THE INTERNATIONAL STRATEGIC ALLIANCES BETWEEN EUROPEAN FIRMS AND THE FIRMS OF MEDITERRANEAN PARTNER COUNTRIES. (CONCEPTUAL PAPER)

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Summary: 1. Introduction; 2. International strategic alliance; 3. The enterprises in the mediterranean partner countries (MPCs); 4. The international strategic alliance with MPCs; 5. Conclusion.

ABSTRACT
The main aim of this paper is to present the result of the developing research on the trend of co-operations between European firms and firms of Mediterranean Partner Countries (Algeria Egypt, Israel, Jordan, Lebanon, Morocco, Occupied Palestinian Territories, Syria, Tunisia, Turkey), from 2004 to 2008. The firms form alliances, as international strategy, if the environment and rules support their cooperation. When the economy of the country of partner is not stable, firms prefer equity alliances. The assumption is that the market integration process increases the collaborations between the firms of involved countries. The trend of flows of direct investment, in which the international strategic alliances are accounted, supports the assumption. The research question is: ‘Is the Barcellona (1995) process increasing the formation of international strategic alliances between European firms and firms of Mediterranean Partner Countries?’ The research is an exploratory study, which analyzes data of the annual reports of the observatory of European Commission (MIPO) of the agency (ANIMA) created by European Commission to support the cooperation between countries. The data-set is the collection of equity international strategic alliances between European firms and firms of Mediterranean Partner Countries, through manual cross checks of the list of flows of direct investment in Mediterranean Partner Countries, from 2004 to 2008. The statistical analysis is descriptive and it is composed by a comparison of the equity international strategic alliances (EISA) with the risk rank of countries, and by the breakdown of trends of EISAs in every MPC with the year of agreements and the value of funds received by European Commission. The statistical analyses show that EISA from European countries in MPCs are not influenced in a strong way by the risk of the MPCs. In Turkey, Morocco, Tunisia and Israel the EISAs are increasing. Further evidence is still to be obtained in the next steps of analysis. The implications of results of this study suggest topics of research that should be more
1. Introduction

In 1995, the Barcelona Euro-Mediterranean Ministerial Conference established an Euro-Mediterranean partnership in order to turn the Mediterranean into a common area of peace, stability and prosperity through the reinforcement of political dialogue and security, an economic and financial partnership and a social, cultural and human partnership.

The aims of Economic and financial partnership are: a sustainable and balanced socio-economic development and an improvement of the living conditions of the populations, an increase in the employment level and the encouragement of regional cooperation and integration. The ways chosen to achieve the aims are:

- the progressive establishment of a free trade area between the EU countries and Mediterranean partner countries (MPCs);
- the implementation of appropriate economic cooperation and concerted action in the relevant areas;
- a substantial increase in the European Union’s financial assistance to its partners.

The Euro-Mediterranean industrial cooperation needed a specific policy on firms, so in 2004, the industry ministers of MCPs adopted the Euro-Mediterranean Chart of Enterprise. The policy dimensions\(^1\) of the Charter are the areas of private sector that have to be improved to accelerate the cooperation between the enterprises of MPCs and Europe.

The main aim of this paper is to present the result of a conceptual analysis of a research, financed by Italian Minister of University and Research\(^2\), on the trend of co-operations between European firms and firms of Mediterranean Partner Countries (Algeria Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authorities, Syria, Tunisia, Turkey), from 2004 to 2008. The enterprises follow alliances, as international strategy, if the environment and rules support their cooperation. When the economy of the country of partner is turbulent, firms prefer equity alliances. The assumption is that

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\(^1\) The policy dimensions are: market openness, trade facilitation, production policy, public procurement, taxation, industrial and technological policy, employment and labour relations, education and training, research and development, industrial restructuring and marketing.

\(^2\) The research was financed by Italian Ministry of University and Research through the project "The Euro-Mediterranean Cooperation: a Strategic Action" (EISA).
the market integration process increases the collaborations between the firms of involved countries. The trend of flows of direct investment, in which the international strategic alliances are accounted, supports the assumption. Investments from European countries in MPCs are among the 50% of the total in the 2008 and the more attractive countries are Morocco with 68% inflows and Turkey with 62%, from European firms.

The research question is: ‘Is the Barcellona (1995) process increasing the formation of international strategic alliances between European firms and firms of Mediterranean Partner Countries?’.

The concept is that:

– some enterprises begin to invest in emerging economies, and then the institutions of their countries support them; this support creates the opportunities for others enterprises interested in forming equity international strategic alliances, that will grow and continue forming a virtuous loop;

– on the other side, the emerging countries valuate the cooperation between the firms as a good opportunity of their economies and promote agreements to develop cooperation.

Leonardi (1998) analyzed a particular kind of cooperative strategies in Europe during the integration market process, he found an increase of the number of international merger and acquisitions between enterprises of countries, involved in the process, after every action of the governmental institutions to implement the process. The collaboration between firms existed, after agreements the number increased.

The degree of market integration between European and Mediterranean Partner countries is lower than in Europe, however it shows that the cooperative strategies are influenced by the integration markets actions, so this study inquiries if the agreements influence the other kind of cooperative strategies (Faulkner & Derond, 2001): the equity international strategic alliances (joint venture and minority stakes acquisitions). Although it is a conceptual paper, the descriptive statistical analysis of data on phenomenon studied is included.

The data analysis is based on the annual reports of the observatory of European Commission (MIPO) of the agency (ANIMA) created by European Commission to support the cooperation between countries. The data-set is the manual collection of equity international strategic alliances, between European firms and firms of Mediterranean Partner Countries, from the lists of flows of direct investment in Mediterranean Partner Countries. The lists describe the investments announced from firms, from 2004 to 2008. The Statistical analysis is descriptive and its composed by a comparison of
the equity international strategic alliances (EISA) formed with the risk of countries, and by the breakdown of EISA in every MPC, to understand if the agreements have an impact on EISA.

In the reports analyzed, the institutions assess the regional integration policy and the records of its agreements through the breakdown of some economics data. The analysis of FDI, import/export of countries and their determinant factors shows the impact of the acts on such values in the time.

The study is structured in three sections: the literature review on international strategic alliances and on the characteristics of the firms of MPCs, the analysis of equity international strategic alliances in MCPs and the conclusion.

This paper contributes to develop and to understand the trends and changes of collaborative strategies between European and Mediterranean firms in Barcellona (1995) process. Entrepreneurs and the managerial practice will benefit in their international strategic analysis, because this study offers a global view of the relationship between European countries and MPCs on strategic alliances. The institutions will look at the work to understand the effects of their actions on enterprises and which area they have to reinforce. The research development are discussed in the conclusions.

2. International Strategic Alliances

Strategic alliances can be done with foreign partners to achieve some benefits of a global strategy (Nielsen 2003). “International strategic alliances” (ISA) are defined as international inter-company cooperative arrangements (Urban and Vendemini 1992, Lu and Burton 1998). This kind of strategic alliance is defined as a business form of cooperation between two or more industrial corporations of different countries, whereby each partner seeks to augment its competences by combining its resources with those of the other partners (Jain 1987, Lu and Burton 1998). Alternatively ISA has been defined as any form of commercial activity across national boundaries involving two or more organizations. The feature of ISAs is the “long-term” cooperation between two or more independent firms headquartered in two (bi-national) or more (multinational) countries. ISAs are different from open-market trans-actions, that are minimal short-term cooperation and begin and end with the exchange of any economic good between two firms. No strategic alliances may increase efficiencies for both sides, but have little potential significance to the strategic positioning of either or-
ganization (Contractor and Lorange 1988). In this study the international strategic alliances are business forms of cooperation between two or more firms of different countries and the identity of partners is not lost. The drivers of an ISA are based on a variety of theoretical perspectives including transaction cost, resource dependency, organizational learning and strategic positioning theories (Nielsen 2003). Collusion, entry deterrence, erosion of competitors’ positions or other means of augmenting market power are the more frequent incentives to collaborate between enterprises (Peridis 1992).

When a firm decides to form an ISA it has to decide the form, the object, the country and partner. The three main alliance forms are: traditional joint ventures, minority equity alliances and non-equity alliances (Contractor and Lorange 1988). They are strategic if they don’t make lose the identity to the firm, for example, acquisition is not a strategic alliance (Yoshino and Rangan 1995). Traditional joint ventures are alliances with two or more partners to create a new incorporated firm in which each has an equity position and representation in the board of directors: dependent joint ventures, dominant parent ventures, split-control ventures and shared management ventures. Minority equity alliances are similar to non-equity alliances except that one parent has taken a minority equity position in the order: passive minority equity alliance and multiple-activity minority equity alliance. Non-equity alliances are agreements between partners to cooperate in some way, but they do not involve the creation of a new firm, nor does either partner purchase equity in other: trading alliance, coordinated- activity alliance, shared- activity alliances and multiple activity alliance (Contractor and Lorange 1988).

When a firm explores new opportunities, it prefers equity alliances even if it obtains less financial flexibility relative to non-equity alliances because of the feature of enterprise and its environment (Ireland, Hitt and Webb, 2006).

The object of alliance varies with the phases of the value added chain and so co-operations are R&D contracts, joint R&D, joint production, joint marketing and promotion, enhanced supplier partnership, distribution agreements, and licensing agreements. (Yoshino and Rangan 1995, Das and Teng 2000).

The choice of partner depends on goal and object of ISA, where the partner is compliant or complementary to the personality of the firm (Casson and Mol 2005).

The choice of country is oriented to the emerging markets or to developed markets, investors continue to view emerging markets as the markets where
investing and making alliances. In terms of the investment locations selected as the most attractive, four of the top five countries ranked by the percentage of responses from experts are in the developing world. China is considered the most attractive location by 85%. India’s ranking has increased suddenly given that up until recently, direct investment flows have been modest at best (UNCTAD 2005).

3. The enterprises in the Mediterranean partner countries (MPCs)

The economic structure is characterized by the lack of large private enterprises, instead the small-medium enterprises and micro family enterprises are an important share, in these countries (Gallina, 2004), where the hydrocarbon sector is more developed than the others. The weaknesses of enterprises in MPCs were several when the process has begun, however the countries are working to improve the way of doing business in their countries and to support their enterprises. The MPCs are supporting the developing of enterprises to improve the social-economic context. In such cases, the economies are characterized by high level of under-economy. The aim of MPCs is to attract more international investments, they know they need to reform the private sector of enterprises to make their enterprises able to cooperate with European enterprises.

The Barcellona process monitors the implementation of policies in the ten MPCs to improve private sector of enterprises to make the results converging.

The MPCs see the Charter, adopted in 2004, as a guide for the enterprise policy, so they are engaging in reforming the ten areas indicated in the charter: 1. simple procedures for enterprises, 2. education and training for entrepreneurship, 3. improved skills, 4. easier access to finance and investment-friendly taxation, 5. better market access, 6. innovative firms, 7. strong business associations, 8. quality business support schemes and services, 9. strengthening Euro-Mediterranean networks and partnerships, 10. clear and targeted information for enterprises.

The countries involved in the implementation of charter asked to be monitored. European Commission et al. wrote a Report, in 2006, on the weaknesses of countries in which they had to improve to converge with the Charter. In 2008, the European Commission et al. edited the second Report to assess the developing of reforms in MCPs, it shows that the policies of Countries converge with the Charter, anyway Egypt, Jordan, Morocco and Tunisia are moving more rapidly, Algeria and Syria reform is at first stage, Lebanon and Occupied Palestinian Territories have made less marked
progress, instead Israel is comparable to the OECD economies. The economies of Algeria and Syria are still largely dependent on the hydro-carbon sector while private enterprise remains underdeveloped, however they started to introduce elements of enterprise policy and to give to private enterprises a driving role in economic development. (Report 2008) The programs developed by European Commission to support the enterprise development for the implementation of the industrial cooperation facilitate the way of doing business. The main programs that should increase the EISA are SME Coopeartion and the Support for private sector ventures. (Report 2006)

4. The international strategic alliances with MPCs

The industrial cooperation is one of the aims of Barcellona process and it is possible if the economies of MPCs support their policy of developing enterprises and if the MPCs assure the political stability for the investors. The statistical analysis, in this section, is the description of phenomenon and is developed in two steps. At first the breakdown of the EISAs, formed with MPCs firms by European and non-European firms, from 2004 to 2008, is combined with the country risk rank by country. The second analysis of EISAs is for each country of MPCs to see how they change year by year, in order to the agreements. The EISA are included in the direct flows of investment in MPCs, that are monitored by the observatory of European Commission, to understand how much the agreements are efficient. The average of European flows of investment in MPCs are the 44% from 2004 to 2008, it means that the topic is relevant for economies of the geographic areas analyzed. In 2008, the flows inwards versus MPCs from Europe is 47% of total flows received (Figure 1). The more attractive countries are Morocco, Turkey, Tunisia and Algeria; Egypt, Syria and Israel follow them with a lower share, Jordan and Lebanon have the lower share. The investors can choose different kind of international investment in a foreign country. This study analyzes the joint ventures and minority acquisitions. The graph 1 shows the number of equity international strategic alliances (EISA), from 2004 to 2008, for each country of MPCs by the European firms and the rest of the world. The risk rank had to explain the choice of the country of the partner. The 61% of total EISA formed, in these years, is between MPCs firms and European ones. The more attractive country for EISA is the Egypt, even if the share from Europe (n. 28 EISA) is less than the share from the rest of the world (n. 56 eisa no-Ue). Turkey, with
36 EISA, is the most attractive MPC for Europe. In these two countries, the risk explain the results, in fact Turkey, the country with lower risk, has higher number of EISA with Europe. It’s not true for Algeria, Morocco and Tunisia. The number of EISA is higher in Algeria, that is riskier than Morocco and Tunisia.
The year of ratification of Association agreements, in MPCs, is different (Figure 2), so it’s necessary the breakdown in every country by year. Figure 2 shows which countries signed the Euro-Mediterranean Association Agreements and from when it is in force, if it’s in force. The agreement with Lebanon is mainly concerned with non-political aspects of trade and cooperation between the parties. Syria is waiting for the decision of the European Commission Council. Turkey, Tunisia, Israel and Morocco are the first mover and also the countries with more EISAs. Algeria has a high number of EISAs, even if it has signed late the agreement.

The behavior of firms can be explained by the amount of funds from the Facility for Euro-Mediterranean Finance Investment and Partnership program too.

<table>
<thead>
<tr>
<th>Euro-Mediterranean Partner</th>
<th>Signed</th>
<th>In force as from</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>April 22, 2002</td>
<td>September 1, 2005</td>
</tr>
<tr>
<td>Egypt</td>
<td>June 25, 2001</td>
<td>June 1, 2004</td>
</tr>
<tr>
<td>Israel</td>
<td>November 20, 1995</td>
<td>June 1, 2000</td>
</tr>
<tr>
<td>Jordan</td>
<td>November 24, 1997</td>
<td>May 1, 2002</td>
</tr>
<tr>
<td>Lebanon</td>
<td>June 17, 2002</td>
<td>April 1, 2006</td>
</tr>
<tr>
<td>Morocco</td>
<td>February 26, 1996</td>
<td>March 1, 2000</td>
</tr>
<tr>
<td>Palestinian Authority</td>
<td>February 24, 1997</td>
<td>July 1, 1997</td>
</tr>
<tr>
<td>Syria</td>
<td>Initialed October 19, 2004</td>
<td></td>
</tr>
<tr>
<td>Tunisia</td>
<td>July 17, 1995</td>
<td>March 1, 1998</td>
</tr>
<tr>
<td>Turkey</td>
<td>June 3, 1995</td>
<td>December 31, 1995</td>
</tr>
</tbody>
</table>

Source: European Commission. September 29, 2009

1 For Syria, signature of the association agreement is awaiting a decision of the European Council. 2 The agreement signed with Turkey in June 1995 was to establish the definite phase of the customs union, for which the original agreement dates back to 1964.

Algeria has 51 EISA, formed from 2004 to 2008, and the 47% with Europe. Every year the number of EISAs formed with EU and the rest of the world are among the same (graph 2), there is not a growing trend, but an up and down every year. This country signed the Euro-Mediterranean As-
Association Agreements in 2002, and it is in force from 2005. Algeria received less funds from FEMIP Finance contracts signed in Mediterranean countries, in the past five years, of all MPCs, about 25.498.958 €.

The Egypt has n. 86 EISA, formed from 2004 to 2008, and the 33% with Europe. This country is oriented to form EISAs with foreign countries, but the Europe is less attracted than the rest of the world. The trend is in decreasing (graph 3) after 2006 with the non European countries and is constant with Europe. Egypt signed the Euro-Mediterranean Association Agreements in 2001, and it is in force from 2004. Egypt is the second more attractive country of EISAs from Europe, and the country with more funds received from FEMIP Finance contracts signed in Mediterranean countries, in the past five years, of all MPCs, with 1.833.343.440 €.

Israel has n. 17 EISA, formed from 2004 to 2008, and the 41% with Europe. The slowly growth of trend in forming EISAs (graph 4) shows that Israel is attracting foreign investments year by year and the share from Eu-
rope is increasing. Israel signed the Euro-Mediterranean Association Agreements in 1995 and it is in force from 2000. Israel is the sixth more attractive country of EISAs from Europe, and the also the sixth country for funds received from FEMIP Finance contracts signed in Mediterranean countries, in the past five years, of all MPCs, with 428,067,000 €.

Jordan has n. 27 EISA, formed from 2004 to 2008, and the 19% with Europe. This country is oriented to form EISAs with foreign countries, but the share of Europe is decreased. The trend is in increasing (graph 5), except in 2008, that, however, is an year of crisis. Jordan signed the Euro-Mediterranean Association Agreements in 1997 and it is in force from 2002. Jordan is not attractive country for Europe to form EISAs, in last years, and is the seventh country for funds received from FEMIP Finance contracts signed in Mediterranean countries, in the past five years, of all MPCs, with 186,918,138 €.
Lebanon has just n. 4 EISA, formed from 2004 to 2008, and the half is with Europe. This country is not oriented to form EISAs with foreign countries (graph 6). Lebanon signed the Euro-Mediterranean Association Agreements in 2002, and it is in force from 2006, and the agreement is limited on political aspects in cooperation. Lebanon is not a very attractive country for EISAs, but the agreement is enough late and is the fifth country for funds received from FEMIP Finance contracts signed in Mediterranean countries, in the past five years, of all MPCs, with 627.000.000 €, so it is interesting the evolution in next years.

Morocco has n. 40 EISA, formed from 2004 to 2008, and the 48% with Europe. The clearer effect of agreements and financing is in Morocco. The growth trend in forming EISAs (graph 7) shows that Morocco is attractive and its policy is increasing, slowly, year by year the number of EISAs. This country signed the Euro-Mediterranean Association Agreements in 1996 and it is in force from 2000. Morocco is the third country for funds re-
received from FEMIP Finance contracts signed in Mediterranean countries, in the past five years, of all MPCs, with 1.315.500.000 €.

Palestinian Authority has only n. 1 EISA, formed from 2004 to 2008, with a non European country (graph 8). Palestinian Authority signed the Euro-Mediterranean Association Agreements in 1997 and it is in force from 1997. Palestinian Authority is not an attractive country for EISAs, even if the agreement is signed. The funds received from FEMIP Finance contracts signed in Mediterranean countries, in the past five years, of all MPCs, were 55.000.000 €.

Syria has n. 32 EISA, formed from 2004 to 2008, and the 1,5 % with Europe. The slowly growth of trend in forming EISAs (graph 9) shows that Syria is attracting foreign investments year by year and the share with Europe is increasing, even if is low. Syria is waiting for the decision of European Commission Council to sign the Euro-Mediterranean Association...
Agreements. This country is the forth one for funds received from FEMIP Finance contracts signed in Mediterranean countries, in the past five years, of all MPCs, with 902.000.000 €.

Tunisia has n. 36 EISA, formed from 2004 to 2008, and the 53% with Europe. The trend is a growth in forming EISAs (graph 10) shows that this country is attractive especially for Europe, despite the crisis, in the 2008 year, increased the EISAs in a significant number. Tunisia signed the Euro-Mediterranean Association Agreements in 1995, that it is in force from 1998. Tunisia is the second country for funds received from FEMIP Finance contracts signed in Mediterranean countries, in the past five years, of all MPCs, with 1.497.950.000 €.

Turkey has n. 78 EISAs, formed from 2004 to 2008, and the 46% with Europe. The growth is exponential and the proportion of share of EISAs
with Europe is constant in the time. Turkey signed the Euro-Mediterranean Association Agreements in 1995, that it is in force from 1995. Turkey is not in the FEMIP Finance contracts program as a MPCs.

5. Conclusion

In most Mediterranean Partner Countries (not in Jordan), the share of EISAs with European countries is constant or is increasing, so the Process of Barcellona and the connected policies are supporting the formation of Equity international strategic alliances.

The concept is confirmed. In the geographic area studied, some European firms began to invest in MPCs countries, and then the governmental institutions of their countries support them creating the opportunities for others enterprises interested in forming equity international strategic alliances, that will grow in number. On the other side the MPCs are implementing the policies suggested by the European Commission to develop their economic structures.

EISAs are formed for a particular reason. The European firms form EISAs with MPC enterprises in a period in which the economic conditions of that country offer advantages in terms of resources. After reforms firms form an EISA to expand the market.

This approach is not only from institutional theory, because international entrepreneurship can be explained with several theories (the theory of transaction costs, resource-based view,...) and the success can be explain with the ability of firms to utilize internal resource (Zucchella, Scabini, 2007). The intent of authors is to understand the role of Institutions in forming EISAs in Barcellona Process.

The European firms form more EISAs with Turkey, Egypt and Algeria, and no evident correlation between the number of EISA and the country risk rank have been found. It’s important to remember that the equity form of ISA is used in turbulent economies, so, in this case, where the countries are turbulent, the variable risk does not explain the different choice of countries. This result can suggest researchers to inquiry the relationship between the number of EISA and other variables as GDP, degree of economic freedom, ease of doing business and degree of trade openness.

The period analyzed is too short to generalize the effects of the agreements on the EISA in the market integration process. In fact the optimism of entrepreneurs after the agreement could conclude in a short time if the policies do not support the trend of growth with others actions.
The results are helpful for entrepreneurs and managers involved in international strategies and for European governmental institutions.

NOTES

2 PRIN2007, the project is developed jointly with other Italian Universities and the title is “Religioni, democrazia economica e cooperazione nello spazio euro mediterraneo. Partenariato e “buone prassi”.
4 “The European Union concluded seven Euro-Mediterranean Association Agreements between 1998 and 2005 with the Arab Republic of Egypt, the State of Israel, the Hashemite Kingdom of Jordan, the Republic of Lebanon, the Kingdom of Morocco, the Republic of Tunisia and the People’s Democratic Republic of Algeria. These agreements provide a suitable framework for North-South political dialogue. They also serve as a basis for the gradual liberalization of trade in the Mediterranean area, and set out the conditions for economic, social and cultural cooperation between the EU and each partner country”. http://europa.eu/legislation_summaries/external_relations/relations_with_third_countries/mediterranean_partner_countries/r14104_en.htm
5 http://www.eib.org/projects/regions/med/ The Project Facility for Euro-Mediterranean Investment and Partnership (FEMIP) funds through Finance contracts signed in Mediterranean countries the MPCs. FEMIP brings together the whole range of services provided by the EIB to assist the economic development of the Mediterranean partner countries. Operational since October 2002, FEMIP is now a key player in the financial partnership between Europe and the Mediterranean, and has invested EUR 8.5bn between October 2002 and December 2008. As part of the European Neighbourhood Policy and of the Union for the Mediterranean, FEMIP encourages the modernization and opening-up of the economies of the Mediterranean partner countries. Activities are focused on two priority areas: support for the private sector and creating an investment-friendly environment.

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