysia, etc. intermediate parts and components with a low capital, technology intensive degree and finally have them assembled in China and exports the final manufactured goods to such developed countries as in Europe and America, etc. to Japan, Korea, ASEAN with USA, that is, the final products in East Asian Region are imported to other countries outside the region through China. This indicates that the "triangular trade" structure of the production network of East Asia is more apparent, which is further enhanced.

The enhancement of the "triangular trade" structure has on one hand strengthened the economic ties among the member countries with the degree of mutual reliance being increased. On the other hand, there is a more reliance on the demands of countries outside the region for the final products. As a result, the production status and profit-making degree of the production network in East Asian Region is dependent to a large degree on the status of demand for the final manufactured goods. Therefore, though this mode has promoted the economic growth in the member countries of East Asia and increased the competitive power of the East Asian economic bodies, the reliance of final manufactured goods on countries outside the region increases the fragility of the regional production network. If the demand of USA or EU for final manufactured goods decreases due to economic crisis or other economic impacts, it is hard for the products produced by the production network in the East Asian Region to find markets and the product values can not be realized. As a result, the export industry of China will suffer an impact with relevant industries in East Asia to be affected. The economic development will face greater risks.

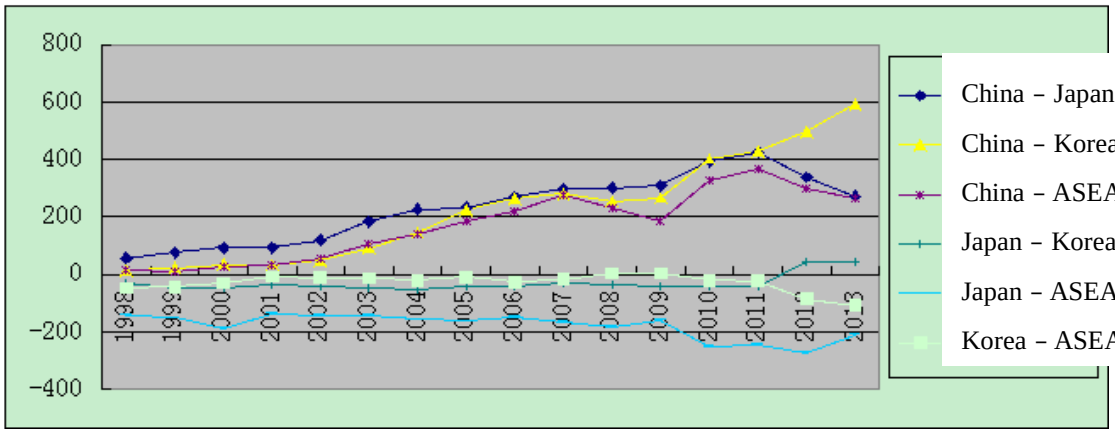


Figure 1 : Trade deficit in parts and components between main countries and regions in East Asia (Unit: x108 USD)

Data source: Calculating, plotting according UNCOMTRADE data

[12] Kim,Won Bae, the Rise of China and Repositioning of Asian NAEs, Seoul Journal of Economics; Summer 2011;24,2;ProQuest

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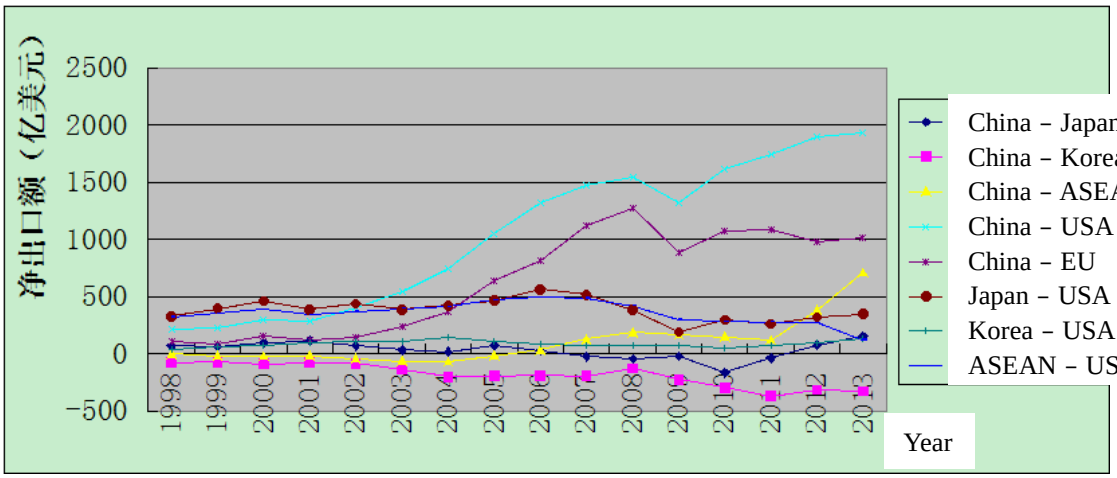


Figure 2 : Net final product export between main countries in the world (Unit: x108 USD)

Information source: Calculating, plotting according UNCOMTRADE data

Note: Here EU refers to such 15 countries as France, Italy, Holland, Belgium, Luxembourg, Germany, Ireland, Denmark, UK, Greece, Portugal, Spain, Austria, Finland, Swede.

b) The synchronization of economic cycle in the member countries in the production network of East Asian Region increases the synergistic effect of external impact in East Asia

Trade association will become a blasting fuse for crisis transmission, especially for trade within industries (perpendicular specialization), which may enhance the links among the member countries and increases the synchronization of economic cycle through such modes as production division or outsourcing, etc. [13] As the division of the production network in East Asia is high in perpendicular specialization degree, the density of added value trade increases with it, so does the synchronization of economic period among the member countries will also increase. [14] Such scholars as Backus and Burstein, etc. made a theoretical exploration about how exogenous demands influence the import and export of part and component production and assembly countries from country level respectively. Their conclusions show that among partner countries with a high degree of perpendicular specialization, changes in the final commodity demand are easier to cause changes in production and trade of these countries in the same direction, that is, the impact brought by an economic crisis is easier for a synergistic effect to form in these countries. [15] This kind of synergistic effect increases the synchronization of economic period in member countries.

The shortening of time point for interconnection of the production links among member countries increases the synchronization of economic period in member countries. With the increase of globalization degree in East Asian Region, the obstruction to commodity flow among member countries is reducing gradually. As a result, a deepened development of production network is promoted. With an improvement being made with a great effort in basic transportation equipment by all economic bodies, an in-time production system has been formed. The establishment of in-time production system is related to logistic performance index. The higher the logistic performance index of a country is, the higher the degree of participation in regional production network will be and the in-time production system efficiency will be. The World Bank calculated the ranking of some countries in logistic performance index for 2010, in which China was No. 27, India was No. 47, Indonesia was 75 and Thailand was No. 35. In 2012, China was No. 26, India No. 46, Indonesia No. 75 and Thailand No. 38. [16] And it is showed through investigation that India has adopted e-purchase to reduce negotiation costs. Indonesia has also further emphasized the importance of transportation infrastructures and is further improving. [17] Besides, the perpendicular mode of production division is very sensitive to production workshop configuration location and assembly line arrangement. Therefore, in terms of the dynamic development viewpoint of the

[13] Brooks,Douglas H;Hua, Changchun, Asian Trade and Global Linkages, Asian Development Review 26.1,2009

[14] World Economic and Financial Surveys, Regional Economic Outlook—Asia and Pacific Sustaining the Momentum: Vigilance and Reforms, Apr.2014.p47.

[15] Burstein, A., C. Kurz, and L.Tesar.2008. Trade, Production Sharing, and the International Transmission of Business Cycles. NBER Workig Paper No.13731,National Bureau of Economic Research, Cambridge, MA

[16] World Bank Report, Connecting to Compete----Trade Logistics in the Global Economy.2012,p6.

[17] Mochamad Pasha, Linkages between regional trade agreements and international production networks: evidence from five case studies in Asia,p59

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production network in East Asia, more and more countries have participated in the production network of East Asian region. The distance between intermediate product production workshops is becoming nearer and nearer and division is becoming finer and finer and the degree of specialization is becoming higher and higher. Take part 7522 as an example, as early as in 1992, the production network mainly related to Japan, Malaysia, Singapore and Thailand. The degree of participation by China, China Hongkong, Philippines and Korea was very small. Indonesia almost participated in no division. In 1997, with Indonesia participating in, the production network had related to 9 economic bodies; in 2007, China, China Hongkong, Japan, Indonesia, Thailand, Malaysia, Philippines, Korea, Singapore all participated in the production network, in which China, China Hongkong, Japan, Malaysia and Singapore have become the main nodes in the production network. [18] Though the finer the degree of specialized division is, the higher the production efficiency will be, the more member countries the in-time production system relates to, the higher the synchronization of production in member countries will be. Once an external impact is confronted, the whole production system will confront a risk of paralysis and the fragility is more apparent. In Nov. and Dec., 2008, due to American financial crisis, the export of China to USA fell by 5% and the import from the developing Asia fell by 25%. In the first season of 2009, the export of China to USA and EU fell by 15.4% and 22.6% respectively, and the import and export to East Asia also began to fall substantially in general in the same period. The export of Japan fell by 42.1%, that of Korea fell by 24.5%, that of ASEAN fell by 36.8%, that of India fell by 19.8% and that of China Taiwan fell by 35.9%.[19] Obviously, once any impact is confronted, the production system in East Asia will have a chain reaction.

c) The disperse degree of the production network in East Asian Region reduces the ability of the production chain to resist impacts

The formation of the production network in East Asia is based on production process dispersion, that is, producers separate production processes of different sections for one product and organize its production according to the elements and natural endowments of different countries and regions. Previously, some scholar used "fragmentation" to represent the characteristic of the production network in East Asian Region. According to the present development situation, it is more accurate to use dispersion. The higher the disperse degree of a production chain is, that is, the production of a part or the processing of a work procedure by a single country results in production simplification, the lower the ability to resist external impacts will be.

After the American financial crisis, the disperse degree of the production network in East Asian Region further increased, which can be represented through the proportion of intermediate products. From late 20th century, part and component trade began to form a main part in the trade structure of East Asian Region. The volume of the part and component trade in East Asian Region increased from USD 25.4 billon in 1998 year after year. In 2010, the part and component trade volume reached USD 2597.7 billion, accounting for 35% of total goods trade in East Asian Region. In comparison with part and component trade, the final consumer goods trade volume in East Asia Region accounts for ten plus percent of the total goods trade in East Asian Region from 1998 to 2010 continuously, except 26% in 2003. The part and component trade growth rate in East Asian Region is much faster than the final consumer goods trade volume growth rate. The production network in East Asian Region exhibits a phenomenon of apparent dispersion.

The preferential rules of origin in East Asian Region aggravate the dispersion of the production network. As of Apr. 2013, the number of free trade zones as communicated by the East Asian Region to WTO was 45. The preferential rules of origin for different free trade zones contain about 100-300 pages, which are mainly concentrated in the manufacture industry. The preferential rules of origin for free trade zones formed among the member countries within East Asian Region mainly take the preferential rules of origin of the free trade zones in China—ASEAN as the template: that is, custom duty tariff change is taken as the foundation, the regional value content standard is around 40%. Except ASEAN—China, ASEAN—Korea adopt a diagonal cumulation mode, other free trade zones adopt bilateral cumulation. In order to enjoy a regional preferential treatment, products from one country have to meet the regional rules of origin. Producers can only purchase intermediate inputs with a high cost from the member countries in the region and then process, produce them into final products for export to other member countries. Take tractor production as an example, if an enterprise in Malaysia uses parts and components from other countries to produce tractors and then exports to Japan and China for selling, the value-added content (VC) has to reach 40% according to the regulations of the preferential rules of origin of Japan—Malaysia, Japan—

[18] Zhang Baiwei, Hu Xuewen, Dynamic Evolution of the Production Network in East Asian Region----Analysis Based on Part and Component Trade Industrial Chain, Study on World Economy, Issue 3, 2011, page 85.

[19] Wang Rongyan, Study on Impact-suffering Mechanism and Effect of the Production Network in East Asia----Analysis Based on the Trade Structures of East Asia and China, Academic Library of Tianjin, Book 2, page 1293.

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ASEAN. In the rules of origin of China—ASEAN, the VC is also 40%. Thus, in order to enjoy a regional preferential treatment, the Malaysian enterprise uses more parts and components from China for exporting tractors to China and the tractors exported to Japan tend to use more parts and components from Japan or ASEAN. Besides, the cumulation rules adopted by the free trade zones in East Asia Region also allow the member countries to go to wilder fields to purchase raw materials and intermediate inputs, which further promote production location configuration diversification in East Asia. Stevadeordal and Suominen (2005) summarized that the rules of origin being applied to regional production chain to make the rules of origin and regional production division combine closely becomes an important reason of division "fragmentation" in East Asia. [20] In the preferential rules of origin for different free trade zone in East Asia, the influence of regional value content standard and cumulation rules on the regional production division system is more apparent than such regulations as custom duty tariff change, etc. Ikuo Kuroiwa adopted a direct measurement calculation method to conclude from analysis that the content standard and cumulation rules in departments of manufacturing industry make the intermediate inputs from China and Korea increase substantially, and the inputs from Japan increase in a very small magnitude. The higher the degree of dispersion the regional production network is and such member countries as China and Japan, Korea, etc. have a poor ability to become a final product absorber, when the economic bodies in the bottom of regional division confront an impact again, it is easy to cause a great deal of final products to overstock, export to reduce greatly, departments with export income to reduce greatly, and then import from other economic bodies is reduced that results in final paralysis of the whole production chain.

Table 1: Situation of part and component trade, final consumer goods trade and commodity

Year	Parts and components in East Asia Total trade ($x10^8$ USD)	Final consumer goods trade volume in East Asia, $x10^8$ USD	Total commodity trade in East Asia, $x10^8$ USD	Proportion of part and component trade	Proportion of final consumer goods trade
1998	254	2860	18435	1. 40%	16%
1999	2456. 72	3956	20121	12%	20%
2000	3459. 96	4452	24784	14%	18%
2001	3935. 4	4352	22731	17%	19%
2002	5265. 52	4722	24450	22%	19%
2003	7490. 44	5441	20920	36%	26%
2004	10370. 52	6362	36880	28%	17%
2005	12939. 88	7131	43370	30%	16%
2006	16424. 4	8121	68895	24%	12%
2007	19677. 8	8949	58824	33%	15%
2008	21771. 52	10205	68932	31%	15%
2009	19398. 76	8812	55640	35%	16%
2010	25976. 76	11160	73290	35%	15%

The low degree of mutual demand for final products among the member countries in the production network of East Asian Region weakens regional self growth.

In relation to the perpendicular intra-industry trade, the horizontal intra-industry trade (HITT) is based on mutual demands between different economic bodies. Especially, the demand for similar differential products forms a division pattern focusing on final product trade. From Table 1, we can see that the proportion of the final consumer goods trade in East Asia was around ten plus percent during the period from 1998 to 2010, except 23% in 2003. In 2010, it was 15%, which was even lower than 1998. From trade structure figure 3, we can see that the net final product export amount between China and Korea in 2011 was 369.59bd, which was 37.19bd and 86.51bd between China and Japan and between China and ASEAN respectively. This sufficiently explains that the ability to endure external impact is weak due to a low degree of mutual demand for final products and being hard to form a self circulation system from intermediate product production to final products in the region, and there is an exhibition that the division and trade system in the region is lack of stability. Therefore, when the global production and consumption structure faces an adjustment, the developing economic bodies located in the bottom end of the division system in the perpendicular industry will be bound to bear more economic and social costs. Besides, the low demand for intercrossing between economic bodies is unable to form a self circulation system for production and consumption in the region and this is unfavorable to

[20] Antoni Estevadeordal ,Kati Suominen. Rules of Origin in Preferential Trading Arrangements.
Is All Well with the Spaghetti Bowl in the Americas? Economía 5.2 (2005) 63-103.

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intermediate product production enterprises realizing scale economy, increasing the international competitive power. Therefore, this characteristic weakens regional self growth and results in regional fragility.

d) The political conflict between China and Japan will result in readjustment to the industrial self circulation system in East Asian Region

China, Japan and Korea are three major economic bodies in East Asia. If the three countries establish a free trade zone, it will be the third major free trade zone after the free trade zones in EU, North America. This will be bound to bring a great drive force to the general economic growth in East Asian Region. However, due to such events as "island purchasing" by Japan, Abe's visit to Yasukuni Shrine, etc., the political conflict between China and Japan has escalated, which has caused a detriment to the political trust with each other. This has not only restricted the negotiation progress on free trade zone among China, Japan and Korea, but the original normal trade has also been affected to different degrees. According to the statistics of Japanese Customs, from Jan. to Nov. in 2013, the bilateral trade goods import and export amount between Japan and China was USD 282.64 billion, down by 7.9%. In which, the export of Japan to China was USD 117.37 billion, down by 12.0% and accounting for 17.9% of the total export amount, down by 0.2 percent; the import of Japan from China was USD 165.27 billion, down by 4.8% and accounting for 21.7% of the total import amount. The trade deficit between Japan and China grew by UDS 47.90 billion, up by 18.9%. The commodities in the first six places exported by Japan to China were: electric machine (85), mechanical engineering (84), organic chemicals (29), optical equipment (90), automobiles and accessories (87), plastics and plastic products (39). Correspondingly, the bilateral good import and export amount between Korea and China during the period from Jan. to Nov. 2013 was USD 208.82 billion, up by 6.2%. In which, the export of Korea to China was USD 132.86 billion, up by 8.6% and accounting for 26.0% of the total export amount, up by 1.7 percent; the import of Korea from China was USD 75.95 billion, up by 2.1% and accounting for 16.1% of the total import amount, up by 0.5 percent. The trade surplus between Korea and China was USD 56.91 billion, up by 18.6%. As of Nov., China was No. 1 trade partner of Korea. The commodities in the first six places exported by Korean to China were: electric machine (85), optical equipment (90), organic chemicals (29), mechanical engineering (84), mineral fuels (27), plastics and its products (39). Thus it can be seen that the import and export commodities between China and Japan and between China and Korea were almost the same. The negotiation between China and Korea on free trade has entered into the sixth round. It is very likely that China and Korea will establish a free trade zone first. If Japan continues to act arbitrarily, the relation between China and Japan will deteriorate and Korea will replace Japan to become a very important trade partner of China. And Japan will be isolated by the surrounding countries, in which not only the political situation will be unstable, but Japanese enterprises will also become something like water without source and the economy will suffer a heavy blow. As a result, the industrial self circulation system in East Asian Region will be subject to a readjustment.

III. The Transmission Mechanism Resulting from the Fragility of Production Network in East Asian Region – Take American Financial Crisis as an Example

Ikuo Kuroiwa, Hiroshi Kuwamori (2011) analyzed the transmission mechanism of the influence caused by the American crisis to the nine economic bodies in East Asia and mentioned that the economic crisis would have an impact through four channels on the regional production network. The first is the part and component production network, especially the electronic industry; the second is the industrial raw material network, especially chemical and metal industries; the third is the main commodity network, especially mineral products; the fourth is the service network, especially trade and transportation service. [21] Therefore, though the growth of part and component and final assembly trade in East Asia has exceeded the growth of world trade of the manufacturing industry, the reliance on world trade is still not reduced. The dynamic development of the regional network also relies on the demand for final products from the regional outside. This mode determines the fragility of the production network in East Asian Region.

[21] Ikuo Kuroiwa, Hiroshi Kuwamori, Impact of the US Economic Crisis on East Asian Economies: Production Networks and Triangular Trade through Chinese Mainland. China&World Economy/1-18.vol.19,No.6,2011

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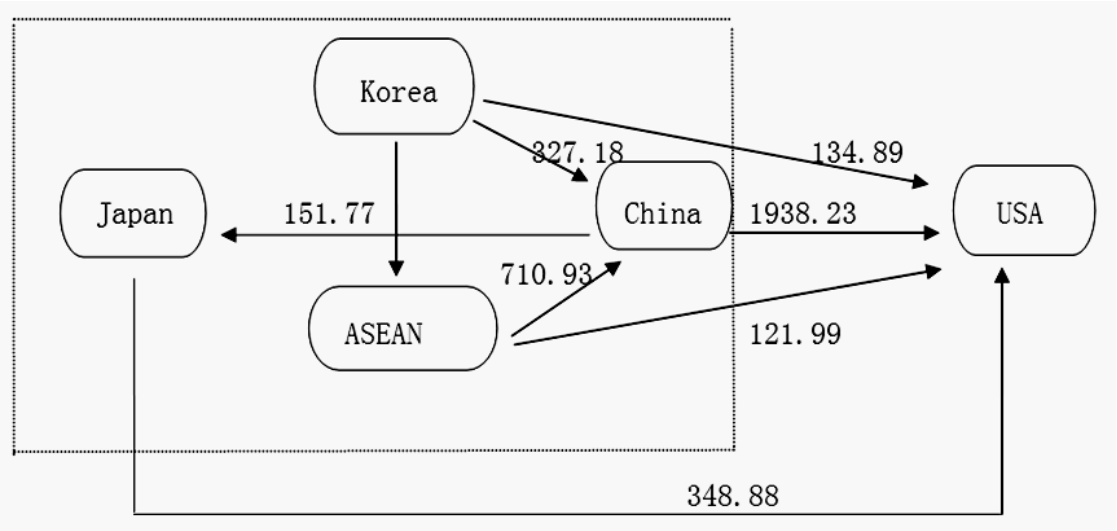


Figure 3 : Trade structure diagram for the production network in East Asian Region

Note: The arrow direction is the direction of net export; the black figures beside the arrows are final product export amounts; the red figures are intermediate product export amounts. The unit is billion dollars. Information source: calculating from the data from the database of United Nations Conference on Trade and Development (UNCTAD Database) (in 2013).

According to the trade structure diagram as described above, the influence of the American financial crisis on the production network in East Asian Region can be divided into three transmission ways.

a) Direct and unidirectional transmission

All the main participants in the production network of East Asia Region have a direct connection with USA. In terms of final manufactured goods trade, China is firstly a main platform for export of final manufactured goods to USA. After China, the platforms are ASEAN, Japan and Korea successively. When the demands in USA reduce due to any financial crisis, there will be an impact on these countries and regions. In the third quarter of 2008 and the first quarter of 2009, the total output of the 9 economic bodies in East Asia fell by US$128bn, in which the total output of China fell by US$68987m, that of Japan following immediately fell by US$28175m, that of Korea fell by US$7176m, which were mainly reflected in such industries as textile, leather, computer, electronic equipment, etc. (Ikuokurowa, p15). [22] From the above data, we can see that Japan suffered the greatest impact. This is because the main product exported to USA by Japan was cars being a kind of luxury product with a high demand elasticity, which was significantly influenced by the export reduction.

b) Overflow channels

A typical "triangular trade" structure has been formed in East Asia, in which China has become an important export processing platform, who imports a great deal of intermediate parts and components from Japan, Korea and ASEAN. As a result, a great deal of trade surplus has been formed between China and USA and a great deal of trade deficit has been formed with other countries in East Asia. The American financial crisis resulted in an impact on China and a reduction in the export of China, and then the import of China from such countries and regions in East Asia as Korea, Japan, etc. reduced as result, that is, an overflowing effect occurred. This kind of effect created a transmission through such intermediate parts and components as for transportation equipment, electronic, mechanical equipment, etc. resulting in an impact on the participants in the production network of East Asia. Korea, China Taiwan, Philippines, Malaysia, Thailand were influenced mainly in computer and electronic aspects through the overflowing effect, who suffered an obvious reduction. Singapore suffered an obvious reduction in terms of transportation. Indonesia's overflowing effect was obvious in terms of such raw materials as crude oil, natural gas, etc.

c) Direct investment relies on channels

For these later comer economic bodies, the introduction of FDI can solve the development fund problem and is similarly favorable to the optimization of their own industrial structures for merging into the production division system of the developed countries. Therefore, we can say that FDI expansion in East Asian

[22] Ikuo Kuroiwa, Hiroshi Kuwamori, Impact of the US Economic Crisis on East Asian Economies: Production Networks and Triangular Trade through Chinese Mainland. China&World Economy/1-18.vol.19,No.6,2011，p15.

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Region has played an important role to promote the formation of the production network in East Asia. The developing countries in East Asia attracted foreign investment actively and the proportion of the amount of FDI introduction in the world is in a rising trend, which reduced only in 1997 under the influence of Asian economic crisis and in 2008 in the financial crisis. In 2010, the proportion of FDI attracted by the developing East Asia in the world reached nearly 30%, which increased by two times in comparison with 10.55% in 2000. Specifically speaking, the FDI attracted by the developing East Asia grew from USD 147.787 billion in 2000 to USD 423.157 billion in 2011. In which the FDI attracted by China grew from USD 40.715 billion in 2000 to USD 123.985 billion in 2011; the total FDI introduction by the ten countries in ASEAN grew from USD 22.696 billion in 2000 to USD 116.559 in 2011. [23]

The developed countries have created an important influence on the production network in East Asian Region through direct investment channels. On one hand, they have made up the fund insufficiency in the developing countries of East Asia; on the other hand, the transnational enterprises from the developed countries have controlled the key production links in the member countries in East Asia Region by way of investing to establish factories in East Asia, especially some R & D, highly capital and technology intensive production links. As a result, they have controlled the important national industries in some countries to a certain degree. Once these transnational enterprises withdraw capitals and return home, it will bring an impact on the economic development in the host countries and increase the potential fragility of industrial growth.

IV. Analysis to the Position of Chinese Industries in the Production Network of East Asia

China is in an important position in the production network of East Asia, which can be analyzed specifically according to the degree of participation and industrial characteristics.

a) Degree of participation in regional production network

The degree of participation in regional production network by a country can be reflected by intra-industrial trade index.

Grubel and Lioyd (1975) proposed an intra-industrial trade index calculation formula, which is $T=1-|X-M|/(X+M)$

Where: X and M represent respectively the import amount and export amount of a particular industry or a certain category of commodities and X-M are absolute values. The value range of T is from 0 to 1. By adopting the above calculating method, the intra-industrial trade indexes between China and the main member countries of East Asia are obtained (see Table 4). From 2002 to 2011, the intra-industrial trade indexes between China and other countries increased constantly (except Korea). It is thus clear that the degree of participation in regional industries by China has increased.

Table 4 : Intra-industrial trade indexes between main countries of East Asia for products of electric appliance class (SITC-77)

	China-Japan	China-Korea	China-Singapore	China- Thailand	Japan-Korea	Japan- Singapore
2002	0.44	0.44	0.89	0.51	0.7	0.39
2003	0.41	0.38	0.74	0.42	0.72	0.45
2004	0.45	0.38	0.79	0.44	0.7	0.44
2005	0.49	0.33	0.82	0.4	0.7	0.39
2006	0.5	0.36	0.92	0.38	0.78	0.45
2007	0.49	0.4	0.96	0.35	0.84	0.46
2008	0.54	0.45	0.88	0.41	0.84	0.47
2009	0.51	0.39	0.9	0.41	0.76	0.62
2010	0.53	0.37	0.96	0.45	0.8	0.49
2011	0.55	0.38	0.99	0.55	0.82	0.54
2012	0.61	0.34	0.98	0.75	0.78	0.53
2013	0.7	0.32	0.99	0.73	0.77	0.54

Information source: The author obtains the above data by calculating with the Grubel and Lioyd's intra_industrial trade calculating formula according to UNCOMTRADE data.

[23] Data source: UnctadStat-Statistical database, UNCTAD.org

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Since participation in the production network of East Asia, China's foreign economy has achieved a rapid development and has developed into the 2nd largest trade country globally. At the same time, based on such factors as Chinese elements and natural endowments, etc., China has gradually become a rally point of intermediate products in the production network of East Asia and is in a core position in the production network of East Asia.

b) Industrial characteristics of China participating in the production network of East Asia

Table 5 : Trade constitution of manufacturing industry and total export trade amount of China

	Elementary products	Intermediate products		Final products		Final consumer goods
		Elementary products	Semi-products	Parts and components	Capital goods	
1998	3.82%	23.26%	9.81%	15.03%	47.90%	1838.09
1999	3.30%	22.33%	11.57%	15.90%	46.79%	1949.31
2000	3.67%	22.25%	12.83%	17.27%	43.76%	2492.03
2001	3.37%	21.71%	13.99%	18.39%	42.28%	2660.98
2002	2.93%	21.03%	15.62%	19.96%	40.24%	3255.96
2003	2.58%	20.49%	15.97%	23.26%	37.44%	4382.28
2004	1.89%	21.85%	16.65%	25.22%	34.18%	5933.26
2005	1.95%	21.94%	16.87%	26.41%	32.60%	7619.53
2006	1.42%	22.94%	17.43%	26.84%	31.09%	9689.36
2007	1.21%	23.74%	17.29%	27.93%	29.63%	12200.6
2008	1.29%	25.33%	17.42%	27.89%	27.91%	14306.93
2009	1.02%	21.17%	17.60%	29.93%	30.06%	12016.47
2010	0.90%	22.18%	18.27%	29.67%	28.81%	15777.64
2011	0.88%	23.73%	17.68%	29.13%	28.43%	18983.88
2012	0.79%	22.93%	17.67%	29.63%	28.87%	20487.82
2013	0.73%	23.08%	18.79%	28.02%	29.26%	22090.07

Date source: Calculating from UNCOMTRADE data

Note: In BEC classification, 111, 21, 31 are primary products, 121, 22, 32 are semi-products, 42, 53 are parts and components, 41, 521 are capital goods and 112, 122, 51, 522, 6 are final consumer goods.

Firstly, it is known from Table 5 that the proportion of Chinese final products in total export trade amount in 2011 was far higher than primary products. The proportion of the sum of capital goods and final consumer goods in export trade reaches nearly 60%, the proportion of capital goods grew from 15.03% in 1998 to 29.13% in 2011, which had increased nearly by one time. It is thus clear that from 1998 to 2011, the proportion of primary products in Chinese export trade structure reduced constantly and part and component trade increased substantially and the proportion of capital goods increased significantly. This indicates that the degree of participation in international production network by China is being deepened constantly and the capital intensity is also increasing constantly for export products. From Figure 4, we can see that the proportion of SITC-7 is the highest in export trade commodities.

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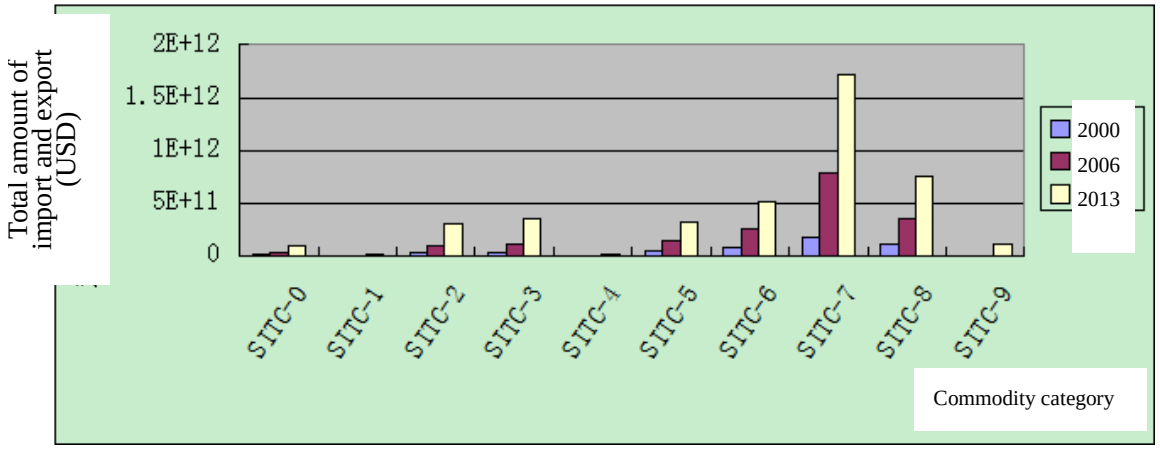


Figure 4 : Total foreign trade amount of ten major commodity categories of China

Note: (Rev.3) SITC-0 is food and live animals; SITC-1 are beverages and cigarettes; SITC-2 include furs, petroleum, seeds, oil-containing fruits, cork and wood, natural rubber, pulp, textile fibers, crude oil and fertilizers, metallic ores and metallic wastes;

SITC-3 is mineral fuels, lubricants and relevant materials; SITC-4 are animal and plant oils, greases and waxes; SITC-5 are chemicals and related products; SITC-6 is manufactured good classified to materials: leather, rubber products, cork and wood products, paper or paperboard, textile yarns and fabric manufactured goods, nonmetallic mineral products, non-ferrous metals and metal products; SITC-7 is mechanical and transportation equipment; SITC-8 is miscellaneous products: furniture and its parts, costumes and clothing accessories, shoes, tourist articles, etc.; SITC-9 is classified commodities and not transactions of other local trade standard classification

Data source: Calculating from UNCOMTRADE data

From the above figure, we can see that in the foreign trade of China, the total trade amount of the commodities of SITC-7 class is far higher than commodities of other classes. Therefore, this essay will mainly study the trade situation of goods subdivisions under SITC-7 class to judge the main industries of China participating in the production network of East Asia.

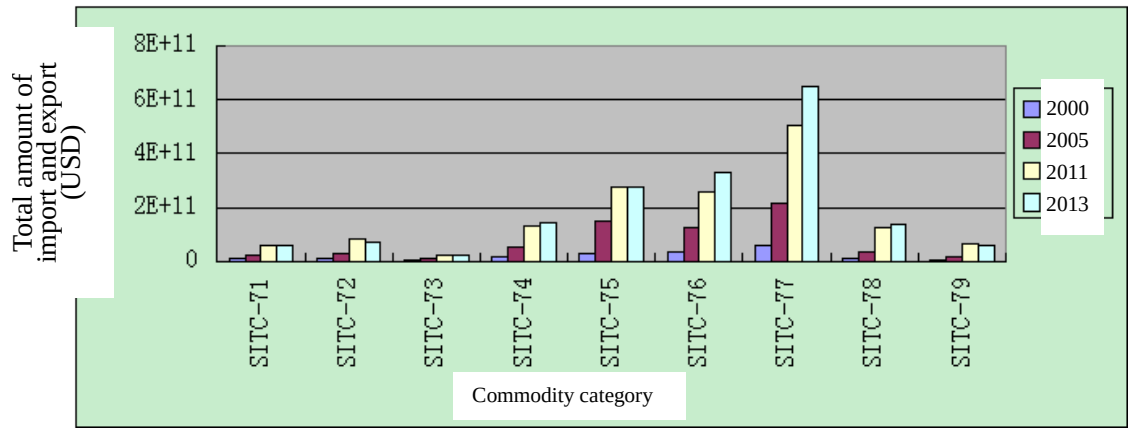


Figure 5 : Total world import and export trade amount of SITC-7 class commodities of China

Note: (Rev.3) SITC71 – power generation machineries; SITC72 – individual industrial special-purpose machineries; SITC73 – metal machining machineries; SITC74 – general industrial machineries and equipment and machine parts, no explanation is made otherwise; SITC75 – office machines and automatic information processing instruments; SITC76 – telecommunication and sound-recording and stereo equipment and instruments; SITC77 – electrical machineries, instruments and appliances as well as parts (including non-electrical counterparts, electric home type equipment); SITC78 – road vehicles (including air cushion vehicles); SITC79 – other transporting equipment

Data source: Calculating from UNCOMTRADE data

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From Figure 5, we can see that in the foreign trade of China, the total import and export amounts of commodities of such classes as SITC-74, SITC-75, SITC-76, SITC-77 and SITC-78 are high. And in Figure 6, the total import and export amounts of SITC-7 class commodities of China with the main countries in East Asian Region show a similar characteristic. The total trade amount of SITC-77 class commodities of China with the main countries in East Asia accounts for 40% of the total trade amount of China with the whole world for commodities of that class, and the proportions of other classes also reach around 30%.[24] Thus it is clear that the main industries of China participating in the production network of East Asia are distributed in electronic equipment, electrical machineries and parts and components, auto manufacturing industry, etc.

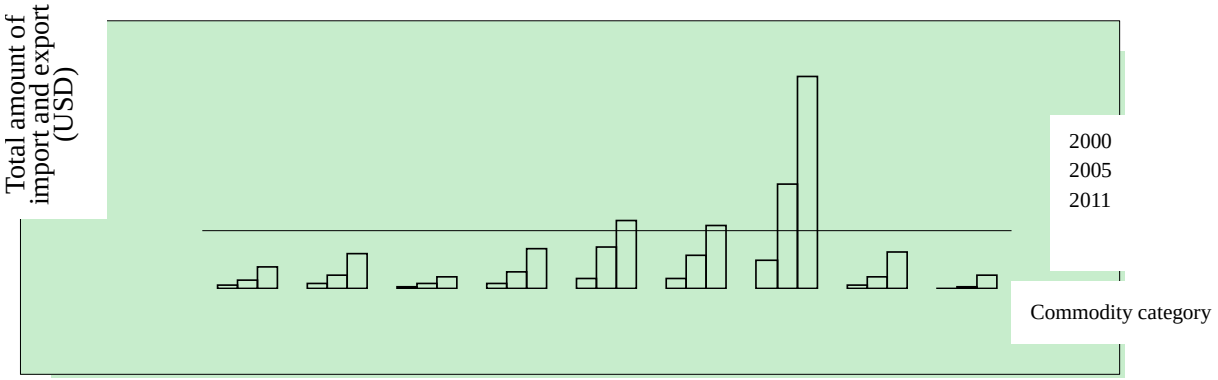


Figure 6 : Total import and export amount of SITC-7 class commodities of China with main countries in East Asian Region

Note: The East Asia here means China, Japan, Korea and main ASEAN countries

Data source: Calculating from UNCOMTRADE data

By being based on industrial cases, analysis is made using the trade volumes of electric appliance parts and components and manufactured goods. The import of electrical parts and components by China is mainly from Japan, Korea and EU and the part and component trade with ASEAN and USA is basically in a balanced state (see Figure 7). From the manufactured goods trade, the export market of China is mainly USA and the trade with other countries in the region is import indifferently (see Figure 8). That is, a great number of parts and components in East Asian Region have flown into China, which are input into other countries outside the region through simple assembly and processing. China plays a role of intermediate product trade hub inside and outside the region, that is, the trade structure of "both ends being outside" is more apparent.

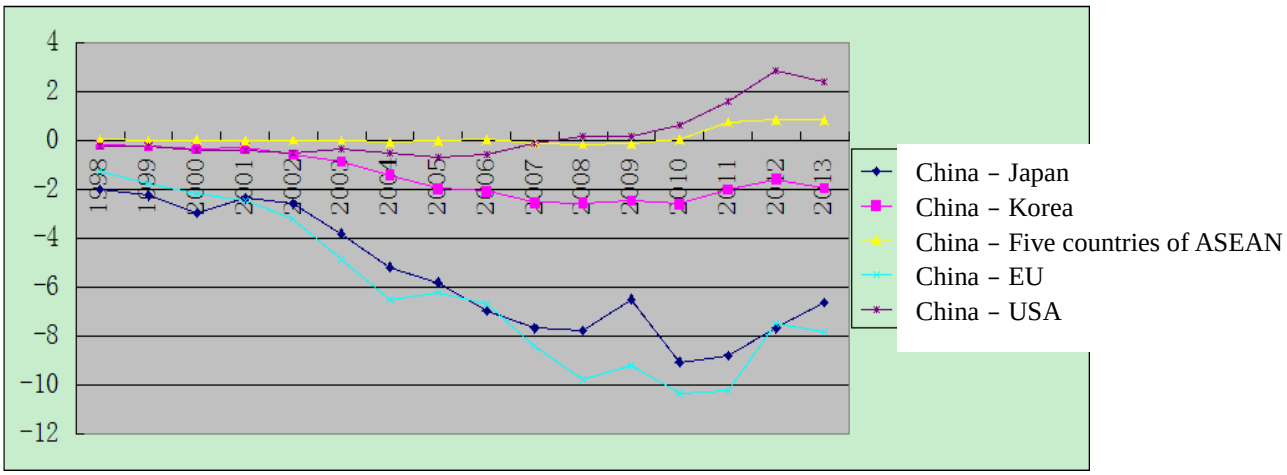


Figure 7 : Net export of electrical part and component trade of China with main countries and regions

Unit: x108 USD

Data source: Calculating from UNCOMTRADE data

Note: For the electrical parts and components herein, 8538 in HS coding is taken as the object of study.

[24] Calculating from the data in Figure 7 and Figure 8

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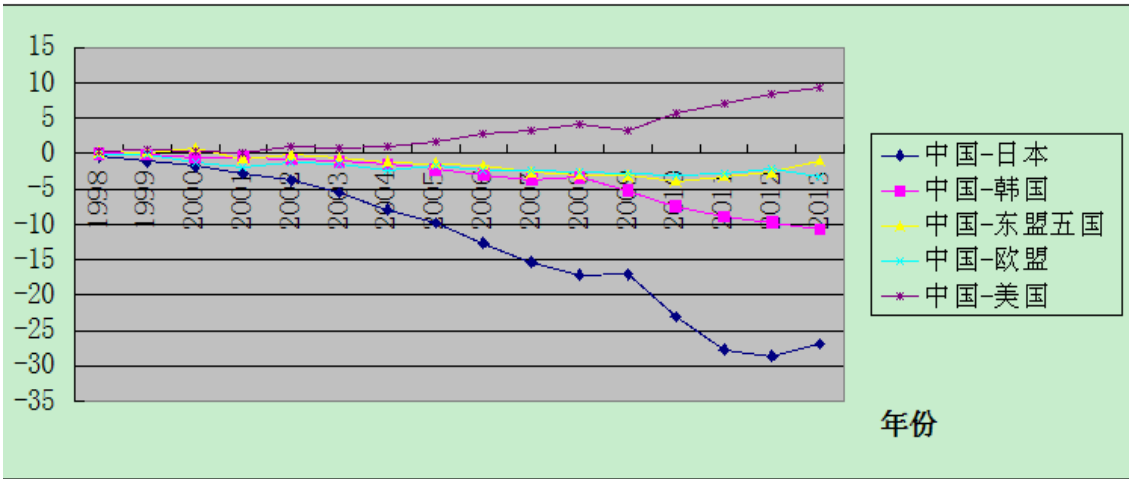


Figure 8 : Net export of electrical manufactured goods trade of China with main countries and regions

Unit: x108 USD

Data source: Calculating from UNCOMTRADE data

Note : For the electrical manufactured goods herein, 8536 in HS coding is taken as the object of study.

To sum up, with the development of the production network in East Asia, China, by depending on its advantages in rich laborers and preferential trade policies, has "embedded" quickly into the international perpendicular division system in East Asia through the processing trade with a trade structure of "both ends being outside" being formed. Although the proportion of capital goods export is increasing constantly, the transnational companies still have had labor intensive production, processing and assembly mainly transferred to China with most production capacities relying on foreign design, marketing and supply of parts and components. This not only makes the processing link of our country create a low added value with a very limited role to push the local industry and restricts seriously the self growth ability of the industries of our country, but also results in bearing the trade friction brought by overestimated trade surplus and initiates trade protectionism.

V. Policy Suggestions on Upgrading the Industrial Development of our Country in the Production Network of East Asian Region

The production network in East Asian Region has become an important part of the international production network, and has also formed a quite matured division mode within the region. Although the American financial crisis once created an impact on the production network of East Asian Region, the regional production network has been further deepened with the resumption of the world economy and more countries have joined in the region with the network coverage having become broader. As an important processing platform, China mainly participates in the bottom-end link of the industrial chain, which is not only low in added value without an important driving role for local industrial technical upgrading and industrial extension and seriously restricts the self growth ability of the industries of our country, but also results in bearing the trade friction with the developed countries in Europe and America brought by a great deal of trade surplus at the same time. For these issues, our country needs to take specific measures to upgrade the industrial position of our country in East Asian Region.

a) Increase the utilization rate of FTA by enterprises

The rapid development of free trade zones will have an important promotion to the deepening of the regional production network. However, such issues as different free trade zones' being different in preferential rules of origin, the information of enterprises about the preferential policies of free trade zones being insufficient, etc. result in enterprises having a low rate of utilization of free trade zones, which restricts seriously the development of the regional production network. According to the investigation by JETRO in 2011 in which a total of 2008 companies were investigated in Northeast Asia and the effective answering rate was 47.8%, enterprises utilizing the preferential rate of the free trade zones in export accounted for 37.2%, and enterprise utilizing the preferential rate of the free trade zones in import accounted for 33.9%; China had 26.5% companies utilizing the preferential rate of the free trade zones, the Korean was 44.1%, Malaysia was 42.9%, Singapore was 40.6%, Philippines was 37.6% and Indonesia was 64.4%.[25] From the investigation results, we can see that China is the country lowest in utilizing

[25] JETRO BANGKOK, Making Sense of Rules of Origin----Applying for ASEAN FTA Certificates of Origin.2012.

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the preferential rate of the free trade zones. This not influences the profitability level of enterprises, but also restricts the degree of participation in the production network of East Asia by enterprises. At the same time, to a large degree, most companies stand in awe before the preferential rate of free trade zones due to high cost to obtain certificate of origin and long time for application for certificate of origin. The investigation made by Kawai Wignaraja shows that 10.8% Korean enterprises, 22% Thailand enterprises and 30.6% Philippines enterprises think that the time waiting for obtaining certificate of origin and management cost are the reasons to prevent their use of FTA. China has 24.3% enterprises who think that the time to get certificate of origin is long and 15.6% enterprises think that the procedure to get certificate of origin is too complicated and 16.8% enterprises are lack of people dealing with relevant free trade issues. [26] It is thus clear that the main issue preventing Chinese enterprises from utilizing the preferential rate of free trade zones is the issue of certificate of origin.

In view of the above, our country should actively strengthen training to the people in such relevant administrative organizations as customs, etc. to reduce various man-made low efficiencies. At the same time, relevant formalities of application, issuance for rules of origin should be simplified as practical as possible with existing information to be utilized sufficiently to reduce the requirements for additional data and relevant documents. IT technology should be utilized with e-certificate to be used appropriately to promote paperless procedure of application and issuance for rules of origin, shorten the application time, increase administrative efficiency and then increase the utilization rate of FTA by enterprises to promote the development of intra-regional trade. Besides, promulgation should be strengthened to increase the knowledge of enterprises about the rules of origin to avoid low FTA utilization rate due to lack of knowledge.

b) Promote medium and small enterprises to integrate into production network

At present, it is mainly large enterprises that have participated in the regional production network, which lacks small and medium enterprises very much. In order to strengthen the vigor and sustainability of the regional production network, it is necessary to take certain measures to attract small and medium enterprises to enter into the regional production network. (1) Accelerate realization of scale economy. Small and medium enterprises have a high elasticity and are able to adapt to the fast changing market needs, adapt to technical development quickly, accelerate the overflowing effect of their knowledge and technology, satisfy the requirements of large amount of orders in the international production network and realize scale economy through e-business. (2) Strengthen the relations between producers and global production chain in the perpendicular chain. On the top of the chain, strengthen the relations of national export with international buyers and global suppliers; on the bottom, strengthen the connection between high-level suppliers and lowest-end suppliers (small and medium enterprises). Transnational companies introduce small and medium enterprises into the regional production network through such forms as outsourcing, etc. This benefits both domestic employment and local capacity construction. (3) Increase the ability of small and medium enterprises to participate in the regional production network. In order to join in the regional production network, small and medium enterprises must select a specific part and component and be capable of producing products meeting the quality required by the production network and labor condition and environment. At the same time, help small and medium enterprises through cooperation between enterprises perfect their ability and strength for contest to join in the international production network. (4) Small and medium enterprises can be beneficial to the sustainable development of the regional production network. The government should take various policies to encourage transnational companies to establish links with Chinese small and medium enterprises to increase their international competitive power. The linkage of the production activities of direct investment enterprises in East Asia with the local enterprises in the host countries is divided into forward linkage and backward linkage. At present, the production activities of the transnational enterprises in the production network of East Asian Region have a low mutual correlation with local enterprises. Firstly, in terms of the local purchase objects of foreign-funded enterprises, they are mainly other foreign-funded enterprises or sub-companies within transnational companies. No close industrial alliance can be formed locally and no integration with other foreign-funded enterprises can be developed. This economy is a kind of “enclave economy”. Take Japanese transnational companies as an example, they mainly invest in manufacturing industry and mechanical industry in East Asia, which account for 59% and 45% respectively; the distributions of the transnational companies from USA in the manufacturing industry and mechanical industry in East Asia are 37% and 21% respectively. [27] Moreover, Japan’s companies mainly make transactions within companies with a strong

[26] Xu Xiangyun, Rules of Origin in East Asian FTA System and East Asian Production System, Contemporary Asia Pacific, the 1st issue, 2010, page 42.

[27] Mitsuyo Ando, Sven W.Arndt, Fukunari Kimura, Production Networks in East Asia: Strategic Behavior by Japanese and U.S firms, JCER No.103 p15.

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transaction control system and emphasis being put in geographic neighbors very much. In 2004, the local purchase rate of Japan in China was 47.7%. In ASEAN, the purchase rate was 52.8%. Correspondingly, the purchase rate in the home country of Japan is high, especially in information, communication, electrical and mechanical industries. [28] Although this situation has formed a close production network in East Asia, it is not favorable to the development of local enterprises because the local enterprises can not be influenced sufficiently in technical and management aspects and an extending industrial chain can not be formed. Therefore, it is imperative to increase the local purchase rate of transnational enterprises, guide strong enterprises in the manufacturing industry gradually to make a nodal longitudinal extension, make enterprises develop from labor intensive type to knowledge and technology intensive and service type with technical R & D, sales, logistics, maintenance, etc. in value positioning, strengthen cooperation with transnational enterprises in more production links and upgrade the general growth ability in the regional production network by developing appropriate industrial policies and tax policies.

c) Guide foreign funds to flow to highly technology, capital intensive production links

In East Asian Region, such developed economic bodies as Japan, etc. take FDI as the carrier to transfer industries to such late comer economic bodies as China, ASEAN, etc. This is not only favorable to domestic industrial structure upgrading, but can also integrate the late comer economic bodies into their own regional production division systems for disperse production. For these late comer economic bodies, the introduction of FDI can solve the development fund issue and is also favorable to the upgrading of their own industrial structures and integration into the production division systems of the developed countries. Therefore, we can say that the FDI expansion in East Asian Region plays an important role to promote the formation of the production network in East Asian Region.

According to statistical data, the developing countries in East Asia are attracting foreign investment actively and the proportion of FDI introduction in the world is in a rising trend, which reduced only in 1997 when Asian economic crisis broke out and under the influence of the financial crisis in 2008. In 2010, the proportion of FDI attracted by the developing East Asia in the world was nearly 30%, which increased by two times in comparison with 10.55% in 2000. Specifically, the FDI attracted by the developing East Asia increased from USD 147.787 billion in 2000 to USD 423.157 billion in 2011, in which the FDI attracted by China increased from USD 40.715 billion in 2000 to USD 123.985 billion in 2011; the total FDI introduction by the ten countries in ASEAN increased from USD 22.696 billion in 2000 to USD 116.559 in 2011. [29]

It is no doubt that introducing foreign funds in a large quantity plays an important role for the economic development of China. However, in recent 20 years, the foreign fund introduction by China has not been taken as means of study mainly aimed at independent development. It is necessary to incorporate foreign funds into the balanced industrial development of China purposely and restrict strictly foreign funds to enter continually into the industries with excessive competition, high resource consumption, serious pollution and poor industrial correlation. It is imperative to use such policies as taxation, etc. to guide foreign funds into the industries with a high technical, capital intensity, upgrade the technical R & D ability of our country. Only in this way, can industrial self growth be strengthened, impact resistance upgraded and the position in the international industrial chain changed, technical upgrading and structure adjustment promoted.

d) Participate in TPP actively to expand the international space of the production network in East Asia

TPP was initially a small multilateral trade arrangement entered into by such four countries as Singapore, New Zealand, Chile and Brunei in APEC framework in 2005. However, being different from the past economic cooperation agreements, TPP increased "strategic cooperation" contents, which cover such contents as intellectual property protection, labor standards, environment standards, promoting the development of small and medium enterprises, etc. In 2009, USA joined in TPP, and took TPP as an important way for it to promote American trade rules in Asia. At present, TPP has included such 12 member countries as Singapore, New Zealand, Chile, Brunei, Australia, USA, Peru, Mexico, Canada, Malaysia, Vietnam and Japan. The total regional GDP can reach forty percent of the world economy. That agreement is not only wide in coverage, but once it is initiated, 95% commodities become zero custom duty level automatically. The simple average custom duty rates of the 21 economic bodies in APEC and the 12 existing TTP members are 5.7% and 4.5% respectively. However, that rate of China is as high as 9.6%. This means that if China does not join in TPP, the East Asian countries which have close trade contacts with China originally may change their trade and investment directions. According to latest reports, such shoe enterprises as Nike, etc. investing in Fujian China originally are shifting to Vietnam and Malaysia. Therefore, on one hand, our country should

[28] Chen Jianan, Industrial Division System of East Asia and its Structural Unbalance, Study on World Economy, Issue 4, 2008, pages 78.

[29] Un comtrad Stat-Statistical database, UNCTAD.org

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increase capital, technology intensive enterprises, improve the international competitive power of products, be in line with international norms in such aspects as labor standards, environmental protection and prepare for joining in TPP in future; on the other hand, our country should strengthen the linkage with EU, Africa to expand the space of the international production network, attract the funds and technologies from EU and make the transnational enterprises in EU be embedded in the industrial chain of East Asia gradually; at the same time, our country should make a sufficient use of the African cheap resources and laborers to become a low end of the industrial chain in East Asia. Thus, a complete international production network will be formed, which can not only maintain continuity of funds and technologies, but can also solve the problems brought by the lack of resources and continuous increase in labor costs in East Asia. As an important economic body in the production network of East Asia, our country needs to strengthen the linkage with EU and Africa and become an important platform to promote the economic contacts between East Asia and the external world. If we can establish a free trade zone with EU and Africa respectively, China will become a hub country in regional cooperation. This will play a strong promotion role in the development of our country and East Asia.

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Green Marketing: A Study of Consumers' Buying Behavior in Relation to Green Products

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Abstract- Environmental issue is a sizzling topic nowadays as almost every country's government and society has started to be more aware about these issues. This leads to a trend of green marketing used by the firm as one of the strategies in order to gain profit and protect the environment. This paper will be discussing the green marketing and its sustainability as well as the tools and marketing mix of green marketing. Other than that, the green consumer and branding will be discussed in further in this paper as this will attract more consumers. Lastly, firm will be benefited once green marketing strategy is applied.

Keywords: marketing, green marketing, sustainability, green marketing benefits, green marketing tools, organization benefits, green consumer.

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Green Marketing: A Study of Consumers' Buying Behavior in Relation to Green Products

Wong FuiYeng [α] & Rashad Yazdanifard [σ]

Abstract- Environmental issue is a sizzling topic nowadays as almost every country's government and society has started to be more aware about these issues. This leads to a trend of green marketing used by the firm as one of the strategies in order to gain profit and protect the environment. This paper will be discussing the green marketing and its sustainability as well as the tools and marketing mix of green marketing. Other than that, the green consumer and branding will be discussed in further in this paper as this will attract more consumers. Lastly, firm will be benefited once green marketing strategy is applied.

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I. Introduction

Green Marketing is the most latest and popular trend market which facilitated for the environment-friendly in individual, animal and planet (Rajeshkumar, 2012). Due to increase in climate change and global warming, the public concern for environmental problems is continuously increased over the past decades. The businesses and consumers have started to challenge eco-friendly products as they become more concerned on the environment, health and wealth in order to protect the earth's resources and the environment. In addition, the firms have slowly applied green marketing practices in their projects as a part of social conscience and they are demanding to reach the consumers with their green messages (Nagaraju & Thejaswini, 2014). For instances, the firms remain to introduce different forms of green packaging programs through the recommendation of recyclable and reusable packages as the importance of green marketing to market success has been increased. Furthermore, firms today are experienced with consumers who are environmentally conscious when making a purchase as green marketing is a current focus in business enterprises. Therefore, consumers are becoming more conscious towards their environmental approaches, desires and purchases. Therefore, this has led to increased motive of consumers to purchase environmentally friendly products and services. They are more concern on environmental issues and hence will consider purchasing products that are more environmentally friendly, even if these products are charged in higher prices. The consumers have become more interested with the importance of natural environment and are understanding that their production and consumption purchasing behavior will have direct impact on the environment. As a result, the increasing number of consumers who are willing to buy environmentally friendly products are building opportunity for businesses that are using "eco-friendly" or "environmentally friendly" as an element of their value proposition. Businesses that provide products which are manufactured and designed with an environmental marketing mix have a stable competitive advantage. A better understanding of consumers' buying behavior will support businesses to achieve more market-applicable approach to maintain in the competitive market. Moreover, it also allows businesses to bring more consumers and shape their products or services according to their demands or change consumers' behavior towards their products or services (Agyeman, 2014).

II. Green Marketing and Sustainable Development

The American Marketing Association (AMA) defines green marketing as marketing of products that are believed to be environment-friendly, which organizes intovarious activities such as product adjustment, modification of production processes, packaging, labeling, advertising strategies as well as increases awareness on compliance marketing amongst industries (Yazdanifard, 2011). According to Business Dictionary, the definition of green marketing is promotional exercises intended at taking benefits of shaping consumer behavior towards a brand. These adjustments are progressively being affected by a company's practices and policies that influence the characteristic of the environment and indicate the standard of its concern for the community. On the other hand, it can be recognized as the promotion of environmentally-secure or advantageous goods (Yazdanifard, 2011). According to the World Commission on Environmental Development (1978), Sustainable Development defines "meeting the needs of the present without compromising the ability of the future generations to meet their own needs" (p.134). The typical idea during the whole of this strategy of sustainable development is the desire to merge economic and ecological

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developments in decision making by constructing policies that conserve the standard of agricultural advancement and environmental conservation. The environment conservation for the current and the future generation is what the outcome product of green marketing is. (Vandhana, Karpagavalli, & Ravi, 2013).

III. Green Marketing Tools

Eco-label, eco-brand and environmental advertisement are part of the green marketing tools which can make perception easier and increase awareness of eco-friendly products features and aspects. Consequently, this will lead the consumers to purchase the environmentally friendly products. Practicing these policy tools plays an important role in changing consumer purchasing behavior to purchase environmental friendly products, thus, decreasing the adverse effect of artificial products on the environment (Delafrooz, Taleghani, & Nouri, 2014).

a) Eco-labeling

Eco-label is one of the important green marketing tools used on eco-friendly products. Eco-label is characterized as a tool for consumers to assist the progress of making a decision to choose eco-friendly product. It also allows them to understand how the process of products are made. Environmental labels are used by marketing to facilitate the labeling of green products. Labels made up of a series of small pieces of paper, up to very complicated diagrams that are involved as a part of the goods packaging. Labels can include merely the brand products or a series of mixed information. In some conditions, the seller may want a direct 'Label', but law obliges them to contribute more information (Delafrooz, Taleghani, & Nouri, 2014). Environmental labels allow consumers to easily distinguish environmentally friendly products over normal standard products. Eco-label is positively correlated with consumer enthusiasm to buy (Awan & Raza, n.d.). The recognition of eco-label has a positive impact between the information of a green product and consumer's willingness to buy. In addition, previous researches that were finalized in western nations have agreed that most consumers have positive green consciousness on eco-labeled products (Cherian & Jacob, 2012). Eco-labels are appealing tools notifying consumers about the environmental impact of their buying determination (Rashid, 2009). To guide consumers to classify products those are more environmentally favored than other identical products, eco-labeling schemes were proposed in order to facilitate environmental consumerism. The very first eco-labeling schemes have been developed since the late 1977 in Germany (Blue Angel eco-label). In modern day, there are relatively 30 various green label schemes worldwide. Asian countries such as China, Japan, Korea, India, Thailand, Malaysia and Singapore have launched their own eco-labeling schemes. The Malaysian business sector is not far behind in reacting to protests rising from interest made from the consumers for eco-friendly products. Malaysian green label schemes were committed to launch in 1996 by the Standards and Industrial Research Institute of Malaysia (SIRIM) in the time of there were eco-labeling schemes connected to degradable, agricultural products, energy conservation, electronic equipment, hazardous metal-free electrical, non-toxic plastic packaging material, recycled paper and biodegradable cleaning agents (Rahbar & Wahid, 2011).

b) Eco-brand

The American Marketing Association interprets a brand as "a name, term, sign, symbol, or design, or the combination of them, engaged to recognize the goods or services of one seller or group of sellers and to distinguish them from those of a competitor." This description can be concluded for the eco-brand as well. Eco-brand is a name, symbol or image of products that are harmless to the environment. Applying eco-brand aspects can help consumers to distinguish them by some means from other non-green products (Delafrooz, Taleghani, &Nouri, 2014). Consumers will pursue to purchase eco-friendly options for products that produced high level of environmental impact correspond to those with low level of environmental impact. Malaysian consumers consider aerosols, house hold cleaning, glass based, pesticides and plastics as non-green product classifies with high level of impact to environments (Rahbar & Wahid, 2011). For that reason, it can be anticipated that consumers will react positively to products with environmental aspects known as eco-branded products. The earlier research in western countries encourages this opinion as consumers in the Germany and USA take action positively to eco-branded products such as green energy and Body Shop (Wustenhagen & Bilharz, 2006).A consumer's interpretation on the environmental conduct of brands should be positively impressed by environmental labels. Recognition of the impact of brands on consumers' purchasing opinion is very critical for marketers and marketing researchers. This impact is recognized as brand equity. Brand equity can be defined as a particular impact that brand awareness has on a consumer's reaction to the marketing of that brand from a consumer's viewpoint. Green brands should be used to point out the situation that green products functions the same as non-green ones. Also, green brands should be used to assist consumers distinguish green brands from other identical brands with same actions. The critical aspect persuading consumers to change actual purchase behavior to buy eco-friendly products is emotional brand benefits. Hence, the purchasing behavior will change to purchase environmental friendly products as a consequence of concerning of the

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advantage of green brands. The consumers who widely recognized themselves as an environmental responsible consumers suggest to picks the green products in their actual purchase to meet their emotional desires (Rahbar & Wahid, 2011).

c) Environmental advertisement

In order to improve green movements worldwide and raise public attention to environmental problems, most organizations prefer environmental advertisements through media or newspapers as green techniques for introducing their products to environmentally responsible consumers. Green advertisement is one of the ways to influence consumers' purchasing behavior that will strongly encourage consumers to buy products that are eco-friendly to our environment. Besides, direct their attention to the positive consequences of their purchasing behavior, for themselves as well as the environment (Delafrooz, Taleghani, & Nouri, 2014). Davis (1994) describes there are three elements in green advertisement. Firstly, the company will start a statement that is related to the environment. Secondly, the company will demonstrate its concern and dedication to improve the environment by its changed procedure from the green advertisement. Thirdly, specific environmental actions in which the company is involved will be promoted by green advertisement (Rahbar & Wahid, 2011). When the population of companies using environmental interest in their advertisement is getting higher, even though some of them are just simply green washing, it will lead consumers to be suspicious towards environmental advertising. For marketing managers, who tries to be environmentally responsible and anticipates a reward from consumers for their responsible behavior, the reliability and influences of green advertising is a major issue. Marketing managers and advertising professionals need to master environmental information communication and presentation of environmental information in the ads (Alniacik & Yilmaz, 2012).

IV. Businesses and Green Marketing

There are significant alterations for activation in the business world in relation to the importance towards the environment and the society. Corporate ethical code of the 21st century is being green. Without a doubt, the main objective of companies is profitability but it is highly difficult for companies with the particular objective of making profit to achieve sustainability. Companies should be mindful of their duties towards the environment and the community similarly as towards customers, workers and shareholders. Climate change, environmental problems and social problems will confront the leaders of future generation for engaging effective and inclusive determinations. In the practice of engaging these determinations, the first concern of business society should be placed on the key of conserving the environment instead of improving the profitability of the business (Boztepe, 2012). In order to improve profitability, which is a direct advantage for the business itself, green marketing can advantage society by promoting not only the communication about but also the practice of green business process. The companies actually have a strong possibility to enhance their attitude if they engaged in environmental business activities. This is because to allege that their products are eco-friendly they have to absolutely assess the product in a way that matches valid requirements to acquire certified eco-labels. Also, they do not wish to lose the trust of the environmentally conscious consumers they focus on ("Fact Sheet-Green marketing," n.d.).

V. Marketing Mix in Green Marketing

The marketing mix is derived from conventional marketing (Kontic, Biljeskovic, & Brunninge, 2010). Marketing mix basically are the different ways invented by a company to bring a good or service to the market. In green marketing, environmental concern is an element that marketing mix must give on fully accountability. Marketing mix ordinarily known as 4P's comprises of components such as product, price, place and promotion. In the extended marketing mix as in case of service sector, three other components such as people, physical evidence and process are combined to make up 7P's. According to green marketing principle every components in the marketing mix will have a green perspective from establishing to introducing a product to the market (Arseculeratne & Yazdanifard, 2014). When a product is manufacture under a process of eco-friendly and harmless to the environment, the product may be named as green product. During production process, environmental pollution is an issue that business has to reduce. Natural resources ought to be preserved during physical removal of raw materials from a product. Significant area must be form by waste management in this connection. Ecofriendly design product should be manufactured and packaging process should lessen contamination and pollution. Product enhancements certainly involve a significant amount of sunk costs but they are worth the resolution since development in the product would bring about a turnaround in sales. The manner of reversed logistics whereby customers return to the business used wrapping, packaging and even the recycled product itself would considerably help to conserve the environment (Arseculeratne & Yazdanifard, 2014). Going green is absolutely pricey as they comprise various costs such as teaching nation, gadget, establishment of modern technology, absorbing extrinsic costs, converting waste into recycled products. Undoubtedly these will cause the products to be more

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expensive. Therefore green price is termed as premium price. These will have additional stress on promotions due to premium price. Marketing exertion must rationalize these expenses and consumers need to be convinced to pay a premium, so that realistic messages in adverts is needed. Nevertheless the fare of green products may be decrease when deal with packaging material. Indeed some businesses have establish this to be an attractive scheme when packaging costs develop a huge part of the unit cost (Arseculeratne & Yazdanifard, 2014). Green distribution comprise appointing pathway in a manner to diminish environmental impairment. Most of the damages are induced during shipping of goods. Therefore safety precautions must be implemented in the shipping of goods (Arseculeratne & Yazdanifard, 2014). Promotional material of a business is necessary in green marketing. The major information of go green has to transmit to the customers through direct marketing, sales promotions, advertising and public relations. Public relations and advertising indeed have become the most broadly used platforms to launch the green perspective of a business. Going green occasionally develop into a major national connections exercise as it form a bridge between the business and the society. Green advertising might be used to promote products, justify their features and price (Arseculeratne & Yazdanifard, 2014). Due to deficiency of information, most customers are not exactly aware the significance of green product thus green promotional strategy should realize this fact. To forward this void in the lack of information, a business may exercise numerous green promotional strategies. Customers need to be cognizant of the kinds of environmental issues a product would clarify in the first place for them to evince an interest in a green product (Arseculeratne & Yazdanifard, 2014).

VI. Green Consumer

Consumerism can be defined as a progress which originally started as a practice which was presented to safeguard consumers against operations of unethical business. Over time this has widespread and grow into wider in nature. When today's agenda with regards to consumer advocacy is taken into study it can be recognized that conservation of the environment is the most important element (Dono et al., 2010). There is an impact growth in the concern revealed towards environmental conservation leading to "green consumerism"(Eriksson, 2002).The green consumer is typically known as one who support eco-friendly attitudes and/or who purchases green products over the standard alternatives (Boztepe, 2012). Almost all consumers are conceivably green consumers. For instance, when a consumer has option to choose from two similar products, the consumer will choose to buy environmentally friendly product (Awan & Raza, n.d.). There have been a total of various circumstances which are influential in encouraging green consumers to buy green products. Far-reaching research over the years classify that intensive understanding of green issues; heightened level of knowledge opportunity on environmental subsistence; green advertising by corporations; raised concern for the environment; expanded in recognition of green products by environmental and social charities as some circumstances. This overpowering advance in the general environmental awareness among various consumer biography have been attempt undertaken by companies to "go green" by introducing the idea of corporate environmentalism (Cherian & Jacob, 2012).

VII. Consumers' Environmental Concerns

Consumers' environmental concerns are connected to the benefit towards the biophysical environment and its issues connected to the consumer and the surroundings. Initially, gender plays an essential role in consumerism and environmental consciousness (Kaufmann, Panni, Or phanidou, 2012). It has been recognized by prior research that women were more concerned about the environment than men. Besides, it has been told that consumers show environmental concerns depending on product features, precision of green product claims, information provided on the products and its advantages (Suki, 2013).For consumer packaged goods purchases, women are usually the primary target audience as they still do the bulk of today's household shopping. For instances, Seventh Generation, a viable personal care and household cleaning products manufacturer, targets the middle along with new mothers, whom they find to be specifically concerned in creating the world a better place for their newborns. Other the other hand, packaging plays a crucial role in the product's sustainability. Consumers are conscious of environmental packing choices progressively and are shaping their behavior as a consequence. A well-known example of this is with water bottles. Many consumers have made the switch from buying single-use plastic water bottles to using refillable water containers. In year of 2008, 2.5 million tons of plastic bottles and jars were thrown away. The intensely slow decomposition rate of plastic bottles leaves them to remain in litter oceans for years. As a consequence of increased consumer awareness and consumer demand, sales of reusable water bottles from environmentally friendly producers such as Sigg and Kleen Kanteen have come onto the market. Consumers even demand hygienic, filtered water, and firms, such as Brita and PŪR, producers of water filters, have seen a 22.2 percent and 15.2 percent increase in sales during 2009, accordingly. Moreover, another powerful consumer packaging trend is the use

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of reusable shopping bags at grocery stores. Americans use one hundred billion plastic shopping bags every year and over five hundred billion are consumed globally. In this regard, four billion become general litter. Now it is almost trendy to bring your reusable shopping bags to grocery store as consumers and retailers are recognizing this new environmental behavior. In the year of 2011, more than two-thirds of consumers signified that they now use reusable shopping bags (Gittell, Magnusson, Merenda, 2015).

VIII. Benefits of Green Marketing

Nowadays consumers gradually acknowledge the need to take care of the environment and become more culturally responsible. Therefore, accountability of companies to consumers' inclinations for environmentally harmless or neutral products is essential (Saini, 2013). Green Marketing has a lot of important benefits for those communities whose accept these new concepts. First important benefits are revenue increased. Consumers prefer every new and positive concept, so that innovator plays an essential role in this segment. A successful product that fulfills consumer satisfaction will definitely have an increase in sales and revenue. Second important benefits are cost reduced. In green marketing, the cost of raw materials is low thus it will increase the productions and save money. On top of that, green marketing can build brand value. A great green practices company will get a good brand value in the heart of the consumers. Another important benefit of green marketing is getting tax breaks and loans from government because those innovative companies which help the nation who are living in a rural or un-employment will bear uncertain risks. Besides, they save environment and health of nation so they receive subsidies from government. Lastly, the most crucial advantage of green marketing is world salvation. Disposal and treatment of wastage, production process of companies will produce emissions of several greenhouse gases which contribute to global climate change which can causes greenhouse effect. By following a great way of green practices, the companies could save the world in the way of saving the health of peoples and the environment (Rajeshkumar, 2012).

IX. Discussion

The main objective of this paper was to determine the study of green marketing and it's sustainability on the environment and companies as well as the tools and marketing mix of green marketing. Moreover, this paper also focuses on the behavior of consumers and branding to attract more consumers. This finding is important because the earth's resources are gradually depleting and earth is getting more and more polluted. Green marketing is a strategy which benefits the environment and the firms; it is a win-win strategy. The company can definitely reduce costs and impress a positive image on the consumers. A company's reputation plays an important role because having a good reputation has been justified being beneficial to the company. Green marketing not only benefits the company but also acts as a very important strategy in preserving our environment. Therefore, each company, regardless of its industry, should consider integrating sustainability into their marketing strategy. Those that do will seek recognition of their efforts. These companies should consider green marketing, keeping in mind that green marketing is not a cure-all for increasing sales. Companies should keep in mind that there is no universal green marketing strategy. Companies engaged in green marketing should structure their effort to minimize green washing risks. For instance, there are few strategies that can be used to practice green marketing. The companies adopt marketing mix concept in green marketing, this enables the companies to manage the 4Ps appropriately. Firstly, the companies have to understand the customers' needs and wants, so that the companies can produce a suitable product for the customers. Moreover, the price of the products is a very important element. The price has to be affordable to the majority of the consumers. Lastly, the places that distribute green products have to be convenient to the consumers. After all, company that adopting green marketing as one of their strategy will benefits the firm.

X. Conclusion

As environmental issues continue to affect human activities, society is now regards them with much concern. Most firms have started using sustainable development framework which is known as green marketing and most of the organizations have acknowledged green products which are environmentally friendly. Marketing managers can use green marketing to earn profits. In addition, green marketing is able to preserve the environment while satisfying customers' needs. Therefore, green marketing is a tool now used by many companies to increase their competitive advantage as people is presently very concerned about environmental issues. In the time applying green marketing, the companies have to comply with the consumers' needs and wants. Consumers want to recognize themselves with companies that are green compliant and are willing to pay more for a greener life style. For this reason, green marketing is not only an environmental protection tool but also a marketing strategy (Yazdanifard, 2011). Other than that, marketers can provide training to their employees, especially sales representative. This is to give them knowledge on how to promote the green product effectively by clearly presenting the main message to the consumers. Green marketing covers a

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wide range of business activities and it is similar to marketing mix. Therefore, marketers should adopt a suitable single green marketing mix and strategy corresponding to company in which they conduct and target consumers' demands and personality. In addition, companies that carry out green marketing in the right place and on the right person may support the company to achieve their competitive advantage.

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What Internal and External Factors Influence Impulsive Buying Behavior in online Shopping?

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Abstract- Impulsive buying behavior can be considered as a way of increasing profit of marketers. Nowadays, the popularity of electronic commerce has gained more attention from researchers and marketers as well. Hence, studying the causes of online impulsive buying behavior is necessary as such study may generate certain innovative ideas or strategies to marketers to increase profit from online market. In this study, the author emphasizes on internal factors (e.g., psychological approach) and external factors (e.g., situational, product and website factors) in studying the impulsive buying behavior. The external factors (e.g., website designs) and internal factors (e.g., affective states) which cause impulsive purchase are interrelated in certain aspects and are hard to separate individually.

Keywords: online market, impulsive buying behavior, psychological factors, situational factors, website characteristics.

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What Internal and External Factors Influence Impulsive Buying Behavior in online Shopping?

Lim Pei Ling [α] & Dr. Rashad Yazdanifard [σ]

Abstract- **Impulsive buying behavior can be considered as a way of increasing profit of marketers. Nowadays, the popularity of electronic commerce has gained more attention from researchers and marketers as well. Hence, studying the causes of online impulsive buying behavior is necessary as such study may generate certain innovative ideas or strategies to marketers to increase profit from online market. In this study, the author emphasizes on internal factors (e.g., psychological approach) and external factors (e.g., situational, product and website factors) in studying the impulsive buying behavior. The external factors (e.g., website designs) and internal factors (e.g., affective states) which cause impulsive purchase are interrelated in certain aspects and are hard to separate individually.**

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I. Introduction

Consumers are always important because they are who marketers gain profit from within a trading process. Therefore, studying consumer behavior is an important issue for researchers and marketers to understand consumer's thought and behavior. Within consumer behavior's studies, impulsive buying behavior is always an interesting issue and many researchers and marketers make efforts to try to figure it out (Sirhindi, 2010; Muruganantham & Bhakat, 2013). Furthermore, in many studies about impulsive buying behavior, this behavior has taken a considerable part to contribute in total sales of product (Madhavaram & Laverie, 2004; Sirhindi, 2010; Jeffrey & Hodge, 2007). According to Stern (1962), the rate of impulsive purchase in which people purchased without planning in advance has raised from 38.2 percent in 1945 to 50.9 percent in 1959. Further evidence from Abrahams (1997), Americans had contributed $4 billion into impulsive buying sale annually and even 80 percent of all purchases for some products (as cited in Jeffrey & Hodge, 2007; as cited in Sirhindi, 2010). Even though after the 2008 recession, a study of Dolliver (2009) indicated that 60 percent of females were still engage in impulsive purchase in online shopping (as cited in Wells, Parboteeah & Valacich, 2011). Those studies have raised the importance of impulsive buying to researchers and marketers in studying the causes of impulsive buying behavior and increasing the sales of product.

Electronic commerce is getting popular especially in recent years. Computer and network have make human life become more convenience in many aspects such as communication Through the electronic device and network, business pattern has also been influenced significantly as people can now carry out trading through these invention. The online sales have made profit from $236 billion in 2007 to $521 billion in 2012 (Ben-Shabat, Moriarty, & Nilforoushan, 2013). The positive prediction of electronic commerce was made by some researchers as well. According to a report from McKinsey Global Institute (2013), China had made more than $190 billion in 2012. In addition to that, the institute also made positive prediction that China will increase the electronic commerce's profit to $650 billion in 2020. Malpuru (2013) has also predicted that America will increase from $262 billion in 2013 to $370 billion in 2017.

Because of the popularity of electronic commerce, researchers have paid more attention to the study of online impulsive buying behavior nowadays. Some studies (Sirhindi, 2010; Madhavaram & Laverie, 2004) found that traditional shopping and online shopping have different characteristics, for instance, the situational factors of online impulsive shopping are easy access, opportunity to access promotions, use of credit card, transportation of goods and low price of goods. All of these reasons are the factors that encourage people to purchase impulsively in online market. Hence, investigating the factors that affect online impulsive buying behavior is important and also the purpose of this paper.

II. Impulsive Buying Behavior and Online Impulsive Buying Behavior

For many researchers, impulsive purchase is always referred as unplanned purchase (Jeffrey & Hodge, 2007; Tinne, 2010). There are four characteristics to further explain impulsive purchase. First of all, impulsive purchase is unplanned purchase in which people decide to purchase goods without any plans in advance. Secondly, impulsive purchase is a result of exposure to the stimulus in which people purchase impulsively is triggered by the external

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stimulus such as the design of the good or the price of the good. Thirdly, impulsive purchase is an immediate nature of behavior in which people purchase without considering the information search, alternative evaluation and consequences of making purchase. People purchase goods is the result of sudden and powerful urge or desire that forces them to purchase immediately. Last but not least, impulsive purchase causes people to experience emotional or cognitive reactions such as guilt. However, some studies have reported that impulsive purchase could be the lack of reflection as well (Tinne, 2010; Madhavaram & Laverie, 2004; Muruganantham & Bhakat, 2013).

The first study of impulsive behavior was from Clover (1950) who studied on impulsive buying mix and figured out some goods that are sold more impulsively. After that, Stern (1962) had provided significant contributions in identifying impulsive buying behavior. He divided impulsive buying behavior into few types which includes pure, planned and reminder. Later, the fourth type of impulsive buying behavior was introduced by Han and his colleagues which is suggestion/fashion-oriented impulsive buying (as cited in Muruganantham & Bhakat, 2013). Pure impulsive buying is novelty and escape purchase which people do not follow usual purchase pattern; planned impulsive buying is the specific purchase decision which is made based on certain conditions such as low price or promotion of the goods; reminded impulsive buying is a purchase which people remind the lack of certain goods triggering it in the store whereas suggestion impulsive buying is a purchase which people purchase a new good by self-suggestion that good is needed (as cited in Madhavaram & Laverie, 2004; as cited in Muruganantham & Bhakat, 2013).

The process of impulsive buying behavior also differs from normal buying process. Normally, rational consumers would go through recognizing needs, searching information to figure out the goods they want, evaluating alternatives as well as experience of purchasing and post-purchase (Lamb, Hair, Jr., & McDaniel, 2013). However, within impulsive buying process, consumers are not searching information and evaluating alternative. Consumers start with browsing products and have product awareness. During this moment, consumers are exposed to the external stimuli that can trigger their desire to buy impulsively (Tinne, 2010; Muruganantham & Bhakat, 2013).

Impulsive buying behavior is mainly influenced by internal and external stimuli. Internal stimuli always refer as psychological factors, situational factors, demographic factors and socio-economic factors. On the other hand, external stimuli always refer as product's characteristics and environmental characteristics (Karbasivar & Yarahmadi, 2011; Tinne, 2010; Muruganantham & Bhakat, 2013). The factors of online impulsive buying behavior is slight different compared to in-store impulsive buying behavior in certain aspects. Situational factors and environmental characteristics are considerably different from the factors of in-store impulsive buying behavior. The psychological, situational and environmental factors will be emphasized and discussed further.

III. The Relationship Between Internal Factors and Online Impulsive Buying

The internal factors include age, gender, culture and socio-economic states. The gender differences do indeed influence online impulsive purchase. According to a study from Saarela, Stoorvogel and Zingkweg (2008), the researchers indicated that females are more attracted to low-task relevant goods, online sales promotions and beauty and clothing goods on impulsive purchase whereas males are more attracted to electronic equipment on impulsive purchase. Furthermore, online impulsive buying behavior differs between young and old age groups (Saarela et al., 2008). Young age group is more likely purchase impulsively than old age group. Young age group values information accessibility and additional information of the good, but they are more likely to be influenced by external stimuli (e.g., they spend more time in online shopping) than old age group in engaging impulsively purchase online. Moreover, both groups also have different preference when doing online shopping. Young age group tends to purchase video and music whereas old age group tends to purchase online documentation.

IV. The Relationship Between Psychological Factors and Online Impulsive Buying

Psychological factors are one of the internal factors. Sometimes, psychological factors is also referred as individual factors which include personality traits, emotional states, interest, and cognitive processes (Mesiranta, 2009; Chen & Lee, 2015; Shahjehan, Qureshi, Zeb & Saifullah, 2012; Chen, 2011; Liu, Li & Hu, 2013). The psychological factors are similar in both online and in-store shopping in a large extent. However, psychological factors are the main and direct factor that cause people purchase impulsively.

a) Personality Trait

Some researchers have applied trait theory to explain impulsive buying behavior. Personality trait is defined as a person who performs in consistent behavior and thinking patterns. People who have tendency of impulsive buying are prone to be unreflective, emotional and impulsive (Chen, 2011). According to Youn and Faber (2000), people who have lack of control, stress reaction which people tend to

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experience negative affective states and thus they would do something to relief their mood such as impulsive purchase and absorption which people are more sensitive to external stimuli and willing to try novel things are associated with impulsive buying as well.

In impulsive buying, impulsivity (lack of control) is also a personality trait that links to individual's impulsive buying tendency. This tendency includes two characteristics: the immediate urge or desire to purchase and the limited deliberation or evaluation of the consequences (Liu et al., 2013). In other words, a person who has higher impulsivity tends to purchase impulsively (Chen & Lee, 2015; Youn & Faber, 2000). In order to identify the people who are prone to impulsive purchase, the Big Five Model is applied in some studies (Chen & Lee, 2015; Shahjehan et al., 2011).

The study of Chen (2011) has indicated that the people who have the traits of need of arousal and material are prone to impulsive buying. Need of material is referred to people who have high tendency in materialistic are more likely to buy impulsively. On the other hand, the need of arousal is associated with the mood regulating function. This means that the influence of emotion can ultimately trigger impulsive buying. The people who score higher need of arousal is more likely to be triggered by external stimuli and impulsive purchase eventually.

In the latest study of Chen and Lee (2015), agreeableness, one of the personality traits in Big Five Model is also related with impulsive buying behavior. This trait is described as complaint and accommodating in social condition which includes trusting on others. Their result indicated that the people who are high in agreeableness are more willing to trust online market and purchase unreflectively than cautious people, thus, agreeable people are more likely to purchase impulsively.

b) Affective State and Personal Interest

Emotional factor always plays an important role in the influence of impulsive buying behavior regardless of in traditional market or online market. The emotional states can be divided into positive and negative affective states. Positive affective states can be referred to excitement or pleasure whereas negative affective states can be described as anxiety or guilt (Verhagen & Dolen, 2011; Youn & Faber, 2000; Mesiranta, 2009).

According to Verhagen and Dolen's study (2011), the positive affective states can increase impulsive buying behavior. On the other hand, the website designs such as attractive goods, ease of use, enjoyment of the website and website communication style could be the indirect factors that affect impulsive buying behavior as these factors only have directly influence on emotion. Furthermore, Jeffrey and Hodge (2007) also indicated that people who are in positive affective states tend to spend more time in browsing the online retrailers' websites, therefore, increasing the opportunity of impulsive purchase.

In Mesiranta's study (2009), individual's interest can also influence people to engage in impulsive buying online. A respondent revealed that she bought a book on Tai Chi which she did not plan to buy it when she was browsing online bookstores due to her interest on Tai Chi.

c) Perception and Product Involvement

In Verhagen and Dolen's study (2011), perception is also playing a role in online impulsive purchase. When people perceive enjoyment from the website, they tend to have positive affective states. Another study done by Parboteeah, Valacich and Wells (2009) also indicated that people perceive usefulness and enjoyment to the website are related to impulsive purchase.

Product involvement refers to a person who perceives the importance of the good based on their interest and value as well as the degree of effort consumers would likely to be contributed on these goods (Bian & Moutinho, 2008). This factor also takes part in influencing people to involve in impulsive purchase. The good category refers to the types of goods. Certain goods are more favorable to consumer to purchase in online. In Chen (2008) study, the online product involvement of clothing and computer peripherals is examined. Chen (2008) divided the consequences of heightened involvement into two categories: emotional consequences and functional consequences. The emotional consequence is considered as interest aspect which more tend to produce emotional needs to certain goods. In other words, people spend more time and effort to know the goods they are interested in. Other the other hand, the functional consequence is referred to the tendency of informational needed to the good. People need to gain more information about the good, therefore, they spend time and effort on it. The result indicated that the clothing has higher impulsive purchase tendency and involvement in in-store shopping because online shopping is hard to emerge the level of interest (e.g., consumer cannot touch and try the clothing). On the other hand, the computer peripherals has higher impulsive tendency and involvement in online shopping because online shopping is fit for the goods which needs intensive information search (e.g., consumer can compare the price, brand and specific of the goods).

d) Cognitive Processes: Evaluation

Normative evaluation refers to people judge the appropriateness of impulsive purchase decision which may also take part in influencing impulsive purchase to some researchers (Liu et al., 2013). In early notion of impulsive purchase, researchers tended to believe that purchase was irrational and thoughtless. Nevertheless,

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appropriate of their purchase decision. However, different buying situations can influence normative evaluation to be either negative or positive to same goods.

e) Cognitive Processes: Mental Accounting and Rationalizing

In Jeffrey and Hodge's (2007) study, cognitive factors are used to explain online compulsive purchase. Mental accounting assumes that people have various imaginary accounts in their mind. Each imaginary account has different budget to be spent and also differs in every individual. The expenditure in different imaginary accounts is different and thus can cause people to have diminishing sensitivity when they purchase expensive goods in certain situations. For instance, when an individual bought a car that costs $39,000, that individual would have less sensitivity towards buying a car accessory that costs $500 as the 'car' account has already contained $39,000, therefore the spending of car accessory just cost $500 is considered as a small amount. The impulsive purchase of car accessory is more likely to happen in this situation. If the people did not buy the car and the salesperson promoted him the $500 car accessory, the person would consider the purchase of a car accessory is a large amount and thus, reduce his likeliness to impulsive purchase the car accessory.

People always try to be a rational consumer and thus they will seek good reasons for their purchase decision even when they purchase impulsively. The study of Jeffrey and Hodge (2007) has proven the notion effective. They tied some specific goods with donation to charity in which online consumers purchase specific goods and also donate $1 to charity in online market. The result indicated that the frequency of impulsive purchase rose from 2 percent to 9 percent to the specific goods.

V. The Relationship Between Situational Factors and Online Impulsive Buying

Situational factors can be either internal factors or external factors which only occur during consumer purchase. The factors include time, payment's method, and presence of others (Tinne, 2010; Karbasivar & Yarahmadi, 2011).

The restrain of in-store shopping do not exist in online shopping, such as time and goods' transportation. In online shopping, people can purchase at any time when they are free. Therefore, the online consumers would more likely engage in impulsive purchase. Sometimes, consumers are upset by the transportation of goods. The goods might be too big and hard to bring home by themselves and thus consumers would probably not purchase the goods (Sirhindi, 2010).

Furthermore, in online market, the payment is solely processed by online bank or credit card. Some studies showed that the use of credit card is one of the factors to cause consumer purchase impulsively. This is because people do not have to pay immediately and thus they are more likely to overspend and impulsive purchase (Karbasivar & Yarahmadi, 2011). Credit card holders also found out that they are less conscious on the price of goods and this can cause them to purchase higher price items as well (Tokunga, 1993; Deshpande & Krishnan, 1980; as cited in Karbasivar & Yarahmadi, 2011).

In in-store shopping, the presence of others is an effective way to promote impulsive purchase. However, in online shopping, there is no salesperson to pressure the sale. Due to this reason, the impulsive purchase due to social pressure is less likely to take place online (Madhavaram & Laverie, 2004; as cited in Jeffrey & Hodge, 2007). However, a study which was done by Zhang, Hu, and Zhao (2014) indicated that opinion-based social interactions which provide review quality and source credibility and behavior-based social interactions that provide observational learning are efficient in causing online impulsive purchase as well.

Online auction is a different type of online shopping experience. Individuals who tend to have hedonic motive and impulsiveness are more like to purchase impulsively and pay higher price in this shopping experience (Abdul-Ghani, 2009; Angst, Agarwal & Kuruzovich, 2008).

VI. The Relationship Between Product's Characteristics and Online Impulsive Buying

The product's characteristic can also be an indirectly factors of impulsive buying behavior. The product's characteristics can divided into price and different category of products (Mesiranta, 2009). In some research, the product's risk is also included (Mesiranta, 2009). In Verhagen and Dolen's study (2011), merchandise attractiveness can trigger both positive and negative emotion significantly.

The price of the goods is considered as the main factor to cause people to purchase impulsively whether in online shopping or in-store shopping (Karbasivar & Yarahmadi, 2011; Mesiranta, 2009). Some people reported that their online shopping can cost more compared with traditional shopping (Mesiranta, 2009). In other words, they purchase more impulsively in online shopping than traditional shopping. Furthermore, price is essential to individuals having positive affective to browse online and encouraging impulsive purchase to happen (Park, Kim, Funches & Foxx, 2012).

Chen's (2008) study indicated that clothing is less impulsive purchase than computer peripherals

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when these two items are compared in studying the impulsive tendency and product involvement. Chen explained that computer peripherals are more fit to information search in Internet whereas clothing can inhibit the impulsive purchase because clothing cannot be touched and tried, therefore computer peripherals have higher impulsive purchase tendency.

A study from Zhang, Jing and Yang (2012) showed that consumer purchase voucher can be divided into virtual product (e.g., consumer paid online and then the electronic voucher will send to them immediately) and actual product (e.g., consumer paid online and then the actual printed voucher will mail to them which takes few days). The result indicated that people are more impulsively purchase the virtual product because their gratification cannot fulfill immediately. They also revealed that consumer impulsive purchase more on hedonic luxuries (e.g., candy) than utilitarian necessities (e.g., rice).

VII. The Relationship Between Website's Characteristics and Online Impulsive Buying

The website's characteristics are traditional environmental factors to trigger impulsive purchase in consumers. However, the factors of online impulsive buying are not similar to the factors of tradition impulsive buying. In in-store shopping, the environmental factors However, when there are varying degrees of website involved in online shopping. In online impulsive buying, website characteristics such as website ease to use and visual appeal are considered as environmental factors in in-store shopping (Verhagen & Dolen, 2011; Liu et al., 2013). The online environment is divided into high task-relevant and low task-relevant according to different aims. High task-relevant characteristics focus on facilitating consumer's shopping goal which consist of security, download delay or navigability. On the other hand, low task-relevant characteristics focus on making consumer's shopping experience to be pleasurable which consist of visual appeal or website pleasantness (Eroglu, Machleit & Davis, 2001).

The external factors (e.g., website designs) always interact with internal factors (e.g., emotion). According to Verhagen and Dolen (2011), the website designs cannot directly influence to impulsive buying behavior but it indeed influences emotion which directly influences impulsive buying behavior. Nevertheless, website communication style is defined as excitement factor because it can strongly trigger positive emotion which is how impulsive buying behavior is encouraged. Another study from Wells and colleagues (2011) supported the interaction between external and internal factors. The personality trait (e.g., impulsiveness) has proven to be effective in triggering impulsive purchase. include lighting, music and salespersons that are not quality, the impulsive purchase is not strongly affected by personality trait again.

The website ease to use and ease to navigation which can be the trigger of impulsive purchase is unsolved. In Verhagen and Dolen's study (2011), the website ease to use does not significantly influence consumer affective states. According to them, the website ease to use is a basic element for consumer to purchase good, hence this factor does not influence consumer considerably. On the other hand, some researchers agreed that website ease to use can raise consumer's positive affective states and cause impulsive purchase to happen (Liu et al., 2013).

Another important characteristic is product availability which refers to diversity of goods. According to Liu et al. (2013) study, when consumers perceive that website can provide different interesting goods, they will view more visually appealing and raise positive affective states toward the website.

The online promotional strategy is slightly different with in-store promotion which is more tailored and aggressive to consumer such as the sudden pop out "advertisement". However, the types of promotions are similar with actual store such as buy-one-get one deals, coupons and membership discounts. There still have some new types of promotion such as free shipping fees (Dawson & Kim, 2009). This can cause consumer to impulsive purchase more (Sirhindi, 2010).

VIII. Discussion

In this study, the online impulsive purchase is investigated and emphasized on the relationship between psychological factors, situational factors, product's characteristics and website's characteristics. Nowadays, consumer behavior is widely explained by many researchers and is discovered in details from the study of impulsive buying behavior. The impulsive purchase is not only aextraordinal phenomenon, it actually influences seller's profit. The study of impulsive purchase started in the 1950s by Clover and then more and more researchers contributed to it. A researcher, Stern has provided more detailed explanation for impulsive purchase by dividing into four types which are pure, reminder, suggestion/fashion-oriented, and planned impulsive purchase. The process of impulsive purchase is characterized by lack of information search and alternative evaluation; consumer is triggered by the stimuli and raises the impulsive urge to purchase. Therefore, impulsive purchase is referred as unplanned buying behavior; urge is triggered by external stimuli; making purchase decision on the spot and without lots of reflection after purchasing. The factors that influence impulsive purchase are divided into two major categories which are internal factors and external factors. The internal factors can also refer as individual factors which include psychological, demographic,

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social and cultural factors. On the other hand, external factors refer as external stimuli which include product and environmental factors. However, the inventions of computer and network have changed human life significantly which include purchasing behavior. Therefore, studying the online impulsive purchase is important to sellers who intent to increase their profit and bring better shopping experience to online consumers.

Internal factors are less focused in this study because some issues such as cultural and socio-economic factors are still less concerned by researchers nowadays. However, there has a study revealed that impulsive buying behavior is different in gender (e.g., females tend to purchase clothing and males tend to purchase electronic equipment) and age (e.g., young age group is more likely than old age group to purchase impulsively in online shopping).

Psychological factors significantly and directly influence consumers to purchase impulsively whether in online or in-store shopping. The personality trait of impulsiveness can affect people to purchase and without the evaluation of the consequences due to the immediate urge. However, the impulsive purchasers are also characterized as unreflective, emotional and venerable (e.g., people experiences negative event and they will purchase impulsively in order to relief the negative feeling). Furthermore, people who have higher needs for arousal and material also tend to be impulsive purchase. In Big Five Personality Theory, people who contain the trait of agreeableness are more trusting online shopping and purchase impulsively. Positive effects such as excitement and pleasant are playing important and direct factors in causing people to purchase impulsively as well. This factor is always interacted with external stimuli to cause impulsive purchase. For instance, people who experience positive effective are more likely to browse longer and thus the opportunities of impulsive purchase would increase as well. The interest also influences people to purchase specific goods impulsively. Besides, perception might also cause consumers to purchase impulsively. The product involvement also contributed into impulsive purchase which refers to the level of importance of the goods to consumers and how many effort the consumer involved in the goods. There are some limitations of online shopping experience. The product (e.g., computer peripherals) with functional consequences of heightened involvement is more likely to produce impulsive purchase because information search and comparison of the goods are more effective online. Surprisingly, evaluation is indeed happening in impulsive purchase where people would actually judge their impulsive purchase decision. This notion is based on some researches that people normally did not regret to their impulsive purchase. The cognitive factors such as mental accounting and seeking purchase reason are fit to describe the impulsive purchase. People diminish their sensitivity of expenses based on how much they had spent already and seek reasons to purchase which actually influences impulsive purchase, because they tend to think they are doing the appropriate purchase decision.

The situational factors occur when consumer purchase, for example, time, payment's methods and sale's types. The restrain of in-store shopping do not exist in online shopping, such as time and shipping services. The payment's method mainly based on online banking or credit card. This payment's method actually causes people to be less sensitive to the expenditures and price of goods, thus overspend and impulsive purchase to happen. There also some factors discourage consumer to purchase impulsively such as presence of others. In online shopping, the salesperson does not exist, but it actually the cause of impulsive purchase in actual shopping. Online auction is common in online shopping. However, because of the bidding system, consumers who tend to have hedonic motives and impulsiveness actually purchase impulsively and pay higher price to the goods.

Both product's characteristics and website's characteristics are considered as indirectly factors which need to interact with internal factors in order to produce impulsive purchase. The product's characteristics also play an important role in causing impulsive purchase. It mainly divides into price and different categories of products. The cheaper price of goods is a main factor to cause people purchase impulsively whether in online or actual shopping. However, online shopping is easier to compare the price of goods, thus impulsive purchase happens easier compared with in-store shopping. On the other hand, some products such as clothing are less likely to be purchased compared to computer peripherals, because consumer cannot touch or try the clothing whereas computer peripherals can easily compare online. The virtual good is more likely to purchase impulsively. That is because virtual goods can get immediate gratification whereas the actual goods have to wait and the urge cannot be fulfilled immediately. Also, consumers tend to impulsive purchase in hedonic luxuries which has proven that impulsive purchasers are emotional individuals.

Although website's characteristics are indirect factors in impulsive purchase, the quality of the website also plays an important role. However, the website's characteristics are similar to in-store's environmental factors. Website's characteristics are often divided into high task-relevant which refers to facilitating consumer purchase experience and low task-relevant which refers as pleasuring consumer feeling and emotion. High-task relevant consists of navigability, security and variety of good. Low-task relevant consists of visual appeal and

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website pleasantness. Some controversies happen in navigability; some studies indicated it is effective for impulsive purchase some studies are not. This might due to various factors such as different culture of participants in those studies which might influence the result.

Although the psychological part is deeply investigated in this paper, some issues are not. For instance, the interaction between age, gender, culture and socio-economic factor and online impulsive purchase are still underdeveloped. Although there are numerous impulsive purchase related with those factors, online market is still lacked in academic field. Some issues are inconsistent, but these inconsistencies might due to the other variables that lead to different results.

IX. Conclusion

In conclusion, online impulsive buying behavior is important in increasing profit to sellers and shopping experience to consumers. Psychological factors such as personality traits, affective states, interest, product involvement, perception, normative evaluation and other cognitive factors play crucial and direct roles in affecting impulsive buying behavior. However, the external factors such as situational factors, product's characteristics and website's characteristics can also contribute to the impulsive purchase in online market. Therefore, both internal and external factors are the important causes for online impulsive purchase. Online impulsive buying behavior is still a new study nowadays. Hence, some issues are actually underdeveloped, such as cultural and socio-economic differences. However, the basic issues such as the emotion and website's characteristics are widely studied in recent years.

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The Review of how Sales Promotion Change the Consumer's Perception and Their Purchasing Behavior of a Product

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Abstract- As the world market becomes increasingly competitive, a variety of sales promotion techniques need to be implemented by marketers in order to stand out among their competitors. Overtime, as consumers become increasingly sensitive towards the sales promotion strategies, marketers need to identify the most suitable sales promotion strategy to be implemented in their products (i.e.: monetary or non-monetary sales promotion strategies) in order to increase the number of consumers; purchasing behaviors and avoid any potential negative perception. This article has revealed that besides serving as a short-term profit marketing strategy, sales promotion has the potential in helping the marketers to achieve long-term profits through influencing the consumer's self-perception and self-satisfaction and in the development of loyal customers.

Keywords: *sales, promotion, consumers, perception, purchasing, behavior, implication.*

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The Review of how Sales Promotion Change the Consumer's Perception and Their Purchasing Behavior of a Product

Wong Ai Jean [α] & Rashad Yazdanifard [σ]

Abstract- As the world market becomes increasingly competitive, a variety of sales promotion techniques need to be implemented by marketers in order to stand out among their competitors. Overtime, as consumers become increasingly sensitive towards the sales promotion strategies, marketers need to identify the most suitable sales promotion strategy to be implemented in their products (i.e.: monetary or non-monetary sales promotion strategies) in order to increase the number of consumers; purchasing behaviors and avoid any potential negative perception. This article has revealed that besides serving as a short-term profit marketing strategy, sales promotion has the potential in helping the marketers to achieve long-term profits through influencing the consumer's self-perception and self-satisfaction and in the development of loyal customers. In other words, sales promotion has benefited both the marketers and the consumers at the same time.

Keywords: sales, promotion, consumers, perception, purchasing, behavior, implication.

I. Introduction

With the advancement of technology, a variety of new products are developed and innovated into the already present market to improve the quality life of society. One of the most effective and easiest ways to be outstanding among the competitive market world is to apply sales promotion. Promotion is classified as one of the backbones of marketing mix, which is used to increase the consumers' purchasing behavior. Research proposed that among the competitive businesses, promotion is an essential factor to a new product and present product to continue surviving in the market shelf (Abdalnaser Ahmad Salem Jaradat, Jaradat, & Fatima Lahcen Ait Yassine, 2011). Based on a marketer's perspective, sales promotion has acted as a vital tool to increase the sales profit within a short period of time. Meanwhile, as consumers, we are surrounded by promotion in our daily life without being noticed. Therefore, the implication and the effectiveness of sales promotion have received high attention and concern (Ndubisi & Chiew, 2005).This article has reviewed the types of sales promotion, which have played an important role in influencing the purchasing behavior of the potential consumers (Alvarez & Casielles, 2005; Chandon, Wansin, & Laurent, 2000; Hendel & Nevo, 2006; Kalaiselvan, 2013; Lichtenstein, Ridgway, & Netemeyer, 1993). Moreover, due to the consistent exposure to variety of sales promotion and individual differences, each unique consumer has developed a different perception towards sales promotion. Thus, this article has continuous discussionon the consumer's perception on sales promotion, and how the sales promotion can positively and negatively affected the consumer's cognitive thinking and purchasing behavior.

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II. Methodology

This study has reviewed primary and secondary data to study the consumer behaviors on sales promotion strategy. International journals reviewed in this paper are retrieved from several well-recognized databases such as Ebscohost, Emerald, Jstor and Proquest. This literature review has discussed the effects of monetary and non-monetary sales promotion on consumers' perception and purchasing behaviors. Also, the implication of sales promotion on consumers' purchasing behaviors and personal mental satisfaction are further discussed in the paper.

III. Sales Promotion Versus General Promotion

Promotion is a vital tool that helps the marketer to achievement their sales target and increase the company's profit (Alvarez & Casielles, 2005). Gherasim (2012) has argued that sales promotion and general promotion are different marketing strategies that play different roles in market place. For instance, general promotion is described as the activity, which is aimed to communicate and improve the relationship between the product's brand, services and consumers (Blattberg & Neslin, 1990). Conversely, Kotler (1988) has defined sales promotion as "a diverse collection of incentive tool, mostly short-term, designed to stimulate quicker and greater purchase of particular products/services by consumers". In other words, sales promotion has emphasized on the short term, stronger stimuli and the motivational strategy to increase the purchasing behavior and to also encourage the consumer to switch

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from competing brands (Quelch, 1989; Shimp, 2003; van Heerde, Leeflang, & Wittink, 2004; Zeithaml, 1988).

IV. Types of Sales Promotion

Jarvenpaa and Todd (1996) have indicated that the types of sales promotion have played an important role in influencing the purchasing behavior of potential consumers. Different types of sales promotion have different targeted potential consumers for different kinds of products. Four leading sales promotion techniques that have a significant positive impact on consumers' perception and purchasing behavior included coupons, samples, and retail shopper cards (i.e.: member card, VIP card) (Schultz & Block, 2014). Other than the different types of sales promotion techniques used by the marketers, Quelch (1989) has classified sales promotion into two major categories, monetary and non-monetary promotion. Moreover, Chandon and colleagues (2000) have indicated that monetary and non-monetary sales promotion are both effective in influencing the consumers' cognitive structures which increase the purchasing behaviors.

a) Monetary Sales Promotion

Without a single hint of hesitation, as a consumer, most of us favor sales promotion, especially immediate price reduction (Huff & Alden, 1988). As a result, past research has proposed that monetary sales promotion is widely used in different types of goods and able to produce a significant increase in the company's profit (Hendel & Nevo, 2006). For consumers, the price and the quality of the products are the two main characteristics that determine our purchasing behavior. Due to the competitive market place, instead of spending money on advertisement, designed coupons or implemented point collection systems, most of the retailers have selected price reduction promotion to promote their products and compete against the rivalry brand. As a result, consumers have become very price sensitive (Mela et al., 1998). Due to this price sensitivity, the consumers are more likely pay more attention and increase their purchasing behavior when they notice there is a price reduction on the potential products they want to buy. Moreover, immediate price discount is an effective sales promotion strategy in influencing the purchasing behavior for both rational and non-rational consumers (Liao, Shen, & Chu, 2009). For example, both of the rational and non-rational consumers are more likely attracted to purchase the products at a low price during the limited period of time as they do not want to miss the chance and regret. In short summary, promotions based on price are claimed to be the most effective sales promotion strategy that can influence the brand choice and increase the quantity of goods purchased by the consumers (Alvarez & Casielles, 2005).

b) Non-monetary Sales Promotion

Apart from the monetary sales promotion, Montaner, Chernatony and Buil (2011) have indicated that gift promotion is more preferable by the consumers than price discount. For example, consumers prefer to receive gifts that have high equity as the products they have purchased than receivinga price discount. Added to that, past research has suggested that price reduction is more likely to negatively influence the consumers' purchasing intention (Kalaiselvan, 2013) as a monetary promotion is often perceived negatively by the consumers (Lichtenstein et al., 1993). For instance, consumers likely perceive the products have low quality when it is offered at a low price. In addition, some of the market professionals have claimed that a monetary promotion is a myopic marketing strategy (Buzzell, Quelch, & Salmon, 1990) in which the retailers have only emphasized on the quantity of the products sold instead of improving their marketing strategy.

V. Consumers' Perception on Sales Promotion

As mentioned earlier, due to the competitive market world, retailers have implemented a variety of sales promotion techniques and advertisements in order to stand out among their competitors. However, over time, consumers have started to become sensitive and skeptical towards the stimuli from sales promotion strategy (de Pechpeyrou & Odou, 2012). For instance, past research has indicated that the promotional products are perceived as low-equity brand by consumers (Mela, Gupta, &Lehmann, 1997). In addition, the consumers might associatea low price to low quality of goods. Added to that, Simonson, and colleagues (1994) have suggested that some consumers might feel embarrassed when purchasing a promotion product. In others words, inappropriate sales promotion may lead to the opposite desired outcome, such as a decrease in the purchasing behavior of the consumers. Therefore, besides only implementing sales promotion, the marketers should include product quality guarantee during the sales promotion as well.

On the other hand, past research has indicated that the brand with sales promotion is more likely to increase the consumers' preferences and purchasing behavior than the brand without sales promotion (Schultz & Block, 2014). Furthermore, a rational consumer is more likely to make a comparison between the price and the quality of the products before making the purchasing behavior (Raghubir & Corfman, 1995). Consequently, consumers are more likely to purchase the high-equity brand during sales promotion (Chandon et al., 2000). This is because saving money has always been the crucial factor in attracting the consumer to purchase the product at the specific moment.

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VI. Implication of Sales Promotion

The implications of sales promotion on the consumers' purchasing behavior and brand value have been an on-going debate between the market researchers (Schultz & Peltier, 2013). This is because, other than increasing consumers' purchasing behavior, the firms' profits, the popularity of the brand, and sales promotion have also served to influence the cognitive thinking of consumers. Besides increasing the purchasing behavior, sales promotion is effective in affecting the brand switching behavior of the consumers (Chandon et al., 2000; Omotayo et al., 2011). For instance, Omotayo and colleagues (2011) have indicated that non-loyal customers are more likely to purchase products with low pricing during sales promotion without looking at the brand. However, Chandon and colleagues (2000) have suggested a different finding in which both loyal and non-loyal customers tend to switch to the competing brand during sales promotion. Moreover, Hartley and Cross (1988) have indicated that sales promotion is more likely to influence non-rational consumers as compared to rational consumers. In other words, the non-rational consumers tend to switch to another brand when the competing brand has offered a lower price, especially hedonic products.

Another significant implication of sales promotion is represented through the popularity of the brand and the positive in-store environment in which a positive consumers' crowd is created successfully (Blattberg et al., 1995; Keel & Padgett, 2015). An individual tends to purchase the products which have numerous positive feedback based on the quality and the price of the products. Moreover, when there is a positive consumers' crowd, other new potential consumers tend to follow the crowd and are curious about the product that present consumers have purchased. In other words, an individual is more likely to follow the conformity of the present consumers to purchase the new products during the sales promotion.

Interestingly, past studies have indicated that consumers' mental satisfaction tends to be increased through the purchasing behavior during sales promotion (Chandon et al., 2000). Sense of achievement and self-perception of the consumers have increased when the consumers purchased either utilitarian or hedonic products or services during the sales promotion (Darke & Freedman, 1995; Schindler, 1992). This is because the consumers tend toperceive themselves positively when they have fully utilized their finance during the sales promotion to purchase both functional products and entertainment products. Moreover, past studies have indicated that consumers' satisfaction plays a significant role in developing purchasing behavior in the long run (Jones & Suh, 2000). In other words, the satisfaction level tend to increase when the consumers have purchased the good quality products at a low price during the sales promotion period as compared to the satisfaction level when the consumers purchased the good quality product at the normal(higher) price. As a result, consumers are more likely to develop the repurchased intention in the future.

VII. Discussion

Based on a marketer viewpoint, long-term profit is more likely served as the biggest achievement of the marketing strategy. With no doubts, sales promotion has focused on the short-term sales profit. As a result, some might claim that sales promotion is only responsible for the short-term profits. However, numerous past studies reviewed in this paper have discussed the close relationship between the sales promotion and the cognitive thinking of the consumers. When the cognitive thinking of the consumers is influenced during the sales promotion, the consumers are more likely personally attracted to the products and unconsciously become the loyal customers of the brand. For example, improvement in self-satisfaction level has played the major role in contributing to the repurchased intention of the consumers. When a consumer receives the pleasurable and satisfying feeling from a product, the consumer tends to recognize the product. Once the consumer recognizes the product, the consumer will look for the same product in the future in order to receive the same pleasurable and satisfying feeling. Added to that, the loyal consumers are more likely to introduce the satisfied products to their friends, which indirectly help the company to promote the brand and increase the sales profit of the company.

Apart from the implication on the consumers' cognitive thinking, this article has also discussed the different categories of sales promotions and their impacts on consumers' purchasing behavior. Both monetary and non-monetary sales promotions have the ability in influencing the consumers' purchasing behavior. The marketers need to identify which type of sales promotion is suitable for their products in order to achieve the greatest positive outcome. Moreover, the marketers need to ensure that the quality of their products have remained the same before and after the sales promotion to avoid any dissatisfaction from the consumers. In short, sales promotion is not limitedto promoting short-term company profit as it is able to attract more customers that are loyal and contributes to the long-term profit.

Additionally, other than serving as the marketing strategy for the company, sales promotion has also reflected that the company has valued their customers. As mentioned earlier, both loyal and non-loyal consumers tend to switch brands when they realize other brand have offered a better benefit during sales promotion than their usual brand. Therefore, both the

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loyal and non-loyal consumers are more likely to switch brands when they have realized that their loyal brand company does not provided any benefits and putting enough effort in retaining their consumers. In other words, when the company has offered benefits (e.g. cash rebate, gifts) for their consumers, it is more likely to attract new consumers and remain as their loyal-consumers. Sales promotion is not limitedto increasing the sales profit of the company effectively; it has also served to improve the environment of the retail shops by creating a positive crowd of customers. In other words, through the power of word of mouth, the marketers are more likely to achieve a higher ranking within the competitive market place.

VIII. Conclusion

After taking everything into account, sales promotion has benefited both the marketers and the consumers at the same time. This article has discussed about how sales promotion strategy changed consumers' cognitive thinking and purchasing behavior. Through the understanding of the relationship between sales promotion and the consumers' cognitive thinking and purchasing behaviors, the marketers are more likely to produce a more effective sales promotion strategy to increase their sales profit. Also, the marketers should work toward eliminating the negative perception of sales promotion, specifically price reduction, towards the consumers. In this, the marketers need to remember that the products have represented their brand. Thus, in order to survive and receive good reputation in the market place, the marketers need to maintain the good quality of their products while selling them at a lower price during sales promotion period or provide extra gifts for the consumers, especially loyal-consumers.

Not only that, this research has helped the marketer to understand the potential effects of both monetary and non-monetary sales promotion strategy on consumers' purchasing behaviors. In other words, the marketers need to pay extra attention in choosing the most suitable sales promotion strategy for the specific products. For instance, monetary sales promotion strategy is more effective for entertainment products while non-monetary sales promotion strategy is more likely effective for functional products.

Last but not least, this article has also allowed the consumers to understand the relationship between their purchasing behavior during sales promotion and their personal mental satisfaction and self-perception. Most of the time consumers have perceived that sales promotion will only benefit consumers in terms of their finance.. However, through the research reviewed in this article, consumers' mental well-being is more likely being improved through sales promotion as well. Besides receiving financial benefits during sales promotion, consumers have also received personal mental well-being..Moreover, the consumers tend to feel safe to purchase the brand which receives good feedbacks from other consumers..Therefore, consumers have become wiser to purchasing more during sales promotion periods, which in turn assist the marketer to achieve the agenda of the sales promotion.

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Customer Satisfaction and Service Quality Perception of Technology Based Banking Services: A Study on Selected Public Sector Banks in India

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Abstract- In recent time, we have witnessed that the World Economy is passing through some intricate circumstances as bankruptcy of banking & financial institutions, debt crisis in major economies of the world and euro zone crisis. This poses some serious questions about the survival, growth and maintaining the sustainable development. The tempo of development for the Indian banking industry has been remarkable over the past decade. Indian banking industry has been striving hard to gain Business Excellence through Technology Based Banking Services (TBBS) from the use of computerisation in early 90's to Ru-pay card in 2013. Even, India has witnessed the rapid growth of ATMs and use of other tools of E- banking (RBI, 2013).

Keywords: customer service quality perception, business excellence, customer satisfaction, TBBS.

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Customer Satisfaction and Service Quality Perception of Technology Based Banking Services: A Study on Selected Public Sector Banks in India

Rajeev Kumar [α] & Dr. Anil Mittal [σ]

Abstract- In recent time, we have witnessed that the World Economy is passing through some intricate circumstances as bankruptcy of banking & financial institutions, debt crisis in major economies of the world and euro zone crisis. This poses some serious questions about the survival, growth and maintaining the sustainable development. The tempo of development for the Indian banking industry has been remarkable over the past decade. Indian banking industry has been striving hard to gain Business Excellence through Technology Based Banking Services (TBBS) from the use of computerisation in early 90's to Ru-pay card in 2013. Even, India has witnessed the rapid growth of ATMs and use of other tools of E- banking (RBI, 2013). The Indian government is keen to implement the direct benefit transfer using Aadhaar card. The bank accounts are being linked to the Aadhaar card and the transfer of subsidies will be facilitated by the TBBS. So it is necessary to know the Customer Service quality perception of the existing TBBS and its customer satisfaction so that the necessary improvement if any can be suggested to bankers. This is an empirical study where primary data has been collected through SSTQUAL the scale of Lin and Hsieh (2006). The scale has been administered on 250 customers of selected public sector banks from Indian Banking Industry, chosen on a convenient basis. The purpose of this paper is to evaluate the service quality of selected government owned banks, based on different levels of 'customers' perception regarding service quality. The study provides a practical application to measure service quality perception within TBBS in India. The current study includes an assessment model that might help bankers and researchers investigate customer perceptions of TBBS in India.

Keywords: Customer service quality perception, business excellence, Customer satisfaction, TBBS.

I. Introduction

Technology based banking services (TBBS) are banking services that need computer systems or machines to operate. The services include ATMs, telephone banking, SMS banking, mobile banking, Internet banking, online payment or merchant points of sale for processing payment transactions (Dimitriadis & Kyrezis, 2008; Lin & Hsieh, 2006; Zhu et al., 2002). Research has indicated that Customer Satisfaction (CSAT) correlates with profitability (Anderson, Fornell, & Lehmann, 1994; Wan, Luk, & Chow, 2004), loyalty (Fornell, 1992), and positive customer behavioral intentions (BI; Zeithaml, Berry, & Parasuraman, 1996). The current study involved examining the relationship between the perceived quality dimensions of technology-based banking services (TBBS) and CSAT and CBI toward TBBS. of ATMs in India has risen to 95686 in 2012 from 17642 in 2005, RBI 2012. And in public sector banks it has risen to 58000 in 2012 from 10000 in 2004. Consequently ATMs usage has also risen. Public sector banks are investing big sums in TBBS to gain business excellence. At this juncture it is meaningful to measure the customer service quality perception of technology based banking and satisfaction among customers of TBBS so that the necessary improvement can be done by the bank leaders in India.

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II. Review of the Literature

A review of the literature revealed extensive research regarding the nature of services, service quality dimensions influencing customer perceptions, SAT, and BI (Parasuraman, Zeithaml, & Berry, 1988; Seth, Deshmukh, & Vrat, 2005), although limited research exists on understanding customer perceptions of TBBS (Shamdasani, Mukherjee, & Malhotra, 2008). The conceptualization and measurement of service quality perceptions have been the most debated and controversial topics in the service marketing literature to date according to Brady and Cronin (2001). Brady and Cronin posited a multi-hierarchical model where service quality consists of dimensions and sub-dimensions. Brady and Cronin's suggested model combined previous models in service quality including SERVQUAL (Parasuraman et al., 1988), the Nordic model (functional, technical, and image) by Gronroos (1984), the three component model (Rust & Oliver, 1994), and the multilevel model (Dabholkar, Thorpe, & Rentz, 1996). Cronin was also a coauthor of the SERVPERF with Taylor (Cronin & Taylor, 1992). According to Brady and Cronin (2001), the importance of different dimensions depended on industry characteristics. Leaders of industries with low levels of customer–employee

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interactions might concentrate only on a subset of the dimensions. The final hierarchical model included many aspects of service quality to cover a wide range of service industries and contexts. Hence, the original SERVQUAL remained a relevant research domain (Saravanan & Rao, 2007) and many researchers continued to use it (Chang, 2007).

The development of technology-based services (TBS) has triggered further research on what constitutes better service quality in TBS (Dabholkar, 1994; Meuter, Bitner, Ostrom, & Brown, 2005; Parasuraman, Zeithaml, & Malhotra, 2005; Zhu, Wymer, & Chen, 2002). Lin and Hsieh (2006) provided a model and a survey instrument to examine service quality within TBS and indicated that functionality, enjoyment, security, assurance, design, convenience, and customization constitute service quality dimensions within self-service technologies (SSTQUAL) associated with CSAT and CBI. While these dimensions are general to TBS across industries, no research has included an evaluation of the service quality of TBS in the banking industry. Lin and Hsieh called for further research in the area of service quality of TBS in the banking industry. Lin and Hsieh (2006) described seven dimensions (functionality, enjoyment, security, assurance, design, convenience, and customization) that constitute customer expectations of service quality within self-service technologies. The current quantitative correlational research design involved an examination into whether a relationship exists between perceived service quality as employed in TBBS within Indian public sector banks and customer satisfaction (CSAT) and customer behavioral intentions (CBI) as a response to TBBS.

III. Significance of the Study

The research study provided original contributions to fill two main knowledge gaps. First, the study contributed to current and future research by comparing and contrasting related literature. Second, the study provided a practical application to measure service quality within TBBS in India. The current study included an assessment model that might help bankers and researchers investigate customer perceptions of TBBS.

Previously researchers have operationalized service quality by developing assessment scales such as SERVQUAL (Parasuraman et al., 1988), WebQual (Loiacono, Watson, & Goodhue, 2002), SITEQUAL (Yoo & Donthu, 2001), and E-S-QUAL (Parasuraman et al., 2005). The current study confirmed a TBBSQUAL model to help bankers in India to monitor and assess TBBS. The research findings from the study made it feasible for public sector bankers in India to be able to identify shortfalls of service quality and allocate resources to prevent and improve customer perceptions and behaviors toward TBBS.

IV. Research Objectives

1) To measure which public sector bank has highest level of customer satisfaction among selected banks.
2) To establish a relationship between customer satisfaction and TBBS quality dimensions.
3) To establish a relationship between TBBS quality dimensions, customer satisfaction and customer's behavioral intentions.

V. Research Methodology

This is a descriptive empirical study. The data collection instrument was a structured questionnaire as suggested by Lin and Hsieh (2006).). Lin and Hsieh (2006) provided a model and a survey instrument to examine service quality within TBBS and indicated that functionality, enjoyment, security, assurance, design, convenience, and customization constitute service quality dimensions within self-service technologies (SSTQUAL) associated with CSAT and CBI.

a) Sample and data collection

Data was collected through personally administered survey from 250 customers of five banks selected from public sectors on the basis of number of ATMs and branches from banking industry in India. 50 customers from each bank were included through convenience sampling method. The selection of the customers depended upon two conditions, first the customer should have a debit/credit/smart card and second, he has used any one of the TBBS in last 30 days. The data was collected using survey instrument developed by Lin and Hsieh (2006) on 7-point liker scale from ATMs, branches of selected banks and from malls in NCR region in India.

VI. Analysis and Findings

The collected data has been analyzed by using SPSS version 21. The survey asked the respondents about their demographics such as age, gender, years with current bank and awareness level of TBBS. Over 50% of the sample is under the age of 40 years, and only 13% of the sample is over the age of 60 years.

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Table 1 : shows each age group with the count and percentage of the total sample

Table 1 : Age Distribution

Age	<20 Years	20-40 Years	40-60 Years	>60 Years
Count	24	116	77	33
%	9.6	46.4	30.8	13.2

Table 2 : The sample included 90 females and 160 males

Table 2 : Gender

Name of Bank	Female	Male	Total
SBI	20	30	50
PNB	14	36	50
CB	20	30	50
UBI	22	28	50
BOB	14	36	50
Count	90	160	250
%	36	64	100

Table 3 : Experience with selected banks (Years)

Years with selected bank	<5 years	5-10 years	10-15 years	>15 Years	Total
Count	106	66	45	33	250
%	42.4	26.4	18	13.2	100

Table 3. shows customer's years of experience in using TBBS of selected banks. Over 55% of the respondents from the sample have been using services of the selected banks for more than 5 years. And 13.2 % from the sample have been using services of the selected banks for more than 15 years. This shows the interest and suitability or trust of customers for public sector banks.

Table 4 : Awareness Level of TBBS in selected Public Sector Banks

ONLY ATM	99
ATM & NET BANKING	021
ATM & MOBILE BANKING	08
ATM & NET BANKING & MOBILE BANKING	019
ATM & USE OF CARD FOR PAYMENT	007
ATM & NET BANKING & USE OF CARD FOR PAYMENT	018
ATM & MOBILE BANKING & USE OF CARD FOR PAYMENT	03
USAGE OF ALL TBBS	075
TOTAL	250

Table 4 indicates the level of awareness among customers about TBBS. All customers have awareness about ATMs and around 53% of the sample has awareness about the use of net banking. 42% of the sample is aware about the use of Mobile Banking.

a) Customer satisfaction

Respondents were asked three questions pertaining to the CSAT (customer satisfaction).

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Table 5

NAME OF THE BANK	CUSTOMER SATISFACTION
STATE BANK OF INDIA (SBI)	5.45
PUNJAB NATIONAL BANK (PNB)	5.15
UNION BANK OF INDIA (UBI)	5.64
CANARA BANK (CB)	5.66
BANK OF BARODA (BOB)	5.55

As shown in Table 5, the survey results reflected that at least 90 % of the respondents were in agreement with "Overall, I am satisfied with the TBBS offered by the bank." As per the analysis using arithmetic mean of all three statements of CSAT it was found that Canara Bank's customer are the most satisfied with TBBS offered by the said bank than the other four public sector banks, followed by Union Bank of India (Table 5).

b) Predicting customer satisfaction using TBBS dimensions

A linear multiple regression analysis with stepwise method was used to analyze the relationship among customer satisfaction (CSAT), and customer service quality perception (CSQP). The multiple regression analysis indicated that the service quality dimensions of Enjoyment, Customization, Design and Functionality (independent variables) combined together appear to explain CSAT with r = 0.712, r- square = 0.506 and adjusted r-square = 0.50. The regression model fit the data with an F test = 62.850 that is significant at the $p<0.01$ level (Table 6).

Table 6 : Anova

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	105.274	4	26.318	62.850	.000
Residual	102.594	245	.419		
Total	207.868	249			

Predictors: (Constant), ENJ, CUS, DES, FUN

The service Security, Convenience and Assurance did not contribute to the fitness of the model, so it was not included in the regression results.

Table 7

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			VIF
(Constant)	.510	.321		1.588	.114	
ENJ	.314	.070	.286	4.496	.000	2.006
CUS	.268	.067	.259	4.008	.000	2.076
DES	.159	.058	.162	2.745	.007	1.732
FUN	.171	.067	.152	2.543	.012	1.775

The Table 7 includes the beta weights (slope) of each variable and a constant (intercept) of the service quality dimensions associated with TBBS. The independent variables in combination can predict CSAT of TBBS offered by selected Public Sector Banks in India. The result of the regression model indicated a low level of multicollinearity (Table 7).

The bank leader in public sector banks might use the following formula to estimate the CSAT:

CSAT = 0.51+ 0.31 Enjoyment + 0.27 Customization + 0.16 Design + 0.17 Functionality + error

When predicting CSAT, assurance did not add to the combined model because service provider's higher reputation might increase customer expectations of the service provider, making the gap between service expectations and service perception very high. Expectation-Disconfirmation theory indicates that a high gap between perceptions and expectations might lead to a decrease in customer satisfaction (Oliver, 1980).

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c) Predicting customer behavioral intentions using tbbs dimensions

Customer behavioral intentions (CBI) refer to customer feeling towards TBBS for repeat purchase and to recommend the TBBS to use. A linear regression analysis was conducted to predict customer behavioral intentions (CBI) towards TBBS in terms of service quality dimensions. The multiple regression analysis seemed to indicate that service quality dimensions of Customization, Design, Assurance and functionality combined together significantly explained CBI towards TBBS with r = 0.7, r-square = 0.47 and adjusted r-square = 0.46. The regression model and each of the independent variables mentioned appeared to be significant at the $p<0.01$ level (Table 8).

Table 8 : ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	120.695	4	30.174	55.241	.000
Residual	133.825	245	.546		
Total	254.520	249			

Predictors: (Constant), CUS, DES, ASS, FUN

Table 9

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			VIF
(Constant)	.198	.370		.534	.594	
CUS	.291	.072	.255	4.029	.000	1.861
DES	.257	.069	.236	3.730	.000	1.862
ASS	.219	.069	.193	3.193	.002	1.698
FUN	.201	.072	.161	2.769	.006	1.585

The regression model fit the data with an F-test = 55.241 that is significant at the $p<0.01$ level. Service security, enjoyment and convenience did not seem to contribute to the fitness of the model so they are not included in regression results. Table-9 includes the beta weights (slope) of each variable and a constant (intercept) of service quality dimensions associated with TBBS.

The regression analysis results indicate that when combining service quality dimensions, four dimensions might operate positively together to predict CBI towards TBBS of selected PSB in India. These dimensions accounted for only 46% of the variability in CBI. Bank leaders in PSB might use the following formula to estimate CBI:

$$CBI = 0.20 + 0.30\ \text{Customization} + 0.26\ \text{Design} + 0.22\ \text{Assurance} + 0.20\ \text{Functionality} + \text{error}$$

d) Predicting customer behavioral intentions using CSAT and TBBS dimensions

Ajzen (2005) indicated a customer's attitude towards a behavior determined customer intentions. Because a customer has a positive attitude toward a service, the customer's intentions would be positive. For this reason, the regression model was conducted to address CBI as a function of CSAT and TBBSQUAL dimensions. The results generated a better fit model that explained customer behavioral intentions with r = 0.766, r-square = 0.587 and adjusted r-square= 0.588 and F-test = 116.6 at $p<0.01$(Table 10).

Table 10 : ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	149.436	3	49.812	116.609	.000
Residual	105.084	246	.427		
Total	254.520	249			

Predictors: (Constant), CSAT, ASS, DES

The model included CSAT, Service Assurance and Design. All other service quality dimensions are not significantly related with model. Table 11 includes the beta co-efficient of the model.

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Table 11

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			VIF
(Constant)	-.157	.316		-.497	.620	
CSAT	.562	.054	.508	10.322	.000	1.441
ASS	.270	.057	.238	4.764	.000	1.484
DES	.192	.059	.176	3.276	.001	1.728

These findings seemed to agree with the literature that service quality is an antecedent of CSAT and CBI. When CSAT is added to the regression model of predicting CBI in terms of TBBSQUAL, CSAT accounted 0.50 while the next predictor was approximately 0.23 in standardized terms. The model indicates that CSAT and service quality dimensions are able to explain 60% of variability of CBI (Strong Relationship) where as service quality dimensions alone are able to explain only 47% of CBI variability (medium relationship; creswell 2008)

That's why customer satisfaction (CSAT) shapes customer's attitude, which determines the behavioral intentions in selected PSBs. Service assurance, which represents the bank's reputation, shapes the subjective norms that determine CBI. Public Sector Bank leaders might use the following formula to estimate CBI in terms of CSAT and service quality dimension associated with TBBS.

$$CBI = -0.15 + 0.56\ CSAT + 0.27\ Assurance + 0.22\ Design + error.$$

Customer satisfaction seems to be the major determinate of CBI. This finding seemed to confirm a path relationship similar to the original research on the relationship between service quality, CSAT and CBI discussed in literature (Alkibsi 2011, Cronin & Taylor, 1992; Lin & Hsieh, 2006; Parasuraman et al., 1988).

VII. Conclusion

TBBS have been a critical component of service delivery in the banking industry (Dabholkar, 1996; Meuter et al., 2000). As per the analysis it can be said that all the selected public sector banks are competing each other on providing the better TBBS. From the current research it is found that Canara Bank's customer are most satisfied with TBBS offered by the said bank than the other four public sector banks, followed by Union Bank of India. The research indicated that the service quality dimensions of Enjoyment, Customization, Design and Functionality combined together appear to explain customer satisfaction in selected public sector banks India. The service Security, Convenience and Assurance did not contribute to the fitness of the model. So bank leaders are suggested to work hard on Enjoyment, Customization, Design and Functionality aspects of the services to make customers satisfied.

The current research seemed to indicate that service quality dimensions of Customization, Design, Assurance and functionality combined together to explain customer behavioral intentions towards TBBS. Ajzen (2005) indicated a customer's attitude toward a behavior determined customer intentions. Because a customer has a positive attitude toward a service, the customer's intentions would be positive. For this reason, the regression model was conducted to address CBI as a function of SAT and TBBSQUAL dimensions. These findings seemed to validate the literature that service quality is an antecedent of CSAT and CBI. The model indicates that Customer Satisfaction and service quality dimensions are able to explain 60% of variability of Customer Behavioral Intentions. That is why customer satisfaction (CSAT) shapes customer's attitude, which determines the behavioral intentions in selected PSBs. Service assurance, which represents the bank's reputation, shapes the subjective norms that determine Customer Behavioral Intentions towards TBBS.

VIII. Limitations of the Study

The current research study was limited to customers of selected public sector banks in Indian banking industry which constitutes public, private and foreign sector banks, who agreed to participate voluntarily within the time available to conduct the study. The examination included customer perceptions of TBBS service quality, CSAT, and CBI.

The use of non-probability sampling was a limitation. Because of the inability to access customer databases to perform a probability sampling, a convenience sampling technique was necessary.

The sampling procedure included the application of a quota sampling technique to add an element of control to the generalizability of the findings over the population. According to Neuman (2006), quota sampling is an enhanced form of convenience sampling. Convenience sampling helped to ensure that qualified participants were among the target population

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who fit the sampling frame. Many researchers have used convenience sampling when measuring service quality and SAT (Kaynak, 2005; Alkibsi, 2010; Padhy, P., & Swar, B. 2009).

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The Usage of Lric Model Regulation for Access Relevant Markets in Economically Small Countries

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Abstract- The aim of the article was answer the main research question if ex ante regulation using LRIC ("Long run incremental costs") model is appropriate for Access relevant markets regulation on economic small markets, especially in time of NGN (next generation networks). LRIC model is the strongest regulation which can be imposed by regulators in some EU country. European Commission defined two relevant Access markets susceptible to "ex ante" regulation. The new recommendation of the European Commission (EC 2007) on relevant markets defined Market 4 (previously Market 11) as the market for wholesale (physical) network infrastructure Access (also local loop unbundling) at fixed location and market 5 as Broadband Access (include only bit stream Access).

Keywords: iric model, regulation, market analyses, broadband, correlation, dsl technology.

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Abstract- The aim of the article was answer the main research question if ex ante regulation using LRIC ("Long run incremental costs") model is appropriate for Access relevant markets regulation on economic small markets, especially in time of NGN (next generation networks). LRIC model is the strongest regulation which can be imposed by regulators in some EU country. European Commission defined two relevant Access markets susceptible to "ex ante" regulation. The new recommendation of the European Commission (EC 2007) on relevant markets defined Market 4 (previously Market 11) as the market for wholesale (physical) network infrastructure Access (also local loop unbundling) at fixed location and market 5 as Broadband Access (include only bit stream Access). The final conclusion was that regulation via LRIC model was not appropriate remedy for small economies, especially in time when the market was close to saturation and the expectation of the investments returns uncertain. LRIC obligations to significant market power players on bigger markets also need to be a part of further discussions.

Keywords: lric model, regulation, market analyses, broadband, correlation, dsl technology.

I. Introduction

In this chapter we describe the process of ex ante regulation (also regulation) starting with general description of the process. This chapter also includes the description of Access relevant markets (also markets) recommended by the European Commission. The aim of this chapter is to generally describe the process of "ex ante" regulation and the markets which were evaluated through our research.

a) Description of "ex ante" regulation

Ex ante regulation (also "regulation") is a specific sector regulation, necessary to solve competition problems in EU. It is done through market analyses process, where national regulators in every EU country define relevant geographic and product markets and check if there exists an SMP ("significant market power") operator. They impose remedies to that operator. The aim is to ensure effective competition on each relevant market. Typically the SMP operator was the national incumbent. The EU framework of the European Parliament and of the Council recommended following remedies to be imposed on SMP players to prevent independent behaviour (EC 2002): transparency, access obligation, accounting separation, non-discrimination, price control and cost accounting separation. The new framework issued in 2009 (EP 2009) also includes the new remedy called functional separation.

b) Access markets recommended by European Commission

EC (2007) defined two wholesale markets susceptible to ex ante regulation (based on three criteria test). The wholesale broadband access market comprises non-physical or virtual network access (based on copper or optical fibre) including "bit stream" access at fixed location. With bit stream access, the wholesale product of the incumbent DSL (Digital subscriber line) technology consists of transmission capacity, which allows new entrants to offer their own services to their customers. Bit stream access may also include "backhaul" services to carry traffic to higher layers in the DSL network, where the entrant already has a point of presence (Bouckaert and van Dijk, 2010). Regulation of optical Access (also: next generation Access) was mostly not included in the analyses, because only a few regulators have started with "ex ante" regulation in the recent past and "there is perceived uncertainty about consumers' willingness to pay for next-generation Internet access services, which raises deep reservations about the viability of the business case for optical Access" (Siciliani, 2010).

II. Literature Review

In this chapter we evaluate the literature review regarding imposing the different types of remedies to operators with significant market power. We start with description of measuring the intensity of remedies and then we evaluate the difference between price control remedies as the most commonly used remedies. We end the chapter with the proposed ranking of remedies which was used later in our analyses.

a) Description of the intensity of "ex ante" regulation

In this chapter we describe the possible ways of measuring the intensity of regulation. The intensity of regulation was measured by the percentage of MDSs (main distribution frames) with competitors present (Dippon and Ware 2010) or incumbent market share on

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regulated technology (Höffler 2005) or the number of local loop unbundling lines compared to the number of all broadband lines on the market (Koutrumpis 2009). The methods have more disadvantages because they did not include all the effects of regulation on the market, like quantity or effects of bit stream regulation. The method which is measuring the market share of incumbent on the regulated technology shows us the level of competition and in some way the effectiveness of regulation. The disadvantage of such measures is also that we can't compare directly the work of regulators with the results on the market and especially we could not separately check only ex ante regulation or the remedies which are imposed by means of ex ante regulation. It is impossible to check the effects of different remedies on the customer welfare and investment initiatives. This is valid also for other above mentioned methods. The evaluation of effects by imposing different level of obligations, especially the most intensive way of regulation (LRIC model) was the goal of our later research. So the ranking of remedies should have followed the principle, which the regulators were using in imposing the remedies. The importance of market share of incumbent and consequently the intensity of regulation in correlation with the market size was emphasized by Symeou (2009), who confirmed the importance of specific regulation in small economies.

b) Comparison of different price control remedies imposed by regulators

This chapter we evaluated the literature review regarding imposing the different types of remedies to potential SMP players. It includes the comparison of cost based and retail minus remedies as price control remedies. The other proposed remedies, like transparency, non-discrimination and Access obligation described in chapter 1.1 represent mostly only a threat to the regulated operator and they don't have really a strong influence on the behaviour of the regulated operator. If we really want to influence the market, one of the price control remedies must be imposed. Retail minus regulation remedy avoids foreclosure and leads to better results than cost-based regulation in terms of investment level and consumer surplus. Retail minus regulation allows a higher consumer surplus than deregulation and cost based regulation of access price as long as the regulator carefully defines the retail minus instruments (Brandão and Sarmento, 2007). If the regulator carefully defines the margin between retail and access (wholesale) prices, with retail minus regulation it is possible to achieve better results than either with deregulation or cost-based regulation, in terms of protection of downstream competition and consumer surplus. The concept of cost-based regulation adopted by many telecommunication regulators is the Long Run Incremental Costs (LRIC). The implementation of LRIC involves the quantification of the incremental cost of providing access in a forward-looking perspective. With this perspective it is necessary to consider the substitution costs of the assets that will be supported in the future. This is in contrast to historic cost accounting. Several problems can be indicated, when using LRIC model. The precise quantification of LRIC model raises many questions, namely concerning the allocation of common costs and the process of gathering the necessary information to compute appropriate replacement costs (Mason and Valletti, 2001). Evans and Guthrie (2003) suggested to regulators to use the concept of optimized deprival value, which takes into account the existing value of equipment and also the demand risk. It is necessary to take into calculation also the spare capacities in which the regulated operator invested. The efficiency of regulation must be evaluated by means of investment initiatives and also the customer welfare. It is necessary to find the maximum relation between the level of investments and prices for end users (Mihevc 2009). The investments must be distributed among operators equally and the prices for end users low as possible. The concept of LRIC mostly does not take into the consideration neither the irreversible nature of many telecommunications investments, nor costs with the development of new services that did not succeed in the market. LRIC model adopted by some European countries discourages investment in fixed networks by the incumbent firms, because they anticipate that they will be required to offer access at cost-based prices (Cave and Prosperetti, 2001). LRIC model also has a poor performance in terms of dynamic efficiency of cost-based regulation because firms do not have the incentive to innovate if they know that they will be required to offer access to their rivals at cost-based prices.

c) Ranking of remedies

After the description of different types of remedies and analyse it through literature review we need to commit the proper ranking of remedies, which was the basis for our research. The influence of imposed remedies by regulators could be measured by the ranking of imposed remedies by regulators and its influence on other parameters on the market (Mihevc 2011). If some regulator did not complete the analyses or did not impose any obligation to the incumbent then its ranking is 1. If the regulator did not impose any of the price control remedies then its ranking is 2. The possible non price controls are transparency, non-discrimination and access obligation. Those remedies allow a lot of freedom to incumbent regarding setting its wholesale prices. Obligation of retail minus only imposes the difference between retail and wholesale price to the incumbent operator. So it allows still some freedom to the incumbent regarding setting its wholesale prices. The last and most intensive regulation is cost based regulation. It is divided in two groups, one for cost

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based regulation which is based on the actual network of the SMP player and the most intensive regulation which is based on the optimal network, built now and with current prices. The most intensive regulation is definitely based on imposed LRIC model, which is quite a common practice in EU, despite the fact that the network was built in the past. Summarized ranking is presented in Table 1.

Table 1 : Ranking of remedies, Source: Mihevc 2011.

Remedy	Rank
No regulation	1
Remedies except cost price control	2
Price control with the retail minus remedy	3
Cost based prices (FDC …) except LRIC model	4
LRIC, LRAIC model	5

III. Research Methodology

The research methodology consists of three parts: case study of small national markets, quantitative analyse trough correlation matrix and critical analyse and synthesis of the facts.

a) Case study of small national markets and conclusions based on case studies

In the first part, we evaluated the existing situation in some national small markets compare the situations on those markets as case study and came to some conclusion for specific markets or general. The countries under the observations are small EU countries, which adopted EU recommendation. We assumed that regulation in small countries should be different than in bigger countries. The economy of size definitely plays an important role in regulation process, especially in small economies where the growth and investment initiatives are limited. The observation period was from January 2008 till January 2010. The importance of incumbent is very high in small economies, where are specific limitations regarding infrastructure competition and competition development. From this purpose it was necessary to evaluate the process of market development in small economies and the existing process of regulation separately from bigger economies. It was not possible to do the quantitative analyse just for small economies, because of limited number of small countries in EU. The results of case studies showed us some specifics in small countries and it helped in critical analyse and synthesis of the facts to develop the final conclusions.

b) Quantitative analyse trough correlations matrix

Qualitative analyse in second part was done based on the data of 27 European countries and Switzerland and Norway (total 29 countries), which implemented the Electronic Communications Law based on EU Directives irrespectively of their sizes for the period 2003-2010. We could define five level of regulation intensity as it is shown in table 1. The relevant data we got from EC Reports (2010) and ERG 2009 or CIA world factbook (regarding specific characteristics of the national markets). To get the answer on question how the increasing intensity of regulation from 1 to 5 influenced the other factors on the market, we needed to calculate the Pearson's coefficient. The result we got from SPSS 15 program. All the variables followed the normal distribution. We checked the correlations between the intensity of regulation and level of sector investments for electronic communications in GDP for 2008, level of penetration (measured by number of inhabitants using broadband Access compared to all inhabitants in a country), the level of penetration increase in the observation period (January 2008-January 2010), market share of incumbent in retail market and on regulated DSL technology, share of regulated technology among all existing Broadband technologies and the size of the national market (measured by mill. of inhabitants living in a national market). The data are valid for the beginning of the year 2010, except for investment level as mentioned. We took into the analyse only fixed Broadband, while mobile Broadband was not spread enough and it couldn't be compared to fixed one by means of coverage and speeds offering.

c) Critical analyse and synthesis of the facts

The critical analyse and synthesis of facts regarding correlation, case studies and the influence of intensity of regulation (especially the imposition of LRIC model as the highest level of intensity) on investments initiatives and customer welfare was done at the end. For the purpose of analyse, we evaluated the influence of intensity of regulation on the penetration growth taking into the consideration the size of the economy. We also checked the influence of the intensity of regulation on the other parameters. We summarized the above mentioned facts from quantitative analyse and the results of case studies, where we suggested the appropriate regulation strategies in small countries. The critical synthesis of the facts came from quantitative analyse and case studies, which influence on the intensity of regulation and especially on the regulation via LRIC model was done. It gave us the answer regarding the justification of using LRIC model and imposing it on the SMP player.

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IV. Results and Discussion

a) Case studies

As mentioned in the literature review, Symeou (2009) emphasized that small economies maintain higher concentration levels after competition in all technologies. The countries included in table 2 are small sized countries in EU and they were used based on its size of population (under 4 million).

Table 2 : Summarized facts for case studies in small countries

Country	Specifics	General conclusions
Cyprus	*Low infrastructure competition High market share of incumbent Low Broadband speeds*	*Regulations should not be too strong and should allow incumbent as the market driver to invest.*
Luxemburg	*High penetration rate High market share of incumbent Soft regulation*	*Appropriate regulation for small markets. It is necessary only to improve the share of high bandwidths (retail minus approach is recommended)*
Ireland	*Strong regulation (local loop unbundling) Quite low penetration (high GDP per capita), Low share of high bandwidths High market share of mobile internet*	*Regulation should be a little bit weaker (LLU) to encourage the incumbent to invest in this relatively small market.*
Latvia	*Low penetration level Quite high share of high bandwidths High infrastructure competition Lack of regulation*	*Necessary to impose the appropriate model of regulation (High infrastructure competition might not be the right solution for small countries)*
Malta	*High penetration level Two infrastructures (cable and DSL)/ market share divided by those two. High share of high bandwidths Soft regulation*	*Soft ex ante regulation on both infrastructures should also be in place, while duopoly might have negative effect in the future.*
Estonia	*High penetration level High infrastructure competition Low service competition*	*Regulation is still necessary, but it must be carefully planned, because of high infrastructure competition*
Lithuania	*Low penetration rate High share of high bandwidths High infrastructure competition and low service competition*	*Ex ante regulation is still necessary especially in bit stream regulation, where regulator was not active till now to increase the penetration.*
Slovenia	*High infrastructure competition Quite low market share of incumbent Penetration rate is not high High bandwidths below the EU average Strong regulation (also fibre)*	*The regulation on such market should not be too strong to discourage the incumbent to invest into new services.*

Source: EC, 2010

Based on the case studies we could conclude that the best strategy of "ex ante" regulation could be the imposition of regulation, which does not limit the investments of incumbent and allow the development of competition on retail market on other side. Small operators must be allowed to compete especially on offering small speeds, while the higher speeds should be under the control of the incumbent which is investing into the access markets. Following that strategy we could ensure the development and increasing investments from the incumbent to build or upgrade the Access networks. Ex ante regulation should not be too strong to limit the incumbent in its investment activities. On the other side it should allow and not limit service competition too much, because infrastructure competition based on high parallel investments is not convenient for small countries. The results of case studies shows us that using the strongest level of regulation is not convenient for small countries and that using the strongest level of regulation could harm the market more than in bigger economies. The results of correlations in the next section will additionally justify or not justify the using of the strongest level of regulation (LRIC model) in the regulation process. It is not possible

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to do the separate analyse for big and small economies, because of small data and limited number of countries in EU.

b) Quantitative analyse

It is crucial for our research to find the statistical correlations between the intensity of regulation and other characteristics of the market, as mentioned in the methodology. The results of case studies showed us that also smallness affects the imposed regulation. From this purpose it also necessary to check the correlations between the size of the national economy (measured in the number of population) and the market share of the regulated operator or regulated technology. Those elements are also very important in judging the appropriate intensity of regulation. We could summarize facts, which we got from correlation matrix based on sample of 29 countries regarding choosing the LRIC model as a regulation toll:

- We found significant statistical correlation between the size of the national market and market share of the leading operator on the regulated technology (r=-0,666**, $\alpha = 0{,}00$),
- The influence of bit-stream regulation had stronger influence on the market than local loop unbundling regulation,
- The statistical correlation between both types of regulation (bit-stream and local loop unbundling) was very strong and significant (r=0,569**, $\alpha = 0{,}001$),
- Between the size of the national economy and market share of the regulated technology was also a positive significant statistical correlation (r=0,49**, $\alpha = 0{,}009$),
- Between the GDP per capita and the intensity of bit-stream regulation was also a positive significant correlation (r=0,414*, $\alpha = 0{,}026$), but there was no significant statistical correlation between GDP per capita ad intensity of local loop unbundling regulation,
- The intensity of regulation (local loop unbundling and bit-stream) had negative influence (r=-0,491**, $\alpha = 0{,}009$ and r=-0,411*, $\alpha = 0{,}033$) on the initiative on the investments (percentage of the sector investments in the GDP),
- Between the intensity of regulation (including the length of regulation) and the relative change of penetration was a negative statistical correlation (r=-0,403*, $\alpha = 0{,}037$ and r=-0,479*, $\alpha = 0{,}011$),
- The intensity of regulation (especially bit-stream regulation) had positive effect on the development of the regulated technology (r=0,434*, $\alpha = 0{,}024$),
- The intensity of regulation (both local loop unbundling and bit-stream) had statistically significant influence on the competition level on the regulated technology. The negative statistical correlation existed between both types of regulation and market share of the incumbent on the regulated technology (r=-0,515**, $\alpha = 0{,}006$ and r=-0,389*, $\alpha = 0{,}045$). If we included the length of regulation the correlation waseven more significant (r=-652**, $\alpha = 0{,}000$ and r=-0,633**, $\alpha = 0{,}000$)
- It was no significant statistical correlation between the relative increase of penetration and share of incumbent on the regulated technology and the size of the economy, measured by the number of inhabitants on other side
- There was a significant positive correlation between the intensity of bit-stream regulation and level of penetration (r=-0,436*, $\alpha = 0{,}018$), while the correlation between the intensity of local loop unbundling and level of penetration was also positive but not significant,
- Based on negative correlation between the intensity of regulation (including the length) and relative change of penetration, we could predict a negative curve between the Intensity of regulation and relative change of penetration. The curve could be inverse or linear with negative coefficient.

Smaller economies had higher share of incumbent on the regulated technology and lower share of DSL technology among the all Access technologies. On the other side the intensity of regulation had a positive impact on the development of the regulated technology or market share of DSL technology among all the other technologies and had positive impact on the competition on the regulated technology. The market share of incumbent was decreasing with the intensity of regulation. We could assume that market share of incumbent on the regulated technology represented the intensity of regulation if we did not include the influence of infrastructure competition on the behaviour of incumbent regarding offering the Access to other operators.

The significant positive correlation between the GDP per capita and intensity of bit-stream regulation showed, that the rich countries had stronger regulation. This fact confirmed that deregulation had not started yet and the countries which joined EU earlier had been increasing the intensity of regulation trough time. This was additionally confirmed by the fact, that intensity of regulation had a positive impact on the level of penetration. There was a significant correlation between the intensity of bit-stream regulation and GDP per capita (r=0,436*, $\alpha = 0{,}018$), while between the intensity of local loop unbundling regulation and GDP per capita was only positive, but statistically not significant correlation. Also other factors influenced the level of penetration (like GDP per capita, share of incumbent on

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DSL). Those factors needed to be evaluated in deciding which intensity of regulation to use.

The relative change of penetration was statistically negatively correlated with the intensity of regulation. This fact proves that more the regulation was intensive less was the relative increase of penetration. Based on that fact and the fact that intensity of regulation was positively correlated with the level of penetration we could conclude that high intensity of regulation in EU leaded to high level of penetration, but also to a lower increase of penetration. EU market is at the stage where additional imposing of intensive regulation (especially LRIC model) would lead to a slower penetration increase or even no increase. Through two regression models between significantly correlated parameters intensity of regulation (including the length) and the relative change of penetration in the observation period from 2008 to 2010, we could get the point when positive increase turns into the negative one. We looked separately for the intensity of bit-stream regulation and local loop unbundling regulation, while both were significantly correlated. The regression models were constructed in such a manner, that we could explain 12, 9 % and 19, 9 % of relative change of penetration by the intensity of local loop unbundling and bit-stream intensity of regulation. We could assume linear regression model between the independent variable intensity of regulation and dependent variable relative change of penetration. Regression models showed following linear approximation (table 2 and 3 contain the regression coefficients):

Table 3 : Regression ENTER model

Model/ bit-stream	Unstandardized Beta	Std. Error	Standardized Beta (r)	t	α
Constant	,494	,079		6,291	,000
Intensity of regulation (bitstream)	-,019	,007	-,479	-2,730	,011

a. Dependent variable: relative change of penetration

$$\frac{\Delta p}{p} = -0{,}019 * I + 0{,}494$$

Table 4 : Regression ENTER model

Model/ local loop unbundling	Unstandardized Beta	Std. Error	Standardized Beta (r)	t	α
Constant	,464	,081		5,691	,000
Intensity of regulation (local loop unbundling)	-,012	,005	-,403	-2,204	,037

a. Dependent variable: relative change of penetration

$$\frac{\Delta p}{p} = -0{,}012 * I + 0{,}464$$

The risk to accept this relation was very low, especially in case of Bit stream regulation ($\alpha = 0{,}011$). From this equation we calculated the point when positive increase turns into negative. For bit-stream regulation, it appeared at value of $I = 26$. This figure means that on average if the market was regulated 5, 2 years by LRIC model, the relative increase of penetration would be 0. We could assume that intensity of bit stream regulation has strong influence on relative change of penetration. It was important to take into the consideration also the fact that richest countries were using stronger regulation. We calculated the break-even point at the value of $I = 38{,}7$ for local loop unbundling regulation. This meant that the influence of local loop unbundling had been much weaker. Size of the economy was not statistically significant correlated with the intensity of regulation, but for linear approximation we used the significant statistical correlation between the size of the national market and market share of incumbent on the regulated technology:

$$DSL = -0{,}005 * v + 0{,}847$$

Where DSL meant the share of regulated incumbent on the regulated technology and v was measured in millions of inhabitants in a country. Smaller markets had higher share of incumbent.

c) Critical analyse and synthesis of the facts

Based on the fact that intensity of regulation had positive effect on the competition level on the regulated technology, we concluded that intensity of regulation could be also presented by the share of incumbent on the regulated technology. We had to

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exclude the fact that open Access could be also influenced by infrastructure competition. This meant, that in case of high infrastructure competition, incumbent could be interested in opening its Access.

Less intensive regulation should have been imposed on smaller markets (negative correlation). This conclusion we could derive from the fact in previous chapter, that bigger economies had smaller market share of the incumbent on DSL technology That meant that small economies were more sensitive to regulation and less intensive regulation should have been imposed to achieve the same results regarding customer welfare and investment initiatives. From the perspective of relative change of penetration, we had to include in our calculations also the factor, which represented the size of the market. It is important to emphasize as mentioned in previous chapter, that it was no significant statistical correlation between the relative increase of penetration and share of incumbent on the regulated technology and the size of the economy, measured by the number of inhabitants on other side. More intensive regulation in small economies could reach the break-even point between positive and negative increase of penetration faster than in bigger economies.

To evaluate the influence of LRIC method, it was also important to check the correlations between the intensity of regulation and the initiative for investments, measured as the percentage of investments in Electronic Communications sector in GDP. Based on strong negative correlations, as mentioned in previous chapter between the size of the economy and the market share of the incumbent on the regulated technology and strong negative correlations between the intensity of regulation and the share of investments in GDP we could come to conclusion, that the strongest level of intensity of regulation had extremely negative influence on the level of investments, while incumbent was the most important actor on the market. Strong regulation had extremely negative impact on its investments. It is extremely important for small countries, where the market share of incumbent is very high.

For the purpose of evaluating LRIC model in small economies, it was necessary to take into the consideration also the correlation between the size of the economy and market share of the regulated technology. The correlation as mentioned in previous chapter showed that small economies in EU had smaller percentage of DSL technology among all the Access technologies. Intensive regulation (LRIC model) on that technology would have additional negative impact on investments initiatives of regulated operators, while DSL technology was the only regulated one.

Increasing intensity of regulation caused decreasing share of regulated operator on regulated technology. This was especially important in the period of NGN networks via optical Access. The implementation of optical Access was/is very expensive and the imposing of strong regulation on optical Access would additionally harm the initiatives for investments.

To summarize at the end, following facts were important to answer the main question in our research:

- The penetration growth was negatively correlated with the intensity of regulation (LRIC model is the most intensive way of regulation),
- Market share of incumbent on the regulated DSL technology as a key indicator of the regulation level was negatively correlated with the size of the market. This meant that regulation was very sensitive in small economies, where the market share of the incumbent od regulated technology was very high and regulated operator was the investment leader,
- The intensity of regulation was negatively correlated with the percentage of sector investments in GDP,
- The situation was additionally confirmed by the existing fact, that small economies had lower share of regulated technology,
- The only positive effect of intensity of regulation was that the intensity of regulation was positively correlated with the level of penetration reached in 2010, but this is/was out-weighted by the negative effects mentioned above.

LRIC Model is definitely in-appropriate model for the regulation of Access networks in small economies. It is in-appropriate from perspective of customer welfare and also the investment initiatives. It is also necessary to precisely evaluate the imposition of LRIC model in bigger economies. The above mentioned facts show also negative elements for all sized economies.

V. Conclusion

The final Conclusion was that ex ante regulation in EU should have been planned precisely not to decrease initiative for investments and customer welfare. Regulators all around EU should have taken the facts in this article into their decisions and not use LRIC model too often, especially in Access regulation. The results in this article showed the negative impact of LRIC regulation on initiative for investments and relative increase of penetration. This was especially obvious in case of small economies, where the incumbent market share was very high on the regulated technology and the development of infrastructure competition was/is mostly economically not justified. The correlation in EU also showed that the share of regulated DSL technology was lower in smaller countries. This correlation showed that other Access technologies were also developed and regulation via LRIC model would additionally hamper the incumbent, who built the DSL technology to access the end users. On the other hand intensity of regulation also had negative impact on penetration growth. All those facts confirmed that regulation of Access via LRIC model was/is not appropriate in small

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sized economies, but also showed negative impacts, which regulators should have taken into the account, when imposing remedies in economically bigger countries.. As mentioned retail minus regulation allows a higher consumer surplus than deregulation and cost based regulation of access price as long as the regulator carefully defines the retail minus instruments (Brandão and Sarmento, 2007). Cost based regulation was defined in article mostly as LRIC model, based on incremental costs. Mason and Valletti (2001) emphasized, that the precise quantification of LRIC model raised many questions, namely concerning the allocation of common costs and the process of gathering the necessary information to compute appropriate replacement costs necessary to build the model. Cave and Prosperetti (2001) also found out that LRIC model adopted by some European countries discourages investment in fixed networks by the incumbent firms, because they anticipate that they will be required to offer access at cost-based prices. All those authors in the past pointed out the negative effects of LRIC model-, but no analyse was done based on facts through the regulation process on Access markets and comparison the intensity of regulation with other parameters on the market to prove or not to prove the economically justified usage of LRIC model or any other model of regulation used by regulators. So the analyse in this article proved, that conclusions of the authors in the past were valid also for Access markets and especially for economically small national markets. Additionally, this article proved, based on quantitative analyse and case studies the conclusions of previous authors and pointed out all the negative effects of using LRIC model in EU market.

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The Role of Cooperative Society for Marketing Agriculture Producs in Bangladesh

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Abstract- Bangladesh is a developing country and agriculture is the main largest sector of the economy. About 80% people are directly or indirectly depended on the agriculture for their livelihood. This sector Contributes 35.47% to the Gross Domestic Product (GDP) and this sector provides about 63% employment for the workforce. Most of the farmers are illiterate and for that reason they do not have the ability to sell their products to the final consumers. Consequently, middlemen are playing marketing role and due to this reason, farmer are not getting fair price for their products. Ministry of local Government & Cooperative Society can play vital role to bring forming within the framework of Cooperative Society and can minimize the role of middlemen of marketing agricultural products of Bangladesh.

Keywords: Cooperative Society, Cooperative Marketing, Middlemen, Philosophy, Gross Domestic Product (GDP), RDCD.

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The Role of Cooperative Society for Marketing Agriculture Producs in Bangladesh

ABM Siddique

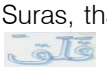
Abstract- Bangladesh is a developing country and agriculture is the main largest sector of the economy. About 80% people are directly or indirectly depended on the agriculture for their livelihood. This sector Contributes 35.47% to the Gross Domestic Product (GDP) and this sector provides about 63% employment for the workforce. Most of the farmers are illiterate and for that reason they do not have the ability to sell their products to the final consumers. Consequently, middlemen are playing marketing role and due to this reason, farmer are not getting fair price for their products. Ministry of local Government & Cooperative Society can play vital role to bring forming within the framework of Cooperative Society and can minimize the role of middlemen of marketing agricultural products of Bangladesh. Study finding revalted that majority farmers did not have any knowledge about farmers Cooperative Society in this regard. It was also revealed that 88% farmers were depended on the middlemen for the marketing their products and 94% farmers did not get fair price from the middlemen.

Keywords: Cooperative Society, Cooperative Marketing, Middlemen, Philosophy, Gross Domestic Product (GDP), RDCD.

Chapter - 1

I. Introduction

A Co-operative Society is a voluntary association started with the aim of rendering service of its members. It is a form of business where individuals belonging to the same class join their hands for the promotion of their common goals. These are generally formed by the poor people or weaker section people in the society. "It reflects the desire of the people to stand on their own legs. The philosophy of the formation of Co-operative Society is "All for each and each for all".

On the other hand, the spirit of Co-operative is inspired by the Almighty Allah. Almighty Allah has created this universe within 6 days alone but he says in 41 places of the Holy Quran in different Suras, that "we have created ( Plural of  which means that Almighty Allah has used plural term instead of singular ), that means Almighty Allah is giving emphasize on the joint efforts to build and make this universe useful and sustainable with the joint collaborations (Source: Quranic Dictionary 2001)[1]. Since independence the government of Bangladesh has endeavoured to improve the quality of life of the people through planned development efforts. The constitution of the country provided for fulfilling the basic needs of the people i,e food, clothing, shelter health care and education. That is why successive five years plan attached high priority to rural development and poverty alleviation. To uplift the status of the poor people's living standard in the rural areas, and whose main profession is agriculture, the government of Bangladesh has set up the Rural Development and Cooperative Division (RDCD) under the ministry of Local Government, Rural Development and Cooperative. This Division is responsible for policy formulation, planning, monitoring and administration of rural development and cooperative initiative of the country. Cooperative society is existed within the legal framework of Cooperative Society Act of 2001 (Amended in 2002). Cooperative Society Rule of 2004 and Cooperative Society Policy of 2012.

II. Background of the Study

The economy of Bangladesh is based on agriculture. About 80% people are dependent on agriculture. Agriculture's contribution to our GDP is 35.47% which is the highest contributor as a single sector in our economy and this sector creates about 63% employment opportunity for our labour force. Most of our farmers are illiterate and poor, for this reason, they are dependent on rural usurers for capital at highest rate of interest during cultivation period and again they are bound to sell their products to the Fouria and middlemen as they do not have capacity to sell to the consumers directly. As a result, they are not getting fair price of their products. So, it is clearly understood that our farmers are becoming poorer day by day due to the exploitation by the rural Fouria and usurers. Under these circumstances, Cooperative Marketing can be the Model of agricultural Marketing for our farmers. In the light of the above situation government of Bangladesh has formulated National Cooperative Policy in 2012 by emphasizing the farmers to bring within the framework of Cooperative Marketing for agricultural products. On the other hand, National Cooperative Policy of 2012 has also given due importance to uplift our womenfolk who are representing about 50% of our population. To implement our millennium goal of 2021, (Vision 2021)

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[1] Abdul Baque Mohammed Fouad, Quaric Dictionary, 1364 Hisri, World wide publishers Ltd. Egypt in 2001.

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the implementation of National Cooperative Policy will be very helpful strategy in this regard.

III. Rationale of the Study

Agriculture is our main sector which contributes highest amount to the national GDP and on the other hand, agricultural sector is helping our manufacturing sector to develop and to create value addition to our national GDP.

If farmers are becoming more efficient to produce their products at lower cost and to sell them at a fair price through Cooperative Society Marketing system, then it would be possible to achieve higher economic growth. It is pertinent to mention here, that it would not be possible to ensure better living standard of our farmers without bringing farming within Cooperative Society throughout the country. If we go through the history of Economic Development of Denmark, Sweden and Germany then we see that these counties achieved highest level of economic development by utilizing Cooperative philosophy in their Development strategy.

On the other hand, Cooperative Society in Agriculture Marketing can utilize synergy effect. Synergy this term refers in Management that joint efforts' output is much greater than that of individual effort in economic activity.

IV. Statement of Problem

Farmers are illiterate and poor for that reason they do not have capacity to run farming activities effectively and efficiently. As farmers, do not have educational qualifications and financial ability to store their products and the transport them to the market place for better price. As a result, they are bound to sell their products to the Fouria and middlemen at lower price which is below their production cost in maximum cases. Under these circumstances, co-operative marketing strategy can solve this problem.

V. Objectives of the Study

The following are the objectives of the study:

1. To analyze the present marketing system of Agricultural products in Bangladesh.
2. To analyze the role of Co-operative Society for marketing Agricultural products.
3. To find out the problems of Co-operative Society and to give some recommendations to the concerned ministry to overcome the problems.
4. 6. Methodology of the study:
5. This study is exploratory in nature. It consists of both qualitative and quantitative data and information. In order to achieve the objectives of the study; data have been collected from both primary and secondary sources.

Primary data: Primary data have been collected through a questionnaire method from Noakhali and Lakshmipur districts. A sample of 50 farmers was interviewed to get practical data.

Out of 50 farmers 30 respondents were selected from chumohoni under Noakhali District and 20 respondents were selected from Hajigong under Lakshmipur district.

Secondary Source: Secondary data were collected from text books of agriculture marketing, Annual Report of Co-operative Department, Economic Survey Report of Bangladesh 2011 and Co-operative Policy of 2012, Co-operative Act of 2001 (Amended in 2002)

a) Sampling technique

Convenience sampling technique was applied in the survey.

VI. Data Analysis Technique

SPSS software was used to get the descriptive statistics output for interpreting and discussion purpose.
Scope of the study

This study is only for the academic purpose and this study is limited to the agricultural marketing purpose. This study may be used by the concerned department and ministry for their policy implication purpose.

Chapter – 2

VII. Literature Review

a) Co-operative Marketing

i. *Meaning of Co-operative Marketing*

Co-operative Marketing means the association of agricultural producers for marketing their products and the Co-operation of final consumers in purchasing goods and services for their own use. A consumer's Co-operative is voluntary association of ultimate consumers, organised to fulfill some of their needs for goods and services. Co-operative Marketing association are composed of groups of farmers organised for the purpose of marketing the commodities they produce,

Farmers have often felt that they did not receive the full value of their products when they were sold to local buyers whose margins were too large, because either of their inefficiencies or for wants of unorganized work. The led to the organisation of Co-operative Associations. Agricultural co-operation may also be defined as joint action among a number of farmers for the purpose of selling their production and providing other services like stimulation of demand condition, storing, pooling and standardizing the produce.

ii. *Objectives of Co-operative*

The main object of Co-operative Marketing society is to secure for their members as much as possible for the products they sell. More specific

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objectives designed to bring about this result include the following:

(a) Lower Marketing cost.
(b) Better marketing service.
(c) Improvement in the quality of the products.
(d) Influencing supply and demand in the market.
(e) More accurate grading and classification.
(f) Extension of production credit.
(g) Purchase of farm supplies.
(h) Finally, education in both production and marketing methods which will lead to more specific farm operation.

The efforts to reduce marketing costs originally concentrated on elimination of the middlemen and capturing his profits for the organization's members. Improving operating efficiency became a companion objective. It was discovered that in order to reduce the marketing costs and margins, efficiencies had to be developed in which the Co-operative could do the job more economically than other agencies.[2]

A Co-operative can also serve to improve the marketing system. It might be organised to pursue one or a combination of the economic objectives, viz..., (a) provide services at a lower cost, (b) offer an alternative market outlet to offset monopoly in the local market, (c) provide new or improved marketing services and (d) channel technical information, new practices and new inputs to producers and better Co-ordinate production and marketing. [3] The environment for formation of Co-operative is more favorable if marketing margins are high due to collusive behavior within the private trade or if there is great inefficiency in the private trade for other reasons.[4]

b) Evolution and Development of Co-operatives

The Co-operative movement is a little over hundred years old now when the Industrial Revolution in the Western world become mature, it was seen that the small farmers faced a peculiar circumstance in which the buyers of their raw material and the sellers of their consumers goods became big manufacturers and traders, who could dictate prices to these small men by virtue of their almost monopolistic power over the market. In this society, the percentage of literacy was high and there was a social class that was well to do, but reasonable hard working, honest and sincere. There were amongst them who wanted to do good to the society by voluntary social work. They were pained to see that the Industrial Revolution which should have brought the blessings of machine and the high living standard for mankind had actually brought monopolistic exploitation of the small men by the giants in manufacturing and marketing necessitated by the economy involved in large scale production through the machines. The nineteenth century capitalists were also a group of people who worked very hard, took great risks and reinvested their profits in the lure of owning still biger enterprises. Many of these people lived amazingly simply life and even made big donations to charitable purposes for the well being of common men. It was in this kind of social milieu when Marx predicted that capitalism was destined to destruction because of its weakness in controlling the monopolies and in protecting the proletariat that the co-operative movement came as an alternative to revolution, violence and blood shed. It provided an alternative to socialism. It aimed at bringing about the advantages of large scale economy to the small man who by uniting amongst themselves and pulling their resources together, would bring to themselves increased bargaining power, necessary credit supply and the required at Koma Rock in Henya. In Niger, too, rural Co-operatives are reported to have been expanding very successfully in the marketing of cereals.[5]

In some other countries, such as, Tanzania and Tunisia, Co-operatives without intensive assistance of this kind have, for several years, been coping with the marketing and processing of crops on a national scale. In India, the striking success of the Anand milk producers' Co-operative over the past twenty years has attracted worldwide attention. This venture has transformed the living conditions of peasant farmers in the Karala district of Gujrat. Its business has expanded continuously under excellent local management and in 1967; it handled and processed more than 70,000 tons of milk for 120,000 producer members. Its remarkable progress shows what may be achieved under suitable conditions and good management.[6]

In Cyprus, as another example, the Co-operative movement has a long history and is a major force in the commercial and industrial life of the country. In several larger Latin American countries, there are large and powerful Co-operative organizations which are successfully operating major processing and trading businesses.

In Lebanon the Bekaa Poultry Co-operative packs, grades and distributed egg and table poultry for some 120 members. Since 1963, it has built up excellent facilities and a reputation for quality products and commercial efficiency. It now supplies a large part of the

[2] Henry Larzelere, : "Co-operative in Agricultural Marketing", Agricultural Market. Edited by Vernon L. Sorenson, Michigan State University Business Studies, 1964. p. 203.
[3] J. T. Scott and Fletcher: "Co-operative as Instruments of Market Reform : The Economist' view" Agricultural Co-operative and Markets in Developing Countries. Edited by K.R Anschel, Bramon and Smith, New York, 1969. p. 220.
[4] W, John Mellor: "Agricultural Product and Input Markets in South Asian Smallholder Agriculture." Edited by Anschel, Ibid, p. 108.
[5] UNFAO. The State of Food and Agriculture, 1969, P 96.
[6] Ibid. p. 96.

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Lebanese domestic market for eggs and exports about 70 million eggs per year.[7]

Co-operative buying among farmers of city consumers has developed extensively in some countries, notably the united states, England and Sweden while Co-operative selling of farm products is most common in such countries as Denmark, Finland, Canada and the United States. Denmark is the outstanding example of a country in which cooperative marketing of farm productions and purchasing of farm supplies have succeeded on a large scale. The various products handled by thousands of Danish Farmers Cooperative Associations. A large proportion of the retail trade in Denmark, Finland, Sweden and England passes through Cooperative channels. Wholesale houses organized on a national and international basis are also operated successfully by cooperatives.

The recent expansion of Co-operative marketing systems in countries, such as, Ceylon, Tanzania and Senegal reflects a shift away from the idealistic tradition of the Rockdale Pioneers to a more pragmatic model. For instance, as seen in Japan, Cooperatives there handle 70 to 80 percent of the rice marketed. These cooperatives undertake only limited responsibilities as receivers and storage agents for a monopoly government food agency with a secure base as sole assembling agency, and carrying a steady handler's commission, these cooperatives provide credit and sell fertilizer and other supplies to farmers on easy terms. Once capital was accumulated from these low risk operations, they could take on additional functions such as processing and marketing other crops. [8]

In some less developed countries, the Cooperative Movement was initiated with the Organization of Cooperative Marketing Societies. Coffee marketing in Tanzania by the Kilimanjaro Native Cooperative Union Ltd., cocoa marketing in Nigeria, cotton marketing in Uganda, and rice marketing in Malaysia are examples of the case.

c) Principles or Features of cooperative society

International Co-operative Alliance (ICA) Congress of 1931 resolved to appoint a Committee to the application of Rockdale principles. The committee made its final report in 1934 in Paris. As a result of this report the ICA recognised seven Rockdale principles but concluded that only four of those could be applied universally at the international level for purpose of ICA membership

They were:

1. Voluntary or open membership.
2. Democratic control.
3. Distribution of surplus to members in proportion of their participation in the transaction of the society.
4. Limited interest on capital.

The other three were:

1. Cash trading
2. Religious and political neutrality.
3. Education.

i. *Membership*

(a) Those who can make use of the services of a particular co-operative society should be able to become its members without any artificial restrictions. It is important to note that only those whose needs and services are supplied should be come and allowed to become members.

(b) Co-operative movememt is at once a social movement seeking to increase its adherence. Naturally it should welcome and encourage the eligible persons to become members.

(c) The member should realize and fulfill his obligation to the society and the society in turn should reciprocate.

(d) The individual should be free to join or withdraw from a society. These should not be any direct or indirect compulsions. However, his entry or exit should not affect the society adversely. Therefore, this freedom can rarely be absolute. It can be modified or restricted by other considerations of greater validity.

(e) A society is not obliged to retain a member if his conduct is detrimental to its interest. The condition of expulsion however should be clearly laid down in advance and known to both parties,

(f) The open membership (with the unavoidable restrictions) make a co-operative society distinctly different from a joint stock company, Because of open membership shares remain at the nominal value fixed in the society's rule.

ii. *Democratic Administration*

(a) The primary purpose of a co-operative society is to promote the interest of its members. To achieve this end the members must have the final say in the society. Therefore, there should be an effective method of consulting the members as a body and their support and loyalty keep the society alive and active. To ensure that the members interest get the highest priority in the administration of the society's affairs, those who administer the affairs must be chosen directly or indirectly by the members.

(b) "One man, one vote" is the most condensed expression of the democratic administration of co-operative societies.

[7] Ibid, p. 96

[8] Abbott, J. C. "The Development of Marketing Institutions," Agricultural Development and economic Growth Edited by Herman M South worth and Bruce F. Johnson, Ithaca, N.Y corn well University Press, 1967, P.47.

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(c) In the case of organization of higher tiers, where members are societies, indirect systems of elections are adopted.

(d) In developing countries where government contribute capital of the societies, government representation on Boards of Management become necessary, Without generous amounts of government finance, co-operative development in these countries will be slow, however, representation should not continue a day longer than it is necessary.

iii. *Interest on Capital*

(a) The co-operative movement since its beginning has followed the system of paying a fixed and limited interest on capital of members.

(b) The three main forms of capital in a co-operative:
  (i) Share capital.
  (ii) Capital owned by society in the form of reserves etc.
  (iii) External borrowing etc.

(c) The limitation applies really to the first.

Situation where principle of limited interest can be tested.

(i) The co-operators are not unanimous on the question whether any interest should be paid on capital or not. There is no principle which obliges that interest should be paid. If no interest is paid there is no clash with the principle.

(ii) If interest is paid below the rate which may be regarded as fair elsewhere then also this can be regarded as payment of limited interest.

(iii) A third situation is where limited interest is paid for a certain period but raised or lowered not in response to short term fluctuation on the money market but the long range movement of interest rates. This too does not contrivance the principle.

(d) A fourth situation would be where a premium is merged into the rate of interest. From a co-operative point of view, this is dubious.

Disposal of Surplus (Savings):

iv. There are two main points that should be kept in mind.

(i) How to find the proper balance between the interest of the society and those of the individual members.

(ii) To do justice as between one individual member and another, it is important to remember that economic benefits conferred on the members are of various kinds money, goods or service.

(iii) With regard to the distribution of surplus there are certain operational aspects that must be considered.

(iv) Provision of goods to members at low prices which hardly leads to accumulation of surplus for distribution.

(v) The business prudence sometime may require that all or large part of the society's earnings to be placed to reserve.

(vi) A major part of the surplus may have to be devoted to provision of common enjoyment to the members. The distribution of surplus among members is an important characteristic that distinguishes a co-operative from a joint stock company.

v. Education

(a) The Commission elevated "principle of education" to that of a regular principle.

(b) The definition of education for the purpose of co-operation.[9]

"For the purposes of co-operation, however, education needs to be defined in a very broad sense which included academic education of more than one kind but much besides. It includes both what people learn and how they learn it. Every phase of experience, which adds to people's knowledge, develops their faculties and skill, widens their outlook, trains them to work harmoniously and effectively with their fellows and inspires them to fulfill their responsibilities as man or women and citizens can have educational significance for co-operation. Less and less in the contemporary world can education be limited to what is learnt in schools and colleges at special periods of people's lives. According to the co-operation concept, education is a life long process.

(c) Co-operative education process can be divided into three groups:
  (i) Member education;
  (ii) Staff training;
  (iii) Education of the public in co-operative methods.

vi. Cash Trading

The main reasons why cash trading was emphasized by the pioneers were:

(a) High cost involved in credit buying.

(b) Credit buying may hold the temptation to spend more that one can afford.

The conditions at least in some parts of the world have changed where it is reasonable to think that the rule of cash trading may not be adhered to strictly.

vii. Political and Religions Neutrality:

Internal: The internal aspect concerns the relations of a co-operation with its members. There should be no discrimination on the basis of religion or politics in admitting members or the treatment to members.

[9] Quotation from principles, Commission Report, p, 34.

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External: "The external aspect deals with the societies or the co-operation Movements' relation with the external social and political system.

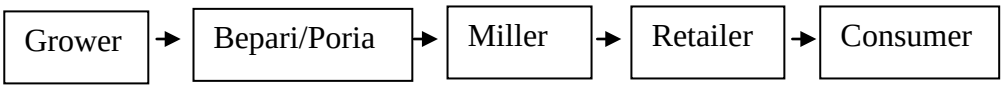
The Commission thought that co-operation as an economic movement with an economic doctrine of its own and representing well defined economic interest, can not avoid involvement in affairs of government, which whether they are or are not the subject of party conflict are in nature political."

Bangladesh 'Agricultural product market of Bangladesh has expanded after the introduction of rural works program in the sixties, which contributed to the road connection from countryside to urban areas. But it remained modest until late seventies. After the seventies, market oriented activities grew, which included increasing production and processing of products. As a result of increasing technical, financial and others types of supports, the market oriented activities grew not only in the crop sector but also in other areas. In case of poultry, dairy and fisheries, commercialization of production increased to a significant extent since early 80s. Shahabuddin et. al (1999). One of the difficulties of marketing agricultural product is the fluctuation of the price level. Just after the harvest the market price of crops fall and increase later. This is because just after the harvest farmers sell their produce as soon as possible to repay their loan. Lack of storage facilities also plays a compelling role in the affair. At this time of the year, produced output outruns the demand and thus the price falls. As the price is low during the harvest, the farmers are deprived of their due income from their products. To overcome this problem the government often buys crop especially paddy from the farmers at a fixed price. As the price fixed by the government is higher than the market price, the farmers are supposed to gain from this. But this is not often possible as it is costly and problematic to sell the crops in selling outlets Crow B (2011). In the course of time there have been changes in the setup of product market of agriculture. Class configuration of markets that is the classes and groups involved in the agricultural product market has taken different forms in the course of time. According to Ben crow, a range of exchange relations has developed based on the relative sizes of the different classes and their relation to one another. FRMU, Issue No 18, February, (2009). Procurement policy of the government aims at ensuring fair price to the farmers. Open Market Sale by the government is intended for supply of food grain to the people at a lesser price than the prevailing market price. Initiatives like vulnerable group feeding, test relief etc, have been taken from the government level in addition to open market sale (OMS).

Present Situation of Agricultural Marketing in Bangladesh.

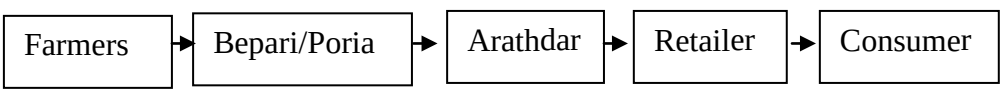
Agricultural Marketing is an essential for the uninterrupted supply of product from growers to consumers bringing maximum benefits to the farmers and consumers. Farmers can achieve potential benefits if they can access to the market where they can sell their product directly. Most of the farmers now days can not achieve the economics of scale from their produces because they are unable to reach the market at the right time and at the right place. The farmers of our country are uneducated and illiterate and do not know about the market. Although in some cases, they know about the market but they can not do anything due to lack of capital and others logistics' support. Basically agricultural marketing in Bangladesh is characterized by chain of intermediaries who are regarded as obstacles to farmers, in getting the right price for their products as well as for the customers to pay high product price. These intermediaries take a large portion of the price. These intermediaries create barriers in the supply of product. There is four to five stage intermediaries involved in agricultural marketing system that is prevailing now in the supply chain of product. The produces of farmers go to the intermediaries instead of consumers. The existing intermediaries are taken most of the benefits from the market. In the present situation, the marketing intermediaries make up the marketing channel are performing the work of moving goods from the grower to customer determining high price for the products to the ultimate consumer. Although Bangladesh has a competitive advantage in the production of agricultural products but the marketing systems that are prevailing in the market is not suitable for bringing fair price to the real farmers.

Figure 1 : Rice Marketing Channel



Source: A survey on the present Situation of agriculture Products Marketing on Chaumuhoni and Hajigonj in Noakhali and Laxmipur Districts.

Figurr 2



Source: A survey on the present Situation of agriculture Products Marketing on Chaumuhoni and Hajigonj in Noakhali and Laxmipur Districts.

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Chapter- 3

VIII. Data Analysis & Discussion

a) Gender of the Respondents

Gender	Frequency	Percent	Cumulative Percent
female	1	2.0	2.0
male	49	98.0	100.0
Total	50	100.0	

It is seen from the above table that our agriculture is male dominated. Out of 50 respondents, 98% are male and remaining 2% are female. That means, women farmers are insignificant in our agriculture.

b) Level of education of the Respondents

Level of Education	Frequency	Percent	Cumulative Percent
illiterate	37	74.0	74.0
class five	8	16.0	90.0
Class ten	4	8.0	98.0
ten+	1	2.0	100.0
Total	50	100.0	

It is seen from the above table that 74% respondents are illiterate 16% respondents have only class five Level education. Only 8% respondents have class ten Level education and 1% respondent has above class ten level education.

c) Mode of marketing of Agricultural Products

Mode of Marketing	Frequency	Percent	Cumulative Percent
Direct	6	12.0	12.0
Indirect	44	88.0	100.0
Total	50	100.0	

It is seen from the above table that 88% respondents are using indirect marketing for their agricultural products and only 12% respondents are using direct marketing for their agricultural products

d) Fair price of Agricultural Product

Fair Price	Frequency	Percent	Cumulative Percent
No	47	94.0	94.0
yes	3	6.0	100.0
Total	50	100.0	

It seen from the above table that 94% respondent answered that they did not get fair price for their agricultural products.

e) Necessity of co-operative society for Agricultural Product

Necessity of Co-operative	Frequency	Percent	Cumulative Percent
yes	50	100.0	100.0

It is seen from that above table that 100% respondents answered positively about the necessity of co-operative society for agricultural products.

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f) Interest in forming co-operative for Agricultural Product

Interest for Co-operative	Frequency	Percent	Cumulative Percent
yes	50	100.0	100.0

It is seen from the above table that 100% respondents answered positively to the question. That means 100% respondents showed interest to form co-operative society for their agricultural products.

g) Obstacle of co-operative Society for Farmers

Obstacle for Co-operative formation	Frequency	Percent	Cumulative Percent
Knowledge	50	100.0	100.0

It is seen from the above table that 100% respondents informed that knowledge was the main obstacles in the way of forming co-operative.

h) Awareness Program for Developing Co-operative Society

Awareness	Frequency	Percent	Cumulative Percent
yes	50	100.0	100.0

It is seen from the above table that 100% respondents answered positively to the question. That means, respondents informed that awareness program is necessary for the promotion of co-operative society for the farmers.

i) Effect of Co-operative for Agricultural Products

Effect of Co-operative	Frequency	Percent	Cumulative Percent
yes	50	100.0	100.0

It is seen from the above table that 100% respondents answered positively to the questions. That means, respondents informed that co-operative society has much impact for reducing the role of middlemen from the agricultural products.

j) Source of capital of Farmers during Cultivation Period

Source of capital	Frequency	Percent	Cumulative Percent
Usurers	38	76.0	76.0
Non financial institute	12	24.0	100.0
Total	50	100.0	

It is seen from the above table that 76% respondents took capital from the usurers at high interest rate and 12% respondents took loan from non-financial institution.

k) Importance of the organisation for forming co-operative from economic aspects

Type of organization for supporting co-operative	Frequency	Percent	Cumulative Percent
local government	50	100.0	100.0

It is seen from the above table that 100% respondents answered in favour of local government role for developing co-operative society for marketing their agricultural products.

l) Influential factors for developing co-operating society

Influential factors	Frequency	Percent	Cumulative Percent
Political commitment	50	100.0	100.0

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It is seen from the above table that 100% respondents answered that political commitment was very influential factor for developing co-operative society for the farmers.

m) Available of Storage facilities for Agricultural Products for farmers

Storage facilities	Frequency	Percent	Cumulative Percent
no	49	98.0	98.0
yes	1	2.0	100.0
Total	50	100.0	

It is seen from the above table that 98% respondents answered negatively about the availability of storage facility for the farmers for preserving their agricultural products.

Chapter-4

IX. Summary of Findings, Recommendations, Conclusion, Limitations of the Study and Further Research.

The followings are the summary of findings of the study:

1. Agriculture sector of Bangladesh is dominated by the male and female's participation in agriculture is insignificant. It was revealed from the study that 98% farmers are male and only 2% farmers are female.
2. It was found in the study that 74% farmers were illiterate and 16% farmers had only class five level of education and 8% farmers had class ten level of education and only 2% farmers had above class ten level education.
3. It was revealed from the study that 88% farmers' mode of marketing were indirect channel of marketing. This indicates that majority farmers are selling their products to the rural Fauria /bepari.
4. It was revealed from the research that 94% farmers did not get fair price of their products. This indicates that farmers are exploited by the rural fauria /middlemen.
5. It was revealed in the study that 100% farmers were interested to form Co-operative Society for marketing their agricultural products but they could not form it due to the ignorance about the Co-operative society's rules and regulations.
6. It was also revealed in the study that 100% respondents were on the opinion that awareness programs were necessary for developing Co-operative Society among the farmers.
7. It was revealed in the study that 100% respondents were on the opinion that Co-operative Society had impacts for the farmers for marketing their products.
8. It was revealed in the study that 76% farmers were dependent on the usurers at high rate of interest.
9. It was revealed in the study that 100% respondents were on the opinion that Local Government could play better role in the development of cooperative society for the farmers.
10. It was revealed in the study that 100% respondents were on the opinion that political commitment was influential factor for the development of co-operative society for the farmers.
11. It was found in the study that 98% respondents did not have storage facility for preserving their products which compelled them to sell their products immediately after harvesting period.

The followings are the recommendations of the study:

1. Co-Operative Department should take some pragmatic programs to increase farmers marketing efficiency. This can be done by introducing Co-Operative for the farmers. This system can enable them to take joint efforts of marketing their products. If this initiative is taken by the Department of Co-operative then the role of middlemen will be reduced gradually and thus farmer's economic welfare will be increased.
2. Local Government (Union Parishad) administration can be linked up with the Department of Co-operative and in this case Local Government (Union Parishad) Act of 2009 will be required to make amendment. In the opinion survey 100% respondents opined in favour of the involvement of Local Government in this regard. If this arrangement is done then farmers will be motivated to participate in Co-operative Society as farmers believe that Local Government can play better role to motivate rural people to involve Co-operative farming and marketing.
3. Department of Co-operative should take some programs to support farmer's initiative in Co-operative Society. Government of Bangladesh has formulated Co-operative Policy of 2012 by emphasizing poor farmer's emancipation and women empowerment activities. But in practical field no such type of programs are yet to implement by the government. So, it is recommended to the concerned ministry to prepare necessary action plans in this regard.
4. Government should take some awareness programs about Co-operative Society through social campaign using Bangladesh Television so that people can understand the importance of Co-

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operative initiatives and accordingly can take practical efforts in this regard.

Conclusion: Finally it can be said that in spite of having a good Co-operative Policy of 2012, if pragmatic and farmers oriented plans and programs are not taken, it would be impossible to achieve our millennium goal of 2021(Vision 2021) and even the desired objectives of our liberation war 1971 will remain incomplete. So, concerned Ministry should take necessary polices and strategies to implement farmers Co-operative Society with priority basis.

a) Limitations of the study

It was not possible to focus into the role of Co-operative in the broad range of activities due to the time constraint. This study could have been done better way by incorporating the opinion of the Local Government about its perception of peoples' opinion regarding Local Government's involvement in Co-operative initiative. On the other hand, sample size of this study is only 50 farmers which could have been increased into considerable size if sufficient time was available.

b) Further study

Research is a continuous process. For this reason, in future this research can be developed by the interested researchers by focusing my limitations as I have stated clearly.

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Appendix-1

a) Questionnaire (For Farmers)

Age of the respondents (please give Tick Mark against appropriate option)

☐ 18 – 23 yrs. ☐ 23-28yrs. ☐ 28-33 yrs. ☐ 33-38 yrs

☐ 38 - 43yrs. ☐ 43-above yrs.

Gender : ☐ Male ☐ Female.

Level of Education: ☐ illiterate ☐ up to class V ☐ up to class X ☐ above X

1. Type of agricultural activity ☐ Rice ☐ Jute ☐ Vegetables ☐ Fruits.

2. Mode of Marketing ☐ Directly to the Consumer ☐ Selling to wholesalers /pouria.

3. Do you get fair price of your products? ☐ Yes. ☐ No.

4. Do you think that co-operative society can help you to get fair price of your products?
☐ Yes ☐ No.

5. Do you have interest to form co-operative society? ☐ Yes ☐ No.

6. What is the obstacle in the way of forming co-operative?
☐ Knowledge ☐ Financial ability.

7. Do you think that awareness program for co-operative is needed? ☐ Yes ☐ No.

8. Do you think that co-operative can help you to raise fund for increasing your productivity?
☐ Yes ☐ No.

9. What is your source of capital?
☐ Non financial institute ☐ financial institute ☐ Usurer.

10. What is the rate of interest of your borrowed capital?
☐ 100% ☐ 50% ☐ 20%.

11. Which organization is most important for developing co-operative society in our socio-economics perspective ? ☐ Local Govt. ☐ NGO ☐ Foreign donors.

12. What is the most important for developing co-operative society in Bangladesh?
☐ Political commitment of the government to give much emphasize on co-operative society and its continuation even after changeover of the government.
☐ Grants from donors and government budget.

13. Do you have your own storage facility to preserve your products?
Yes ☐ No ☐

Thank you for your co-operation.

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Appendix-II

a) Descriptive Statistics (SPSS Output)

	age	gender	Level of education	Type of agriculture	Mode of marketing	fair price	Necessity of co-operative society	Interest in forming co-operative	Obstacle of co- operative	Awareness	Effect of Co-operative	Source of capital	Rate of interest for borrowed capital	Importance of the organization for economic aspects	Influentional factor for developing co operating society	storage facilities
N	500	500	500	500	50	50	50	50	50	50	50	50	50	50	50	50
					0	0	0	0	0	0	0	0	0	0	0	0
Mean	5.3200	.9800	.3800	1.5400	1.8800	.0600	1.0000	1.0000	1.0000	1.0000	1.0000	1.4800	1.7600	1.0000	1.0000	.0200
Median	5.0000	1.0000	.0000	1.0000	2.0000	.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	2.0000	1.0000	1.0000	.0000
Mode	5.00(a)	1.00	.00	1.00	2.00	.00	1.00	1.00	1.00	1.00	1.00	1.00	2.00	1.00	1.00	.00
Std. Deviation	.81916	.14142	.72534	1.01439	.32826	.23570	.00000	.00000	.00000	.00000	.00000	.86284	.43142	.00000	.00000	.14142
Minimum	2.00	.00	.00	1.00	1.00	.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	.00
Maximum	6.00	1.00	3.00	4.00	2.00	1.00	1.00	1.00	1.00	1.00	1.00	3.00	2.00	1.00	1.00	1.00
Sum	266.00	49.00	19.00	77.00	94.00	3.00	50.00	50.00	50.00	50.00	50.00	74.00	88.00	50.00	50.00	1.00

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References	Complete and correct format, well organized	Beside the point, Incomplete	Wrong format and structuring

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