

**ROSTOV STATE UNIVERSITY OF ECONOMICS**

**RELEVANT ISSUES OF DEVELOPMENT OF  
WORLD ECONOMY AND ECONOMY OF COUNTRIES  
OF THE SOUTHERN AND EASTERN EUROPE**

**PROCEEDINGS OF THE  
1<sup>st</sup> INTERNATIONAL CONFERENCE FOR  
UNDERGRADUATE, GRADUATE AND POSTGRADUATE  
STUDENTS  
OF STUDENTS' ASSOCIATION OF  
SOUTH AND EASTERN EUROPE  
AND THE BLACK SEA REGION  
ECONOMIC UNIVERSITIES (ASECU YOUTH)**

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Oleg Bodyagin, Inga Mezinova

Conference Proceedings include papers that reflect results of scientific research of graduate and post-graduate students of the South-Eastern Europe universities. Presented papers covered issues of modern economic science, relevant issues of development of world economy and economy of countries of Southern and Eastern Europe, including different industrial aspects. Special attention was paid to post-crisis dynamics of region's development.

Conference Proceedings are oriented on bachelor-, master-, and specialist-students as well as doctoral students and young scientists who are interested in current issues of modern development of South and East European economic system.

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**РОСТОВСКИЙ ГОСУДАРСТВЕННЫЙ ЭКОНОМИЧЕСКИЙ  
УНИВЕРСИТЕТ (РИНХ)**

**АКТУАЛЬНЫЕ ВОПРОСЫ РАЗВИТИЯ МИРОВОЙ  
ЭКОНОМИКИ И ЭКОНОМИКИ СТРАН ЮЖНОЙ  
И ВОСТОЧНОЙ ЕВРОПЫ**

**МАТЕРИАЛЫ  
1-й МЕЖДУНАРОДНОЙ НАУЧНОЙ КОНФЕРЕНЦИИ  
ДЛЯ СТУДЕНТОВ И АСПИРАНТОВ  
СТУДЕНЧЕСКОЙ АССОЦИАЦИИ ЭКОНОМИЧЕСКИХ  
УНИВЕРСИТЕТОВ ЮЖНОЙ И ВОСТОЧНОЙ ЕВРОПЫ  
И РЕГИОНА ЧЕРНОГО МОРЯ  
(ASECU YOUTH)**

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А 43

**А 43** Актуальные вопросы развития мировой экономики и экономики стран Южной и Восточной Европы : материалы 1-й Международной научной конференции для студентов и аспирантов Студенческой ассоциации экономических университетов Южной и Восточной Европы и региона Черного моря (ASECU Youth). Ростов-на-Дону, Россия, 12-18 сентября 2011 г. / Рост. гос. эконом. ун-т (РИНХ). – Ростов н/Д, 2011. – 305 с.

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Сборник материалов конференции включает статьи, в которых были обобщены результаты научных исследований студентов и аспирантов вузов Юго-Восточной Европы по проблемам развития современной экономической науки, текущим вопросам развития мировой экономики в целом и экономик отдельных стран региона, в том числе в отраслевом разрезе. Особое внимание было уделено посткризисной динамике развития государств Юго-Восточной Европы.

Сборник рассчитан на студентов-бакалавров, специалистов и магистров, а также на аспирантов и молодых ученых, интересующихся вопросами современного развития экономической системы региона.

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## FOREWORD

Hosting the 1<sup>st</sup> ASECU Youth International Conference for undergraduate, graduate and postgraduate students «Relevant issues of development of world economy and economy of countries of the Southern and Eastern Europe» was a very challenging and at the same moment prestigious task. Conference was a part of the 1<sup>st</sup> ASECU Youth Summer School - a place for mutual education and communication of students of ASECU Youth, creative playground where they got acquainted with each other, exchanged experience, mutually worked out ideas and plans for further cooperation.

The program consisted of a plenary session, and 4 general sessions on a wide range of economic issues that gave students an opportunity to represent different economic fields and scientific schools. The conference hosted 72 students from 9 countries (out of 14 represented at ASECU) with 69 reports.

Section 1 was devoted to a wide range of issues relating to the socio-economic development and modernization of countries (mainly in the South-Eastern Europe) within post-crisis changes. This section included the biggest number of reports and covered topics from examination of the economic aspects of several countries of the SEE and CIS region to investigation of current monetary policy in the world.

Tatiana Elizarova opened the section with a speech on the role of BRICS in world economy and the place of Russia within this informal union. Her speech was followed by Lenka Drgová's presentation about the state of dairy trade between Russia and Slovakia that was followed by a report of Silvia Miklovičová, dedicated to the analysis of bilateral trade relations between the above stated countries.

Ksenia Filimonova's presentation described the state of competitiveness of Russia in comparison with other countries and the main factors that determine Russia's competitiveness. Several more interesting thoughts related to that topic were presented in Alyona Grinchenko's report on innovation in Russia's economy and their influence on country's development. Juliet Markaryan supported this subject by adding extra information about the role of investment and innovation market in development of Russia's economy as well as Alina Lyul'kina who focused her attention on the advantages and disadvantages of Russia as a player on a world market of technologies, and Tatyana Guboglo who justified that country's economic modernization depends on the state of national innovative system. Inna Zubova continued the topic with presentation about the role of intellectual assets in Russia and how they can contribute to creation of innovative economy.

Following presentations were devoted to the overview and analysis of other SEE countries. Thus, Filip Petrović made a presentation on the economy of Montenegro that was then supported by Ivan Čanović's presentation on transition period for Montenegrin economy. Maša Tomković contributed to the topic with some interesting facts on Montenegro's macroeconomic performance over the past 10 years. Lampros Gallos and Varvara Gaspari made joint presentation based on analysis of Argentina's crisis of 1999-2002 that could be relevant to current Greek crisis while Ioanna Athanasatou and Georgios Lampousis were fully focused on the analysis of Greek crisis.

Issues of inter-country cooperation were also disclosed in Ekaterina Krestianinova's presentation, this time on problems of economic collaboration within CIS. Maria Avanesova closed the topic with a speech on economic state and economic development of South Caucasus states.

Nazarij Hristuk presented a report about Ukrainian estate market trends in the context of the 2012 UEFA European Football Championship. In a very interesting way he showed the

possibility to earn money due to the growing interest of real estate in Ukraine. Natalia Ciubuc made an overview of country risks and position of different countries and regions in the Country Risk Rating.

Further on was Anna Yakimchuk's presentation on global energy security and the role of Russia in world energy market. Anna Kuppenko continued the topic with investigation on how might develop oil market in the non-OPEC countries. Eirini Petratou disclosed the issues that were directly connected with the previous two presentations: current policies that can help to reduce polluting emissions and how they influence economic growth and development.

The next speaker - Daria Krasavina presented an overview of Russia's long way to WTO and discussed pros and cons of joining the Organization. Julia Kalmykova presented an interesting speech on international labor migration to Russia which is to stand on the second place among top migration centers in the world in several decades. Alexandra Chubenko supported the discussion with a speech on political and ecological issues of international migration.

Ewelina Januszczak emphasised importance of enterprise development on the border areas and presented achievements of Podkarpackie province in this field. Dawid Krent drew attention to the process of development of SME sector in Poland.

Finally, Lusine Dadalyan closed the section with a presentation on how recent financial and economic crisis influenced world wage rates.

Thematic scope of the Session 2 was also wide. The presentations have dealt with issues connected with finance, accounting and entrepreneurship. Maria Muradova has focused on changes in the world monetary system. She presented a new perspective on the global currency relations. In the second presentation Ekaterina Gordeeva presented the dynamics of changes in foreign direct investments in the world. Discussion after the presentation were concerned to the development of special economic zones in various countries. The third speaker - Viktoriya Poluyan spoke about relevant issues of international financial reporting standards. There were discussed principles-based standards adopted by the International Accounting Standards Board in an international context. The next three speeches were linked with the same subject. Alina Frolova has focused on the area of Southern and Eastern European countries. Nikita Arkhipenko drew attention to the problems of application of IFRS in Europe and Elena Magdesyan focused on problems of reorientation of Russian financial reporting standards. During the discussion about adoption of IFRS around the world importance of uniform set of standards for financial reporting was highlighted. It was stated that accounting quality is a function of the firm's overall institutional setting, including legal and political system of the country in which the firm resides.

Stefan Prolovic drew attention to the necessity of ISO standards implementation by some specific companies and institutions. Mihaela Nicolau discussed implementation of flat tax in Eastern Europe. Her presentation was followed by a number of reports dealing with debt problems. Alina Kovtonjuk and Anamaria Avadanei made presentations about debt problem in EU: Alina presented her approach to the problem of state debt in a number of European countries while Anamaria presented the results of her econometric analysis that proved existence of connection between the speed of economic recovery and the sovereign debt state. Debt problem was also discussed in Valeria Anufrieva's report on Russia's foreign debt issues. Some extra information was presented by Alla Suharnikova who discussed future prospects of IMF development and increasing role of developing countries in this Organization.

Julia Nazarenko focused on the impact of globalization on the European monetary policy and the way Central Banks try to fight its negative influence. This presentation was followed by Ioana-Iuliana Tomuleasa's speech on how has financial system in a number of SEE

countries changed under global financial crisis pressure. Report made by Elena Kochurova contained analysis of possible ways of “creation” of free currency convertibility in Russia and China. And the final speech of Tamara Ivanova stressed attention on experience of some developing countries (especially Russia and China) in creation of international financial centers.

Section 3 was mainly devoted to the issues of the role that corporate sector plays in the development of countries and regions as well as to the importance of human potential development. Thus, Marina Verigina and Alkiviadis Karagiorgos discussed to what extent corporate social responsibility influences development of society and how it can be “promoted” in a wider range of countries of South-East Europe. Following presentations of Marina Bakulina and Tonine Maverick Massamba discovered influence of multinational and transnational companies on the host countries. Marina was mainly focused on presence of Russian TNCs abroad and their motivation for transnationalization while Tonine dedicated much attention to the presence of western TNCs in Africa, highlighting negative moments of their activity there.

Ekaterina Andrienko and Anastasija Vatutina contributed to the topic with investigation of the state of innovation activity in Russian companies and listed policy measures that could be implemented by the government in order to foster innovation. “Innovative tendency” was also supported by the presentations of Evgeniya Golysheva and Olena Gryshenko who drew attention to the forms of collaboration between innovative enterprises in Ukraine and revealed factors that promote and hinder companies from development, acceptance and implementation of marketing innovative decisions in their activity.

The next two speeches of Daria Pshenichkina and Anastasija Rabcieva covered the topic of employee motivation in different countries, mechanisms and tools of such motivation and advantages of non-financial motivation, special focus was drawn to Russian companies’ experience in this field.

Vasile Anton did a report that determined the origin of issues and factors (with a special interest on human factor) that reduce development gaps and increase growth in economy. Pavlo Denysenko contributed with a speech on knowledge economy and the special impact of intellectual potential in its development.

Anastasia Vinogradova in her report discovered M&A Maturity index as a new and very efficient tool of M&A market evaluation and presented comparative analysis of BRICS countries based on this index.

Evangelina Zikou presented the relations between economic growth of the country and entrepreneurship level. The discussion after the presentation focused on differences in procedures for setting up companies in various countries. The next presentation prepared by Irina Chernayeva was about intellectual property management. She focused on problems of managing the development of innovative projects.

Presentation of Eirini Ozouni, based on her collective paper with Vasiliki Pavlidou and Leonidas-Dimitrios Mavromatidis, included critical literature overview on such an urgent topic as interdependence of growth theories and long wave theories in terms of considering technology as the main factor that influences economic evolution in the long run.

The section was closed by Sargis Asatryants’ presentation that was of a big interest among the audience with a description of management in show business.

The last presentation was devoted to the reality of implementing flat tax systems in the countries of Eastern Europe. Attention was drawn to the fact that a true flat tax system reduces the ability of government to encourage social policy.

In Section 4 much attention was dedicated to the world and regional services' market development with a special focus on technology sub-sector. The first two presentations made by Alesya Bychkova and Radoslava Gregušková discussed prospects of development of world tourist industry in a whole and in the Slovak Republic in particular. Next speech of Anna Panchenko revealed the state of such a new form of international business as international outsourcing in Russia and possibilities for Russian outsources abroad. Reports of Dmitry Kravchenko and Emma Najaryan were focused on state and level of development of insurance business in Russia and Armenia. Both students gave sufficient data on the insurance market in their countries and actively participated in the discussions on this issue.

Timur Bugaevskiy presented an overview of sport business in the world with a special focus on financial side of this business. His presentation was followed by the presentation of Mikhail Lagunov with another current and widely discussed problem of economic espionage.

## WELCOME ADDRESS

*by the President of ASECU, Professor Yannis Tsekouras*

Dear Rector of Rostov State University of Economics,  
Ladies and gentlemen,  
Esteemed colleagues and students,

In March 2007 the General Meeting of ASECU decided that students of our member universities should be permitted to set up their own parallel organization – ASECU-Youth. Four years on, the Rostov State University of Economics have made this aspiration a reality. For their efforts – which, I very much hope, may prove to be a radical turning point in the history of ASECU itself – we owe a massive debt of gratitude to the University of Rostov.

At the General Meeting of ASECU in 2007 the students from three Greek universities who proposed the founding of ASECU-Youth made the following remarks:

‘We find that the objectives of ASECU are of special interest to us: the conferences and the journal, but also the idea of organizing joint postgraduate programmes and exchange programmes for students and teachers among the universities of south-eastern Europe. We would like to organize a parallel structure, to benefit from involvement in ASECU activities and from the organized cooperation of students from different countries and universities. This cooperation might involve exchanges, attending ASECU conferences, holding our own conferences where the papers would be presented by both students and teachers, as well as other academics or figures from the world of politics and business, the organization of summer camps or schools, and perhaps even the setting up of a website for ASECU-Youth. Operating within this broader regional, rather than narrowly national, context, in the spirit of the age of globalization and European integration, we believe that as active members of the European Students Union (ESU) we will be able to participate in European processes relating to educational issues. I believe this will help us to expand our academic horizons, to understand and cooperate with each other more effectively, to move beyond negative attitudes and to promote the peaceful coexistence and progress of the people of this region, which is now becoming our greater homeland’.

At the same General Meeting, representatives of the member universities welcomed the students’ proposal. We cite some of their comments below:

**Prof. Eleonora KARASAVVIDOU (Aristotle University of Thessaloniki, Greece)**

‘It is moving to see young people who can visualize the region as a unity, who can perhaps work towards demolishing the old suspicions and prejudices – exactly as ASECU is trying to do. And they will also bring their own, fresh vision to our organization. Of course we will allow them part of the conference. Their idea of setting up a new network is a very positive suggestion and let us hope they are successful. Nothing is easy; they are young and we must give them plenty of encouragement’.

**Prof. Statty STATTEV (University of National and World Economy, Sofia):**

‘It’s an excellent idea. To be realistic, we must realize that our students are our future, and the future of ASECU. What could make more sense than to assist them to become involved. This is a proposal we should support. And I am sure that other universities may have ideas on conferences for young people, doctoral studies, academic visits. It is an excellent idea, something that will ensure the future of ASECU, since these young people will be the organization’s future’.

**Prof. Fatmir MEMAJ (University of Tirana):**

‘I agree that it is an excellent idea, as is the possibility of the students participating in exchanges. There might be a problem with funds, but the students could be put up in student

hostels. They will be able to promote ASECU activities and investigate approaches to institutions in other countries’.

Today and over the coming days we will be here in Rostov to assist at the founding of your Association. We, your teachers, will be here to provide help and support where it is needed. But you the students will, from the outset, be acting independently, free to be as creative as you wish and to make the freest use of your enthusiasm, interest and leadership abilities.

Let me remind you, the students, of the words of P. Kondylis, that ideas are born in the ferment of youthful blood. ‘To be young means to change the world’. In this new world of globalization, I urge you to exert all your powers of creativity, solidarity and energy to determine your own destiny, and that of mankind – in such need of justice, dignity and respect.

The French philosopher Michel Serres has observed that what we call the civilized world was built on a trinity of deities: Zeus (religion), Ares (war) and Quirinus (economy). In its early years human history evolved through religion, later through war and in modern times through economy. Zeus has fallen, Ares is no longer effective – since huge military machines have now been defeated by tiny nations. Serres wonders whether we are now about to witness the fall of Quirinus, the end of the market, the end of the economy as the dominant global force (see BH, 30.4.11). It is not easy to imagine an affirmative answer to this question.

Yet even if human society were to reach this point, it would not cease to be characterized by oppositions, conflicting interests, needs and desires demanding satisfaction.

$$Satisfaction = \frac{\text{possession of material and immaterial goods}}{Desires} \quad (\text{Eugene Staley})$$

It is therefore likely that the economist will survive, as necessary as the doctor, the engineer and the lawyer.

Their disappearance would mean that the sciences they administer, solving all problems and curing all ills in their fields, had removed their *raison d’être*. And since this is not likely to happen, there remains the question of the existence of the ‘good and objective economist’. Is there an economist who combines both these qualities? Probably not, by the standards prevailing in the economic, social and political spheres.

However, as men are moved by feelings, and particularly by actions, of solidarity, we economists would be wise to act according to the highest standards of justice, understanding and solidarity.

Jeremy Rifkin has spoken of the Empathic Civilization, in which the globalization of culture leads to a bio-spheric consciousness, where the era of the logic of religious and rational consciousnesses is replaced by the era of understanding.

I myself would give precedence to the consciousness of responsibility and duty, which is governed by reason and understanding, and which tests our existence rather than simply making our lives easier.

In this sense, I wish you every success as pioneers of ASECU-Youth, as the Association of Young Economics Students (YES) and as the academics and experts of tomorrow.

Thank you.

# **PLENARY SESSION**

## **TRANSNATIONAL DIRECTION OF RUSSIAN BUSINESS DEVELOPMENT**

In this article contemporary development of transnationalization is analyzed, also its essences and reasons are analyzed. Here you can see the description of foreign branches chain of Russian multinational companies in sectoral and country aspect. This work looks into modern problems and prospects of Russian business and its transnationalization.

**Key words:** multinational companies, transnationalization of business, foreign branches chain.

Processes of production and capital transnationalization, are fundamental and motive power of modern globalized economy. At the same time globalization leads to beginning of economic interdependence between countries, resulting in the gradual destruction of national economic sovereignty and the emergence of new supranational economic formations as global corporations.

According to the foreign literature on the international economy the terms multinational firms (MNF) and multinational corporations (MNC) are used as synonyms. In Russian literature they are called international, global, and supranational. However, the most common term is “transnational corporations” (TNC).

Transnational Corporation is a corporation or a company, which carry out the main part of their operations abroad usually in several countries where they have chain branches, branch offices, enterprises. The main purpose of multinational corporations activity like any other business structure is the profit. The preference receiving overseas determines differences in economic, political, legal, natural and social conditions in different countries and also general trends in the global economy.

In the early 21<sup>st</sup> century Russia began to occupy a leading position among the investors of foreign direct investment in the world.

It was published 500 Top global largest companies in American magazine “Fortune” which included six Russian companies (see Table 1).

**Table 1**

<b>Company name</b>	<b>Company rating</b>	<b>Company activity</b>
ОАО Gazprom	50	Energy
ЛУКОЙЛ (ОАО)	93	Petroleum refining
Rosneft Oil Company	211	Petroleum refining
Saving Bank of the Russian Federation	256	Banking and finance
ОАО TNK-BP Holding	318	Petroleum refining
Sistema JSFC	460	Tele-communications

The largest Russian multinational corporations can be divided in two groups:

- Companies with intentionally formed transnational status. These include government natural monopolies, for instance “Gazprom” and “RAO UES of Russia”. Their industrial bases have been inherited from the Soviet national economy.

- Companies which were set up spontaneously due to natural circumstances. There are private, growing fast companies represented in sectors where Russia has a competitive advantage. These include:

- in steel sector, "Rusal", "Siverstal", "Evrazholding", "Mechel" NLMK "Norilsk Nickel";

- in oil sector, "Lukoil", TNK-BP;

- in telecommunications sector, MTS, "VimpelCom".

The study was devoted to the expansion of transnational corporations from emerging market IMEMO RAN allocated 20 of the leading Russian non-financial TNCs by the value of their foreign assets at the beginning of 2008 (Million USD). Overseas sales of TNCs were 266 billion dollars, while the number of foreign staff has exceeded amount to 190 thousand (see table 2).

**Table 2**

№	Company name	Company specialization	Foreign assets(\$)	Government control	Stock Exchanges
1	LUKOIL	Petroleum refining	23577	-	RTS, MMVB, LSE, FSE
2	Gazprom	Energy	21408	50.002%	MMVB, LSE, RTS, FSE
3	Severstal	Steel production	12138	-	RTS, MMVB, LSE
4	Evraz	Steel production	11196	-	LSE
5	RENOVA	Conglomeration	8500	-	-
6	Bazovij Element	Conglomeration	6200	-	-
7	NLMK	Steel industry	4985	-	RTS, MMVB, LSE
8	Sovkomflot	Maritime transport	4642	100%	-
9	Norilskij Nikel	Non-ferrous metallurgy	4600	-	RTS, MMVB, LSE, BBSE
10	Vimpelkom	Telecommunication	4386	-	RTS, NYSE

Motives of transnationalization Russian TNCs can be presented in tabular form (tab. 3).

**Table 3**

Motive of transnationalization	Type of MNC	Examples
Market-oriented	Large companies of Metallurgical and fuel and energy complex that aim at expanding market or overcoming trade and political barriers.	Gazprom, Rosneft Oil Company, TNK–BP Holding, Surgutneftegaz
Resource-oriented	Large and medium companies focused on the mining and processing of natural resources.	LUKOIL, UC Rusal,
Technology-oriented	Large and medium companies specializing in high technology industries (engineering industry, telecommunication, electronics)	VimpelCom Ltd, Sitronics

In capital markets, the shares of only 6 of the leading Russian TNCs 20 are not quoted on any stock exchange. Real innovation projects of Russian companies in connection with their overseas activities are very little in scale. However, such projects exist, for example the "Norilsk Nickel", which bought Australia's huge number of mines and science research departments. "Lukoil" a few years ago, began exploration in Colombia and Saudi Arabia. In these countries they use new drilling technology.

Some Russian TNCs have affiliates in many countries all over the world. For instance, Russia's largest investor, "Lukoil" has subsidiaries in 35 countries.

In general, by the end of 2008 in 20 Russian TNCs 49% of foreign assets were located in Western and Central Europe, the share of CIS countries accounted for 23% and 17% in the North America (see table 4).

**Table 4**

№	Country	January- June 2007	July- December 2007	January- June 2008	July- December 2008	2007-2008
1	Cyprus	10775	3856	7836	-409	22058
2	Netherlands	9170	3332	1234	1384	15120
3	USA	330	644	6307	1369	8650
4	United Kingdom	1100	1354	4502	970	7926
5	Canada	13	168	57	6667	6905
6	Bermuda	1049	1639	1927	2141	6756
7	Switzerland	404	1001	1155	305	3865
8	Luxembourg	516	-19	1365	1235	3097
9	Ukraine	491	1111	530	234	2366
10	Germany	253	420	944	457	2074

The main offshore zone in the distribution of foreign direct investment to different countries for Russian TNCs appears Cyprus, Britain and the Netherlands are also popular as a channel for FDI. U.S. and Canada, by contrast, were the main recipients of Russian investments, particularly in the steel industry. Ukraine and Germany lost their leadership position. In Belarus, a big part of Russian investments connected with "Gazprom".

In the countries which are the world leaders in attracting foreign direct investment, such as India and China, there is no significant Russian investments, which indicates strong competition in these markets for attraction of assets. Russian TNC are expanding their business in China very carefully. Only a few companies among the leading twenty Russian multinationals are in China trading subsidiaries.

In this industry, only two companies: "Rusal", which controls "Shanxi Rusal Cathode" and "FESCO" - owns 49% of the company that produces paints in Hong Kong. However, Russia's largest plant in China owned by a non-twenty largest domestic company TNK "Akron" of Novgorod the Great, which specializes in fertilizers production. In 2008, its total foreign assets amounted to 332 million U.S. dollars. China has become a major market for "Akron" because of the huge attention to agriculture in this country.

The expansion of Russian companies in India based on the agreement between the two countries. In early 2007, there was reached the agreement due to the Indian rupee debt which will be repaid by investments in joint ventures. Appreciable activity in India has developed JSFC "Sistema", which acquired 73.7% interest in one of the local telecommunications companies.

In the 21st century, one of the most important areas of trans-nationalization of Russian business is becoming the African continent, primarily raw materials and engineering, as well as some other sectors. An important feature of the African resource base is a low production cost.. In the first decade of the 21st century Russian companies such as "Alrosa", "Renova", "Rusal", "Norilsk Nickel", "Evraz", have made large investments in African economy.

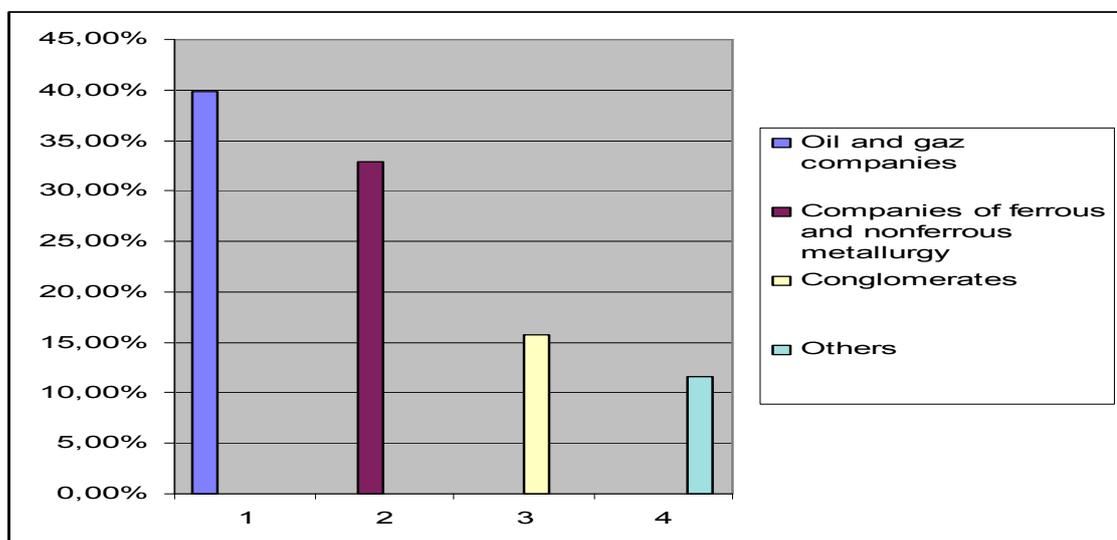
**Table 5** - Russia's largest investors in Africa, South of the Sahara

Company name	Raw material	Country	Year
Alrosa	Diamonds	Angola, Congo	2003
Renova	Metals	South Africa, Gabon	2004
Rusal	Metals	Guinea, Nigeria	2006
Norilsk Nickel	Metals	South Africa	2004
Evraz	Metals	South Africa	2006
Sinteznedtegaz	Gas, oil	Namibia	2006

With regard to the localization of the headquarters of Russian TNCs, almost all of them are located in Moscow and a few head offices are located in other cities.

Specialization of Russian MNC in the oil and gas industry, ferrous and nonferrous metals connected with the history of Russian industrialization.

Sectoral structure of foreign investment of Russian capital reflects the specialization of Russian economy in the world.



**Fig. 1.** Top industries for FDI inflows in Russia

Russian TNC are on the way of strengthening their position of presence in the global economy and they have following problems.

1. The main competitive advantages of Russian TNC are based on the presence in the country's rich natural resources oand a significant population of the country (applies to companies of the services sector - banking and telecommunications.) World market resource sector is increasingly locked for FDI today. Its connected with so-called "resource nationalism", government of the countries which are rich in natural resources, prevent foreign investment in these sectors, and strive to establish their own control over them. Expansion of the commodity

sector companies also prevents the structure of the global market. The most rapidly growing and a large share of FDI is not in the extraction and processing resources, and in the service sector and manufacturing.

2. Technological level of Russian TNC is not very high, foreign TNC are more prepared for a competition in the world economy.

3. Weak country and sectoral diversification of Russian TNC can have adverse consequences for their development and domestic companies may be taken over by Western competitors.

4. The problem of awareness of the importance of image politics Russia's TNK. The company Yukos, for instance, set up a special committee fashion, the head of this committee was personally Mikhail Khodorkovsky. According to Mikhail Khodorkovsky, the committee's work contributed to the increase in market capitalization of 8.

In 2011, in nearest future it is expected to increase both current and accumulated FDI Russian multinationals. Russian FDI will continue to recover from the crisis shock. For major changes in this area it is necessary to develop sound strategies and a mechanism of state support.

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### THE OPTIMISTIC STRATEGY IN THE CRISIS TIME

The title of the article is “The optimistic strategy in the crisis time”. The article is about some aspects of the financial crisis and how to look at them positively. The main idea of this statement is to help the businesses not only to endure it, but to perceive it from the optimistic way. There will be some advises for business to increase the performance of enterprises in the crisis time.

**Keywords:** Crisis, future, growth.

Over the past several years, expectations about the world’s future have radically changed. In 2007, the projected four-year growth rate for global GDP was comfortably above 4 percent. Today, after the slump of 2009 – when actual annual growth fell to -0.9 percent – the global economy is expected to achieve only show growth over the next few years, as developed markets struggle to recover.

It could have been much worse. For a while, the world stared into the abyss. But in the end, the financial crisis has led not to a repeat of the Great Depression but rather to what will surely go down in history as the Great Recession.

The concerted efforts of governments and central banks have played a critical role in staving off a 1930s-style depression. But the actions of individuals and companies will shape the next phase of the recovery.

It is all too easy to take a dark view of the decade to come. After all, there are several reasons to believe that growth in the global economy will remain sluggish for some time – despite the near return to pre-crisis growth rates in India, China, Brazil, and other developing markets.

Companies and households are facing years – and governments are probably facing decades – of deleveraging; this bitter medicine will depress consumption and investment. Countries, in their efforts to prevent unemployment from rising ever higher and to champion the cause of local businesses, are engaging in protectionist measures; these moves will show globalization. And regulators are clamping down on banks in ways that will constrain credit and investment.

We should be clear-eyed about these challenges and their implications. But we should also recognize that the world today is primed for change and filled with opportunity.

The fundamental drivers of growth are stronger than they have been at any point in human history. These include the increasing number of highly educated and capable people in the world, the breathtaking speed of technological breakthroughs, globalization, the inclusion of “the next billion” into the world economy, and relative political stability.

Given this platform for growth, leaders have both an obligation and an imperative to move forward – with strategic optimism – to seek and to create growth, value, and opportunity for their countries and companies.

If this appears to be a tough assignment, that’s because it is. But there will be support for this approach. Crisis and upheaval have historically unleashed enormous levels of pent-up creative energy, innovation, and fundamental change. When times are tough, we learn to make

the difficult decision that we should have made a long time ago. We cut back on waste and use scarce resources more efficiently. We come up with new solutions – and are willing to accept them. We step outside our comfort zone and go beyond our previous boundaries.

After the two oil shocks and the deindustrialization in major economies in the 1970s and early 1980s, the future looked bleak, too. But technological advances, the fall of the Iron Curtain, and economic liberalization helped initiate nearly 30 years of unprecedented growth. Along the way, there were downturns and instances of greed, fraud, and irrational exuberance. But despite these detours, the world made progress. Many of the United Nations' much-heralded Millennium Development Goals – such as reducing hunger and child mortality and expanding education – are now closer to being realized than ever before.

Today's crisis could very well spur the next big wave of growth. In the aftermath of the Great Recession, we all have a rare opportunity to reinvent ourselves, to start afresh, to make things better than they were before.

What does the turning optimism mean in practice?

For countries with bloated bureaucracies, aging population, and rising health-care and pension costs, it will require radically restructuring government programs, raising the retirement age, opening labor markets and, of course, investing heavily in education. Greece, for example, would probably never have implemented its austerity program without the push of the current crisis. The undertaking will be a painful process, of course. But in a best-case scenario, Greece's moves will help return the country's people to a path of progress and prosperity.

For companies, it means making major changes that address the deep structural problems plaguing many industries. Pharmaceutical companies, for example, are facing a devastating double whammy: their labs are not developing the kind of breakthrough drugs they need to replace the blockbusters that are losing patent protection. Automotive manufacturers are still producing too many cars and, in North America, too many of the wrong kind of cars – oversized gas guzzlers. And media companies are struggling to persuade consumers to pay for news, music, and videos in the age of the Internet.

In the years before the crisis, companies were able to tinker with reform, safe in the knowledge that the rising tide of the global economy would help them in their efforts to survive and succeed. But today, these companies can no longer simply fine-tune their business model or fiddle with their cost base: the structural defects in their industries and in their business models are just too great to ignore.

Some companies have already accepted that they cannot go back. Faced with extinction and aided by government subsidies, General Motors has made painful but overdue decisions to sell money-losing divisions, close underutilized plants, and focus on energy-efficient cars.

But bold moves will not be enough. Companies also need to be quick because time is not on their side. As the recovery takes hold, they will find it harder to make the tough decisions that were postponed during the boom years. With every passing year, they will also face growing global competition as companies from China, India, Brazil, and other emerging economies climb to the top of their industries. Unencumbered by legacy systems and cultures, these “global challenger” companies can move fast and aggressively.

So it is now time to stand up and be counted, take the future into your hands, grasp the opportunity presented by the worst economic crisis since the 1930s, and do things in a new and different way.

Of course, this is easier said than done. But there are steps you can take to ensure that you become the master rather than the prisoner of circumstance – and that your organization returns to a strong growth trajectory.

- Be frank about your company’s current performance, your competitive threats, and why the crisis hit you so hard. Instill into your organization the courage to change, overturn the status quo, remove cumbersome legacy structures, and dispense with sacred cows.
- Take a long-term view of value creation for your various stakeholders. Quick wins are nice to have, but sustainable success is nonnegotiable.
- Move with deliberate speed to make the required transformation. Pace really matters: the ability to recognize and adapt swiftly to change will be a hallmark of the winners.
- Help your organization see opportunity in the market changes. To be among the first to benefit from these changes, make use of shifting customer behaviors and attitudes and unleash the power of marketing.
- Focus on innovation by investing in R&D, accelerating the introduction of new products and services, and redesigning processes.
- Develop new business models: pilot low cost approaches, shift from product to services, or fundamentally restructure your portfolio of activities.
- Embrace globalization and use fast-growing emerging markets not only as a supply base but also as additional consumer markets.
- Play an active role in the consolidation of your industry through divestments and through mergers and acquisitions.
- Take an agile and flexible approach. Experiment and transform yourself continuously.
- Build the strongest team you can. You should lead from the front and by example, but you should not expect to do it all on your own.

Future growth depends on our willingness to change the way we do things. This will not be easy. It will call for vision, courage, determination, and a resolute belief that we – each of us – can shape our destiny. As a guiding philosophy, optimism trumps pessimism. By acting with a positive outlook, we can succeed – individually and collectively.

After all, the future does not just happen. We make it happen.

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## **SECTION 1.**

# **SOCIO-ECONOMIC DEVELOPMENT AND MODERNIZATION OF COUNTRIES WITHIN POST-CRISIS CHANGES**

## **BRICS IN WORLD ECONOMY: OPPORTUNITIES AND PROBLEMS OF COOPERATION**

The abbreviation BRIC, proposed by well-known analyst Jim O'Neill in 2001, has changed in the beginning of 2011: the great quartet was expanded by one of the fastest developing countries in the African continent, South Africa. In article statistics of economic development of the participating countries is considered, economic relations in the association are investigated, and also the basic possibilities and problems of development of BRICS are analysed.

**Key words:** *BRICS, developing countries, world economy, investment, WTO.*

The term BRIC has been invented by the senior economist of the company «Goldman Sachs», thus he named group of four quickly developing countries: Brazil, Russia, India, China. At the third summit in April 2011 leaders of these countries have approved joining to the union of the South African Republic, and the name has been changed to BRICS. According to «Goldman Sachs», by 2050 economy of these countries will exceed the size of economy of the richest countries of the world (G-7).

BRICS is considered to be an informal association which includes meetings of the leaders of participating countries. But on the other hand, the organization unites the countries with considerable potential. The share of BRICS is about 30 % of territory of our planet with about 43 % of the population of globe (3 billion persons in 2010), it makes about 20 % of world gross national product, has 8 % of global economic resources, 45 % of all labor resources and 45 % of global trade[5].

Over the last years the contribution of BRICS to growth of the global economy has exceeded 50 % . Cumulative gross national product of the BRICS countries is about 11 billion dollars, and cumulative reserves reach almost to 1,3 trillion \$ - half of gold stocks of the countries of the world, that exceeds reserves of G7 countries (1,2 trillion \$), more than third of the largest world power companies is originated from BRICS. Similar situation is observed in other sectors, in particular in coal, food, and pharmaceutical industries. These countries have considerable advantages in production of raw materials (oil, gas, coal), precious metals and stones, rural sector, industrial production and high technologies. Five developing countries own necessary resources not only for survival (in the conditions of rising deficiency of hydrocarbons, the foodstuffs, potable water), but also for dynamical development.

According to report of United Nations Conference on Trade and Development in 2008, BRICS countries are viewed as the most attractive destinations for the future foreign investments by transnational companies[6].

Combination of natural and labor force makes BRICS the leading industrial group which role will gradually increase. It is possible to talk about "complementarity" of economy of the countries that opens huge prospects for each of them. Even now there are good prospects of development of bilateral cooperation between Russia and China (deliveries of power resources, commodity market), Russia and India (military, scientific and technical cooperation). Though

economic relations between India - China, India - Brazil, China - Brazil have a limited character, and while the Republic of South Africa doesn't participate, however, the states of BRICS can stimulate such economic relations.

**Table 1 - Dynamics of GNP change of BRICS,  
(in % to previous year; 2011-2012 - the forecast)**

<b>Country</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Brazil</b>	7,5	4,5	4,1
<b>Russia</b>	4,0	4,8	4,5
<b>India</b>	10,4	8,2	7,8
<b>China</b>	10,3	9,8	9,5
<b>South Africa</b>	2,8	3,5	3,8
<b>USA</b>	2,8	2,8	2,9
<b>Eurozone</b>	1,7	1,6	1,8

*Source: IMF World Economic Outlook, April 2011.*

International influence of BRICS has no more grounds for doubts. As of 2011 this association has considerable political force: BRICS owns 5 of 15 places in the United Nation Security Council; Russia, China and India own the nuclear weapon.

The main point which interested many economists and politicians, - who will become a new of BRICS. There were various guesses: Mexico from North America, Australia, Indonesia from South East Asia, South Korea from East Asia, Turkey from Western Asia, Egypt from the North Africa, Nigeria from Central Africa. However the choice has fallen on the most economically developed country of African continent – Republic of South Africa that has caused many comments. According to many experts, first of all Brazil, India, Russia and China consider the new member as a way to an enormous commodity market of African continent with the population above 1 billion people. Gross national product of the Republic of South Africa is almost five times lower than Russian (300 billion \$) and absolutely insignificant against the Chinese - 1,5 trillion \$. However growth of GNP of the Republic of South Africa keeps at the level of 3-5 % that allows it remain the leading country on the continent[4].

Joining of the Republic of South Africa to BRICS was significantly promoted by China that shows dynamic activity on the South Africa market.

Thus, low GNP of the Republic of South Africa is compensated by potential of all continent whose economic development is one of the basic directions of world investors of 21 centuries.

It is necessary to notice that the structure of the South African economy rather reminds the Russian structure: the biggest share– mining operations (diamonds, gold and platinum), then goes–industry (chemical, mechanical engineering) and agriculture.

However it is necessary to notice that the introduction of the Republic of South Africa into BRICS can cause essential difficulties for the whole country. Manufacture of finished goods may not stand growing competition of Chinese and Indian commodity producers. For several years the Republic of South Africa exports basically coal and ore. The industrial goods in this list are not present, even agricultural production gradually disappears. It is remarkable that China and India don't aspire to invest in the industry of Africa, as a whole, and in the

Republic of South Africa, in particular, – they sell goods, develop infrastructure for facility of work of their companies. And the same trends are observed in development of relations between Brazil and Africa. It is necessary to notice that Brazil and India, of course, support ideas of reforming of the United Nations and other international institutes, but thus understand that the Republic of South Africa is their rival in struggle for a place of the permanent member of the United Nations Security Council.

Speaking about interaction within the association, it is important to notice that development of political interrelations of BRICS improves during annual meetings of heads of the states and Ministers for Foreign Affairs on various platforms, for example, in the United Nations and as part of G20. During the third summit of BRICS in China the joint declaration, which contains the basic directions and the plan of action for 2012 were signed. World experts have noticed that the given document of BRICS has underlined coordinated position on key issues of world economy and policy.

Thus was developed the Memorandum of cooperation of the state financial institutions of development that provides mutual credits in national currencies. This year China plans to grant the loan to Russia at the rate of 500 million \$ in chinese yuans. This way BRICS plans to strengthen the role of currencies of developing countries in global financial system. Credits between states in national currencies sharply reduce their dependence on the USA and the Western countries [3].

Some politicians are worried by efforts of BRICS to act together at essential international institutes - in the United Nations, including its Security Council, to raise a role of developing economies in the process of formation of new bases of the international monetary system; in the WTO where the trading protectionism of developed countries and improvements of trade conditions by agricultural goods of the developing states are discussed.

BRICS acted as a united team in the course of change of the head of the International Monetary Fund. Traditionally this post is occupied by the European, and its assistant is a citizen of the USA. IMF council consists of 24 members and more than 50 % of voices have the EU countries and USA. Representatives of Brazil, Russia, India, China and Southern Africa opposed that appointment of the following head of IMF had to be carried out in a new and choose general candidate on that post.

Summing up, it should be noted that interaction between participants of BRICS constantly extends: heads of the states hold regular summits, there are base for the decisions on safety issues, business forums and scientific conferences, meetings of statisticians, judges and administrative managers of Central Banks. In the long term - joint researches on economic and trading questions, cooperation in the field of culture, sports, discussion of ways of development of scientific and technical and innovative cooperation, including pharmaceuticals.

BRICS isn't institutionally founded international organization, and the summits in this question yet haven't changed anything, however they show that the countries have begun direct dialogue and pass to the agreement and coordination of positions on actual problems of the international agenda. It is obvious that this association has considerable potential. In the world there is a necessity of creation of more effective, than existing nowadays mechanisms of interaction for the international relations and if members of BRICS start to develop the general approach on key themes of discussion, it will be difficult to ignore them.

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## **SLOVAK-RUSSIAN BILATERAL TRADE RELATIONS**

### **Introduction**

In fact the developments in Slovak-Russian economic relations in the recent period can be described as highly prospective and positive with a dynamically growing trend in economic exchange. Trade and cooperation has been set out as a priority for long-term relations with Russia. An important milestone was the "Agreement between the Government and the Government of Russian Federation on economic and scientific-technical cooperation" which signing is dated to the 25<sup>th</sup> of February 2005. Slovakia is trying to implement the measures adopted under the intergovernmental contract, particularly those that lead to the facilitation of export activities for the Slovak economy. The Slovak Republic is expected to wider and enhance penetration of markets into free zones and regions of Russia. Cooperation among territorial units selected subjects to qualitative new principle, so that these activities reflect not only on increasing the momentum of bilateral trade but also in enhancing economic and commercial production and cooperative cooperation between Slovakia and Russia.

### **European – Russian relations**

The European Union and Russia have a strong trade relationship. Bilateral trade flows and volume of investments have been growing rapidly during the last years. This favourable situation was of course interrupted by the global economic crisis. In addition there were various unilateral measures adopted by Russia which have adversely affected our bilateral trade. Key issues in terms of the EU-Russia relations are World Trade Organisation accession negotiations and the negotiations of a New Agreement. This new document should replace the current Partnership and Co-operation Agreement (PCA) and should be aimed at strengthening bilateral business relations by retaining some basic principles and goals in the area of trade and business (EUROPEAN COMMISSION, 2010).

### **Partnership and Co-operation Agreement**

It is considered to be the framework of the EU-Russia relationship. This agreement was signed in 1994 and entered into force on 1 December 1997 and regulates the political and economic relations between these two countries. Moreover it represents the legal basis for the EU's bilateral trade and investment relations with Russia. One of its main objectives is the

promotion of trade and investment and also the development of consistent economic relations. The PCA contains special provisions linked to the economic relations between two parties. European imports from Russia are to a significant extent not subject to any trade restrictions. On the other hand the existing rules provide more flexibility to Russia to adopt unilateral tariff measures (EUROPEAN COMMISSION, 2010). As it was mentioned before EU and the Russian Federation are currently negotiating a new agreement which should provide a comprehensive framework needed for bilateral relations with stable, predictable and balanced rules for trade and investment relations between the EU and Russia.

### **Other cooperation documents between EU and Russia**

Within the framework of the existing PCA, the Common Economic Space (CES)<sup>1</sup> aims at increasing opportunities for economic operators, a further step towards establishing a more open and integrated market between the EU and Russia. The overall objective of the CES is to put in place the conditions for increased and diversified trade and creating new investment opportunities by pursuing economic integration, elimination of trade barriers, regulatory convergence, market opening, trade facilitation and infrastructure development by closer co-operation, exchange of information and sharing of best practices.

The Roadmap on the Common Economic Space<sup>2</sup> was adopted at the EU-Russia Summit in Moscow on 10 May 2005 and it deals with a number of principles and priority activities. In addition it also sets up dialogues on the following trade related issues: Investment dialogue, IPR dialogue, Public Procurement Dialogue, Regulatory Dialogue on Industrial Products etc.

### **Brief historical and political context of Slovak – Russian relations**

The modern Slovakia's approach towards Russia since 1993 when it gained independence and started to form its own foreign policy is rather an evolving concept. Slovak governments after 1993 have been shaping their policies towards it following pragmatic considerations driven by domestic developments and international environment. All Slovak governments have declared that the main goal of foreign policy is the integration with western structures (NATO and EU). Unlike the US and the EU countries, Russia politically supported the Slovak government in its "democracy discourse" with the West and vice versa Mečiar demonstrated sympathy for Russia's criticism on NATO eastward enlargement. The relations with Russia became a foreign policy priority considered as an alternative to Slovakia's Euro-Atlantic integration. Finally, Mečiar's overestimation of the importance of the economic and political relations with Russia and his inability to defend the national interests of Slovakia in the relations with the EU and the US, led Slovakia to an international deadlock (DULEBA, 2009).

The government led by Mikuláš Dzurinda came to power in 1998. It changed completely the foreign policy, including bilateral relations with Russia. The government was successful in eliminating the Mečiar political heritage. Naturally, Russia responded with political restraint – if not coldness – to the changed attitude of Slovakia. Therefore the years of 1998–2000 were the poorest in Slovak– Russian relationship in terms of the intensity of official contacts and political agenda (DULEBA, 2009). Currently exist between the two countries mutually beneficial relationships. In recent years, stimulated interstate political dialogue, which in February 2005 in Bratislava was an official visit to the former President of the Russian Federation Vladimir Putin in April 2005 - Chairman of the State Duma of the Russian Federation Boris Gryzlov, in November 2006 held the official visit of President Ivan Gasparovic in Russia.

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<sup>1</sup> [http://eeas.europa.eu/russia/common\\_spaces/index\\_en.htm](http://eeas.europa.eu/russia/common_spaces/index_en.htm)

<sup>2</sup> [http://ec.europa.eu/environment/enlarg/pdf/road\\_map\\_ces.pdf](http://ec.europa.eu/environment/enlarg/pdf/road_map_ces.pdf)

The second government led by Mikuláš Dzurinda formed in 2002 continued its Russia policy in line with the course of 1998–2001. The main issues of Slovak–Russian relations during 2004–2006 focussed on the economic agenda and foreign trade. Even though the businesslike nature of Slovak–Russian relations both sides recognized that they had different positions on some key issues of the international agenda in general, and on the developments in “common neighbourhood” in particular (DULEBA, 2009). In spite of the emphasis on a pragmatic economic approach towards eastern neighbours by the Slovak government did not prevent the gas crisis in January 2009. The delivery of natural gas from Russia through Ukraine to Slovakia was stopped. In January 2009 approximately 1000 Slovak companies had to suspend production for almost two weeks. Total economic losses reached more than 1 billion euros (MINISTRY OF ECONOMY OF SR, 2009).

### **Trade, investment and economic cooperation**

The key institutions of the relations of Slovakia with Russia were the Intergovernmental Commissions for Economic and Trade Cooperation, established by basic bilateral treaties with Russia, Ukraine and Belarus and signed in the period of 1993–1994. During the regular meetings of intergovernmental commissions, basic bilateral issues of economic cooperation, including the conditions of mutual trade were negotiated. After Slovakia’s accession to the EU in 2004, this became an example of the narrowing of the bilateral tools of Slovak foreign policy in foreign trade relations with East European countries. The realization of Slovak trade interests in its relations with post-Soviet countries was transferred from a bilateral level to the EU level. The only eligible body that can negotiate conditions of foreign trade with goods on behalf of all member states in relation to third countries is the European Commission. It also represents the trade interests of all EU member countries in the World Trade Organization. In order to comply with the EU *acquis* the Dzurinda’s government departed from all respective parts of the former legal regime of Slovakia’s economic relations with eastern neighbours, including Russia. As well, it decided to conclude the activities of the bilateral Intergovernmental Commissions with Russia, Ukraine and Belarus in 2002 (BREZANI, 2004). The former commission with Russia has been re-established under the name of Intergovernmental Slovak–Russian Committee for Economic and Scientific- Technical Cooperation. In 2008 Slovak exports to Russia grew by 84 % compared to 2007, and imports from Russia by 33.4 % on the same basis. The increasing value of bilateral trade in the period of 2006–2008 was determined primarily by two factors: the falling exchange rate of the US dollar and the growing prices of crude oil and natural gas on the global market, i.e. the main commodities imported by Slovakia from Russia (MINISTRY OF ECONOMY OF SR, 2008). LEONARD – POPESCU (2007) reported that Slovakia has supported at times the Russian point of view within the EU. In addition it was the only new EU member state (except Cyprus) which opposed a discussion on an EU peacekeeping role in Moldova in February 2006. Bulgaria, Hungary and Slovakia have had also similar opinion as Russia on the energy policy. They said that in the absence of a common EU energy policy they have no option but to strike bilateral energy deals with Russia.

### **Slovak – Russian bilateral trade**

Around 90 % of Slovak imports from Russia in 2008 were created by mineral fuels and almost 80 % of Slovak exports to Russia were represented by machinery and transport equipment, and personal motor cars in particular. See *Tab. 1* and *Tab. 2* for more information. According to LEONARD – POPESCU (2007) Slovakia is highly depended on Russian raw materials: Russia supplies 100% of gas and 97% of Slovak oil needs.

**Table 1:** Slovak imports from Russia (mil. €)

		<b>2007</b>	<b>2008</b>	<b>2009</b>
SITC	<b>IMPORT FROM RUSSIA</b>	<b>4501,8</b>	<b>5442,3</b>	<b>3467,7</b>
0	Food and live animals	1,4	0,9	0,4
1	Beverages and tobacco	0	0,1	0
2	Crude materials	197,4	220,1	142
3	Mineral fuels, lubricants and related materials	3938,7	4878,7	3173,2
4	Animal and vegetable oils	0	0	0,1
5	Chemicals	67,9	92,9	38,6
6	Manufactured goods classified chiefly by material	195,1	169,7	48,5
7	Machinery and transport equipment	93,5	73,8	61,3
8	Miscellaneous manufactured articles	7,7	6,1	3,7
9	Others	0,1	0	0
	<b>TOTAL IMPORT</b>	<b>47869,7</b>	<b>50280,1</b>	<b>38528,7</b>
	<b>SHARE ON IMPORT</b>		<b>10,82%</b>	<b>9,59%</b>

Source: Ministry of Foreign Affairs of the Slovak Republic

**Tab 2.:** Slovak exports to Russia (mil. €)

		<b>2007</b>	<b>2008</b>	<b>2009</b>
SITC	<b>EXPORT TO RUSSIA</b>	<b>1067,7</b>	<b>1870,3</b>	<b>1413,8</b>
0	Food and live animals	8,6	8,2	14
1	Beverages and tobacco	1,9	0,5	0,4
2	Crude materials	11,5	12,9	8,1
3	Mineral fuels, lubricants and related materials	0	0,7	0,1
4	Animal and vegetable oils	0	0,6	0,4
5	Chemicals	75,9	84,4	85,4
6	Manufactured goods classified chiefly by material	149,2	163,5	119,4
7	Machinery and transport equipment	697,8	1463,8	1087,3
8	Miscellaneous manufactured articles	122,7	137,5	98,6
9	Others	0,1	0	0
	<b>TOTAL EXPORT</b>	<b>47159,9</b>	<b>49522,3</b>	<b>39715,6</b>
	<b>SHARE ON EXPORT</b>		<b>3,78%</b>	<b>3,56%</b>

Source: Ministry of Foreign Affairs of the Slovak Republic

Slovak FDI in Russia reached USD 150 million in 2008. There are approximately 60 companies with Slovak capital persuading located in the Russian market. The most important Slovak–Russian joint ventures in Russia are by the tyres producing company Matador-Omskshina located in Omsk and the Grafobal-Don situated in Rostov/on Don. It produces packaging materials. Considerably deep are contacts and cooperation on the regional level. All 8 Slovak administrative regional units (higher territorial units) have concluded cooperation agreements with 13 federal units of the Russian Federation (DULEBA, 2009).

### **Conclusion:**

Russia is considered to be one of the most significant areas of economic, trade and political interest for the Slovak Republic. It is mainly because of the importance of Russian resources, the size of country's market and geopolitical status. Slovakia supports pragmatic and balanced bilateral relations with Russian and wants to reach the highest possible level of dynamism in terms of mutual relations. Trade relations between the Slovak Republic and

Russia after the accession to the EU are set out in the *Agreement between the Government and the Government of the Russian Federation on economic and scientific-technical cooperation* (signed in 2005). With Russia, the EU has signed 19 bilateral agreements on trade and economic cooperation. Russia is the 5th most important trading partner for the EU after the USA, Switzerland, Japan and China. The EU provides 40% of total exports to Russia. Russia is third in total volume of Slovak imports (9.4%). Currently exist between the two countries mutually beneficial relationships.

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## **SLOVAK – RUSSIAN DAIRY TRADE AND NON-TARIFF MEASURES**

### **Introduction**

Multilateral trade negotiations, especially those held under the World Trade Organisation (WTO), has led to decreasing the world tariff levels. There is growing attention focused on the impacts of domestic policies on international trade and the use of non-tariff measures -NTMs (Cadot – Maliszewska – Saez, 2010). The primary intention of imposing NTMs is ensuring the protection of human-being, animals and plants in the country from diseases and to ensure the national welfare by correcting market failures. On the other hand these measures can significantly restrict bilateral trade flows.

Regulations and different product standards, and all types of NTMs impose compliance costs on dairy producers if these producers are interested in selling their milk and milk products

at foreign markets. NTMs can then lower the comparative advantages in trade of these exporters. In addition to the relative stringency of regulatory measures that importing countries impose on foreign products, country-specific and sector-specific factors, such as infrastructure, administrative services and market structure for example, influence compliance costs and thus the magnitude of the impact regulatory measures may have. On the contrary the import requirements and NTMs may also mean significant advantages for both consumers and producers, and they should be considered in a balanced analysis.

We have developed a survey to identify these NTMs. The survey was conducted among Slovak exporters, which are in fact exporting their products to the Russian market. Moreover we used our survey to find out why the other dairy plants do not export to Russia in spite of having obtained the valid export licence from Russian Veterinary and Surveillance Service.

### **Literature overview**

It has been suggested that policy actions and NTMs in particular vary significantly across the goods (Anderson and Wincoop, 2004). Dairy products belong to the most protected due to the remaining high tariffs and TRQ's as well as divergent standards posing difficulties to trade. These all are likely to be addressed within the current discussion on further trade and agricultural policy. Achterbosch (2007) similarly suggested that the dairy sector is one of the most heavily protected sectors mainly because of remaining high tariffs and quotas but divergent standards do pose difficulties and are likely to increase in importance after further trade liberalization.

From 1/3 and 2/3 of goods traded are affected by one or more NTMs. They moreover point out that technical standards seem to be the most often used ones and the most difficult to be complied with, which came out from the surveys conducted (Cadot – Maliszewska – Saez, 2010). The trade-weighted NTB coverage of agriculture, forestry and fishery products 24% for the EU. (Anderson and Wincoop, 2004). Messerlin (2001) used tariff equivalent and according to him tariff equivalent is used to measure policy barriers and the tariff equivalent of policy barriers for the EU in 1999 were 5% for cereals, 64.8% for meat, 100.3% for dairy and 125% for sugar.

Agricultural exporters, also dairy exporters must comply with requirements, which are prescribed the importing country if they want to sell their products on a particular foreign market. When a dairy producer is interested in exporting to more than one country then the company is usually confronted with a patchwork of regulations and standards. The capacity to comply with various different product requirements is a crucial and key issue when assessing the impact of regulatory measures on the exporting countries' competitiveness (Rau – Schlueter, 2009).

### **Empirical evidence**

Bilateral trade flows in dairy product category HS 04 (dairy products, bird eggs and natural honey) between Slovakia and Russia can be seen in *Figure 1* and *Figure 2*.

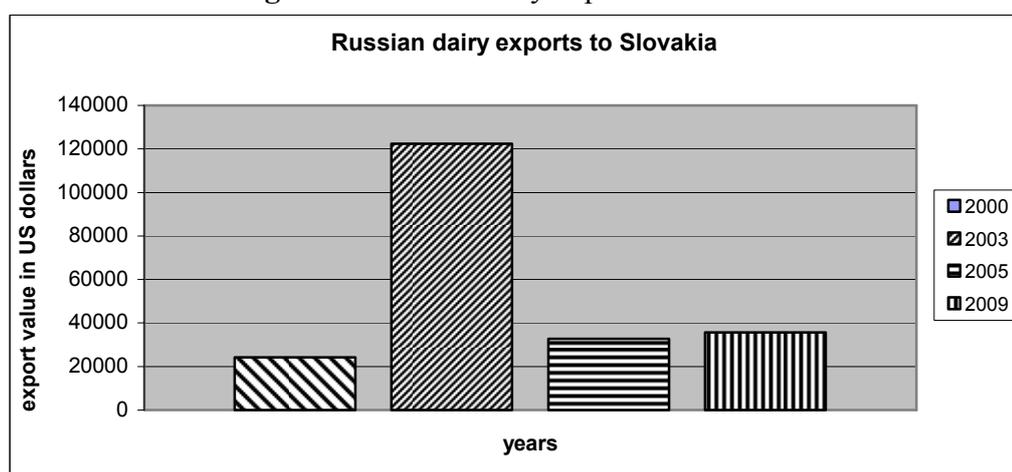
It is quite clear that the amount of dairy products exported is greater in the case of Slovakia. The highest value exported was reached in 2005. The most important commodity in terms of export is yogurt, cheese and butter. In 2005 Slovakia exported yogurt in the value of 3129181 US dollars and in 2006 it was 1353119 US dollars. In 2009 the most important commodity was cheese, we exported it in the value of 2736734 US dollars. Russian dairy exports to Slovakia are lower. It is mainly because of the fact that Russia is considered to be net importer of dairy products.

**Figure 1:** Slovak dairy exports to Russian Federation



Source: comtrade database (<http://comtrade.un.org/>)

**Figure 2:** Russian dairy exports to Slovakia



Source: comtrade database (<http://comtrade.un.org/>)

The product structure of Slovak world dairy exports is more or less stable. On the other hand the product structure of dairy export from Slovakia to Russia has been fluctuating during the period analysed. Here, it can be considered also an effect of rising use of NTMs in terms of different dairy products and often changes in those which are existing.

**Table 1:** Shares of dairy exports and imports of Slovakia and Russia in terms of their world dairy exports and imports

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011
Share of Slovak dairy exports to Russia on Slovak world dairy exports	1,07%	0,41%	1,48%	0,56%	0,00%	0,08%	0,98%	0,49%	0,49%
Share of Russian dairy imports from Slovakia on Russian world dairy imports	0,18%	0,08%	0,35%	0,15%	0,00%	0,02%	0,22%	0,08%	0,08%

Source: comtrade database (<http://comtrade.un.org/>)

*Table 1* illustrates that Slovak dairy export to Russia forms 0.5 – 1% from country's total dairy export to the world markets. On the other hand, Russian import of milk and milk products from Slovakia represents only 0.10 – 0.2% comparing to the whole dairy import to Russia from global markets.

### **Survey based approach and survey results**

Survey-based methods are useful when other sources of information are lacking. They allow us to identify diffuse and hardly measurable barriers, such as various administrative requirements. On the other hand the ability to actually help quantifying non-tariff measures is questionable. The firms consulted are likely to be biased if there is a perception that the agency conducting the survey would use it for policy purposes (Beghin and Bureau, 2001). It makes possible to differentiate between various product standards, which can have different impact on trade. Survey provide a crucial information which can be then used in econometric studies.

If a dairy company is interested in exporting its products to the Russian market, has to apply for the approval by the Russian Veterinary Office and obtain the export licence. For this a veterinary inspection visit must be held. During which the company has to provide all the documents necessary and all needed staff must be available. Company has to pay for the export licence (export code) and cover all the costs connected with the inspection visit. The export licence has to be renewed on a regular basis. Moreover if a company is interested in exporting other dairy product category, it has to ask for and obtain a new export license for this particular category.

Companies surveyed identified the number of documents and the number of export and other sanitary certificates, as too large. So dairy plants consider the administration process is much more difficult compared to the exports to Russian market. The certificates are specially worked out for Russian exports. All these documents must come from the Slovak Veterinary Service and must be provided for every single export case. Two companies surveyed consider the whole bureaucracy as the most important trade barrier in the Slovak-Russian dairy trade.

The problem are stricter sanitary and phytosanitary requirements for dairy products. Survey respondents also indicated that the tests required by Russia are not necessary. Eventhough they are expensive thus lowering the competitiveness of our dairy exporters through rising the prices of their products. Dairy plants claim that those requirements and tests for dairy exports required by the EU are satisfactory. In addition as one company suggest, these additional tests are not required by the EU or other third countries. Moreover all the tests for Russia must be done in an approved laboratory. The EU accepts also tests coming from the company's own laboratory.

### **Sanitary requirements**

According to MADB (2009) the Russian Federal Law no 88 FL of 12/6/2008 on milk and dairy products introduces sanitary requirements which differ from international standards (residue levels of antibiotics, microbiological criteria etc.). The law refers to both sanitary and quality requirements and this makes them more difficult to interpret and to apply.

Additionally Russia informed about a requirement that the establishments shall have valid contracts with Russian importers for dairy products supplies. The problem was that new obligations for milk products applicable to EU exporters were only communicated after the law's entry into force. This reduced the time needed for adaptation to new requirements. The EC has protested against these requirements, which go even beyond WTO SPS issues (e.g. the requirement for commercial document).

**Table 2:** Comparison of the EU and Russian requirements for milk testing

Focus of examinations in Russian Federation (RF)		Limits RF –absolute values	Frequency of tests according to RF	Focus of examinations in the EU	Limits EU geometric averages	Frequency of tests according to the EU
Number of aerobic bacteria and facultative anaerobic bacteria	The highest quality	100 000 CFU/ cm <sup>3</sup> or g	According to company's control plan	Total number of bacteria at 30 <sup>0</sup> C	100 000/ml Geometric average for 2 months	At least twice a month
	1. class	500 000 CFU/ cm <sup>3</sup> or g				
	2. class	4 000 000 CFU/ cm <sup>3</sup> or g				
Number of static cells	The highest quality	200 000/ cm <sup>3</sup> or g	According to company's control plan	Somatic cells	400 000/ml geometric average for 3 months	At least once a month
	1. class	1 000 000/ cm <sup>3</sup> or g				
	2. class	1 000 000/ cm <sup>3</sup> or g				
Pathogenic bacteria including salmonella	All kinds	Absence in 25 g (or cm <sup>3</sup> )	According to company's control plan but at least twice a year			

Source: Federal Law 88/2008, [http://ec.europa.eu/index\\_en.htm](http://ec.europa.eu/index_en.htm)

Table 2 shows different requirements for milk in the EU and Russia. For example, the EU does not require tests for salmonella as the Russian side does. This test means additional costs and documents for the exporter. If the company uses a raw milk for producing baby food on milk basis, cheeses or milk products, it must comply with additional requirements set in the Article 5 of the FL 88/2008. All interviewing export managers agree that divergent SPS measures between the Russian and EU legislation increase their compliance costs. One of four surveyed companies suggests that its costs are higher by 10% because dealing with stricter Russian SPS requirements. On the other hand it should be pointed out that different firms, even they face the same compliance costs, they may respond in different way. It depends mainly on company's market position, its structure and its prospects.

### Conclusion

We can see that tariff levels in Slovak-Russian dairy trade are quite high. They range from 5% to 20%. The process of obtaining the export licence and the whole administration and bureaucracy represent a significant trade barriers as every surveyed dairy plant claim. Together with divergent sanitary and phytosanitary measures create a key trade impediments. Decreased incidence of divergent and different requirements of SPS measures together with lower tariffs and reduced licencing procedures may have a positive impact on market access and may lead to enhanced dairy trade. Moreover there should be better communication between Slovak veterinary officers, dairy exporters and Russian food authorities to reduce transaction costs of changed regulatory standards. All surveyed dairy exporters encountered several SPS measures going beyond international recommendations. Reducing divergence basically through harmonization of divergent requirements under international standards or increasing equivalence agreements may have a key impact on decreasing the transaction costs.

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### **RUSSIAN ECONOMY COMPETITIVENESS IN THE GLOBAL ECONOMY**

The influence of global economy is increasing. Migration of financial, intellectual and other capitals makes competition between different markets of all countries stronger. There is an objective need in studying national competitiveness and its factors.

**Keywords:** competitiveness, national economic systems, integration, development of national competitiveness.

According to the World Economic Forum in a rating of competitiveness of economy for last year Russia remained at 63d place. Switzerland became the most competitive country of the world again, having outstripped Sweden (2 place) and Singapore (3) according to this indicator. The USA has fallen within last year's from 2nd to 4 place because of a macroeconomic disbalance, easing of private and state institutes, fears concerning a condition of the financial markets. Till 2009 America occupied the first line in the rating. The competitiveness estimation keeps on a large quantity of various indicators. Competitiveness of our country is estimated in 4.2 points. The same indicator was in 2009-2010 years; however its value has decreased in

comparison with an indicator 4.3 points in 2008-2009. Now there is bad situation are in the area of innovations and production enhancement (3.4 points) in Russia.

It is necessary to consider its competitive advantages for determination of strategy of competitiveness of the country. Competitive advantages are subdivided into natural comparative advantages and developed, i.e. generated by policy of society. Rich natural resources, geographical, climatic, infrastructural factors, big population and cheapness of work etc are carried to natural advantages. The scientific and technical potential, new technologies and knowledge are carried to the developed comparative advantages. Russia possesses good natural advantages, but from the developed comparative advantages the country is still far enough to place world leading positions.<sup>1</sup>[5]

“In interests of the state and a society is a necessity to solve group of the problems providing an entrance to a cross-border market of the Russian goods and services as introduction in a subsystem of geo-economics area. Within the latest decade foreign trade of Russia developed higher rates in comparison with the world trade that is caused by increased sales of the fuel and energy resources abroad, a favorable conjuncture of the world markets of the country’s basic export goods. Since 1990, Russia continues to increase a share of fuel, mineral raw and the electric power in the export. Thus the specific weight of high technology goods in modern structure of export doesn't exceed 0,3 % (against 80 % in the Peoples Republic of China) and tends to decrease.<sup>2</sup>[3] It has led to such situation that the structure of Russia's merchandise is inferior to balance not only the Group of Eight, but also the countries BRICK”<sup>3</sup> [6].

Many determinants drive productivity and competitiveness. Over the years economists have studied the role of different factors ranging from physical capital and infrastructure to education and training, technology, macroeconomic stability, good governance, firm sophistication, and market efficiency, among others. While all of these determinants are important, they are not mutually exclusive — a number of them could be true at the same time, and in fact that is what has been shown in the economic literature<sup>4</sup>[7].

Among the strongest competitive advantages of Russia which allocates it from group of exporting countries of power resources, - the big size of the market, efficiency of a labor market, system of higher education and innovative character. However there are 8 more factors on which Russia lags behind. Worst of them: level of development and efficiency of financial market, condition of institutes, efficiency of goods market, business level of development. “Low estimations of competitiveness are caused also by a number of other factors. It is preserving of high social risks, instability of structure of the property, unresolved conflicts of the interests which have arisen in connection with privatization; potential of growth of regulatory costs and the property in business, possibility of substitution of interests of the state interests of departments and separate groups of people; availability of the systems focused on more closed centralized economy, high policy risks”.<sup>5</sup>[2] Having considered these factors in details it is possible to draw a conclusion that it is not enough to deal only with raw export for competitiveness of the country in the world.

Increase of competitiveness of the Russian Federation has been named among priority tasks in the president's letter of Russia to Federal Assembly of the Russian Federation in 2006. The basic direction of the message of the new president is modernization of all industries of

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<sup>1</sup> <http://ecgb.ru/transformaciya-rossijskoj-ekonomiki>

<sup>2</sup> Orlova N.L. Russia's export potential: state and development prospects in the context of global changes in world markets. Academy of Budget and Treasury Ministry of Finance of Russia. The Financial Journal. 2009. №1. P.68-78

<sup>3</sup> <http://viperson.ru/wind.php?ID=630423&soch=1>

<sup>4</sup> <http://www.weforum.org/reports/russia-competitiveness-report-2011>

<sup>5</sup> Mirkin Y.M. Pitfalls of competitiveness. Banking. 2010. № 12. P.32-37

national economy. Acceleration of economy modernization will allow to raise competitiveness level of our country in the world.

Among the factors that affect our economy, stands out economic policy and industrial policy. Estimated by modern international standards, small Russian industrial companies unable to compete in world markets with the transnational giants. Industrial policy in Russia should promote the formation of structures capable to fully utilize the competitive advantages of the country and thereby to compete with foreign companies in domestic and overseas markets.

In the Russian economic area are competing more imported goods than domestic. First of all, it relates to engineering products. Our economy needs level of basic industries that can produce competitive goods and labor resources. It includes instrument making, machine-tool industry, bearing industry. Our economy in the consumption of electronic components imports almost 94% and only 6% are domestic producers. The problem of competitiveness in the domestic and foreign markets has been and remains the main goal of industrial policy of our country.

Russian manufacturing industry is largely located outside of global competition. A significant part of the manufacturing enterprises is focused on domestic or on even narrower regional market in which they compete mainly with the same domestic manufacturers. Only light and chemical industries are facing strong enough competition with foreign producers operating in Russia. Also, the level of competition proved to be sensitive to the situation on the commodity markets: fast growing competition is reduced, but increase dramatically in the stagnant or shrinking.

It is important to note that the level of competition makes the company more particular about the quality of the institutional environment, particularly in the tax system, infrastructure, financial markets, regulation and administration of foreign trade.

Although the overall level of competition is ambiguous effect on the efficiency of enterprises, the existence of competition, and first of all with imports, stimulates the enterprises to do more active restructuring and innovative activity. It is shown in indicators of development of new goods, purchase of new technologies, carrying out of research and development and etc.

“Given the preserved part of the intellectual and scientific and technological potential of the country, we can conclude that in making a favorable technological and industrial policy, Russia will have significant opportunities, enhance technological competitiveness of their products. To meet the challenges of technological progress is necessary above all to create an environment that supports innovation and consistently reproducing. There should be a deliberate policy to build and expand use of innovative and intelligent competitive advantage instead of traditional natural comparative advantages, focusing only on exports of natural resources. It is important to maintain and expand new competitive advantages of the enterprises that are focused on innovation, production of new high-tech products, creating its own brands.

Russia needs modern entrepreneurial layer, the current competitive environment and the real state support for both. To do this it is necessary to strengthen the domestic financial and banking system, to improve capacity and efficiency of the stock market, to encourage investment in the economy. Thus, according to the Russian researcher of competitiveness issues L. Demidova, “In Russia, under uncompleted reforms, the greatest effect can be the focus of government economic policy for the normalization of the business environment, all-round promotion of domestic sources of business development. Of paramount importance are complete and stable legal and regulatory framework, the unconditional respect for property rights and contract law, and the removal of these dangerous defects in the economic life, such as corruption, organized crime. Paramount complete and stable legal and regulatory framework,

the unconditional respect for property rights and contract law, the elimination of these dangerous defects of the economic life, such as corruption, organized crime”<sup>1</sup>[5].

Of great importance as a factor in the competitiveness of Russian products in the domestic and foreign markets is thought foreign trade and foreign policy of Russia. Foreign policy can be widely used as a factor in formation of dedicated support for domestic industries that have a chance to become competitive in the global market and facilitate the activities of Russian companies in foreign markets”.

Improving competitiveness is impossible without attracting foreign direct investment. The use of such investment can make up for shortage of domestic investment resources, ensures the implementation of organic companies in the world economic system, forms in the regions of progressive investment, industrial and financial infrastructure, etc. special investment regime can build and strengthen the weak competitive position of Russia in the struggle to attract foreign direct investment. The state should encourage foreign investment in the development of high-tech industries, the consumer sector, highly profitable and fast payback projects in various sectors of the economy, telecommunications and communications and transport infrastructure.<sup>2</sup> [4]

“Russia's position in the modern world remains quite fragile and contradictory. On the one hand, the development of economic relations with old partners and new contacts, expand the absorptive capacity of geo-economic space. But simultaneously the quantity of external threats grows, their character becomes complicated, the external economic factors in the conditions of weak predictability aggravate vulnerability of national economy, weaken competitive possibilities of Russia, undermine economic safety”<sup>3</sup>[1]. Russia needs to reorient the raw materials, fuel and energy production focus on high-tech production and create conditions for the production of competitive products, using modern technology and the world market of goods and services.

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<sup>3</sup> Frolova E.D., doctor of economics, professor of management in foreign trade activities of enterprises of the Ural Federal University named after the first Russian President Boris Yeltsin, Yekaterinburg, Russia

### **INNOVATION IN RUSSIA'S ECONOMY**

This article examines the main results survey, and explains the value of conclusions for Russia. This article also considers the possibilities of Russian companies in innovation: what lessons they can learn from best practices of leading innovative companies and how to develop the optimum model of the innovation process for Russia, drawing on the experience of other markets.

**Keywords:** innovation, Russia, economy, investments.

Innovations are very popular in Russia now and it corresponds to the global tendency: companies from all over the world are concentrated on innovations.

A large majority of companies consider innovation a top strategic priority. Seventy-two percent of respondents said that their company considers it top-three priority, versus 64 percent. This percent-age matches the highest reading seen in the seven years we have been conducting the survey.

Fully 84 percent of respondents said their company considers innovation an important or extremely important lever in its ability to reap the benefits of an economic recovery.

And it is quite explainable, that companies started to attend innovations, because innovations bring profit.

Companies are broadening the types of innovation functions they are targeting with those investments. In particular, they are aggressively expanding their emphasis on product development and idea generation.

If money were the only engine of innovation process, Russia should have invested a lot to catch up with the backlog.

There are two main barriers to the innovations in corporate culture: an urge towards avoiding of risks and long terms of merchandise product development.

There are five different types of innovations:

1. "New to the world" products or services that create entirely new markets
2. New offerings that allow expansion into new customer groups
3. New offerings for existing customers
4. Incremental changes to existing offerings
5. Lower product costs for existing offerings (through the use of cheaper materials,

for example)

They give much attention to those innovations, which let create new offers for present customers.

There are also some examples of the successful development of new technologies in Russia, first of all in motor-car branch.

For the straight year, respondents ranked Apple and Google the two most innovative companies, with Apple once again the hands-down winner. Apple has held the top sort in our survey since 2005.

There is much to suggest that a new world order is emerging, led by China, India, and Brazil, gradually assuming more prominent positions, while the United States and the other mature economies continue to play major roles but gradually become less dominant.

Less than half of survey respondents believe that U.S. companies will remain the most innovative over the next five years.

Further we are going to consider the advanced practices in the innovation sphere. The most innovative companies are:

- 01) Apple, USA
- 02) Google, USA
- 03) Microsoft Corporation, USA
- 04) IBM Corporation, USA
- 05) Toyota Motor Corporation, Japan
- 06) Amazon.com, USA
- 07) LG Electronics, South Korea
- 08) BYD Company, China
- 09) General Electric Company, USA
- 10) Sony Corporation, Japan
- 11) Samsung Electronics, South Korea
- 12) Intel Corporation, USA
- 13) Ford Motor Company, USA
- 14) Research in Motion, Canada
- 15) Volkswagen, Germany
- 16) Hewlett-Packard Development Company, USA
- 17) Tata Group, India
- 18) BMW Group, Germany
- 19) The Coca-Cola Company, USA
- 20) Nintendo, Japan
- 21) Wal-Mart Stores, USA
- 22) Hyundai Motor Company, South Korea
- 23) Nokia Corporation, Finland
- 24) Virgin Group, Great Britain
- 25) Procter & Gamble, USA

Most Russian companies are only in the beginning of innovation process in comparison with companies of developed countries and some rivals from countries with strong economics.

BGG marks out four main factors of successful innovations:

1) Correctly built processes. Although it is assumed that process formalization prevents creative work, leaders in the innovation sphere find some balance between discipline and creative work that lets generate ideas, develop and market them.

2) Effective leadership. Strong leaders can develop exact processes and reach discipline in the sphere of innovations and in this case they can create such a corporative culture, which greets and encourages innovative mentality. Management must provide usage of advanced practice, form the examples for comparison, demonstrate a real interest in innovations and support development of innovations by own example.

3) Skilled staff. Skilled and well-educated employees are the most important part in innovation success and it is very difficult to find such people. The most innovative companies meet also with staff shortage as in the engineering field so in the routine.

4) Generation of ideas. Good ideas are very important and they should be encouraged. It requires growth of investments in the development of conceptions, a deeper realization of consumer needs, attention of management to innovations and creation of corporative culture, which can support innovations.

Different countries use different models of innovative process and Russian companies long also for increasing efficiency of innovations.

BGG marks out two standard models of innovation process.

- Firstly, they are the models, which have technological process, corporative Research and Advanced Development and a license model as a motive power.

- Secondly, such models, which have a market as a motive power, these companies are formed on the base of universities and include business innovations.

As for a model of corporative Research and Advanced Development, a present company deals with Research and Advanced Development or it is a research employer, it is the best situation for planned improvements.

A “business model” means the following: a businessman starts his new business to use present possibilities on a market to the maximum and it works well in case of technically easy but important improvements. For example, they are payment terminals QIWI.

Russia needs its own spectrum of innovative models, which can correspond to the needs of the country, consumer and business expectations.

To achieve real results in this sphere and to create a stabilized system of innovation implementation, common efforts of business and the country are needed.

Correct motivation methods could also aid development. For example, they can be tax concessions and technical standards, formation of positive environment for innovation development in the private sector of economics and creation of own resources for innovation development.

To use advanced experience of leaders in the innovative field and huge potential of the country, the country and business must combine efforts and operate strategically, taking account of long-term outlook.

It helps to create a modern innovative system in Russia.

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### **INVESTMENT AND INNOVATION MARKET AS THE STIMULUS FOR INNOVATIVE DEVELOPMENT OF RUSSIAN ECONOMY**

Today, the development of innovations is a major area of economic policy in Russia. But the system of investing in innovation is not effective enough. In order to stimulate investment activity and promote innovation the Investment and innovation market MICEX has been created, which considers infrastructure element of the innovation economy.

What is the problem of investing in innovation in Russia? This is the problem at all stages of investment cycle: underdeveloped industry business-angels on the stage of creating the company in exchange for the return on investment and the capital stock (usually a blocking

stake, not control) (business-angel - private investor who invests in innovative projects (start-ups) [8], venture capital funds, private equity funds. It is also a lack of "exit" of investors from the already funded projects, poor legislative framework, as well as lack of literacy among entrepreneurs [1].

In this situation one of "assistants" innovation is the market. It becomes the guarantor of transparency in the investment process, due to the high reputation of the stock exchange. In addition, the exchange also assists in the investment and, consequently, rapid and efficient innovation, being the owner of a large customer base and extensive partner network.

The Sector of innovative and growing companies, which operated before the opening of IIM, was the precondition for the emergence of the Investment and innovation market.

The Sector of Innovation and Growth Companies (IGC) has been operating on MICEX since 2007. This is the segment with its history; its rules of the game, its issuers, the flow of which could be expanded, if a financial crisis didn't take place [2].

We can say that the main purpose of IGC is facilitating the task output of innovative and growing companies in the public market. By 2009, the modernization of the IGC was inevitable based on an analysis of lessons for two years of experience and instability of the global economy. IGC has been refined and the global market of investment and innovation (IIM) has been developed on its base.

As regards the main characteristics of the IGC, it uses the same trading platform, estimates which are being used in the main MICEX. In the IGC sector can be included such securities as stocks, corporate bonds, stock mutual funds.

There are some criteria for selecting participants in the IGC, including the following:

- capitalization of at least 50 million rubles to 15 billion;
- high-tech sectors;
- use / introduction of new technologies
- sales growth of more than 20% compared with the previous year.

It is also necessary additional disclosure:

- investment memorandum;
- corporate calendar;
- availability of the listing agent.

Existing infrastructure of IGC is established contacts with private equity funds, the regional network (which includes experts exchange centers and partners in all seven federal districts of Russia). IGC is an active entity within the MICEX, the database is more than 200 companies, accredited listing agents (31 companies).

Consider the benefits and experience of trading in the IGC. Benefits can be allocated to two groups of participants in the IGC: issuers and investors.

The main benefits for investors allocate:

- reduction of investment risks;
- creation of liquidity.

Benefits for issuers of IGC:

- possibility of being seen by investor;
- obtain funding from a wide range of investors;
- provide a range of additional services for PR / IR.

The main issuers of IGC are: OJSC (Open Joint-Stock Company) "Institute of Human Stem Cells", OJSC "O2TV", OJSC "NEKK", OJSC "ARMADA", etc [5].

The functioning of IGC allowed acquiring practical skills placements on these sites. The investment idea, a clear development strategy and business model, strategies for the use of funds received must exist for the successful placement of securities. It is also important to have good financial results and growth prospects for the operating companies, an adequate price. The

presence of an experienced financial advisor plays an important role in the successful placement.

One would think: everything is fine, what was IIM created for? But developing society and economy dictate their own rules.

June 5, 2009 MICEX Group and the State Corporation "RUSNANO" signed an agreement to create an Investment and innovation market.

Investment and innovation market MICEX is a market sector for high-tech companies [4].

There are differences between the new market and IGC. The three-tier system for companies of varying degrees of maturity is functioning on IIM. This is a more sophisticated and global tool to help the development of innovative companies, to turn them on an international level and placement of their securities on the world sites.

IGC sector is the highest rung for mature enough innovative companies that are ready for full IPO, which uses all the exchange technologies.

The IGC Sector-2 is the second stage. It is an area of private placements of younger companies whose securities are placed among a narrow circle of qualified investors, foundations and individuals. In other words, the essence of IGC-2 is private placement, placement among a limited number of customers. Secondary trading can be passed on this platform, but the negotiated deals mode to trade large blocks of securities. Retail investors are not allowed to this sector.

Finally, the third stage is an entirely new segment. It is the sector of allocation and trading for non-public companies (information board) in order to attract funding for young and growing businesses, not ready for placement and circulation of securities in the public market yet. In most cases, there are so-called start-ups. A separate web site will be created on this platform (the existing infrastructure is not in operation) [6].

Thus, with the IIM, private investors, public and commercial funds have access to the flow of new facilities investment, "quality assurance" of investment due to the pre-selection and a higher level of disclosure, the ability to "output" of investment by selling shares of qualified investors. With IIM issuers will be able to find investors, access to financial resources, both through the public offering and attract credit finance on concessional terms by creating a partnership network with IIM's largest investment banks.

This market is important for the state. IIM can act:

- 1) As an innovative mechanism to attract investment;
- 2) As a tool for the formation of criteria for evaluating the quality and efficiency of investment.

Another important national objective of IIM is creating a favorable environment to attract funding in innovation. To this end, a Coordination Council for development of market innovations and investments has been formed, consisting of the authorized representatives of ministries and agencies, public corporations, development institutions, representatives of professional associations. The composition of the organization is approved by the Directors of the MICEX. The list includes:

- Anatoly Chubais, Chairman of Coordinating Council, the head of "RUSNANO";
- Ilya Lomakin-Rumyantsev, Head of Advisory Office of the President of the Russian Federation;
- Vladislav Reznik, chairman of the Committee on Financial Markets of the State Duma of the Russian Federation;
- Dmitry Ananiev, Chairman of the Committee on Financial Markets and Monetary Circulation of the Federation Council;
- Sergey Kharlamov, Deputy Head of Federal Service on Financial Markets;
- Anatoly Ballo, deputy chairman of Vnesheconombank and others [3].

The functions of the organization are:

- development of strategies and mechanisms to attract investment in the innovative sector of the economy using capital market instruments;
- ensuring effective interaction with the authorities and the investment community for the development of high-tech sector of the Russian economy, the implementation of the tasks of state partnerships;
- approval of the strategy of IIM and monitoring its implementation;
- promotion of IIM.

In addition, the Committee is supposed to create direct investment, venture capital and innovation, composed of representatives of the market, high-level professionals. The committee's goal is to develop standards of disclosure, the requirements for potential issuers, creating a system of examination of issuers.

As for the IGC Sector, there are the selection criteria for the issuers of IIM, including:

- availability of equity instruments;
- disclosure;
- estimated market capitalization of 50 million rubles.;
- legal form of the company - OJSC;
- branch: telecommunications, development and installation of the software, Internet business, biotechnology, pharmaceuticals, etc.

There are a number of requirements for securities for admission to trading, among which there are the general requirements, such as:

- registration of equity instruments;
- compliance with legal requirements for disclosure of information;
- need for servicing securities in the settlement depositary;
- need to include securities in the Clearing list.

The package of documents required for the placement of securities includes profile of the securities, the constituent documents, issuing documents. Availability of documents proving the issuer disclosure requirements is another prerequisite (quarterly report, a list of affiliates, an annual report).

Several options for placements are at IIM, which have advantages and disadvantages:

- classic IPO;
- "scheme of selling stockholder";
- mixed placement of securities.

There are also possibilities for placement by using the exchange mechanisms:

- auction (example: Kalina);
- placement at a single price (example: IHSC, Pharmsynthez, RNT);
- placement with the "book" of applications (for example: DIOD).

It is worth noting that up to 2010 the Innovation and investment market grew rapidly. Four innovative companies were the public market: "Diode", "RNT", "Pharmsynthez", "Don plant of radio components", as well as regional venture capital funds Voronezh, Kaluga, Chelyabinsk regions and the Republic of Bashkortostan. The total volume of placements made over 900 million rubles [1].

Now the main issuers of IIM are: "IHSC", "NEKK", "O2TV", "ARMADA", "DIOD", "RNT", "Pharmsynthez", "Don plant of radio components", "Teplofon", Closed-end mutual fund "Finam", a regional venture closed-end mutual fund Voronezh region, etc.

JSC SITRONICS, the leading provider of telecommunications, IT and microelectronics solutions in Russia and the CIS, announced in September the admission of the Company's share to trading on Moscow Interbank Currency Exchange (MICEX). Trading will be held in Innovation and Investment Market rules which permit an unlimited number of investors. [2]

There is the tendency of the active development of innovations in the world. In view of this platforms for trading securities of innovative companies were founded. Platforms for the financing of such companies exist in the markets of Europe, the USA, Canada, Latin America, Japan and China. In particular, the AIM (Alternative Investment Market) at London Stock Exchange (LSE), which largely helps London to have the status of leading international financial center; Alternext (NYSE Euronext) in Amsterdam, Brussels, Lisbon, Paris; Entry Standard (Deutsche Bourse) in Frankfurt; STAR (Borsa Italiana) in Milan; NewConnect (at the Warsaw Stock Exchange), NYPPEX, Nasdaq Portal in New York and many others.

The overseas experience was used for creating IIM . It should be noted that the IGC was often compared with AIM. Despite the fact that the IGC and AIM are aimed at one and the same, the first is a better and more competitive platform, compared with AIM. Thus, there is no secondary trading in AIM because of the lack of retail investor. In addition, IGC sector companies can be listed and get the quotation list. AIM does not provide such opportunities. Listing in London is only intended for the mainstream market. Therefore, the IGC is more interesting than AIM for issuers.

IGC Sector started at the same time with NewConnect (at intervals of a month). At the initial stage in Warsaw there was a volley of 28 placements. And later, despite the crisis conditions, placing continued. Autumn of 2009, NewConnect celebrated the first hundred placement, most of which were the companies of micro-capitalization (\$ 1-2 million). The Poles have surprised the whole world [9].

But there are objective prerequisites for success. There is no huge concentration of production in Poland, unlike Russia. There are many small and medium-sized enterprises in Poland. Entrepreneurship is very developed historically and there is no fear of transparency business.

In addition to these objective factors, there is competent and clearly support system for enterprises, in particular on the stock market.

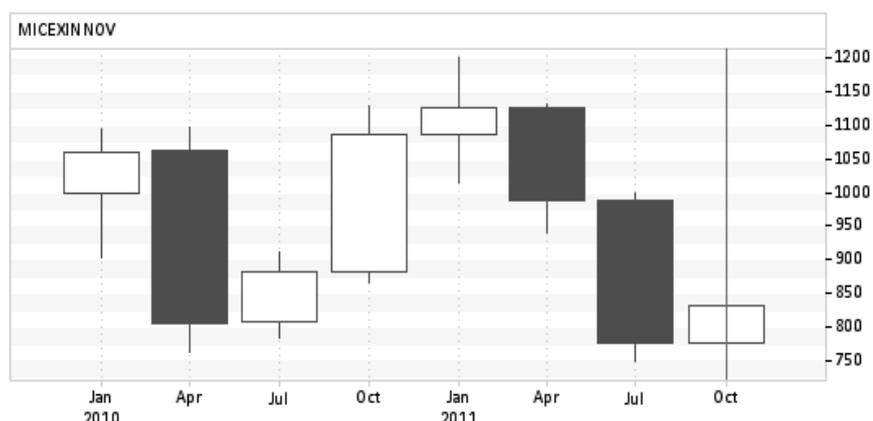
The system of compensation costs is in effect. The state finances to half of these costs, which is important for small companies who can not afford to pay consultants.

Studies have shown that there is the demand for securities of the innovative companies, although it has shrunk during the crisis. First of all, it is noticeable among the different types of funds – from hedge funds to private equity. There is money from public funds. According to experts, the management of private equity funds investment, venture capital and government is currently about \$ 30 billion and the fun, there is a class of private investors willing to invest in relatively risky companies.

Now generally accepted the development of Russia is impossible without a major investment. But the whole question is how to attract these investments. It's not a secret that Russia has great investment potential, but its investment attractiveness in the present is negligible.

Against the background of positive factors assessment by investors of the business climate in Russia is still very hard-hitting, but just low. With regard to investment, our country has been facing the same problem for several years. Strategically, Russia is an attractive country: we have a stable political system, low external debt, low income taxes and taxes on land. However, now quite a few foreign investors ready to invest in the Russian economy, especially when it comes to investments in its real sector [9].

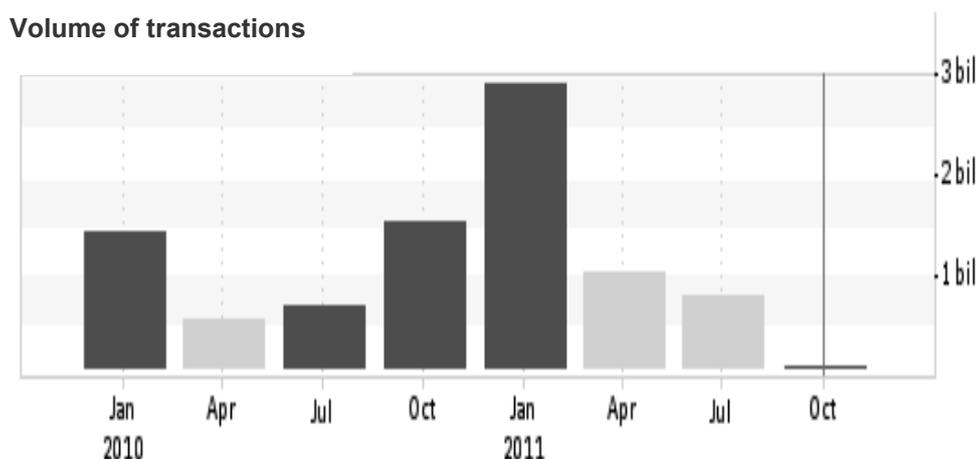
It's necessary to notes that on July 13, 2011 the MICEX index family expanded by the publication of "MICEX Innovation Index" (MICEX INNOV), which includes for the calculation shares admitted to trading on the Stock Exchange under the IIM MICEX.



**Pic.1.** MICEX INNOV / [www.micex.com/marketdata/indices/shares/innovations](http://www.micex.com/marketdata/indices/shares/innovations)

The main condition for inclusion of stocks in the base is the coefficient of free-float, which must be at least 10%, and the capitalization of the issuer's shares is at least 300 million rubles. The maximum weight limit of shares of one issuer in the index is 30%.

The start date of the calculation is December 29, 2009. An initial index value is 1000 points. During the last 52 Weeks the greatest value of MICEX INNOV was 1201,06 (09.02.2011) and the least value was 735.55 (04.10.2011). [2]



**Pic. 2.** Volume of transactions / [www.micex.com/marketdata/indices/shares/innovations](http://www.micex.com/marketdata/indices/shares/innovations)

This is the first index of innovative companies in Russia, like American Nasdaq, which is a benchmark for investors. It serves as a model to compare the profitability of investment performance in high-tech companies.[4]

That is why the functioning of the Investment and innovation market is not only important for the development of innovative companies, but also for national economic development and improving investment attractiveness of Russia's economy in the eyes of foreign investors, the innovative development of Russian economy as a whole.

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**RUSSIA**

### **THE PROBLEM OF STRENGTHENING OF THE COMPETITIVE POSITIONS OF THE RUSSIAN FEDERATION IN THE WORLD MARKET OF TECHNOLOGIES**

The article is devoted to definition of a place of the Russian Federation in the world market of technologies and to consideration of a problem of strengthening of its competitive positions. In the article the problems of technological backlog of Russia and the ways of overcoming of this backlog at the expense of development of the competitive advantages are analyzed.

**Keywords:** Russian Federation, the world market of technologies, technological backlog, competitive advantages

There is a growing tendency in international economics: the high level of economic development countries is determined by the state of their hi-tech industries, and the use of their high technologies. For today there are 10 leading macro-technologies which define competitive positions of the countries on the international scene. Among them there are nanoelectronics, genetic engineering, multimedia interactive information systems, space techniques, electronics, computing and optic-fiber techniques, software, telecommunications, robotics, information services.

The Russian Federation possess only 0,3 % of the volume of the world market of the high technology production.<sup>1</sup> It is obvious that a position of modern Russia in the world technological market, despite its high potential, is far from the leaders. Though during the last years the government has approved a number of the target programs directed towards the support of innovative projects, overcoming of the technological backwardness and creation of special free economic zones for development of high technologies, still there is a number of the problems which brake development of the country by the way of the innovative economics.

The survey shows that Russia occupies the last place on the matter of financing science, here the world leaders are: the USA, China, Japan. Despite the fact that experts predict the growth of Russian expenses for on scientific research from 22,1 billion dollars in 2010 to 23,1

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<sup>1</sup> <http://intereconomy.ru/usloviya-i-segmenty/>

billion dollars in 2011, the share of these expenses in the gross national product of the country remains invariable — 1 %.<sup>1</sup>

Since 2009 in Russia the negative technological balance remains. It happens as a result of excess almost in 2,5 times of total payments on import of technologies over total receipts from technological export.

Now the technological exchange is carried out with 110 countries of the world. The largest trading partners of Russia are the countries of OECD among which the basic buyers of the Russian technologies are: the USA, Germany, the Netherlands and France.<sup>2</sup> And in the structure of import the basic volume of payments have: Switzerland, the USA, Germany, and the Netherlands.

The distinctive feature of the Russian trade of technologies is domination of unprotected kinds of intellectual property. The share of the agreements which aimed at protecting objects of the industrial property in 2009 consisted of only 2.5 % of export whereas in the structure of import of technologies it reached 42.8 %.<sup>3</sup> As a result, such an uncontrollable import leads, first of all, to a gradually increasing technological dependence of Russia on foreign countries and, secondly, reduce of the demand for domestic technologies.<sup>4</sup>

In its turn, such a steadily low demand for Russian protected objects of intellectual property, especially in industrially developed countries, is caused by two basic reasons: the absence of the debugged system of transfer of technologies from developers to the real sector of economics and their under manufactured, incomplete state of technologies. Their serious faults are considerable additional expenses for a buyer to apply technologies in production, the big risk and absence of technical and economic guarantees of objects of agreements.<sup>5</sup>

All this testifies to low competitiveness of domestic developments, the weakness of positions of domestic technological business at cross-border markets.

The reasons for this lag are:

- The first, creating innovations our scientists don't consider a real demand and social needs. This is so-called "call of demand"
- The second, in our innovation system there aren't any large high-tech firms, able to solve financial and technological problems. In Russia, there isn't a viable core of large enterprises yet - even similar to those those exist, for example, in Korea - possessing the ability to create and develop new high technologies, to strengthen strategic relationships with knowledgeable, qualified suppliers and customers. Whereas in the West, despite the development of small business and a great role of the state, a key element in the creation of innovation is exceptionally big business. Therefore, the creation of national companies-champions should be the primary goal of national economic policy, expressed in the thoughtful strategy.
- The third, there are no institutional signals in our economics. They could encourage investment in new products and technologies. An important element of national innovation system - the institutional environment (code of laws, regulating actions of those occupied with innovations) - is not developed in Russia.

Another problem is the introduction of high technologies in the international market due to the lack of experience in marketing and advertising, as there is not established system of consulting firms that would be involved in the promoting of high-tech goods. The link providing the interaction of intellectual product producers with internal and external market

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<sup>1</sup>[http://ukrrudprom.com/news/Kitay\\_obgonit\\_YAponiyu\\_po\\_obemu\\_zatrat\\_na\\_NIOKR.html](http://ukrrudprom.com/news/Kitay_obgonit_YAponiyu_po_obemu_zatrat_na_NIOKR.html)

<sup>2</sup> [http://www.gks.ru/bgd/regl/b10\\_13/IssWWW.exe/Stg/d5/21-37.htm](http://www.gks.ru/bgd/regl/b10_13/IssWWW.exe/Stg/d5/21-37.htm)

<sup>3</sup> <http://www.gks.ru>

<sup>4</sup> <http://www.protown.ru>

<sup>5</sup> <http://www.protown.ru>

(technology brokers), doesn't exist in the national innovation system. Indeed a dynamic and competitive sector of hi-tech won't be created until these deficiencies are eliminated.

Considering the technological future of Russia it is necessary to get rid of the aspiration for global leadership in all the directions. Objectively Russia, in modern economic conditions, can develop 5-7 high technologies of the world level, which can become competitive in the world market.<sup>1</sup> The examples of such technologies are: aerospace industry, the production of the electronic and power equipment; chemical, pharmaceutical and automotive industry. Developing the chosen priority industries Russia could reach a level of 200-300 billion dollars of annual sales of high technology goods.

One of the most perspective industries in Russia is space industry. The opportunities of our country in this market are twice as much as of other foreign countries, and first of all of the USA. The potential of Russia in the launch of satellites is not inferior to the USA and can provide 30 % of launches of all artificial satellites of the Earth. Only this can bring the country more than 10-20 billion dollars a year. In connection with this it is topical under the supervision of Russia to create The World Organization on supplying free of pollution space services with the corresponding size of coming income. In this case it is possible to essentially increase the share of Russia in space services and even the redistribution of the market to our own advantage.

The cooperation of the Russian aerospace complex with other countries could be exclusively perspective. Russia has quite good prospects of cooperation in the field of distant satellite communication. The realization of the joint Russian-French project "SESAT", aimed at satellite communication use is indicative in this plan. The project is included in the federal space program of Russia and costs 155 million dollars, and the Russian share in this project is about 60 %. The realization of this project has already provided an entry of Russia in the world market of telecommunication services.

It is necessary to stress that Russia continues to exercise the world leadership in nuclear technologies. The export of nuclear technologies consists in equipment sale, the building of atomic power stations and research reactors, the sale of the services in the enrichment of uranium, ready nuclear fuel, accelerators, lasers and other modern techniques. One of the perspective directions is the storage and processing of the irradiated nuclear fuel. The similar enterprises already exist in Great Britain and France. Annually the income of these countries from the processing of nuclear fuel reaches 24 billion dollars. The introduction of such processing technologies can bring Russia more than 20 billion dollars annually.<sup>2</sup>

Now one of the most perspective and demanded directions of science, technologies and the industry in highly developed countries are nanotechnologies. According to various estimations of the experts, the world volume of the market of goods of nanotechnologies varies from 700 to 1100 billion dollars. The world leaders here are the USA, Japan, Germany and South Korea. The share of Russia in this market is insignificant and constitutes only 0.04 % at specific weight Russian nanoinventions are fewer than 0.2 %. However the experts notice that with the further development of industry and considerable support of the state, very soon Russia can enter already in the group of leaders.

Nevertheless it is necessary to notice that today in Russia there is a considerable gap between the high quality of conducted researches and a low level of the infrastructure of nano industry. The low susceptibility of industry to the nanotechnological development in the conditions of transition of innovative economics onto a new level is the main deterrent factor. As a result the requirements of the domestic market in nanotechnological goods in many

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<sup>1</sup> <http://www.innovbusiness.ru>

<sup>2</sup> Shvetsov, D.E. Russia's place in the markets of civilian technologies. M., 2002. P. 26.

socially significant spheres (medicine, electric utilities, ecology, public utilities, etc.) are considerable (tens times) and exceed the volume of its real production.<sup>1</sup>

It is necessary to notice that in Russia there is a set of the advanced technological developments in many areas.

The examples of their use are:

1. The small domestic equipments for the manufacture of fuel from nonconventional hydro carbonic raw material.

2. The powerful beam-plasmas microwave devices which do not have domestic and foreign analogs which have provided a world priority in the field of powerful plasma electronics to Russia.

3. The new version of the software on research of thermal safety and the system of protection of production of dangerous chemicals.

However, to be consolidated in these niches, it is necessary to organize the mass production of commercial products, to do marketing; to get the financial and foreign economic support of the state.<sup>2</sup>

Now the state support of the development of the crucial priority technological directions is performed by means of the federal purpose program «National technological base» for 2007 - 2011 and the federal purpose program «Researches and developments in priority directions of the development of a scientifically-technological complex of Russia for 2007-2013».

As a whole, the realization of the program measures will allow to overcome a dangerous to a state security lag from the world level in crucially important technological directions. The implementation of the programs will provide, eventually, an advanced technological base for the development and production of competitive products in the field of critically important technical systems (air, sea and land transport, communications, space technology, medical equipment, etc.). A scientific and technological basis for radical changes in the structure of exports in favor of high-technological products will be created, to ensure the stable operation of industrial enterprises with a total of more than 500-700 thousand jobs. In addition, there is considerable work is being done to attract business in to the sphere of high technologies. A fund for promotion of small enterprises in scientific and technical fields has been created. It provides on a competitive basis the grants to scientists and specialists to conduct research and investigation. In accordance with the governmental resolution of the Russian Federation «The Russian investment fund of information-communication technologies» has been created, which aims at supporting venture projects in this field. The government program «Creation in the Russian Federation of techno parks in sphere of the high technologies» has been conducted, regional venture capital funds are formed.

In modern conditions our country is just beginning to form post-industrial economics and searches for the ways of its innovative development. If all the mentioned aims are achieved the country will become one of the leading manufacturers of nuclear power, aerospace and shipbuilding, manufacture of spacecraft and space launches, software and nanotechnology. If the state sticks to the course of the innovation, the realization of its competitive advantage, then by 2020, Russia will be able to become one of the world's technological leaders.

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### **NATIONAL INNOVATIVE SYSTEM AS A BASIS OF RUSSIAN ECONOMIC MODERNIZATION**

The research of Russian innovative potential was done in the article. Sources of innovative activity financing for SMB (small-to-medium business) were presented. The importance of an intellectual capital was emphasized. That allowed to investigate the activity of the innovative business school Skolkovo.

**Keywords:** national innovative system of the Russian Federation, innovative potential of Russia, modern business school Skolkovo, intellectual capital.

The effective use of scientific researches and implementations results is an important condition for Russian companies' successful competitiveness on the worldwide markets, guarantee of high economy growth, improving people's life quality, the realization of other national priorities in the modern economy. Under these conditions the development of innovative potential has a large value. Innovative potential is defined as an aggregate index of relevant technological, industrial, organizational, marketing and financial operations, which provide realization of the effective innovations in economy and social sphere. It is doubtless today that Russian economy with its export bias is sharply in need of structural rearrangement, which is based on the development of science intensive technologies and innovations. For this

purpose in the last years Russian government has taken important measures to rise the effectiveness and to accomplish the national innovative system (NIS) of the Russian Federation, where intellectual capital is the main element.

Russia has the developed system of tertiary education, which includes secondary vocational education, higher and postgraduate education. There are about 5,4 thousand educational institutions.

In 2010 1,3 mln people in Russia got basic general education certificates, 0,7mln. people got general secondary education certificates. Admission to the state and municipal secondary professional educational institutions increased by 535,7 thousand students, the amount of students increased by 5,2 thousand in comparison with 2009. The amount of students that joined the state and municipal higher professional educational institutions was 1177,8 thousand people<sup>1</sup> in 2010.

The creation of the innovative centre “Skolkovo”, which is a cutting-edge science-technology complex for the development and commercialization of new technologies, is a significant step in the formation of the NIS. The complex was established on the 21<sup>st</sup> of September 2006. 18 biggest Russian and foreign companies and private individuals, all leaders in the oil-and-gas industry, metallurgy, energy sector, investments, banking, insurance, goods selling, are the founders of the school. It is interesting that real projects, which students implement on large domestic and foreign companies order, are the main way of education. The companies – founders of Skolkovo and third-party experts (politicians, officials, businessmen) assess the results of the projects.

The educational process in Moscow business school Skolkovo includes a wide range of consulting projects, trainings, imitating systems, case - situations, master – classes, in-depth study courses. First of all, the attention is paid to studying of the business activity of the countries with high economy growth such as Russia, India, Brazil and China (BRIC – region). The offered programmes have a direction on both Russian and foreign students, who mean to use their leader skills and professional knowledge in the conditions of the new dynamic markets. 1165 students finished Skolkovo MBA programme in 2009, but in 2010 the amount of the students increased to 2163 people.<sup>2</sup>

Skolkovo works on 5 priority directions of modernization – energy sector, IT (information technology), telecommunications, biomedical and nuclear technologies. It is planned that innovative companies, high - technology production, subsidiaries and laboratories of the best Russian and foreign universities and companies, accommodation, theatre, places for informal communication will be located on the Skolkovo area. 40 000 people will live and work there.<sup>3</sup> The total cost of Skolkovo project is approximately 500 million dollars.<sup>4</sup> Annual publication of the report on Skolkovo’s activity is a compulsory condition. However it is worth to mention that existence of only one such school as Skolkovo is not enough for Russia – the country, which has a great area, a big amount of minerals and 142 905,2 thousand people.<sup>5</sup> It is necessary to create several such centres, where a human capital could be realized in full.

Speaking about Russian NIS it is essential to mention Russian Ministry’s of Education science-technological programme, which is called “A high school innovative activity”. Russian institutes of higher education are the main forming units of the NIS, they play an important role

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<sup>1</sup>Internet source: [www.gks.ru/bgd/regl/b10\\_01/IssWWW.exe/Stg/d12/3-5.htm](http://www.gks.ru/bgd/regl/b10_01/IssWWW.exe/Stg/d12/3-5.htm)

<sup>2</sup>Internet source: [www.skolkovo.ru/public/ru/skolkovo-implementation](http://www.skolkovo.ru/public/ru/skolkovo-implementation)

<sup>3</sup> Harin A.A., Rojdestvenskiy A.V., Kolenskiy I.L., Zarayskaya I.M. A corporative innovative system of high school and national innovative system of Russia//Innovations. 2010. - №10(144). – p.10-18.

<sup>4</sup> Skolkovo: future begins today. The main features of the project. 2009. – 35p.

<sup>5</sup> Internet source: [www.perepis-2010.ru/results\\_of\\_the\\_census/results-inform.php](http://www.perepis-2010.ru/results_of_the_census/results-inform.php)

in the process of the NIS' organization and operation. Due to this programme an extensive innovative infrastructure is created. The infrastructure consists of<sup>1</sup>:

- 16 regional agencies specializing in the training of specialists in the innovative entrepreneurship;
- 10 regional innovative centres;
- 12 regional assistance centres that help in developing of the science-technological entrepreneurship;
- 44 industrial parks including 21 university industrial parks;
- 4 innovative – industrial complexes;
- 25 study – science – innovative complexes which are based on universities and academies activity.

Assistance fund that helps in developing of higher school innovative activity was founded. Many universities created necessary infrastructure units (business-incubators, industrial parks) which stimulate innovative activity. In aggregate this units form the high school innovative system. It is important to note that high school's innovative activity is highly estimated and supported by regional authorities.

It is impossible to create Russian NIS without relevant juridical support. That's why Russian government enacted a number of normative legal documents where a great attention is paid to the innovative activity development. The most essential of them are "The strategy of the science and innovations development in the Russian Federation up to 2015", "The strategy of national security of the Russian Federation up to 2020".

Special attention is given to the Conception of the socio-economic long-term development of the Russian Federation up to 2020. The document declares that Russian economic transition to innovative way is impossible without creation of a global – scale competitive NIS and complexes of legal, financial and social institutes, which must provide interaction of educational, scientific, entrepreneurial and non-profit organizations in every sphere of economy and social life.

Russian economy transition demands realization of combined and interactive directions, which must be coordinated on resources, terms and steps. These directions are Russian human potential development; creation of a highly competitive infrastructure encouraging entrepreneur activity and capital attraction to Russian economy; economy structure diversity based on innovative technological development and on expansion of the global competitive advantages in energy sector, transport, agriculture, minerals processing. Also the programme includes expansion and strengthening of Russian external economic positions; increasing of effectiveness from the participation in global division of labour. The transition to the new economic model, which includes socio-economic level equalization among Russian regions and reduction of low life level in Russia, is the main point on the programme.

One of the state economic policy priorities is development of the small scale innovative business. This mission is entrusted to the Fund of the small scale science – technological entrepreneurship development. Currently, the focus of the Fund's activity is concentrated on the initial stages of the innovative circle. Ventures that realize high-technology and science intensive innovative projects get relevant conditions for their accomplishments in the high-technology sphere. State financial support is given to ventures through the assignment of grants, loans, bounties to the innovative products, technologies, services creation.

However, Russian companies' innovative activity increases very slowly. As before innovations cost ratio remains on low level. For the most part this is connected with the

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<sup>1</sup> Harin A.A., Rojdestvenskiy A.V., Kolenskiy I.L., Zarayskaya I.M. Corporative innovative system of high school and national innovative system of Russia/Innovations. 2010. - №10(144). – p.10-18.

entrepreneurs' fear of funds deficiency when they invest in creation and promotion of innovative products. Investment in innovations is considered to be highly risky so business owners don't always want to risk their huge amount of money.

Scientific research and development financing is a very important question in the creation of Russian NIS. Base financing when funds were given the whole organization depending on the number of workers and last year costs, was the main financing form up to 2005. The amount of means didn't depend on the results of the scientific organization or high school.

Percentage of the programme financing spread through Federal target programmes (FTPs), took approximately a quarter of the budget appropriation for science. Last years the budget appropriation for science within the scope of FTPs increased. In Russia 46 FTPs operated in 2008, 11 of them were aimed at the development of science and technologies. Total amount of FTPs' costs on research and development was 49,2 bln rubles in 2007, in 2008 this figure grew up to 61,1 bln rubles.

In the network of FTPs tasks about involvement of extra-budgetary funds are defined. For example, FTP "Research and development in priority directions of scientific-technological complex development in Russia for the period from 2007 till 2013" directs to simultaneously support fundamental and applied researches, professional science community problem solving, creation of scientific infrastructure effective elements, providing young specialists influx in scientific area. Also the programme includes the main directions in development of key scientific schools, research activity in institutes of higher education, assistance in development of small scale enterprises in scientific area and their integration in the system of scientific-technological cooperation. The Total volume of FTP financing is 172,39 bln rubles, including 111,33 bln rubles from the federal budget.<sup>1</sup>

From the above-stated it follows that Russia moves towards innovative economy, which includes creation of such important innovative infrastructure elements as industrial parks, technological areas, business-incubators, Skolkovo project. It is essential because hereby "innovative fields" of future Russian NIS, its "islets" are created in Russia. However, the creation of unified, full-fledged NIS is impossible without structure-operational mechanism, which integrates and regulates the activity of foregoing innovative elements. Effective Russian NIS operating supposes both existing of structure elements and cooperation between them. That creates integrated innovative space, which includes organizations that generate knowledge and companies that use scientific – technological achievements, which provide innovative infrastructure and market demands, especially the demands of domestic market.

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<sup>1</sup> FTP "Researches and products in priority directions of scientific-technological complex development in Russia on period from 2007 till 2013 years": text.

## **INTELLECTUAL ASSETS IN FORMATION OF INNOVATIVE ECONOMY OF RUSSIA**

In the article the concept of the term «intellectual resources» is revealed and the key targets of development of innovative economy of Russia till 2020 are defined. Also SWOT-analysis of the innovation system of Russia is made and some statistical information of quantity of the organizations and the human resources involved in research and development is cited.

**Keywords:** Intellectual assets, Human capital, Long-Term Social and Economic Development to 2020, Research and Development (R&D)

The expansion of the services sector, globalisation, deregulation and the emergence of new information and communication technologies (ICTs) have brought to the fore the issue of how knowledge is created, disseminated, retained and used to obtain economic returns. This development is associated with a structural change from traditional scale-based manufacturing to new more innovation-intensive activities, which rely largely on intellectual assets. In fact, these assets have become strategic factors for value creation by firms. They are increasingly important in enabling productivity and efficiency gains, and are a crucial part of innovation in relation to business processes and products. Thus, intellectual assets are central to economies' growth and competitiveness<sup>1</sup>.

There is no globally accepted definition and classification of intellectual assets. Most definitions seem to agree that they have three core characteristics:

- 1) they are sources of probable future economic profits;
- 2) lack physical substance;
- 3) to some extent, they can be retained and traded by a firm<sup>2</sup>.

Similar terms such as "intellectual capital", "intangibles" and "knowledge capital" are sometimes used interchangeably with "intellectual assets", and there have been a number of attempts to identify the various constituents of intellectual assets and develop a taxonomy.

The current diversity in definitions and taxonomies of intellectual assets reflects the diversity of actors (e.g. different types of investors, academics, science policy specialists, management consultants, companies) and their different interests in addressing the issue of management, measurement and reporting of intellectual assets.

There is a variety of classifications of intellectual assets. One common approach is to classify the components in three broad categories

- Human capital relates to the knowledge, skills and know-how that employees "take with them when they leave at night". Examples are, innovation capacity, creativity, know-how, previous experience, teamwork capacity, employee flexibility, tolerance for ambiguity, motivation, satisfaction, learning capacity, loyalty, formal training, and education.

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<sup>1</sup> Intellectual assets and value creation; Synthesis Report, OECD, 2008 ([www.oecd.org](http://www.oecd.org)), p. 7.

<sup>2</sup> Intellectual assets and value creation: implications for corporate reporting, OECD, 2006 ([www.oecd.org](http://www.oecd.org)), p. 9.

- Relational capital concerns the resources arising from the external relationships of the firm with customers, suppliers and R&D partners. It comprises that part of human capital and structural capital involved with the company's relations with such stakeholders. Examples are image, customer loyalty, customer satisfaction, links with suppliers, commercial power and negotiating capacity with financial entities.

- Structural capital refers to the knowledge that stays with the firm "after the staff leaves at night". It comprises organisational routines, procedures, systems, cultures and databases. Examples are organisational flexibility, a documentation service, the existence of a knowledge centre, the general use of information technologies and organisational learning capacities<sup>1</sup>.

According to the strategic document adopted by the Russian government in 2008, Long-Term Social and Economic Development to 2020: A Policy Framework (LTDP-2020), Russia had completed its transition to a market economy and the transformation of its social and political systems by the turn of the century (Government of Russian Federation, 2008)<sup>2</sup>.

The section in the Concept of Long-Term Socio-Economic Development of the Russian Federation for the Period Till 2020 (hereinafter – "CLTD 2020") entitled "Development of the National Innovation System and Technologies" envisages solution of the following tasks:

- support of innovation business and growing demand to innovations in economy;
- development of the Russian science and education potential and improvement of its efficiency;

- development of an innovation infrastructure;
- efficient integration into the global innovation system;
- implementation of technological and research initiatives (projects) that will ensure the breakthrough of Russia in competition in science and technology on the world markets;
- growing awareness of the public about innovations and higher status of an innovator.

The key targets defined in CLTD 2020 are as follows:

- the share of organizations implementing technological innovations should grow up to 15% in 2010 and up to 40-50% in 2020 (10% in 2007);

- the share of Russia on the world markets of high technology products and services is to reach by 2020 in 5-7 and more economic sectors at least 5-10%, including nuclear power generation, aerospace equipment and services, special shipbuilding, some niches on the software market;

- the specific share of export of the Russian high technology products in the world's total export of high technology products should grow up to 2% by 2020 (0.3% in 2007);

- the specific share of innovation products in the total industrial products is to grow up to 6-7% in 2010 and to 25-35% in 2020 (5.5% in 2007);

- the intramural expenditure on research and development should reach 2.5-3.0% by 2020 (1.1% in 2007), of which more than the half in the private sector<sup>3</sup>.

The following Table 1 provides a SWOT-analysis of Russian innovation system. The description here concentrates more on the innovation system in particular instead of indicating the challenges in the general business environment such as corruption, bureaucracy, customs and their indirect impact on the functionality of Russian innovation system<sup>4</sup>.

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<sup>1</sup> Intellectual assets and value creation; Synthesis Report, OECD, 2008 (www.oecd.org), p. 9,11.

<sup>2</sup> UNESCO science report 2010 (www.unesco.org), p.215

<sup>3</sup> Background Report to the OECD Country Review of the Russian Innovation Policy «National innovation system and state innovation policy of the Russian Federation», Moscow, 2009, p. 26

<sup>4</sup> Valtteri Kaartemo ,Nikita Lisitsyn , Kaisa-Kerttu Peltola: "Innovation infrastructure in St. Petersburg –Attractiveness from the Finnish managerial perspective", 2009, p. 7

Table 1 - SWOT-analysis of the innovation system of Russia

Strong points	Weak points
<ol style="list-style-type: none"> <li>1. Abundant natural mineral resources, extensive territory that may be effectively developed by innovation companies.</li> <li>2. High growth rates in economics in 2000-2007.</li> <li>3. Technical modernization of some industries being successful in the pre-crisis period.</li> <li>4. Historically solid research and engineering culture, traditions and accumulated experience in organization and performance of researches and developments.</li> <li>5. Qualified (higher than in China) and cheap (cheaper than in Europe) labor force and science and engineering personnel.</li> <li>6. Soaring growth of the number and diversity of infrastructure in innovation area.</li> <li>7. Relatively good equipment of the management body of companies with modern information and technological facilities.</li> <li>8. Industry has moved rather far on the road of market reforms, the management quality has improved, in many sectors the process of corporate construction has completed.</li> </ol>	<ol style="list-style-type: none"> <li>1. High level of monopolization of the national and regional markets, domination of large companies from the raw material sector in the groups of leaders of Russian business.</li> <li>2. Inadequate coordination between public and private sectors in development of priorities for research, engineering and innovation development and measures for their implementation.</li> <li>3. Prevailing of the budget financing of all forms of research and innovation activity and innovation infrastructure.</li> <li>4. Lack of a coordinated policy regarding transfer of knowledge and technologies.</li> <li>5. A low level of support of small innovation organizations.</li> <li>6. A low level of innovation activity of business. Prevailing of non-innovation methods for creation of competitive advantages in the majority of companies.</li> <li>7. Outdated technological structure of the basic capital in many industries, reduction of possibilities for modernization in the face of modern crisis.</li> <li>8. The crisis situation in industry and company's science, great inhomogeneity of the research sector, a gap between industry requirements and science.</li> <li>9. Inadequate level of internal demand for innovation products.</li> <li>10. A low level of innovation culture and lack of experience in innovation business enterprise.</li> </ol>
Opportunities	Threats
<ol style="list-style-type: none"> <li>1. Possibilities for leapfrogging to higher levels of technology development in some sectors due to the effect of lagging development.</li> <li>2. Soaring development of the global market of engineering services on which the Russian companies and research organizations are positioned rather high. Areas of specialization are development of aerospace technologies, software and some fields of ICT.</li> <li>3. Integration into the global technological chains in the traditional and high technology industries.</li> <li>4. Enhanced competition on the domestic markets as a stimulus for innovation activity.</li> <li>5. Joining WTO and lowering of barriers to the world markets.</li> <li>6. Partnerships with foreign companies</li> <li>7. Contracts with foreign research organizations</li> <li>8. Foreign investments</li> <li>9. Imports of modern capital and managerial skills and corporate practices</li> </ol>	<ol style="list-style-type: none"> <li>1. Persisting technological lagging behind in some important monopolized sectors of economics.</li> <li>2. Exhausting of advantages by the quality of the human capital and other components of the innovation potential.</li> <li>3. Sharp cutting of expenditure on research and development in conditions of the global financial and economic crisis and growing backwardness of Russia in technology.</li> <li>4. Intensification of the protection tendencies in conditions of the global financial and economic crisis.</li> <li>5. Greater involvement of the state in economics and lowering of stimuli for business enterprise activity.</li> <li>6. More rapid development of competing emerging (BRIC) economies in developing their innovation systems</li> </ol>

Source: 1. Background Report to the OECD Country Review of the Russian Innovation Policy «National innovation system and state innovation policy of the Russian Federation», Moscow, 2009, p.111-112.

2. Valteri Kaartemo, Nikita Lisitsyn, Kaisa-Kerttu Peltola: "Innovation infrastructure in St. Petersburg –Attractiveness from the Finnish managerial perspective", 2009, p.8.

One of the most important and historically established specifics of R&D in Russia is that functioning of independent research organizations and institutes is not integrated into other segments of the innovation system.

In Russia 3536 organizations are involved in R&D, 40.9% of them refer to the business enterprise sector, i.e. they are functionally connected with different industries (Table 2). They take 62.4 % of the expenditures. The government sector takes about 39.8% of expenditures on R&D. The research organizations in the higher education sector make 17% of the total number of organizations, but their share in R&D expenditures is only 7.1%. The non-commercial sector including private non-profit organizations had in 2009 about 2.3% of the total number of research organizations and used about 0.2% of the intramural expenditures on R&D<sup>1</sup>.

The most important index of development and country potential is the state of its human resources capital<sup>2</sup>. Human capital becomes more important than capital investment and creation of material and technical basis<sup>3</sup>. Russia is not completely successful in this either.

Table 2 - Organizations performing R&D by sectors, 2007-2009

	Number of organizations			Share of R&D in intramural expenditure (%)		
	2007	2008	2009	2007	2008	2009
Government sector	1483	1429	1406	29.2	30,1	30,3
Business enterprise sector	1742	1540	1446	64.2	62,9	62,4
Higher professional education sector	616	603	603	6.3	6,7	7,1
Private non-profit sector	116	94	81	0.3	0,3	0,2
Total	3957	3666	3536	100	100	100

Source: Federal State Statistics Service (www.gks.ru)

In 2008, there were 761 300 people engaged in R&D in Russia, including researchers, technicians and support staff. This represented 1.3% of the Russian labour force, or 0.6% of the total population. After several years of decline, this number has now more or less stabilized. The same is true for researchers, who totalled 375 800, or 49% of R&D personnel in 2008. In terms of the absolute numbers of R&D staff, Russia is among the world leaders, coming only after the USA, Japan and China. However, the dynamics and structure of R&D personnel in Russia reveal an unhealthy imbalance. Unlike in many other countries, researchers in Russia account for less than half of R&D personnel. The rest are mostly support and auxiliary staff (43%), rather than technicians serving the scientific process (8%). As a result, Russia ranks 10th globally in terms of the number of people engaged in R&D per 10 000 employees but 19th in terms of researchers. To compound matters, more than 70% of researchers in Russia hold no advanced scientific degree.

Between 2002 and 2008, the age structure of researchers was marked by absolute growth in the two polar groups, namely scientists under 30 years of age (up by nearly 18%) and those aged 70 years and above (up by a factor of two). Simultaneously, the ranks thinned of such creative age groups as 40–49 year-olds (down by nearly 58%) and 50–59 years (down by 13%). The bottom line is that about 40% of Russian researchers have overstepped the official retirement age of 55 years for women and 60 years for men. In 2008, researchers were 49 years

<sup>1</sup> Background Report to the OECD Country Review of the Russian Innovation Policy «National innovation system and state innovation policy of the Russian Federation», Moscow, 2009, p.43

<sup>2</sup> Dmitry V.Kuzin: “Competitiveness of Russia: Problems and Perspectives”, Moscow, 2007, p.11

<sup>3</sup> Background Report to the OECD Country Review of the Russian Innovation Policy «National innovation system and state innovation policy of the Russian Federation», Moscow, 2009, p. 144

old on average, compared to an average age of 40 years for those working in the national economy as a whole<sup>1</sup>.

Russia can do much to make innovation policies more effective. Russia's innovation potential is considerable but its innovation performance remains disappointing. Realising this potential will require further steps to create a healthy, open business environment, as well as steps to stimulate greater private R&D and strengthen the domestic IPR (Intellectual Property Right) regime. Reform of the large but inefficient public science sector could make it more responsive to business needs and more dynamic as an engine of knowledge creation<sup>2</sup>.

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1. Background Report to the OECD Country Review of the Russian Innovation Policy «National innovation system and state innovation policy of the Russian Federation», Moscow, 2009.
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### **ECONOMY OF MONTENEGRO**

Montenegro is small country with capitalistic open economy. Even it is fast growing and developing country it's economy cannot be characterised as good one. Plenty factors, both internal and external, are affecting on slowing down economic activities in Montenegro. Global Economic Crisis certainly has the biggest impact, but despite all of that, according to the indicators and prognosis Montenegrin economy is recovering step by step, which we can conclude from the positive rate of Gross Domestic Product.

Watching the movements of GDP we can see that after marked growth in 2007 and 2008 when it reached it's peak (3.086 milrd €) in the 2009 it marked it's fall (2.980 milrd €) under

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<sup>1</sup> UNESCO science report 2010 (www.unesco.org), p.218

<sup>2</sup> Economic Survey of the Russian Federation, 2006 (www.oecd.org), p.2

the consequences of World's Economic Crisis which definitely had an impact on Montenegrin economy. In percentage, GDP rate was 6,9% in 2008, and in 2009 it was negative and it was -5,7%. Prognosis for 2010 are optimistic and experts are announcing recover and stepping out from the Crisis – GDP will be 3.025 milrd € and GDP rate will be at the level 1,1%.

**Table 1 – Macroeconomic indicators during 2007-2010**

DESCRIPTION	2007	2008	2009	2010*
<b>GDP, milrd €</b>	2.680	3.086	2980	3.025*
<b>GDP, real growth %</b>	10,7	6,9	-5,7	1,1*
<b>GDP/pc €</b>	4.280	4.908	4.270	-
<b>Inflation</b>	4,2	7,7	3,4	0,5
<b>Industrial production</b>	0,1	-2	-32	17,5
<b>Export mil €</b>	454,7	416,1	277,0	330
<b>Import mil €</b>	2.073,1	2.529,7	1.654,2	1.657
<b>Trading balance</b>	-1.618,4	-2.113,5	-1.337,2	-1.324
<b>Budg-deficit/suficit/% GDP</b>	7,02	-1	-4,4	-3
<b>FDI, mil €</b>	1.007,7	832,1	1.068,4	643,1
<b>Total employees, 000</b>	156,4	166,2	174,1	161,7
<b>Regis. unempoyed, 000</b>	34,4	28,4	32,1	32,3
<b>Unemployment rate</b>	11,9	10,7	11,4	12,1
<b>Avg. net earnings €</b>	338	416	463	479
<b>Total deposits (mil €)</b>	2.091,1	1.990,6	1.869,6	1.789,8
<b>Total credits (mil €)</b>	2.245,7	2.797,5	2554,9	2.199,9
<b>Stock market's turnover (mil €)</b>	727,0	160,3	374,9	54,8

Source: Monstat, Central Bank of Montenegro; Ministry of Finances – evaluation for 2010.

In 2009 inflation was going down and it is expected to be continued with this in 2010 because of taking restrictive monetary policy ac. „policy of expensive money“. After great expansion in 2007 and 2008, when infalction rates were 4,2% and 7,7% respectively, and World's Economic Crisis restrictive monetary policy had to be implemented in order to save monetary system. Mother banks took back deposits from their accounts in Montenegro and implemented restrictive credit policy: available money was disappearing and interest rates were growing and money was becoming more and more expensive.

Banks couldn't more be support for little and medium enterprises so many of them fell into liquidity crisis, and some of the enterprises even shuted down, and that lead to increase of unemployment. Unemployment rate, after bringing down the inflation in 2009, was increased from 10,7% up to the 11,4% and after bringig down the inflation in 2010 unemployment rate will be 12,1%. Difficulties in the financial flows connected with insolvent bank system and relations with interpersonal claims made bank unable to support businesses so crisis took real sector and made economic activitis to fall down.

Average earnings in 2010 wil be increased in regard to earlier periods. Average earning is still the smallest in fishing activity and it is 159€ and the biggest is in the finacial activity an it is 891€.<sup>1</sup>

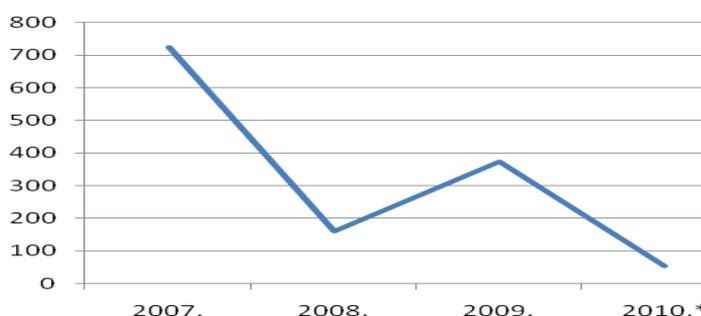
Observing the import/export activities we can see that in regard to 2008 export fell down in 2009 but there is a slight increase in 2010. Import of goods and services also fell down in 2009 in regard to 2008 but still it is significantly bigger than export which brings to the deficit in trading balance.

<sup>1</sup> Source: MONSTAT, Statistics of Labor market

Reduced economic activity had an impact also on reducing budget incomes. Number of unemployed but also the number of pensioners was bigger and that burden the budget and social givings even more which caused an increase in budget deficit in 2009 at 4,4% in regard to 2008, but in 2010 budget deficit fall down on 3% but that reducement isn't enough because it can represent a difficulty for Montenegro's integrations in European Union, more precisely according to Maasticht Treaty there can be problem in using euro as money because the countries which are using euro can't let the budget deficit to overcross the limit of 3% of GDP. It is clear that Montenegro has to made efforts to reduce budget deficit.

Noticeable is fall of foreign direct investments. After growth in 2009 in 2010 it is expected that FDI will be at the level which is even lower than one in 2008. World's Economic Crisis influenced that many investors lost their trust in the economic systems so when the risk on returns grew they gave up of investing in other countries. Increase of FDI which is marked in 2009 is because of privatization one of the biggest Montenegrin company called „Elektroprivreda Crne Gore“ by Italian energetic company „A2A“. Surely, it has to be announced that Credit Rating Agencies such as „Moody's“ and „Standard and Poor's“ improved credit ratings for Montenegro<sup>1</sup>. CRA „Moody's“ changed prospects for rating of state's bonds Ba3 from negative to positive and confirmed existing level of rating. Prospects for Ba1 for upper limit of bonds in foreign currency and B1 for upper limit for deposits in foreign currency are also changed from negative to stable. CRA „Standard and Poor's“ announced credit rating of Montenegro for longrun and shortrun borrowing in foreign currency BB/B and rating for borrowing in domestic currency BB+/B. Mark for longrun borrowing in foreign currency is lowered from BB+ to BB, while the marks in other segments of borrowing remain the same. Also it is confirmed Montenegro's mark AAA for transfers and convertibility. Montenegro is still exposed to macrofinancial risk because of reduced activity of bank's sector and larger pressure on public finances. Negative prospects are showing the possibility of increase public debt above current expectations.

Stock market's index is also falling. Stock market is still undeveloped in Montenegro and it is very turbulent. There are many fluctuations which we can see from the graph above. Stock market's turnover in 2008 fell down from 727 mil € to 160,3 mil €, but in 2009 it increased to 374,9 mil € and in 2010 turnover will fall again to 54,8 mil €. Demand for all stock market's products which are significant for industrial production and export (e.g. aluminum, steel) is fallen down like their price, also. Reduced turnover brought to unnecessary work of two stock markets in Montenegro, so they have formed one – Montenegro stock market.



Source: Monstat, Central Bank of Montenegro; Ministry of Finances – evaluation for 2010

**Graph 1 – Stock market's turnover (mil €)**

<sup>1</sup> Source: <http://www.mf.gov.me>

We can conclude that the Crisis started to spread from financial sector and it caught whole economy as the continuous chain of cause-consequential relationships: it has lowered the amount of foreign direct investments, it has lowered the turnover of real estates and also the whole economic activity, including the reduced number of payment capable tourists in Montenegro. Economy of Montenegro, at the period of World Economic Crisis was (and still is) exposed to the strong negative influences from the global market. The reason for that condition is because Montenegro is very small country so it's economy can't make any significant impact to the global economy. What Montenegro can do is just to accept the playing rules from the „bigger players“ – the other countries whose moves have strong influences to the global market, and adjust its macroeconomic policy to the present condition.

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## **MONTENEGRO IN THE PROCESS OF TRANSITION**

### **Short overview of the internal weaknesses and advantages, and the potential opportunities and dangers in environment.**

It is clear that every society has its disadvantages but also comparative advantages. It is important not to forget the constant emphasis on quality while suppressing defects. It also must not be forgotten that each nation exhibits the certain amount of nationalism.

We witnessed the collapse of the former Soviet Union and the disappearance of the Berlin Wall, as well as the rise of ethnic, local and regional aspirations that re-introduced the issues of nationality and nationalism to the European political scene. The over-optimistic prediction that the era of nationalism and nation states was approaching its final phase proved to be premature in discounting the nature and vitality of those concepts.

Today, nationality and nationalism appear to be the most universal legitimate values in contemporary political life. This chapter will elaborate on the historical continuity and some of the contemporary manifestations of the problems facing Montenegro in its struggle to re-negotiate its position in the region and to preserve distinct notions of national and cultural identity among its peoples. The primary objective of the chapter is to highlight the issue of identity construction in Montenegro over time.

Montenegro is a country with about 700,000 inhabitants the smallest and the youngest member of the republics of former Yugoslavia. The fact that I've mentioned, I consider as advantage because, statistically, implementation of the system in smaller organizations produce better results. During its millennium-long history (from Duklja to Zeta to Crna Gora), the main feature in Montenegrin historical development was, on the one side, the characteristic influence of various civilisations and cultures, and, on the other, the quest for its place within the boundaries of those civilisations.

Located on the crossroads between east and west, in the central part of the Balkan Peninsula, Montenegro has been exposed to the influence of global historical processes. It was

within these processes, and depending on the interests of the Great Powers, that Montenegro has built its particular historical identity, displaying a strong survivalist impulse in its desire for self-preservation.

Within such a historical disparity, developments characteristic of the whole region of south-east Europe which, in the evolution of European history, have played the roles both of centre and of periphery, have necessarily conditioned the historical formation of the state of Montenegro.

Unfortunately, the gap that was created by political ideas of nineties slowed down the whole region, as well as Montenegro, in the race with other European countries. Transition period, ie. catching up with global competitors has started, and it is still in progress.

What in fact means joining the European Union? – is question that often arises in the media,enterprises, informal discussions. For me, as a young and liberal economist, for us as a society with significant differences in the level of material well-being, has certain meaning. The territory of the EU is released from many tariff barriers, and various other rules that limited and often obstructed the free movement of people,goods,capital and services. The war between Member States is almost unimaginable. In contrast of that,it is easy conceivable the development of structural funds such as 'European Regional Development Fund'and ' The European Social Fund' that are providing additional financial support to natural and legal entities within a single idea-the' Europe of citizens', which is developing and strengthening in order to create a common European identity in the global market.

As a condition of joining the EU group,lists three groups of criteria: political,economic and legal criteria.I believe that for Montenegro will be the hardest to answer economic challenges,because they include all the key sectors of the economy: from macroeconomic stability and effective competition policy, through liberalization of trade and prices, privatization and company law, to regulation of the financial sector,human resources, foreign investment and infrastructure. Finally, only the market can provide relevant results and point out all the advantages and disadvantages of the economic policy.

### **Privatisation process**

Privatisation is often considered to be one of the most important elements in the transition process. It is obvious that, for Montenegrin economy and society as a whole, the privatisation process has played a very important role during the past few years.

The value of the enterprises has declined continuously due to the overall economic degradation as well as to their low levels of current operation. The management of social and transformed enterprises, through current business operations with newly-founded private firms in which they had an interest, has actually moved a solid part of capital from social into private enterprises.

As a result of the very slow privatisation – which, in addition, caused a range of everyday concrete problems, resulting from the more or less obvious corruption and failure to implement the provisions of privatisation agreements (in 1998 alone, 28 privatisation agreements were cancelled due to these reasons) – a further reorganisation of the entire process had to be undertaken. In addition, in the absence of domestic capital, privatisation in Montenegro has had to rely on direct foreign investment.

At the specific plan, it is worth turning to agriculture and than industry in the way we already built a relationship with tourism as one of the most useful advantages of our country. We must produce more, and therefore, we need to improve the balance of export and import. Montenegro is not a big country like Russia or Germany so we have to use the facilities of the southern and northern regions in the equal or at least approximately equal way.

Also, the decision to move from borrowing euro to printing our own money makes sense until the end of transition period, and it is good solution until the day of the official accession to EU.

The fight against corruption as soon as possible must reach a certain level. It is a level where it will no longer be called a struggle but life-style. Only with fulfillment of these and similar goals and tasks it is possible to achieve a position that we are dreaming of.

By catching up with other members there is still much work, as we said before, but the period of accession the route where we can catch up with rests is shortened. I have hopes that we can become a member of European Union by the end of 2015.

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## **MACROECONOMIC PERFORMANCE OF MONTENEGRIN ECONOMY IN PERIOD 2001 – 2010**

### **Abstract**

Macroeconomic characteristics of Montenegrin economy in period 2001–2010 are subject of analysis in this paper.

Reintegration into international organizations, economic and political stabilization, attracting foreign investments, and rehabilitation of economic and social structures have been the priorities of the economic policy since 2001.

The first period, further, encompasses phase of gradual completing of own legal and economic system after May 2006, and three-year period of investment boom following regaining of independence

During that few years, the Government has had largely relied on foreign investments as a means to foster economic growth. This has proven a very successful policy, with growth rates during the immediate post-independence period exceeding those of countries elsewhere in Europe . Clearly, Montenegro's ability to attract foreign investors would continue to help the Government in realizing its socio-economic objectives—*but* in an environment of a global liquidity squeeze, comparable inflows of foreign direct investment cannot be taken for granted.

Through analysis of macroeconomic trends in aforementioned period, as well as the Government of Montenegro's response on economic crisis, this paper presents basic macroeconomic guidelines and fiscal risks for future mid-term period, which is part of calculating in projection of key macroeconomic indicators.

**Key words:** economy, economic growth, economic crisis, macroeconomic indicators, macroeconomic guidelines;

Even though Montenegro has serious economic and political problems today, even it is located on unstable Balkan, it becomes more and more attractive for investments, before all because it has natural potentials, builds new economic system, develops economic and political

freedom and before all, has critical mass of young people who understand and accept modern trends of globalization and informatization.

*Does Montenegro have macroeconomic stability?*

I will give answer on this question through another question:

Can macroeconomic stability and macroeconomic equilibrium be expected in economy, which have been survived four shocks?

1. »Recession shock« (decrease of GDP in 2000 on 50% from level from 1989.)
2. »Demographical shock« (increase of population for 13% during the last ten years)
3. »Delayed transition shock« (at least 8 years of delay compared with East Europe)
4. »The global financial crises« (The global economic crisis that began in 2008 continues to roil international politics and markets).

#### Current economic situation

GDP (2010): \$4.087 billion (€3.025 billion, at January 2011 exchange rate).

Real GDP growth rate (2010 est.): 0.5%.

Per capita GDP (2010): \$6,481 (€4,797, at January 2011 exchange rate).

Inflation rate (2010): 0.8%.

Natural resources: Bauxite, hydropower, timber.

Trade: 12% of GDP.

Industry: 11.3% of GDP.

Transport: 9.5% of GDP.

Real estate: 8.4% of GDP.

Agriculture: 8.3% of GDP.

Trade (2010): *Exports*--\$446.3 million (€330.3 million). *Major markets*--Serbia (\$101.2 million; €74.9 million), Greece (\$76.2 million; €56.4 million), and Italy (\$65.9 million; €48.8 million). *Imports*--\$2.235 billion (€1.654 billion). *Major suppliers*--Serbia (\$584 million; €432.2 million), Bosnia and Herzegovina (\$166.8 million; €123.5 million), and Germany (\$157.9 million; €116.9 million).

#### Economy

Montenegro has natural resources, primarily bauxite, adequate water supplies, and a climate conducive to agriculture and tourism. The establishment of the bauxite-alumina-aluminum industry after World War II provided Montenegro with a core strategic industry; it has suffered from high production costs since the first energy crisis in 1973. In the 1960s, tourism began its initial growth, largely attracting visitors from Eastern Europe and Yugoslavia. War and sanctions in the early 1990s hit Montenegro hard, and significant recovery began only after the end of the Kosovo crisis in 1999 and the adoption of the deutschmark (DM) in November 1999, which largely disconnected Montenegro's economy from Serbia and the Serbian dinar.

The global financial crisis had a significant negative impact on the economy, largely due to the ongoing credit crunch, a decline in the real estate sector, and a fall in aluminum exports. On March 31, 2010, Standard & Poor's Ratings Services lowered the long-term sovereign credit rating on Montenegro from 'BB+' to 'BB', while also affirming the short-term sovereign credit rating at 'B'.

During the last few years, Montenegro has created a largely business-friendly investment climate. The Euro replaced the DM on March 31, 2002. The country established the lowest corporate tax rate in the region (9%). More than 90% of capital value in Montenegrin companies had been privatized by July 2010, although there have been some setbacks to the privatization agenda. In October 2010, the government regained part ownership in a previously

privatized aluminum company that had been plagued with strikes and lawsuits since its privatization. Under the agreement, the government received a 29.4% stake in the company and a 31% stake in the associated bauxite mine, as well as seats on the boards of both companies. However, the banking sector, telecommunications, and oil import and distribution in Montenegro are 100% privately owned. The biggest improvement Montenegro has made has been in the area of tax policy. Montenegro introduced value added tax (VAT) in April 2003, and established tax rates of 17% and 7% (for tourism and staple food items) as of January 2006. The lower VAT rate for tourism is to encourage growth in this strategic industry. Montenegro also decreased the personal income tax (PIT) and implemented a 9% flat rate in January 2010.

There has been a rapid growth in tourism and tourism investments, particularly along the Adriatic coast, in the years since independence. The independent World Travel and Tourism Council repeatedly has ranked Montenegro as the top-growing tourism destination in the world, with growth estimated at 10% annually through 2016. Net foreign direct investment (FDI) in 2010 reached \$935.1 million, and investment per capita in Montenegro is among the highest in Europe. However, investment has slowed recently, in part as a result of the global economic crisis. According to projections of the Montenegrin Investment Promotion Agency, FDI in 2011 will range between €660 million and €730 million (\$892 million and \$986 million). The total value of FDI in 2011 will, to a great extent, be related to privatization projects and spatial plans that allow for greenfield investments.

*Main problems of Montenegro economy are:*

1. Unemployment. Small percentage of labor force work in productive sectors to increase GDP in Montenegro.
2. Structural problems in economy. There are several big enterprises which lose their market with break up of Yugoslavia (For example Zeljezara).

*Major questions are:*

1. How employment can be increased, and related with it GDP also?
2. How economy can be adjusted to market, or how companies should be restructured?

*How problem of macroeconomic non-equilibrium can be solved:*

1. Trough international support.
2. Trough conduct of economic reforms.

Support from international community that provided macroeconomic stability in Montenegro we understand as providing conditions for faster economic reform processes, establishment of new institutions and integration of Montenegro into regional markets, especially markets of Former Yugoslavia. Without that support, our reforms would be less successful.

*Which potentials Montenegro has so those problems can be solved?*

- Agricultural potentials (fruit, vegetables, food, vine, fish).
- Montenegrin coast is 293 km long.
- Possibility of production of 100,000 tones aluminum.
- Production capacities for 400,000 tones of raw Ferro.
- Production capacities for production of 1,000,000 tones of bauxite.
- Production capacities for production of 75,000 tones of salt.
- Production capacities for production of 2,700,000 tones of coal.
- Services: Brodogradilište Bijela with potential capacities in physical units of 2,800,000 and values of 30 million US \$
- Overseas and maritime industry

- Share of high-educated population of 6,6% in total population and 20% in active work force.
- In Montenegro exists 13,244 private-owned companies, or 85% of total number of registered companies.
- Especial opportunity of Montenegro is tourism.

*Concept and flow of economic reforms in Montenegro*

During last three years Montenegro had been completed it's own concept of economic sovereignty. It means total economic system is in charge of Montenegrin Government and Parliament.

Our basic assumption is without new market institutions economic rehabilitation and development of Montenegro isn't possible.

Establishment of new institutions influences change of people behavior and way of thinking and attitudes.

Major principles of new economic system are:

1. Free market with private ownership and economic freedom.
2. Open economy and national treatment of foreigners.
3. Protection of property rights according to international standards.
4. Free contracting and protection of contracts according to international standards.
5. National tolerance and democracy

New economic system has been realized trough:

1. Monetary reform and reform of banking system and payment system.
2. Fiscal reform.
3. Economic regulation.
4. Building of financial market and capital market.
5. Establishment of new business environment.

Economic reforms in Montenegro has been conducted with support from foreign advisers:

- USAID
- DFID
- EU
- PriceWaterHouseCoopers
- Deloitte&Touch
- Credit Ainstalt Investment Bank, Raiffeisen Investment AG, Credit Commercial de

France

- Link Laters, Denton Hall

On full or temporary basis in Montenegro work about one hundred of foreign advisers and consultants.

*Building of financial market and capital market:*

1. Law on Securities was adopted.
2. Security Commission was established and it is top authority at financial market.
3. Establishment procedure of investment funds is legally proscribed and adoption of Law on Investment fund is under procedure.
4. Central Depository Agency was established – Montenegro adopted principle of dematerialization of shares.
5. Montenegro has stock exchange, five brokerage houses, four privatization Funds.
6. Primary and secondary trade with securities are legally defined.

7. New knowledge. 150 young people, with fluent English and communication abilities successfully attended international courses and seminars in this area.

Member of Security Commission had been trained on American stock exchange in Washington, D.C

#### *Economic regulation*

Major objective is protection from private monopoly in infrastructure sector. Project has been started with DFID. Idea is to establish Agency for economic regulation of utilities, which would include regulation of telecommunications, electro-energetic sector, water supply, and communal sector.

One department of Agency has been already established:

Department for economic regulation of telecommunication.

Agency for regulation is directly responsible to Parliament, not Government of Montenegro.

Regulation includes, before all, regulation of quality and prices.

#### *Establishing new business environment*

Several Laws will regulate business environment:

1. Foreign Investment Law – adopted by Parliament in 2000. According to this Law, foreign and domestic investors are in same position in terms of establishing companies. System of licenses for foreigners was canceled. There is no any area (except defense) where foreign investor can not be major owner and establish company, bank, buy land, shares, establish investment fund, brokerage house, stock exchange...

Contract protection is under authority of both, domestic or international courts, depending of agreement made by buyer and seller.

2. Government also adopted those laws:

- a) Companies Law;
- b) Bankruptcy Law;
- c) Foreign Trade Law;
- d) Custom Tariff Law;
- e) Public Procurement Law;
- f) Antimonopoly Law.

Development Strategy of Montenegro based on concept of micro state:

1. Micro (small) state are not popular in Balkan. Macro (big) states are. That is the reason why I have been criticized for this concept.

2. Concept of micro state is based on several premises, from which the most important ones are listed below:

- i. Small and professional administration
- ii. No army
- iii. Professional police
- iv. Development of entrepreneurial economy (based on open economy, entrepreneurship and innovations, transparency)
- v. Open economic system without custom
- vi. No visa regime for entrance in Montenegro
- vii. National treatment of foreigners
- viii. International guaranties for property and economic contracts
- ix. Limited number of trade and diplomatic representative offices abroad (only in most important centers – probably 10-15)
- x. Encouragement of non-government sector

xi. Minimal but efficient state which protects contracts, property rights, citizens freedoms and efficient against corruption.

Our logic is market only can integrate Montenegro with regional environment and make Montenegro part of Europe.

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### **THE COMPAREBLY ANALYZE OF THE SOUTHERN CAUCASUS COUNTRIES' ECONOMIES**

International economic crisis didn't pass by Southern Caucasus countries even Armenia where was the wrong opinion that Armenia is isolated from the world economy and the international economic crisis can't affect the economy of Armenia. However it is not true and the international economic crisis affected Armenia, Azerbaijan and Georgia. In this report I will present the reasons and consequence of economic crisis and will analyze some economical indexes of Azerbaijan, Armenia and Georgia including references and exhibits.

**Table 1**

Relative change of GDP in the Southern Caucasus countries in 1991-2007

	<b>Azerbaijan</b>	<b>Armenia</b>	<b>Georgia</b>
1991	-0.7	-11.7	-21.1
1992	-22.6	-41.8	-44.9
1993	-23.1	-8.8	-29.3
1994	-19.7	5.4	-10.4
1995	-11.8	6.9	2.6
1996	1.3	5.9	11.2
1997	5.8	3.3	10.5
1998	10.0	7.3	3.1
1999	7.4	3.3	2.9
2000	11.1	5.9	1.8
2001	9.9	9.6	4.8
2002	10.6	13.2	5.5
2003	11.2	14.0	11.1
2004	10.2	10.5	5.9
2005	26.4	13.9	9.6
2006	34.5	13.2	9.4
2007	25.0	13.7	12.3

Source [www.wb.org](http://www.wb.org)

Azerbaijan was one of the poorest republics of The Soviet Union at the time of independence from the Soviet Union in 1991. In the early 1990s, Azerbaijan faced many of the challenges that confronted other Commonwealth of Independent States (CIS) countries in transition, including contraction of economic activity, deterioration in social services and infrastructure, and a rise in poverty. In addition, an armed conflict with neighboring Armenia over Nagorno-Karabakh led to an influx of about one million refugees and internally displaced people, and disrupted key regional trade and transport links. By 1994, a ceasefire was achieved; currently parties to the conflict are making efforts to find a peaceful solution to the dispute through mediation of the Minsk Group, co-chaired by France, Russia and the US. For Azerbaijan, economic recovery began in 1995 when, with greater political stability, the Government embarked on a program to stabilize the economy and introduce structural reforms. These reforms, aimed at stabilization and laying foundations for a market economy, were largely successful and ushered a period of sustained growth. Since 1997 it was registered the growth of GDP (5.8%, 1999-7.4%, 2000-11.1%, 2001-9.9%). But it should be mentioned that in the region after the destruction of The Soviet Union the rate of shadow economy is very high especially in Azerbaijan it was 25%: Oil and gas industry continued to be the main sphere which provide economical development and in 1997 it was 25% of GDP. According to datum of IMF from 1991 to 1995 in Azerbaijan it was registered 60% economical decline, but it continued till 1996. During the first five years of independence the rate of inflation is very high (1994-1600%, 95-85%, 96-28%)<sup>1</sup>: From 1991 to 2000 the growth of GDP was 40%. After independence Azerbaijan changed its trade direction to Turkey, Iran and other countries. According to the official statistics of Azerbaijan in 2000 in comparison with 1999 foreign trade increased by 88%. The share of export was 63%: After the destruction of the Soviet Union, Armenia lost about 60 percent of its GDP between 1989 and 1993. Labor market adjustment was dramatic: the rate of unemployment and inflation became very high. Following macroeconomic stabilization in 1994-95 and sustained Government efforts to advance structural reforms, a steady economic recovery has taken place since 1994. From 1995 to 2008 the average annual economical growth was 9% and especially the growth was accelerated after 2001 and 2001-2007 it was registered the average annual growth by 13%. After the independence there was a large decline in the economy of Georgia. According to the official statistician datum in 1992 production declined by 40%. It was begun high inflation. From 1993 to 1994 the rate of inflation was very high and the rate of unemployment was 20%. Economic recovery began in 1995 when Georgian Government used all credits to stabilize the financial sphere. In 1996 the growth of GDP was 11% in comparison with 2.6% growth in 1995.

**Table 2**

Relative change of GDP in the Southern Caucasus countries in 2008-2010, %

2008	10.8	6.9	2.3
2009	9.3	-14.3	-3.8
2010	5.0	1.0	6.4

Source [http://www.azstat.org/statinfo/system\\_nat\\_accounts/en/007.shtml](http://www.azstat.org/statinfo/system_nat_accounts/en/007.shtml)  
[http://www.armstat.am/file/article/shin\\_4\\_09.pdf](http://www.armstat.am/file/article/shin_4_09.pdf)  
<http://www.geostat.ge/index.php?action=wnews&lang=eng&npid=53>

At first sight datum of table don't reflect economic crisis in Azerbaijan because in 2009 it was registered real GDP growth by 9.3%: It corresponds to the tendency of the development for the last years when in consequence of volume of oil growth in 2006 was registered GDP 34.5% growth which of course we can't comparison with the decline registered till 10.8% in

<sup>1</sup> [www.geostat.am](http://www.geostat.am)

2008. This is mostly due to the oil price decline in the world market. The economy of Azerbaijan became alive in August 2008 when the oil price increased to \$70 for 1 barrel, but this situation continued until 2009 when the oil price decreased to \$62 for 1 barrel. In this situation, Azerbaijan has an advantage because the oil has high liquidity and due to this advantage it continued to provide real GDP growth of 9.3%. The situation was different in Georgia. The GDP in Georgia declined by 3.9% compared with 2008 when the annual growth of GDP was 2.3%. We all remember the wartime in Georgia in 2008. It is true that on one hand the war damaged the economy of Georgia, but we must also mention that as a paradox it may seem particularly the war saved the economy of Georgia from crisis. The war damaged the economies of Armenia and Azerbaijan too, for during the war the economies of Armenia and Azerbaijan declined. It should be mentioned that Armenia is the only country in the region which has two closed borders but until 2008 the economy of Armenia on average registered 13% of growth. As for Armenia the decline of GDP was 14.4%. In Armenia construction had the largest share of the decline of GDP. In Armenia construction was financed by the Armenian Diaspora and by foreign investors. In consequence of declining prices of real estate many people sold their apartments. Large volumes of money were taken out of the economy and it influenced the Armenian economy badly. So if in 2008 the GDP of Armenia and Georgia were almost equal (\$12 billion) then in 2009 the GDP of Georgia exceeded the GDP of Armenia by \$2 billion. And the economy of Azerbaijan exceeded these two countries due to the growth of the oil prices in the world market. Though the economies of Armenia and Azerbaijan are different, they have one important similarity – the economy in both countries is not balanced. In Azerbaijan's exports oil has the largest share (94%), but during the years of crisis the price of oil declined abruptly and because of it the flow of currency reduced. Though the profit from oil has risks of corruption. And generally the rate of corruption is very high in the region. According to the report of "Transparency International" the corruption in the region will be the following

Table 3

№	Country	Index of corruption <sup>1</sup> in 2010	Index of competitiveness <sup>2</sup> in 2010	GDP per capita in 2010 <sup>3</sup> (\$)	Rate of inflation in 2010 <sup>4</sup> (%)
1	Azerbaijan	2.4	4.29	5752	5,7
2	Armenia	2.6	3,76	2998	9,3
4	Georgia	3.8	3,86	2620	11,2

The world practice shows that there isn't any country where the rate of corruption and the rate of competitiveness have a high rate at the same time. According to specialists' opinion, the correlation between corruption and competitiveness is 0.87. The most important index of economical development is the GDP per capita. The higher is the rate of corruption, the lower is the GDP per capita. The correlation between the index of corruption and the GDP per capita is 0.81. There is a direct link between inflation and corruption. The decline of the corruption rate provides increases of competitiveness which stimulates development of the Small and Medium Business sphere. It decreases the rate of inflation and due to it the welfare of people increases.

<sup>1</sup> <http://www.guardian.co.uk/news/datablog/2010/oct/26/corruption-index-2010-transparency-international>

<sup>2</sup> The Global Competitiveness Report 2010-2011

<sup>3</sup> World Bank national accounts data and OECD National Accounts data files

<sup>4</sup> [www.wb.org](http://www.wb.org)

In all three countries of the Southern Caucasus the rate of corruption index is very high but Georgia is the first in this region. The region is very conflict and three countries have ambitions to each other. There are many political conflicts in the region which influence all three countries. Particularly conflicts of Russia and Georgia for Southern Osetia and Abkhazia and the conflict of Nagorno-Karabakh Azerbaijan make these region less attractive for investors.

### **Financial stability of the Southern Caucasus countries**

As Azerbaijan continued to mine oil and American currency didn't stop flowing, so in 2009 as in the past years the central bank of Azerbaijan had to struggle for strengthening of the national currency. In 2009 the CB of Azerbaijan emitted money of 5% of GDP, and due to it the currency reserves exceeded \$20 mlrd billion, and due to it the course of manat remained stable. The international financial crisis had a bit influence on the banking system of Azerbaijan because Azerbaijan is less integrated in international markets. In 2010 the financial condition of Azerbaijan was evaluated as stable. In comparison with Armenia and Georgia the solvency of Azerbaijan is quite high. At the end of 2008 the crisis has already had its negative influence on the balance of payment of Armenia. The following factors had their influence on the balance of payment:

1. Decline of the transfers from the Armenian Diaspora,
2. The aggravation of the trade balance.

Of course it had negative influence on the currency market.

In the initial stage the authorities preserved the national currency within of 306 dram, but in spring 2009 the investments were stopped and the course of dram declined abruptly till 372 dram for \$1. After that the situation became stable. To prevent the panic situation in the currency market the CB led extended policy decreasing the percent of refinance till 5%.

After the stop of investments in the financial market the price of dram ranged between 350 and 410 dram. The course of dram in average was 375.

Here are the following factors which influenced the fluctuation of the course of dram.

1. Tourism,
2. Migration,
3. Correlation between import and export

The banking system of Armenia is considered to be the only country among the countries of CIS, which didn't need state financial support during crisis. Georgia like Azerbaijan had to help the banks which suffered from crisis. But after declining the course of laree in November 2008, the course of laree was almost stable in 2009. That stability was mostly depended on the financial support which Georgia had got from the foreign countries in 2008 and 2010. It's true that in Georgia made reforms but the solvency of Georgia continues to be the lowest in the Caucasus.

### **Living conditions of the Southern Caucasus countries in 2008-2010**

	Armenia			Azerbaijan			Georgia		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
GDP per capita. doll	3790	2770	2998	5329	4899	5752	2919	2441	2620
Rate of inflation	5.2%	6.6%	9.3%	15.4%	1.5%	5.7%	5.5%	3.0%	11.2%
Rate of unemployment	6.3%	6.8%	7.0%	6.1%	6.0%	6.0%	16.5%	16.9%	16.8%

Source <http://www.ciaeworld>

According to the official statistical datum the *Living conditions* of Azerbaijan didn't fluctuate during crisis. As we can see from the table, in Azerbaijan the highest rate of inflation

for the last three years was registered in 2008 (15.4%): The rate of inflation decreased in 2009 and it was conditioned by the declination of consumer demand.

The 5.7% rate of inflation registered in 2010 is comparably lower than the same index in Armenia and Georgia. In 2008-2010 the CPI increased in Armenia. In 2008 the CPI was 5.2%. But it should be mentioned that dram increased twice to dollar. In 2009 the CPI was 6.6%, but dram fell to dollar by 20%, although in the Armenian consumer market are mostly imported goods. In 2010 the rate of inflation was 9.3%.

It was registered high rate of inflation in Georgia till 2008, even in 2007 it was 11%, but in 2008 the rate of inflation declined till 5.5%. It should be mentioned that in 2009 the rate of inflation was 3.0%. According to the mark of EBRD such a low rate of inflation during crisis is a result of declination of consumer demand. But the situation was different in 2010 when the rate of inflation was very high 11.2%. It's interesting that Georgia being a tourism country naturally provides the growth of income of its economy owing to tourism. But it also should be mentioned that Georgia is an importer country.

If the flow of tourists is increasing, a lot of foreign currency enters the country and demand of laree increases, so dollar increases and it stimulates inflation. And besides it as Armenia and Azerbaijan, Georgia also depends on world market and the increase of world prices influences Georgia's economy.

In Georgia as in Armenia the high tempos of inflation is conditioned by high rate of monopoly. The growth of salaries and pensions are often mentioned in Armenian publications as the factors which neutralize the influence of inflation. But I disagree with this opinion, because the population that is at the edge of poverty, expends 70% of his income on food and 2010 was the year of high inflation. Speaking about living conditions I would like to mention that in 2010 in Armenia and in Azerbaijan minimal consumer basket per capita is lower than minimal salary

Table 4

	<b>Azerbaijan</b>	<b>Armenia</b>	<b>Georgia</b>
Minimal Consumer Basket, \$	108.5	111	70
Minimal salary, \$	106	90	Not set

Source <http://www.ciaworld>

What about minimal salary, Armenia is on the last place among three countries. According to researches of the WB in Azerbaijan in 2009 the rate of poverty was almost 20%. But the population of Azerbaijan also depends on transfers, which in 2009 declined by 30%, and it naturally influenced the living conditions. Azerbaijan needs to improve social services and infrastructure, generate employment, and develop the non-oil economy. Transfers decreased by 3 times in Armenia. Besides it the declination of GDP per capita /see the table 3/, and the increase of inflation influenced living conditions. Moreover, according to official statistical datum, in 2009 the rate of poverty in Armenia increased by 22% and was 34.1%. The datum about unemployment in the table doesn't reflect the real situation: According to unofficial datum, the rate of unemployment in Azerbaijan exceeds 12-13%, in Armenia 18%, in Georgia 17%.

### **Prospects of economic development in the Southern Caucasus countries**

In any times the main stimulus of Azerbaijan's economy has been oil. In 2013 it was planned to start the construction of the Nabucco gas pipeline. This gas pipeline is very important for Azerbaijan from economic and political point of view. Nabucco must connect Caspian region, the Middle East and Egypt with Turkey and Europe. But the start of construction has

been postponed and Azerbaijan doesn't have specific position by about this issue yet. The point is that the Nabucco is an European program and Azerbaijan expects support from Europe on the issue of Nagorno-Karabakh but Azerbaijan hasn't got any support yet. So I think that it will be very logically for Azerbaijan to find new ways of supplying gas, especially if there are more convenient programs as Azerbaijan-Georgia-Rumania and ITGI. Europe is interested in Nabucco because it will reduce the European dependence on Russian gas. But the start of construction has been postponed and before that Russia will continue to supply gas to Europe. This fact is favor of Russia because Russia will speed up the construction of the "Southern flow" gas pipeline.

Due to its geographical position Georgia has a transit importance. Especially Georgia connects Azerbaijan and Turkey with the Black Sea. Baku-Tbilisi- Geyhan pipeline raised clamor during the war in 2008. Rumors about the damage of this pipeline increased the price of oil in the world market by several dollars. But it should be mentioned that in early 2011 the price range for oil was between \$110 which is very dangerous. Although Azerbaijan is an oil country, it doesn't have its own oil-based production; therefore the rise of oil price also influenced the prices of imported products. Besides any abrupt rise will follow decline which can have heavy consequences.

As it was mentioned Georgia has a good geographical position. Georgia is a country of energy source and has serious potential to develop the production of solar and windy energy. From the point of investments' view It is profitable, because the energy is a scientific branch of economy and these branches are attractive for investors. It should be mentioned that with its hydro resources Georgia is in the second place among other countries of the world, but uses only 18% of its hydro resources.

Armenia is a country of energy source too and has serious potentials to export energy. Especially in the South of Armenia it is planning to start the construction of the third Electra conductive line that must connect Armenia and Iran. The bilateral blockade of Armenia influences negatively the development of Armenia's energy market. The opening of Turkish-Armenian border will give a chance to make a big market and to export the energy of Armenia to Georgia and Turkey. But this process was stopped. Besides it Armenia has serious potential to produce atomy energy and Russia supports Armenia. Besides it Armenia and Russia collaborate for uranium mining and for development of atomy energy in Armenia. There are grounds for the development of chemical and light industry, but having large governmental debt Armenia refused all foreign credits. Especially Armenia refused the credit of \$40 mln from one of the German companies to develop alternative energy source in Armenia.

## ECONOMICAL PREDICTIONS

	2011					2012			2013
	<i>UN</i> <sup>1</sup>	<i>IMF</i> <sup>2</sup>	<i>EBRD</i> <sup>3</sup>	<i>CB</i>	<i>WB</i> <sup>4</sup>	<i>UN</i>	<i>IMF</i>	<i>WB</i>	<i>IMF</i>
<b>Azerbaijan</b>	3.0	2.8	3.5	3.8	3.5	6.5	2.5	3.9	2.6
<b>Armenia</b>	4.5	4.6	4.5	4.6	4.6	3.0	4.3	4.9	4.2
<b>Georgia</b>	6.5	5.5	5.0	4.5	4.0	4.0	4.8	4.7	4.8

Source:

<sup>1</sup> World Economic Situation and Prospects 2011 Statistical Annex/ United Nations / Nov. 30, 2010 | URL: <http://www.un.org/en/development/desa/policy/wesp/annex.shtml>

<sup>2</sup> World Economic Outlook / IMF / Apr. 2011 Database / URL: <http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx>

<sup>3</sup> Regional Economic Prospects, Forecasts / EBRD / Oct. 2010 / B XLS формате. URL: [http://www.ebrd.com/downloads/research/economics/macrodta/REP2010Oct\\_forecasts.xls](http://www.ebrd.com/downloads/research/economics/macrodta/REP2010Oct_forecasts.xls)

<sup>4</sup> World Economic Prospects. / World Bank/ Country-specific details/ Armenia.

*Whatever or however events develop I'm sure and I hope that one day all political disagreements will disappear and for countries of the Southern Caucasus new stage of development will start as it was between Germany and France which were enemies for many years but which are allied countries nowadays.*

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### **SOME PROBLEMS OF ECONOMIC COOPERATION OF THE COUNTRIES-MEMBERS OF THE COMMONWEALTH OF INDEPENDENT STATES (CIS)**

This article is devoted to problems of economic cooperation of Russia with countries-members of the CIS. Economic cooperation is considered as the factor of acceleration and increase of competitiveness of national economy, the role and influence of process of globalization on world economy transition in new quality owing to quantitative increase of cooperation between the countries is analyzed. In this paper it is said about necessity of creation of the Customs Union with the subsequent formation on its basis of Uniform Economic Space.

**Keywords:** economic cooperation, process of globalization, national economy.

The modern world is going through an active process of globalization. The essence of globalization implies the following. Owing to quantitative increase of interrelations and interdependence among the CIS countries, the world economy acquires a new quality, turning into a rather complete economic system.

Integration cooperation of the Post-Soviet countries is characterized by considerable difficulties and contradictions. Under the conditions of modern manufacture based big high technology, home markets even those of relatively large countries appear insufficient for it. Therefore for Russia integration into world economy demands first of all creation of uniform economic space in CIS area. It is an important condition of maintenance of economic safety of the country.

By this time both in Russia, and within the limits of the CIS basic documents which define the basic approaches, priorities and work prospects on Commonwealth space have been approved. In Russia it is the Concept of long-term social and economic development of the Russian Federation and the Basic directions of the external economic policy of the Russian Federation for the period till 2020. Alongside with the Concept of foreign policy of the Russian Federation these documents define the basic interests of Russia in the CIS, key principles and priorities of the external economic policy in the area.

According to the Concept of foreign policy of the Russian Federation, our country builds up friendly relations with each of the states of the Commonwealth on the basis of equality, mutual benefit and respect. Interests of every state should be taken into account. Relations of strategic partnership and cooperation with the states which show readiness for it are developing. We consistently adhere to market principles as an important condition of

development of mutual relations really equal in rights. These base principles are the objective precondition for advancement of modern forms of integration on the Commonwealth space.

The CIS countries is not only an important commodity market of the Russian raw goods and services, cars and the equipment. It is also the priority platform for Russian investments.

Formation of common markets of labour, transport services, inter-regional and frontier cooperation, creation of joint ventures and industrially-financial groups, transnational corporations can be regarded the priorities in economic cooperation between Russia and the CIS countries for the forthcoming period. So, it is necessary:

- to continue work on perfection of standard legal base of cooperation, the further liberalization of mutual trade, end of formation of the customs union of Russia, Belarus and Kazakhstan and elements of uniform economic space;

- to keep and strengthen geopolitical positions of Russia in the modern world;

- to provide access to a source of raw materials of other CIS countries (for example from 70 to 100 % of requirements of the Russian Federation in separate kinds of color and rare-earth metals becomes covered at the expense of deliveries from other CIS countries; a considerable role of other CIS countries in deliveries to Russia of a clap, the ferrous metals, some kinds of articles of food);

- to offer the Commonwealth countries effective anti-recessionary programs, and it is possible also the anti-recessionary credits directed on minimization of consequences of influence of crisis on real sector of economy, financial and bank spheres;

- to make active participation of the Russian businessmen in privatization processes in the CIS countries, including in Ukraine, Belarus (the industrial and agricultural enterprises), Kazakhstan (mainly, the organizations of bank sphere), and with that end in view to provide to domestic business comprehensive support;

- to generate more active economic summons of mutual relations, including sessions of the intergovernmental commissions with the CIS countries (support of realized and planned projects with participation of the Russian business, creation of favourable conditions for participation of the Russian business in processes of privatization and competitions on state purchases, etc.);

- effectively use as important competitive advantage transport and transit potential of the Commonwealth of Independent States caused in many respects by a favourable geographical position. It is a question of development of system of pipeline transport for expansion of a commodity market of energy carriers, about creation of the international transport corridors for approach of regions, first of all frontier, to the international markets of raw materials, the goods and services;

- to start working out and realization of large investment projects in the field of power, including nuclear, transport, the researches of space aimed at realization of competitive advantages of Russia and the states-participants CIS. To designate an in the lead role of Russia in their financing.

The World financial and the the economic crisis makes essential negative impact on an economic situation in the CIS countries which up to now have been one of the most dynamically developing regions of the world. The force of influence of crisis on economy of the CIS countries is manifested differently depending on the degree of their integration into the global economy, on the condition of the financial and bank systems, and stock market.

As well as in other states, in the CIS countries the real sector of economy, public finances, stock market, currency and bank spheres suffer from the crisis. Negative influence on the basic branches of economy of the CIS countries has rendered decrease in the world prices for oil, metals, grain, and also reduction of external demand for a number of goods, exported by the countries of Commonwealth.

In the CIS (as integration association) there is an understanding of necessity of the coordinated actions on an overcoming the crisis. Work on the coordinated measures is conducted in the area of Economic Council, meetings of Ministers of Finance of the states of Commonwealth for monitoring of a situation and development of anti-crisis measures will be organized.

Work in the major directions of integration cooperation in the Euroasian economic community proceeds: formation of the Customs union; carrying on the coordinated economic policy; activation of interaction in real sector of economy; joint development of the power market; formation of the transport union and realization of transit potential of EvrAzES. Formation of the common financial market; interaction in agrarian sector and in the sphere of the migratory policy.

Creation of the Anti-crisis fund EvrAzES is an example of concrete practical steps on overcoming of the consequences of financial crisis.

The decision on its creation is accepted on February, 4th, 2009 at an emergency meeting of Interstate Council of the Euroasian economic community (at level of heads of the states) in Moscow. The fund is created for association of efforts of member states EvrAzES on counteraction to negative consequences, world financial and an economic crisis for national economies.

High technologies - is that cooperation sphere in which countries-partners allow to raise competitiveness and will level crisis consequences. Activity of the Center of high technologies of the Euroasian economic community, will be aimed at joint working out and realization of scientific and technical programs and innovative projects, and also selection, examination and realization of venture projects, granting of consulting services in marketing and patent right sphere.

The trade missions of the Russian Federation are playing an important role in the system of coordination of activity of all participants of the external economic process operating on the CIS space. The trade missions operate now in all CIS countries, except Georgia. One of the priority problems of our Ministry and other federal authorities consists in assisting expansion of presence of the Russian business participation in the economy of the CIS countries, removing obstacles for work in the markets, for trade and investments. Such a problem is put before the trade missions in the CIS countries, and they solve it actively.

The maximum assistance to the Russian business in the trade development, investment cooperation, realization of projects with the CIS countries – one of the major problems of Ministry of economic development and trade of Russia. An important component of trade and economic relations of Russia with the CIS countries and an indicator of efficiency of integration processes is investment cooperation.

The Russian business occupies considerable positions on the Commonwealth space. The Russian Federation is included into ten the largest investors of Armenia, Azerbaijan, Belarus, Kazakhstan, Moldova, Tajikistan and Ukraine. More than 4 thousand enterprises in the CIS countries with participation of the Russian capital, operate in various spheres of manufacture, bank sector, trade and sphere of services, transport, building, agriculture.

Some Russian companies are involved in realization of large-scale projects in oil and gas, metallurgical, chemical and the food-processing industries and in manufacture of building materials. These companies also participate in the media and advertising markets. The telecommunication companies work in Armenia, Belarus, Kazakhstan, Tajikistan, Turkmenia, Uzbekistan and Ukraine. Serious investments are concentrated in bank sphere.

Important direction of economic cooperation of Russia with the CIS countries development of industrial cooperation communications between the enterprises and technologically interconnected manufactures continues to remain. For such industries as

mechanical engineering, metallurgy and some other in which deliveries in cooperation occupy considerable relative density, cooperation maintenance is critically necessary for working out, manufacture and production realization. Carrying out of the coordinated migratory policy – one of defining factors of a successful course of integration processes.

Formation of a common labour market of the states of Commonwealth is an important condition of maintenance of free moving of goods, services, the capital and labor force.

In 2011 Russia still remains the basic host country and the main migratory partner for the CIS states as in Russia in comparison with the country of departure the standard of living is relatively higher and there are more possibilities for people to find work.

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### **ARGENTINA'S ECONOMIC COLLAPSE: CAN ATHENS LEARN FROM BUENOS AIRES?**

#### **I. Introduction**

The Argentine economy suffered a deep crisis during 1999-02. Poverty spread to one in every three households, in Buenos Aires suburbs. The synergy of the traumatic departure from convertibility, the economic crisis and the suspension of payments sap the trust of the markets, both in local and international scale.

In general terms, Argentina, a country rich in natural resources, is characterized as a "proudly backward" society, in which the illusions and prejudices prevailed for many years. Although Argentina traditionally had some very wealthy people, the country has always been depended on international "capital", and was indebted to nations / lenders, in ways that seriously undermined its freedom. The local industry was never a "driver", but a "passenger" of the economic growth. So, Argentina was gradually alienated from the production process,

which the economist Paul Samuelson attributed to the contradiction between economic backwardness and social indifference and secondarily to the “severe politicization”.

Ultimately, in a somewhat simplified way, the Argentines wanted something that was literally and practically impossible to be provided by modern capitalist economy or state. Besides, the development of their "national identity" was based on "populist slogans" - which is evidenced by the phenomenal success of Evita. Perhaps, at this point and before we proceed any further, we should add that, in general terms, the failure of progress in Latin America as a whole, can be attributed to a certain extent to the exploitation of their economies by more developed countries of the North. Its own vulnerability is mainly due to "addiction" - simply implying a situation of inferiority, where one has no control over his/her fate, but is a puppet in foreign hands. The independence is not given, but earned through hardships and sacrifices. More precisely, for a country to join in the group of independent, sovereign states, requires (apart from the organized, methodical work), investment, and means to finance it. Argentina, however, found itself facing several difficulties, both in terms of the amount, and conditions, as far as foreign investments and credits, are concerned. All this contributed to a conflict with its creditors, which led to a reactionary isolationism, "restrictive measures", which deteriorated the economic problems and its dependency. At the same time its dependence on its lenders detached Argentina from the international competition, incentives and opportunities for growth. In what follows, the causes of the 1999-2002 crisis are described in section II. Section III concludes and also the implications for the Greek economic crisis are discussed.

## **II. Causes of the crisis**

According to our beliefs, the crisis owes its existence to four main causes:

1. Exchange rate regime
2. Inappropriate fiscal policy.
3. Wage and price rigidities; inconsistencies as far as the fixed exchange rate regime was concerned.
4. Global economic crisis
5. Political turmoil.

### **II a. The peg to the US dollar**

Over the years 1975-1990, Argentina suffered from high inflation of an average 325% per year and very poor economic performance in general (very low growth rates, high unemployment...) In 1989 inflation reached 3000%. People started losing their trust in their country's currency, peso, and were using dollars and other currencies even for their everyday transactions. So in 1991 the Argentinean government adopted the policies of the Washington Consensus, which was later known as neoliberalism. These policies involved extensive privatization programs, deregulation of the labour market and laws that encouraged the inflow of foreign direct investment. Moreover, government fixed the peso to the US dollar with a parity of one to one. In addition, pesos were fully convertible to dollars by law. As a result, inflation dropped to 3.4% in 1994 and prices were stabilized. GDP grew at an annual rate of 8% between 1991 and 1995. Exports and imports increased. Unlimited convertibility served the economy well for a few years. But then, during the second half of 1990s as the dollar was appreciating against the currencies of European and the rest of Latin American countries, the problems began for the Argentinean economy.

### **II b. Fiscal inconsistencies**

For many analysts, fiscal expansion in Argentina had been one of the main causes of the crisis. A source of fiscal problems was related to the country's currency, peso which was fixed

to the US dollar. So on the one hand, the increase in public expenditure was practically measured in US dollars as a percentage of GDP. On the other hand, the government primary budget surplus did not increase enough to compensate for the deterioration in public debt. The rise in public debt was supported by borrowing from the private sector and mainly from abroad.

A measurement problem stems from the fact that public expenditure heavily relied on non-tradable goods and services. An uncontrolled increase in their demand led to an increase in their price. At the same time, prices of tradable goods remained stable, constrained by fixed exchange rate regime. As a result, there has been a sharp rise in public expenditure in relation to the GDP.

Throughout the period 1991-2001, government expenditure increased by 77% in dollar terms, whereas the GDP grew by approximately 57%. Even worse, the government figures did not measure accurately spending because the deficit indicators, systematically underestimated debt. More specifically, the official figures, did not consider the creation of new public debt as expenses. If the costs were annually "adjusted", to cover the difference between the consolidated deficits and floating debt, the public expenditure over the same period, increased by about 97 percent in dollar terms. This figure is 40 percentage points above the growth of tradable GDP. Therefore, expansionary fiscal policy, financed predominately by foreign borrowing, contributed to the appreciation of real exchange rate. In fact, the government spending evolved in parallel to GDP growth, during 1996-1997, when export prices had been particularly favorable to the country. The collapse followed, revealed the country's fragile fiscal policy.

An additional dimension of the financial problem can be revealed by analyzing the evolution of the primary fiscal balance. During the period 1991-2001, the federal primary balance surplus equal to 1% of the GDP, while interest payments were estimated at 2.8% points of GDP.

However, if the actual primary balance measured correctly- over the entire period of eleven years- the deficit was equal to 0.7% in an annual basis. Towards the end of this period, the consolidated fiscal balance recorded a deficit equal to nearly 6% of GDP. The huge «dollar-denominated» debt exacerbated the problem in 2002, especially after the devaluation of the peso.

Judging Argentina's situation with EU standards, we could observe the following: The basis of a comparison Argentina's public debt with the European Union public debt criteria is irrelevant. The 60% ceiling of public debt as a percentage of GDP according to the Maastricht Treaty cannot be used as a reference for the Argentinean case. European Community rules were designed for countries having access to developed financial markets.. This is not always the case for the developing countries, where domestic capital markets are limited and external capital flows may dry up for reasons beyond their control.

During most of 1990s, Argentina was in line with Maastricht standards, except for the one that was central for the sustainability of public debt that is government bonds interest rates. These were much higher than European interest rates. In 2000, Argentinean government bonds interest rates had almost tripled relative to previous years and were 150 basic points over the 6% interest rate of the Maastricht criteria. The rise in government bonds, interest rates reflected the unsustainability of the country's public debt. For these reasons, borrowing rules for emerging countries must be tighter, considering the vulnerability of their public sector situation. (Artana, Lopez Murphy, and Navajas 2003).

### **II c. External shocks**

Argentina suffered an external shock of an unusual nature. The country was trading dynamically mainly within the region and Europe, by exporting agricultural and industrial

products, and relying heavily on capital inflows. The situation was reversed in 1997. Export prices fell dramatically by about 15 percent, both between 1996-1997 and 1999-2000. In addition to that, the country's economic environment deteriorated further, because of its trading partners (Europe, Brazil, Chile) and their undervalued currencies. With the peso strictly fixed to U.S. dollar, there was no way to offset the competitive devaluations made by other economies. What the government should have done was to save all along the booming periods. Argentina should have built reserves to implement future tax cuts in order to support the private sector and cope with the strong peso.

The foreign funds gradually decreased and financial markets began to believe that the crisis was not temporary. Capital inflows, which were around 6% of GDP in 1997-98, halved in 2000 and completely reversed during 2001. The problem of international borrowing was partially moderated during 2000 and 2001. The country borrowed from international financial institutions. Additional borrowing increased further the country's foreign burden and did not contribute to the country's fast recovery.

#### **II d. Political Problems**

The economic crisis reached its peak in 2001, in parallel with the expansion of the national debt that the country could not repay. In December, the banks froze deposits, causing a violent reaction and a rebellion that forced the president De la Roi to resign. Before quitting, he had tried to hold on the power, by declaring martial law. The international "economic miracle" was bankrupt. Following the resignation of De la Roi, Argentina changed 3-4 presidents in an one month period. Eduardo Duhalde, the fifth in this series, finally formed a transitional government that went for presidential election in 2003. Nestor Kirchner, the husband of today's president Cristina Fernandez Kirchner, won the elections.

Economic default devastated the entire political system. The Radical and the Peronian, political parties that essentially ruled the country during the last century, at the breaks of military dictatorships, were still facing an ideological crisis. The communist and socialist political parties had very little influence, indeed. Nestor Kirchner came from the old social democratic wing of the Peronians. During the first phase of his ruling the country in 2003, he introduced a series of reforms. There was also a change in attitude towards the World Bank and Washington. He questioned the legitimacy and authenticity, of one part of the debt, while at the same time he began negotiations for the remaining part. Most importantly, he ignored the required adjustments from the International Monetary Fund. Instead, he focused on public investments. He paid attention to the major social problems that were caused by the neoliberal policies of his predecessors.

Thanks to a series of favorable international economic circumstances, such as the rise in prices of agricultural products and the alliance with Venezuela's President, Hugo Chavez, who rushed to help Argentina, whenever the country was in trouble, recovery began. The economy regained an annual growth rate that reached 8%. Though extremely popular Kirchner did not stand as a contender, in the presidential elections of 2007 but stepped back in favor of his wife, a well-known lawyer and a member of the Senate. That October (2007), Cristina Fernandez was elected president of the country, having the support of the party "Front for the Victory", that was founded by her husband.

The first woman President of the country goes after her husband's politics both within the borders, but abroad as well. Special effort is taking place in the field of public investments while at the same time she tries to turn into public all these firms that once went private. Amongst the most important endeavors has been the renationalization of pension funds that were earlier privatized. This was realized either directly or through bonds that were invested in the global financial markets.

#### **IV. Conclusions and implications for the Greek economy**

The Argentine crisis combined all evils put together. Social drama was excruciating, the state was in default, financial paralysis lingered on, and the fiscal situation was unresolved, waiting for inflation to do the job Congress failed to achieve. Full economic recovery will not be easy, despite recent economic upswing.

Key institutions have to be reconstructed and made credible again. This requires significant political reform. Robust fiscal institutions should underlie macroeconomic stability and precede exchange-rate decisions. Fiscal mismanagement is inconsistent, sooner or later, with any exchange rate regime. In truth, the core of the solution must include a permanent restructuring of the Argentinean public sector. Nowadays, Argentina is slowly but steadily, walking through the path of economic recovery. In the present situation of social affairs the country accuses IMF for mismanagement during the 2001-02 crisis and declares ability to achieve economic independence, far from supervision. According to estimations, during current year expected GDP growth will be somewhere between 3.5 and 5%. As for the rest of the debt, Argentina recently made a proposal to repay 34 cents for every dollar.

Regarding the Greek crisis many similarities can be observed. In relation to the causes of the crises it can be noted that 1) both countries had adopted a strong currency, Argentina the peso pegged to the US dollar, and Greece the euro. As a result they both ended with high current account deficits in relation to their GDP. 2) Argentina had introduced unlimited convertibility of its currency to the dollar. It was as if the country had the dollar as its official currency. Greece also has the euro which is common to all Eurozone countries. 3) Both countries had unlimited and easy access to foreign borrowing. 4) Both countries ran fiscal deficits that accumulated to unsustainable levels of public debt. However there is a difference between the two countries. This is that Greece is part of the European and Monetary Union. Its European partners together with IMF provided a rescue package of 110 billion euros in May 2010 and there is a second loan of an estimated 160 billion on the road. Rescue packages are accompanied by a very strict program of reforms that the government must implement. Despite the rescue plans the Greek economy is in very deep recession (-4.6% of GDP estimations for this year). Whether the country recovers soon or whether it has to undergo Argentina's painfully long but at the end successful recovery, it remains to be seen.

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## THE ECONOMIC CRISIS IN GREECE

### 1. Introduction

The year 2007 will be remembered as one of the most difficult years after the crisis of 1929. The recent crisis has also began as a financial crisis in the U.S. and expanded to many other countries. In many cases the crisis revealed problems that already existed. Since 2001 when Greece entered the euro area it was believed that the new strong currency could be the shield for every economic threat. The very low interest rates of euro lead Greece to significant borrowing in order to finance not only its investments but also its consumption. Over time the private sector was crowded out by the public sector and the competitiveness of the country began to diminish. The lack of competitiveness together with the high public deficit and debt became the main reasons for the present economic situation of the country.

Greece has a public sector accounting for about 40% of GDP and a per capita GDP about two-thirds of the euro-zone countries. Its main industry is tourism which provides 15% of GDP followed by agriculture. Before the economic crisis, Greece grew by nearly 4.0% per year between 2003 and 2007 mainly because of consumer spending. Its growing budget deficit though, mainly because of the high government spending created problems to its lending by the markets (economywatch).

### 2. The Greek crisis and the E.U.- I.M.F. support

When the subprime loans affected in 2007 primarily the US and thereafter almost all developed nations, Greece seemed to be of those states that could avoid serious implications. This was mainly justified by its banking sector which had less exposure to 'toxic' securities. For the year 2008 the Greek GDP growth was around 2.9 per cent and the Central Bank of Greece forecasted stagnation for the next year 2009. However, its GDP for 2009, according to Eurostat, decreased by 2 per cent predicting a further decrease by 3 per cent in 2010.

However, the most significant problem for the Greek economy was its primary deficit of the Greek government which was 3.7 per cent for 2008 and above 13 per cent for 2009 after the re-estimated data of the newly elected socialist government. This was the reason for the immediate activation of the European Commission (E.C.) and the implementation of austerity measures, entailing wage cuts, tax rises, and a hiring freeze in the public sector. However, the economic problem of Greece was much more complex than it was initially seemed to be and external bailout was unavoidable. (Papadopoulou, E.).

The joint European Union (E.U.) and International Monetary Fund (I.M.F.) financing package of €110 billion was approved on 9 May 2010. Out of the total amount €80 billion was the contribution of E.U. and E.C.B. and €30 billion was the part of I.M.F. In return for the financial support the Greek government had to undertake specific obligations. At this point it has to be mentioned that the Greek debt crisis could become a threat for the entire euro area and the global economic system and the collapse of euro currency. (IMF Survey online, 09/05/2010). In reality, the fear was that a Greek default could have a "domino effect" on other

economies. In the case that Greece will default then Ireland, Portugal, Spain and other Euro area states will follow, until the eurozone will collapse. (Justice Litle). With the €110 billion Greece was in a position to meet its obligation until 2012 and to get its economy back on track in order to return again to international financial markets after their exit in 2009 because of the degradation by the three rating agencies. The ratings of Moody's, S&P and Fitch, resulted to the widening of the spreads for government bonds and the huge shorting on CDS. (IMF Survey online, 09/05/2010)

### **3. The Greek program to address the economic crisis**

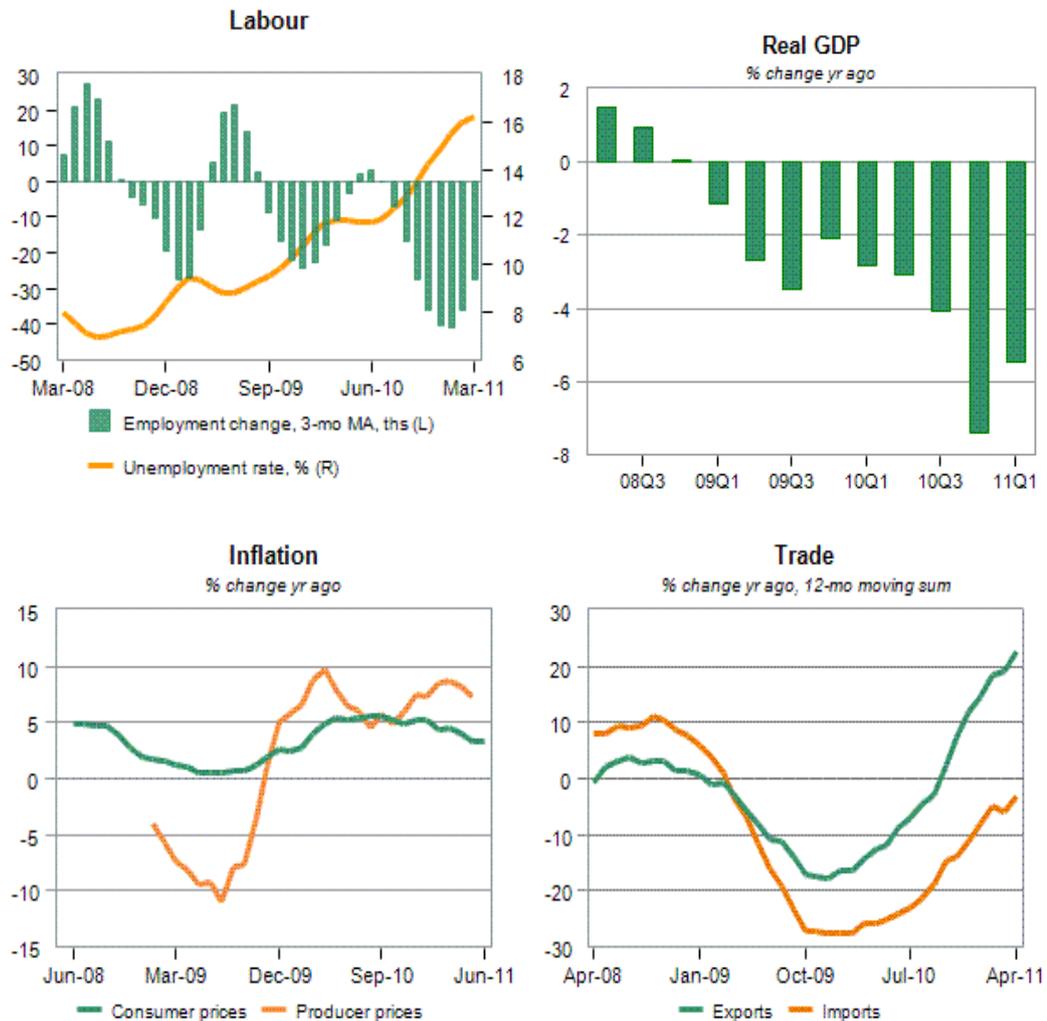
As it has already been mentioned Greece faces a twin deficit problem. Therefore, measures have to be taken in two directions. On the one hand, its public debt problem and on the other its competitiveness problem require very strict measures. The Greek public sector has become enormously large requiring over the 75 per cent of public expenditure for wages and social benefits. Thus, measures towards the cut of these expenses are necessary and therefore, the concession of the society is required for the achievement of such policy.

At the same time in order to become competitive in the globalised economy Greece has to take measures to reduce inflation and keep labor cost at low levels for both the public and private sector. (IMF Survey online, 9/5/2010). The main targets which set by the Greek government and approved by the Parliament are to achieve a deficit of 7½ percent of GDP in 2011, and a deficit below 3 percent of GDP by 2014, in order to meet the requirements of the Maastricht treaty. (IMF Survey online, 15/7/2011).

Apart of the above immediate measures further actions must be taken in order to modernize the economy. Such reforms must include the elimination of bureaucracy and corruption, the development of effective tax authorities and well functioning judicial system. Last but not least, the Greek banking system has to be protected against possible negative effects to its profitability. For this case the Financial Stability Fund (F.S.F.) was established by the E.U. in order to face to face solvency pressures on Greek banks. Although, the implementation of this plan seems to be very difficult the alternative one of restructuring the debt will create many more difficulties for the future of the country. (IMF Survey online, 9/5/2010)

### **4. The Greek economy today**

Almost two years after the implementation of the reforms, there are specific improvements for the Greek economy although social turmoil has increased in this period. The fiscal deficit was cut by 5 percent of GDP which is an outstanding achievement taking into consideration the recession of 4.5 percent of GDP for the same period. The price competitiveness is improving based mainly on the decrease of the labor cost. Growth returns based on exports which offset the decrease of the domestic demand. Inflation is begging to fall after the initially increase because of the higher taxation. The social benefit system became more viable especially for pensions. The labor market has become more flexible and less expensive providing another motive for potential investors. In general, the business environment in Greece has been reformed and became more friendly for enterprises. Finally, the Greek banking sector with the contribution of FSF maintains adequate capitalization. Therefore, it is expected to play a key role for the economic recovery by financing investments and trade and supporting the economic reform program of the government. (Bob Traa).



## 5. Social impact of the crisis

Although the implementation of the economic stability program seems to be unavoidable for the recovery of the Greek economy the results of its implementation have not been as expected. More specifically, the GDP growth has shown a significant decrease and unemployment has reached a record rate with expectations for the future being even more pessimistic. The Greek economy is in the third year of recession and the structural weaknesses of the country are still difficult to be tackled. Even though the measures taken by the Greek government in the first year of austerity program had a significant result in the reduction of the public deficit by 5 per cent of GDP<sup>1</sup> the markets did not react positively. The reasons for this were the required reforms in the pension system, the labor cost, the bureaucracy and in general the unattractive environment for foreign investments. According to the plan of the Greek government until 2015, the number of public servants will be reduced by 150,000 and privatizations are expected to increase public funds by 50 billion Euros. Of course, such measures are easy to be scheduled but difficult in implementation. The main social problem is the increase by 230,000 of people who lost their jobs in a single year, raising unemployment to 16.2 per cent. Things are even worse for the younger generation with unemployment rates over 42 per cent until 24 years old and over 22 per cent for people between 25 to 32 years old.

<sup>1</sup> The largest decrease of public deficit in a year among the OECD countries in the last 25 years.

Taking into consideration, the poor welfare system which pays less than 500 Euros per month for unemployed and for maximum one year, a mass reaction to austerity measures is expected.

## **6. The society's reaction and the political parties**

Thousands of Greeks have been demonstrating during the last year mainly motivated by a movement call "Indignants" in all big cities. In this way people saw that labor unions are also blamed by the people for the current situation of the Greek economy. At the same time, political parties and mainly the socialist party, which is in power and the conservatives who had the administration the previous period, can not meet to a common political decision concerning a comprehensive plan for the recovery of the Greek economy. The main disagreement of the two parties seems to be the taxation policy. The socialist party has raised all taxes, direct and indirect, while conservatives insist on the reduction of taxes as a basis for further discussions. Of course the result of this disagreement is evaluated negatively by the markets and makes the EU and IMF to push conservatives to support the governmental plan. The other parties of the parliament and especially the left wing parties are opposing the restructuring plan in every part and call people to defend their rights by protesting in the streets.

## **7. Prospects of escaping from the crisis**

The agreement between Greek government and IMF-EE-ECB, together with the measures that had been adopted as part of this agreement is essential for restoring the fiscal ability and for improving the competitiveness of Greek economy. In some way this agreement offered the needed therapy in Greek economy and society, which is the political system is not in the position to provide due to its commitments in various interest groups. From this perspective the current crisis can be considered as an opportunity to correct the serious faults of the past, relate mostly at the establishment of a large, cumbersome and efficient public sector. In any case, to overcome crisis in Greece we need to restore fiscal discipline and to implement a series of reforms in order to boost economy competitiveness. The stabilization and restructuring measures of this agreement certainly facilitate the transition from the current to a new model of development, to the new structure of demand and supply. The labour market should "transfer" hundreds of thousands of employees (about 10% of labour force) from sectors of non tradable goods and services to export-oriented sectors. Active employment policies, such as those applied in Germany and Scandinavian countries are also needed, together with the invest in branches , which benefit from the new model of development. It is estimated that in the next three years 50 billion euros can be invested in road infrastructure, sea ports, marinas, airports, hotels, other tourist establishments, green energy, and other industries. This requires "fast truck" mentality of the authorities in combination with a more flexible use of concession contracts, extended privatization effort, utilization of state-own real estate with the use of the appropriate instrument in each case, relocation of the funds of the public investment program (PIP) in favour of more mature projects, increase in parallel with inter temporal relocation of its EU co-financing, increasing participation of European Investment Bank and the Greek banks in projects in aforementioned sectors and others similar measures.

## **8. Expectations to escaping from recession**

The Greek economy is expected to return into positive territory in 2012, after growth bottomed out in late 2010 according IMF. In THE IMF world economic outlook report, it is noted that macroeconomic and fiscal projections for 2011 and the medium-term are consistent with the policies that the IMF has agreed to support in the context of the stand-by agreement. Fiscal projections assume a strong front-loaded fiscal adjustment, which already began in 2010 and will be followed by further measures in 2011-2013. The IMF stresses that current account

deficit remained excessively high in Greece, at 10.4 percent of GDP in 2010, however it noted that there were signs of a turnaround as exports started contributing to the adjustment in 2010. Wage moderation played a relatively modest role in Greece last year, while a number of policies could contribute to the remaining adjustments that will be required and many are already being implemented. These policies include measures on both the supply side and the demand side of the economy. The International Monetary Fund estimates that real GDP in Greece shrank by 4.5 percent in 2010, it will shrink by 3.0 percent this year and will grow by 1.1 percent in 2012. The inflation rate is estimated to steadily decline from 4.7 percent in 2010, to 2.5 percent this year and to 0.5 percent in 2012, while the current accounts balance is projected to fall from -10.4 percent of GDP in 2010, to -8.2 percent in 2011 and -7.1 percent next year.

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#### **UKRAINIAN REAL ESTATE MARKET TRENDS 2011-2012 IN THE CONTEXT OF EURO-2012**

**Key words:** real estate market, global index of residential real estate prices, rental rates, real estate investment.

Real estate sector - is always one of the most popular areas for investors to make money. Before Global Financial Crisis the real estate market in Ukraine showed the profits of 400-600%. Unfortunately, now, this sector of Ukraine's economy is increasing slowly after a great

fail in 2008-2009. The expert's forecasts tells us that European Football Championship that will take place in Ukraine in 2012 will stimulate the economic activity between the investors. This article is dedicated to the researching of this problem to study the possible ways of the behavior of real estate market of Ukraine to understand what is the best time for investment in this sector.

The theoretical aspects of this problem have been researched by a lot of scientist.

In the first quarter of 2011, housing prices in most countries around the world have stopped to grow or showed a decline. Ukraine on the dynamics of growth was in 46th place out of the top 50. The first place went to France.

An international consulting company Knight Frank presented the results of a global index of home prices (Global House Price Index) for the first quarter.

### **The results of a global index of residential real estate prices by Knight Frank for the I quarter 2011<sup>1</sup>**

<b>Rating</b>	<b>Country</b>	<b>Region</b>	<b>Annual variation, %</b>	<b>Six-month change, %</b>	<b>Quarterly change, %</b>
1	<b>Hong Kong</b>	Asian and Pacific region	24,2%	14,1%	9,3%
6	<b>France</b>	Europe	8,7%	1,7%	0,3%
7	<b>Poland</b>	Europe	8,5%	0,2%	-1,4%
9	<b>Norway</b>	Europe	8,2%	4,9%	5,0%
12	<b>Switzerland</b>	Europe	5,1%	3,3%	1,3%
26	<b>Sweden</b>	Europe	2,1%	-0,7%	-1,1%
27	<b>Germany</b>	Europe	1,3%	-0,1%	-0,3%
32	<b>Portugal</b>	Europe	-1,8%	1,0%	1,8%
42	<b>Spain</b>	Europe	-4,6%	-2,8%	-2,5%
43	<b>USA</b>	North America	-4,9%	-3,7%	-1,9%
45	<b>Greece</b>	Europe	-5,7%	-0,4%	0,3%
46	<b>Ukraine</b>	Europe	-7,5%	-1,6%	0,0%
47	<b>Dubai, UAE</b>	Near East	-8,2%	2,1%	0,6%
48	<b>Ireland</b>	Europe	-11,9%	-6,9%	-4,5%
49	<b>Russia</b>	Europe	-13,9%	-13,6%	-13,7%

According to research, Ukraine ranked 46th on the dynamics of price growth. Prices in the average in the country for the year fell by 7.5% and over six months at 1.6%. One of the factors falling prices for the secondary real estate in Ukraine is the lack of demand.

According to market players, now in Ukraine, the rules dictates no longer a seller but buyer who became also more selective in choosing the object of purchase. In 2010, the number of trades slightly increased, but to reach the 2008 level was not possible.

"In 2006-2007, more than half the deals on real estate market was carried out through speculative capital. Now the speculators are not more than 10%, and flats, exposed to market tens of thousands, sellers have to lower prices, "- said a marketing expert company SV Development Sergey Kostecki.

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<sup>1</sup> Source: Knight Frank Residential Research [http://www.uaproperty.com/index.php?-M=page:UEFA\\_2012](http://www.uaproperty.com/index.php?-M=page:UEFA_2012)

If in 2008 on the secondary market were sold 20 thousand apartments , in the primary - 10 thousand, for 2009 the number of sales in the primary market was now only about one thousand apartments , in the secondary - 6000 apartments. In 2010, the number of deals slightly increased, but to reach the 2008 level has not been possible.

In Europe, the leader of the dynamics of price growth was France, which from the 30th place last year shot up to 6th in the current. Behind her is Poland (7th place), but Norway was on the 9th row. House prices in France mirror those of the improving economic situation in the country. Thus, in the first quarter of 2011, French GDP grew by 1%, the highest increase in this index, as recorded in the second quarter of 2006.

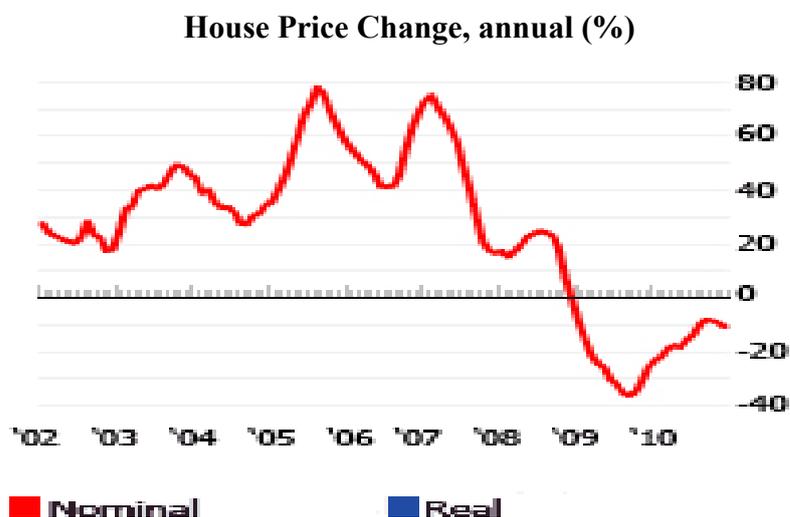
Sweden and Germany have experienced several quarters of positive price movements only to the first quarter of 2011 to fall in the ranking - these countries occupy the 26th and 27th places. In general, the world price of housing increased by only 1.8% per year as of March 2011. This is the slowest annual increase in prices, as recorded in the fourth quarter of 2009.

Housing prices in 25 of the 50 countries of indexing remained stable or showed a negative trend during the first three months of 2011. For comparison, a year ago, such pricing behavior was observed only in 18 countries.

Economies of European countries like Portugal, Ireland, Greece and Spain, show a mixed picture. Spain is still battling with a significant drop in prices of 2.5% last quarter, although this low figure has surpassed Ireland with its 4.5% percent drop over the same period.

It is interesting that Greece and Portugal showing signs of improvement: their prices have risen over the last quarter, which is surprising in an economic slowdown in these countries. Among the regions of Asia continues to show the world the best results. So, here recorded 8.4% percent increase in prices over the past 12 months. However, this figure lower than last year, was 17.8%.

In 2010 conditions in the Ukraine`s real estate sector have stabilised in the wake of an extremely difficult period in 2008-09. During the global financial crisis, Ukraine had the dubious distinction of being the world's fastest contracting economy. That episode is now over.



Over the course of 2010, rental rates have risen by about 5-10% on 2009 levels in Dnipropetrovsk and Kiev, and by about twice that amount in Kharkov. Looking forward, it is expected that rental rates will track sideways, or decline very slightly, during 2011. However, growth should resume in 2012. The experts envisage that yields – which are considerably higher than they were in 2007-08 will generally move sideways over the next year or so. The implication is that capital values will track rental rates. Experts are looking for a fairly gradual

recovery in the Ukrainian economy. Everything else being equal, this is consistent with the cautious optimism expressed by in-country sources. However, scientific highlight several facets of the Ukrainian real estate sector. The first is that except in the retail sub-sector of Kiev, vacancy rates remain high. The implication is that the rise in rents (and, implicitly, capital values) is being driven by transactions at the top ends of the various sub-sectors.

This, in turn, suggests that pent-up demand for high-end office and retail space and conveniently located industrial space, which was suppressed in the wake of the global financial crisis, is finally having an impact. Moreover, infrastructure is being improved as a result of a wave of new investment prior to the 2012 UEFA Championship, which is being hosted by Ukraine and Poland. It is possible that, in Dnipropetrovsk and Kharkov especially, significant quantities of mid-to-low market office and retail space will remain un-let. The threat of renationalisation and stalled privatisations, which until recently loomed over the investment climate, seems to have receded and property rights have become more secure. Issues of transparency, corruption and red tape are also being addressed, albeit slowly.<sup>1</sup>

European football championships have always boosted the economy of host countries. Euro 2012 goes beyond that – it provides a chance for Poland and Ukraine to establish closer relations and for their people to take huge steps towards a better quality of life.

Ukraine has unveiled ambitious plans to attract significant foreign investment into the country. In particular, there are plans to build some 300 new hotels in Ukraine by 2012, an increase of 25% in current hotel numbers, and substantial funds have been earmarked for improving and upgrading the existing infrastructure.<sup>2</sup>

The announcement that Ukraine and Poland will jointly host the 2012 UEFA European Football Championship, arguably the world's third-biggest sporting event after the Olympics and the FIFA World Cup, was shocking news, news that many here seem not yet to have fully digested or understood.

While government agencies wrestle with the problems of multibillion-euro infrastructure requirements, local, regional and international business firms are also coming to grips with their own participation and needs for the process.

Nick Cotton, managing director at DTZ in Ukraine, predicts the event will have a real impact on secondary markets. "In Donetsk, Kharkiv, Dnipropetrovsk and Lviv, the Euro 2012 announcement has galvanized local officials to take a more proactive approach to real estate development," he says.

The sector that appears to be enjoying the biggest bounce from the event is the hotel industry. According to the State Tourism and Resorts Service, more than €1bn will be necessary to build new hotels and repair old hotels by 2012. The money is needed to provide Ukrainian guests with the necessary 5,365 rooms in four- and five-star hotels and 5,200 three- and two-star rooms. These numbers were presented as optimal last year during the joint tender process with Poland for hosting the event. They translate into a need for 32 new upscale hotels in Ukraine, with half of them planned for Kyiv.

Ukrainian investors recently became active in their interest in the hotel business and stimulated the coming of new international operators to the country. While the Industrial Group, managing company of the Donetsk-based giant Industrial Union of Donbass, continues cooperation with Hyatt, XXI Century Investments, a big Ukrainian developer, signed an agreement with the French group Accor which operates hotels in 90 countries under such brands as Sofitel, Novotel, Mercure, Suitehotel and others. The first hotel of this chain in Ukraine will be a five-star Sofitel in the center of Kyiv.

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<sup>1</sup> [http://www.researchandmarkets.com/reportinfo.asp?report\\_id=1523886&tracker=related](http://www.researchandmarkets.com/reportinfo.asp?report_id=1523886&tracker=related)

<sup>2</sup> <http://www.salans.com>

Andriy Myrhorodskiy, a member of the XXI Century Investments directors' board, says his company will build 18 hotels by 2010. Its plans include three- to five-star hotels in Lviv, Dnipropetrovsk, Donetsk, Kharkiv and Odessa. "We have very serious ambitions for Euro 2012. Today we are already working with city administrations," he adds.<sup>1</sup>

But market insiders caution that plans for further hotel construction in the county need serious development, especially luxury hotel projects. They officials should be very careful about the number of five-star facilities that are built because there's a limit to the need for such hotels.

Over the course of 2010, rental rates rose by about 5-10% on 2009 levels in Dnipropetrovsk and Kiev, and by about twice that amount in Kharkov. We expect that rental rates will track sideways, or decline very slightly, during 2011. However, at this stage there are good indications that growth will resume in 2012.

The EURO 2012 in Ukraine (football matches are to be held in the cities of Kyiv, Lviv, Donetsk and Dnipropetrovsk), will provide huge real estate investment in infrastructure, including Ukrainian off-plan properties. These cities are considered to be top property investment spots in our country.

Ukraine presents ideal potential for real estate investment and for those having desire to purchase, Ukraine is currently a country that ticks all the right boxes in an investment portfolio.

Ukraine's real estate sector appears to have turned a corner following sharp falls in property values. Change has been driven by a rebounding economy accompanied by a rising demand for property, leading to a lift in both values and rents.

**Some of the key opportunities currently in the real estate market are:**

A recovering level of demand for, in particular, high quality property in the office and retail space.

An increase in rents from the very low levels seen during 2008-2009

A recovery in values at a rate that is expected to see yields track sideways. The implication is that capital values will track rental rates.

Our bullish outlook for global commodity prices bodes well for Ukraine, which is heavily dependent on raw material exports. We expect Ukrainian exports to grow by 5.2% in 2011.

**Some key risks to the current real estate market are:**

One or more of the leading players in the commercial real estate market might fail.

The economic recovery is weak and could be derailed. Our long-held view is for the economic recovery to slow in 2011. We expect final consumption expenditure to expand by just 0.4% in real terms. Credit growth to households in Ukraine continues to stagnate and we broadly expect this to persist over the medium term.

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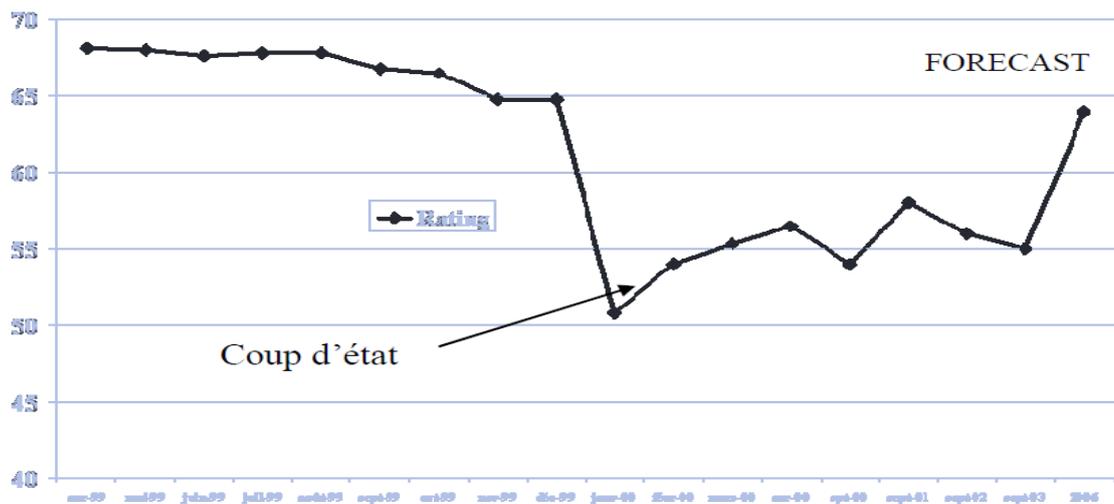
<sup>1</sup> <http://www.worldfranchiseassociates.com/franchise-news-article.php?nid=384>

**MANPOWER – GLOBAL COUNTRY RISK  
(CURRENT EVOLUTION)**

**Country risk** refers to the risk of investing in a country, dependent on changes in the business environment that may adversely affect operating profits or the value of assets in a specific country. For example, financial factors such as currency controls, devaluation or regulatory changes, or stability factors such as mass riots, civil war and other potential events contribute to companies' operational risks. This term is also sometimes referred to as political risk, however country risk is a more general term, which generally only refers to risks affecting all companies operating within a particular country.

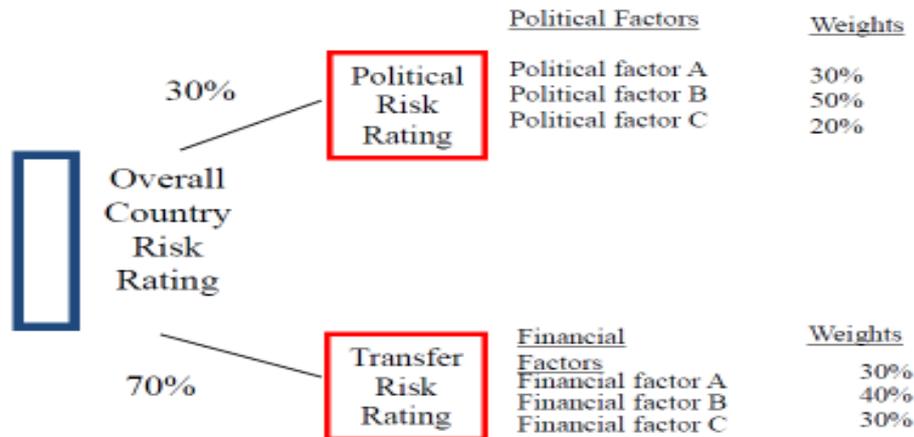
**International Country Risk Guide**

- The ICRG Risk Rating System assigns a numerical value (risk points) to a predetermined range of risk components according to a preset weighted scale for each country covered by the system (PRS)
  - The risk components are grouped into **3 categories** - Political, Economic and Financial. Each Risk Category is made up of a number of Risk Components. The sum of the Risk Points assigned to each Risk Component within each Risk Category determines the overall risk for that category.
  - The total Risk Points for each Risk Category are further combined, according to a formula, to produce a Composite Risk Rating.
  - Very High Risk 00.0 to 49.5 points  
High Risk 50.0 to 59.5points  
Moderate Risk 60.0 to 69.5 points  
Low Risk 70.0 to 79.5 points  
Very Low Risk 80.0 to 100 points



Composite Political, Financial and Economic Risk Rating with weighted average

## Quantifying Country Risk



MH BOUCHET/CERAM-Global Finance

## Country risk ratings

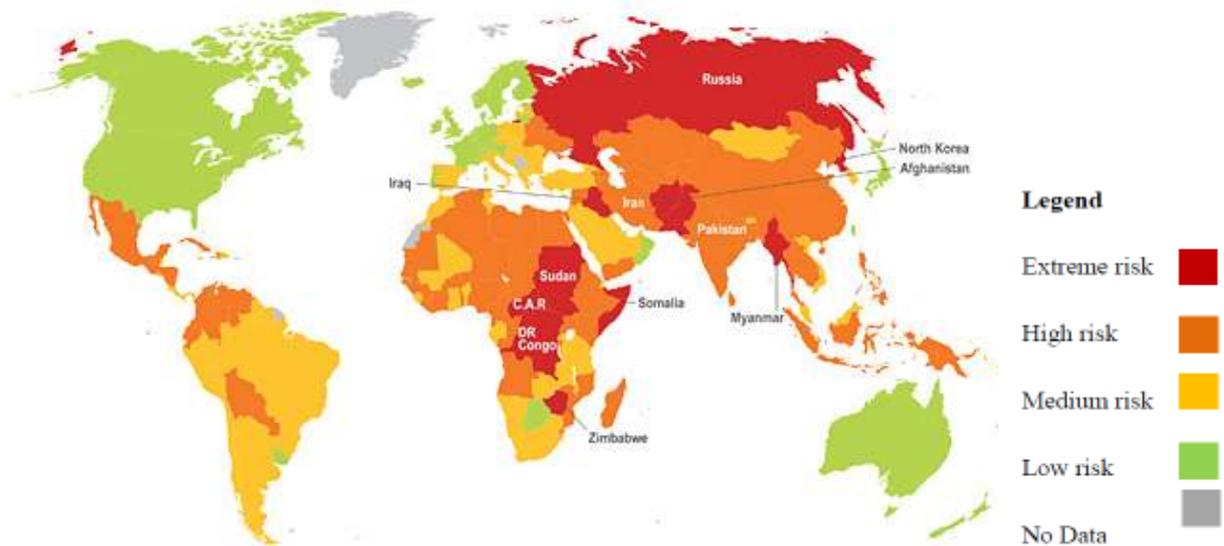
Rank	Previous	Country	Overall score
1	1	Norway	94.05
2	2	Luxembourg	92.35
3	3	Switzerland	90.65
4	4	Denmark	88.55
5	6	Finland	87.81
6	5	Sweden	86.81
7	7	Austria	86.50
8	11	Canada	86.09
9	8	Netherlands	84.86
10	9	Australia	84.16

The Political Risk Atlas 2011 includes 41 risk indices evaluating 196 countries. It provides a comprehensive appraisal of traditional or 'dynamic' political risk areas including: conflict, terrorism, the rule of law, and the regulatory and business environment. The term 'dynamic' is used by Maplecroft to describe risks that can change rapidly as a result of actions by government, regional authorities or politically-motivated groups.

The Political Risk Atlas 2011 also focuses on emerging risk areas and structural political risk affecting longer term regime stability, such as resource security, human rights, climate change, infrastructure readiness, education and poverty.

The 'extreme risk' countries now include: Somalia (1), DR Congo (2), Sudan (3), Myanmar (4), Afghanistan(5), Iraq (6), Zimbabwe (7), North Korea (8), Pakistan (9), Russia (10) and Central African Republic (11).

### Political Risk Index 2011 (Dynamic)



© Maplecroft, 2011

“An appreciation of the dynamic aspects of political risk is vital to ensuring uninterrupted business operations. Short-term factors such as regime stability or political violence play an essential role in informing business decisions,” says Anthony Skinner, an Associate Director at Maplecroft. “Dynamic risk must factor in the calculations of businesses that are either seeking to invest or expand their business presence in target markets such as the BRICs and N11.”

Foreign direct investment in the main emerging economies is expected to rise by 17% over 2011, according to the World Bank, with the BRICs nations of Brazil, Russia, India and China accounting for half of this increase. However, significant challenges for investors remain as risks such as an absence of the rule of law and a prevalence of corruption and conflict prohibit business and societies from thriving. This is especially true of the resource rich nations in which the BRICs are heavily investing, such as Sudan and Yemen which are rated ‘extreme risk’ by Maplecroft for economic integration with China.

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### **GLOBAL ENERGY SECURITY: CHALLENGES FOR RUSSIA**

The article reviews the current state of the global energy market, its main trends until 2030 and increasing importance of renewable energy sources. Particular attention is paid to relations between Russia and the European Union. The article analyses the prospects for Russia in the global energy market through the next decade. It concludes that if Russia doesn’t change

its energy policy and doesn't pay close attention to renewable energy, it will not be able to maintain its position in the global energy market as the major energy supplier.

**Keywords:** Global energy security, energy policy, renewable energy sources, Russia.

The concept of modernization in recent years is an integral part of Russian politics and economy. Almost no statement of the President or the Prime Minister passes without mentioning of modernization.

However, the issue of modernization is important not only in Russia. All countries, including industrialized countries of the Western Europe, the USA, China and others, develop their documents in this area and focus in a completely different area, unlike in Russia. The priorities of U.S. energy policy are to reduce imports and consumption of oil, to increase domestic production of hydrocarbons, to increase production and use of shale gas, and, of course, energy efficiency and developing alternative energy sources<sup>1</sup>. EU policy is also based on energy efficiency, energy security and development of renewable energy and reducing consumption of traditional resources<sup>2</sup>. That means that OECD countries have really focused on the development of energy-efficient economy that will not only reduce energy costs, but will output their economies to a new, more competitive level.

Fuel and energy complex plays a vital role in the global economy. Its production is used in all branches. The structure of world energy consumption of traditional fuels in 2010 was: crude oil – 33,6%, coal – 29,6%, natural gas - 23,8%, nuclear energy - 5,2%, hydro energy - 6,5%, renewables - 1,3%<sup>3</sup>.

The analysis of the global energy market shows that a major energy power countries are the USA, China, Russia and the EU. United States, at the same time, is the most important consumer and net importer of fuels with relatively stable consumption and production of energy<sup>4</sup>. China increased its scale of production and consumption of energy more than two times because of its rapid development in recent years. In 2007, China beat the United States in producing energy, and during the crisis in 2009, overtook the U.S. in consumption (table 1).

The latest global developments in the energy sector let us identify the following trends:

1. Global energy demand will increase by 55% by 2030. World energy consumption will double: its share in global energy consumption will increase from 17% to 22%;
2. The growing dependence of consuming countries on imports of oil and gas from politically unstable countries increases short-term risks of energy security;
3. Renewable energy sources by 2030 may become the second largest source of electricity after coal;
4. By 2030 North America will become the main importer of natural gas after the EU. The share of liquefied natural gas (LNG) will grow by about 84% in inter-regional gas trade;
5. The share of developing countries in global energy demand will increase from 41% today to 47% of the global energy market by 2015 and more than 50% by 2030. The share of OECD countries is expected to decline from 48% today to 43% by 2015 and 38% by 2030<sup>5</sup>.

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<sup>1</sup> United States Energy Association: LEGISLATION: THE ROAD TO A NATIONAL ENERGY STRATEGY, 2001; National Energy Policy Development Group: National Energy policy report, 2001; Energy policy Act of 2005, 2005; Energy Independence and Security Act of 2007, 2007; Emergency Economic Stabilization Act of 2008, 2008; U.S. Environmental Protection Agency (EPA): National Action Plan for Energy Efficiency "Vision for 2025: A Framework for Change", 2009

<sup>2</sup> Energy Efficiency Action Plan, 19.10.2006; Communication of the Commission to the European Parliament and the Council on prospects for the internal gas and electricity market, 2006; Communication from the Commission "Sector Enquiry under Article 17 of Regulation (EC) No 1/2003 on the gas and electricity markets (final report)", 2006; Communication «Energy policy for Europe», 10.01.2007; Communication «Energy 2020 - A strategy for competitive, sustainable and secure energy», 10.11.2010;

<sup>3</sup> BP Statistical Review of World Energy. - June 2011. P. 41

<sup>4</sup> BP Statistical Review of World Energy. - June 2011. P. 41

<sup>5</sup> Frank Umbach, Global Energy Security and the Implications for the EU// Energy Policy, 2010, №38. P.1231-32

Table 1 - Structure of energy consumption in selected countries by type of primary energy in 2010

Countries	Distribution (%)					
	Oil	Gas	Coal	Nuclear power	Hydro power	Renewables
USA	<b>37</b>	27	23	8	3	2
China	18	4	<b>70</b>	1	7	0
Russia	21	<b>54</b>	14	6	5	0
India	30	10	<b>53</b>	1	5	1
Japan	<b>40</b>	17	25	13	4	1
Canada	<b>32</b>	28	7	6	26	1
Germany	<b>36</b>	23	24	10	1	6
France	33	17	5	<b>38</b>	6	1
Saudi Arabia	<b>62</b>	38	0	0	0	0
Ukraine	10	<b>40</b>	31	17	2	0

Source: Prepared by BP Statistical Review of World Energy, June 2011

Nowadays Russia has strong positions in global energy markets (figure 1). The most significant role plays oil and gas, as they are one of the cornerstones of the Russian economy and provide the bulk of export revenues. The most significant is exports to Europe. Some European countries are completely or almost completely dependent on gas import from Russia (figure 2). Enormous reserves of energy resources in Russia form, on the one hand, the country's main competitive advantage in world markets, and on the other - are the major factor in the vulnerability of national economy.

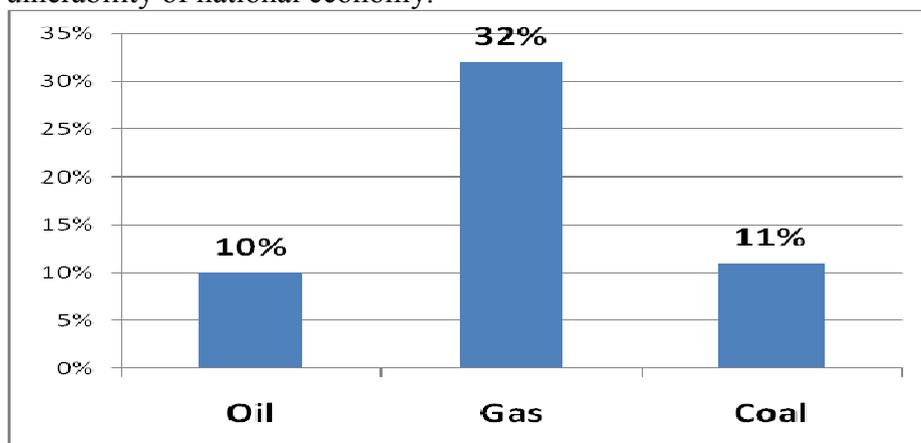


Figure 1. Approximate percentage of Russia in the international structure of energy<sup>1</sup>

<sup>1</sup> Energeticheskaya strategiya Rossii na period do 2030 № 1715- p. 13 November 2009 (Energy Strategy of Russia until 2030) P.7-8

This vulnerability is not only the structural underdevelopment of the country's economy, but also the fact that the European market, which accounts for more than 75% of exports of Russian oil and gas reserves, is trying to get away from this dependence.

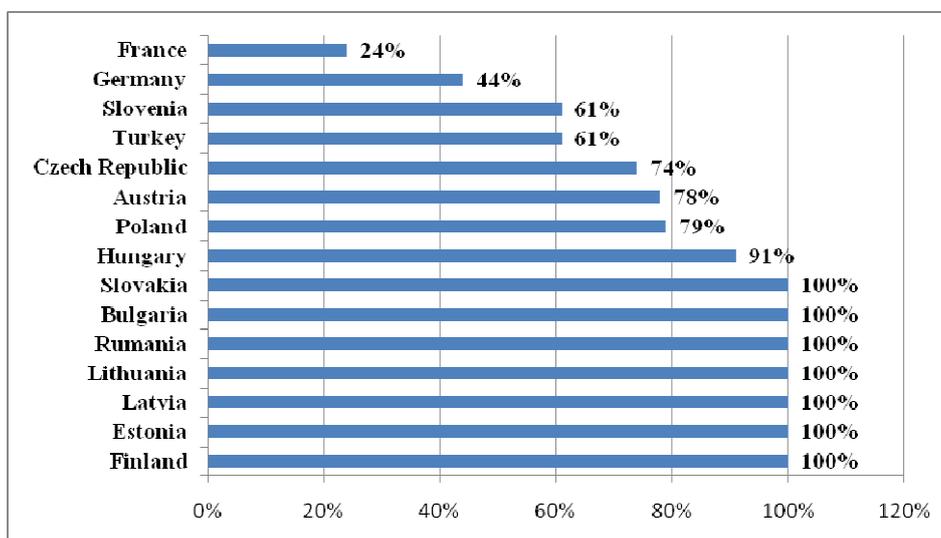


Figure 2. European natural gas imports from Russia in 2005(in %)<sup>1</sup>

Although the energy strategy of Russia until 2030 provides such developments and offers diversification of export routes through the Pacific Rim countries and the USA as an alternative, Russia still has a big load of unresolved issues. The main issue is the increasing backlog of all branches of Russia's fuel from the world level: the proven reserves of oil and gas in Russia are worked out by more than 50%, the wear of capacity in the electricity and gas industry has reached 60%, the modern methods of stimulation in oil production are not used, etc. At the same time the Russian domestic market itself requires more and more energy.

Russia is not represented in the global energy market, based on renewable energy sources, while most countries are taking measures to increase the share of renewables in the energy balances, and initiate projects to develop hydrogen energy. Countries wishing to get rid of oil, gas and coal dependence in the next few years plan to get from 5% to 30% of electricity by using water power, solar, wind, biomass, etc. According to the International Energy Agency (IEA), the share of electricity production from renewable energy resources (except water energy) in the OECD countries in January-September 2010 compared with the same period in 2009 increased from 2% to 3%<sup>2</sup>.

Today the demand for LNG grows, new terminals production plants are constructed. Inter-regional foreign trade of LNG could grow to 4.5 times for 2002-2030, which will cover more than 75% of the expected increase in inter-regional trade<sup>3</sup>. Unfortunately Russia stays away from these processes.

Many countries have stepped up the use of shale gas. Particular attention to this is paid in the United States, China, Canada and Europe.

In recent years, the attention to wind power installations and solar panels increased, their use in 2009 rose by 31% and 47% respectively<sup>4</sup>.

<sup>1</sup> Frank Umbach, Global Energy Security and the Implications for the EU// Energy Policy, 2010, №38. P.1236

<sup>2</sup> World Energy Outlook 2009// International Energy Agency. P.98-100

<sup>3</sup> World Energy Outlook 2009// International Energy Agency. P.96-98

<sup>4</sup> World Energy Outlook 2009// International Energy Agency. P.100-104

Biogas is widespread in Western countries. It can be obtained from almost any organic waste that is produced in large quantities in food and manufacturing industries.

The development of alternative energy sources in Europe is a threat for Russian export. European countries seek to reduce their dependence on the export of Russian oil and gas, by investing millions of dollars to renewable energy. By 2020, they set targets to reduce specific energy consumption by 20% and increase the share of renewables to 20%<sup>1</sup>. European countries are leaders in the development of renewable energy: Iceland (about 25% renewable energy sources, mainly used by geothermal energy), Denmark (20,6%, the main source - wind power), Portugal (18% - the energy of waves, solar and wind), Spain (17,7% - solar energy). EU is going to replace 25% of its gasoline by biofuels in ten years.

Also, the European Union has taken actions to promote the use of renewable energy sources. Finland, Greece and the United Kingdom have grants, tax incentives and requirements for people who are intended to produce or use renewable energy sources. So, if government takes no action, the position of Russia will soon get worse.

The share of renewable energy in the energy balance of Russia remains extremely low - at about 1%, although our country has huge potential of renewable energy. Today there is a lack of engineers and scientists, no existing measures to stimulate development of renewable energy (tax benefits, subsidies, compensation, liabilities, preferential loans, etc.). The government should support and invest into this field because the initial push to the development of alternative energy in countries that are rich in traditional sources should be given by the state. Also, due to the fact that Russia does not have sufficient experience in this area, it is reasonable to cooperate with international companies and organizations in developing and realization of various projects and purchase of technologies and equipment.

In the next few years the energy situation in the world will not change, supplies of Russian oil and gas to Europe will not decline. However, every year more and more countries develop alternative energy sources, and Russia will not be able to maintain its position in the global energy market due to primary energy. Development of renewable energy in Russia is not only appropriate, it is necessary for economic growth and development. It is able to increase the country's export opportunities, particularly to CIS and developing countries, which will allow Russia not only to keep its position on the global energy market as the largest energy supplier but also to change the character of its presence on it.

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## **POLICIES TO REDUCE POLLUTING EMISSIONS AND THEIR ECONOMIC IMPORTANCE FOR GROWTH AND DEVELOPMENT**

### **I. Introduction**

This paper is a review of policies aiming at reducing polluting emissions, at a global level. Hence, we go over the available efficient policies in terms of environmental objectives. These are policies that have a minimum environmental impact, for a given rate of growth. Of course the application of these policies have a direct effect on growth and development in countries where implemented. In this paper we also argue that the best outcome with respect to the reduction of polluting emissions can be achieved through the collaboration between the private and public sectors. Next, we proceed with explaining alternative energies against the use of coal, in Section II. Section III discusses the role of the private and public sector in promoting research and use of alternative energy sources. Finally, Section IV summarizes our results.

### **II. Alternative energies and policies against the use of coal**

#### **Bioenergy**

The term bioenergy includes the burning of biomass in order to produce heat or electricity and biofuels. 740 million dollars are spent worldwide on research for bio-energy while the economically efficient level of spending reaches 2.3 billion, with early adopters U.S.

and UK. Brazil is first in research into biofuels, while Finland has made serious efforts to improve the combustion of biofuels and followed by Canada, Germany and Switzerland.

It is expected that the most efficient use of biofuels will be realized through the conversion of cellulose (which we find in the woods, the grass, etc.) into energy. So governments aim to develop sustainable bioenergy cycle methodologies and standards to ensure long lasting performance.

#### Solar energy

Solar energy has three main applications: heating, cooling and photovoltaic. 680 million dollars have been spent annually (effective spending of 1.1 to 2.9 billion) worldwide on the development of applications where the highest percentage devoted to solar photovoltaic systems. The U.S. is first in the survey, followed by Italy, Germany, Korea and France and there are no official figures for China and India.

The main aim of research is first to increase the efficiency of crystalline solar surface and the automation of production and second to reduce production costs as demand is growing. More specifically, the objectives of the investigations are related to the structure of manufacturing photovoltaic deposition techniques. Also the purpose is to improve production so that solar energy can be broadly used in construction of modern and energy autonomous buildings. Finally, due to rapid growth of the of photovoltaic industry, an issue of concern is the impact on the environment

#### Wind energy

The need for new maritime technologies can take advantage of air currents in our oceans. This has led to the discovery of more robust, lighter materials that contribute to the creation of larger wind turbines and improve stamina. Also it has contributed to the design of specific offshore wind turbines and advanced structures beneath the ocean surface (eg use of underground conduits) and the development of advanced weather forecasting models. One of the major policy proposals in the field of wind energy is the cooperation among countries in research on applications in the construction industry and the environment. Besides, the capacities of expanding wind energy in developing countries by taking advantage of existing expertise can bring a technological leap.

#### Nuclear energy

Every year spent 4 billion are spent in research and development in nuclear energy (fission and fusion), of which 78% is used in nuclear division. Japan, U.S. and France are the countries with the most interest around the nuclear division while the U.S., Germany and Japan are also investing in nuclear fusion. Although the amounts spent are much higher than other alternative energy sources, yet there is no global estimate of the optimal amount of investment in nuclear energy.

#### Using improved vehicle

Electric cars, hybrid vehicles and the use of hydrogen as a fuel is one of the measures that can be undertaken with a view to efficient use of existing knowledge. Every year nearly 2 billion dollars are spent when it takes at least 40 billion to achieve the goals around climate change and fuel reserves. In the research preceding the U.S., followed by Japan and France with their priority the creation of lighter materials and improved thermal combustion engine. Also extensive research is carried for the production of new nano-materials used in improving batteries and in building new efficient vehicles. But because of the long delay in the process of production, basic research is funded solely by the public sector. Also, the reduced cost of

production car batteries is a priority for the industry to become competitive mass production industry.

Regarding the future of the industry's major automakers have already started investing, but due to the high cost and lack of knowledge by the public sector actively supports and finances the efforts made. International cooperation can help to develop common policies and strategies and to exchange experiences.

#### Energy efficient buildings

Recent improved techniques in the construction industry have contributed to the reduction of building emissions up to 80% according to current data. Although many of these technologies are already available to us their use is not widespread due to high costs and limited application.

Every year nearly 530 million dollars are spent in energy efficient buildings; according to results of recent surveys that amount should be raised to 9.5 billion. However, reduced interest from manufacturers is due to the lack of support by the state. The state should guide these efforts and create programs to raise awareness of the education and information on maximizing the energy efficiency of buildings. Countries with higher levels of investment are Japan, USA, Finland, Korea, Australia, Italy and France.

There are still several areas of research in which we must invest primarily in terms of integration and optimization of applications. For example, the development and use of hybrid systems (such as solar-heat pump system) to innovative buildings known as "zero-energy" and "zero-carbon", could provide high efficiency systems with low emissions of carbon dioxide.

#### Measures to capture and storage of pollutants

Every year 540 million dollars are spent , an amount small enough compared with the 18 billion needed to capture the carbon emissions. The measure is too recent, and perhaps this is the cause of underinvestment. The U.S., France, Australia and Canada have already taken major steps in contrast to China where investments in this sector are lagging behind and also the levels of pollutants produced is ever-increasing.

The reduction of the fine associated with the sequestration of carbon, the implementation of the commitment of scale production and optimization of equipment will result in capture rates of pollutants over 85%. The development of improved systems that contribute to global understanding and information on pollution abatement and the creation of new geological instruments would lead to more efficient, safer and long-term storage. Currently there are 80 active large-scale projects. In the European Union 304 million dollars were invested in 2007. Indeed, the largest economies at the G8 summit in Japan in 2008 agreed on the urgent need to invest in the financing and construction of at least 20 major projects before 2015.

### **III. The role of public and private sector**

#### Public investment in research and development:

Public spending on research into energy is increasing. The annual amount is estimated at 23 billion dollars of which 40% was spent in the field of nuclear fission and fusion, 28% on renewable energy, 17% on other forms of effective energy and a 10% in research on fuel hydrogen.

According to recent data Finland, Japan and Australia spend the highest percentage of their GDP per capita (between 0.07% to 0.08%, when the global average reaches only 0.03%). More specifically, by the end of 2009 the largest economies have already invested 520 billion dollars in clean energy technologies, in energy efficient building construction, a more efficient electric grid and renewable energy sources. Important role in these actions played a

stimulus from the richer countries to the weakest. This initiative is in decline, because of the inability of governments to increase their administrative capacity towards distributing resources in an efficient manner.

private financing and technological innovation:

Although in recent years the private sector made serious efforts in favor of doubling research spending, the amount is still insufficient to meet the global energy objectives. Industries based on the production of low levels of pollutants encountered several difficulties in research funding. Schedules of investments are long term and require large amounts. Private industries are not willing to take risks.

Moreover, uncertainty about the financial future and competition in financial markets causing further pressure on investors, making it difficult and risky to increase the level of investment. Indeed, given the recent economic crisis, business-oriented innovations are of low-risk.

So governments are invited to give financial incentives to encourage such investment. Some examples of successful applications are:

**Fiscal incentives** including tax reduction on biofuels and tax credits to wind energy. (USA, England);

**Capital grants** for programs in clean coal and solar photovoltaic systems. (USA, Germany, Japan);

**Direct subsidies and public contracts** in the hydro and nuclear energy. (Sweden, France).

Financial stability policies and incentives

Governments must create a climate of positive expectations for long-term investment in research. For example the low cost of coal operators under-invest in new technologies. Governments could therefore establish a higher and constant value, which would act as an incentive for investment in renewable energy.

Fiscal measures, modified capital gains tax, tax credits, tax exemptions and lower tax rates are among the measures that can help stimulate investment. In the U.S., reduced taxation on new low-emission technologies were effective enough to lead to an inflow of capital in the industry. Similarly, the Chinese government announced tax cuts amounting to 7,320 dollars for each new buyer of an electric vehicle in conjunction with programs to facilitate repayment of loans for their purchase.

contracts for public-private partnerships (PPP).

Thanks to the conventions of public and private sector a common fund for investment financing- guaranteed by the state- was created. PPPs can take the form of infrastructure projects (ex offshore infrastructure and distribution of wind energy, pipeline construction carbon storage, power recharging electric vehicles), source of funds or guarantees as part of a consortium to invest in renewable energy.

In 2010 the UK announced its intention to invest 1.5 billion dollars in creating a "Green Investment Bank", with the expectation that the private sector would respond to at least to the same degree. The banking sector is required to correct the deficiencies of the markets and investment barriers by providing capita. The creation of 'green' bonds and the provision of insurance products are some of the facilities provided. Banks also play an important role in coordinating government funds available to finance green investment.

#### **IV. Conclusion**

There has been a wave of investment in clean energy technologies, funded by governments during the past decade. Over the years 2008-2009, announcements for green

growth accompanied by increasing public spending on research and development proved only temporary in nature. Then, many governments denied contribution in clean energy because of their inability to provide financial support to this venture. This affected private investment, by creating a climate of uncertainty. An example is the lack of resources and expertise in recent years. It is estimated that the annual expenditure on research from private and public sector amounted to 10 billion dollars, while for the attainment of energy goals at the global level at least 40 to 90 billion are required.

The recent financial crisis gives us the opportunity to improve our efficiency in energy use to orient in cleaner technology and develop new green businesses and industries. The governments should encourage the private sector by supporting long-term and profitable investments. History has shown that in times of economic crisis, the public investment in research and development is the most effective strategy. Finland and Korea after the financial crisis of 1990 confirm this theory, as they proved leaders in the technological innovation of low carbon generation.

As already considered an important role in the development of technologies can have contracts of public-private partnerships especially in sectors such as energy-efficient buildings and industries, offshore wind energy, more efficient power grids and electric vehicles. Important example in this effort is the "green investment bank" in England. Finally perhaps the most important and most effective step an international collaborations and joint funding of research investment in renewable energy, with greater advantage to using common knowledge. As a result of research there has been improved productivity, creative work, reduced training costs, reduced environmental impact. International collaborations in research should not be limited to already developed countries, but they should include countries such as Brazil, China and India. They should use common data and information. Also they should not be restricted to public sector investment. The private sector should have access to all available information. The benefit of such an exercise is far greater than its costs and could multiply both globally and would provide the impetus and resources for new innovations that could be a deadlock in the current economic crisis.

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## **WORLD OIL MARKET DEVELOPMENT PROSPECTS FOR THE NON-OPEC COUNTRIES**

**Key words:** oil market, OPEC, energy policy, consumption, reserves

Energy - a vital component of the global economy. It drives industry, provides the livelihoods of the country and guarantee its security and independence. Despite the fact that the world economy runs on energy efficiency and investing in new energy technologies, oil and gas will continue to have crucial importance for many years more. Global energy consumption in 2010 rebounded strongly, driven by economic recovery. The growth in energy consumption was broad-based, with mature OECD economies joining non-OECD countries in growing at above-average rates.

The study analyzes the current state of the world oil market, the state reserves and production in OPEC and non-OPEC countries. Also, the research contains ways of energy policy development in non-OPEC countries.

The oil market is an example of the deep impact of globalization on a particular commodity market. It has led to increased competition in regional energy markets, to their consolidation and, consequently, to increase the scale of operations of the world market leaders, to increase the interdependence of its subjects, to the formation of cross-cutting, the global structure of the world oil market, in conditions of growing interdependence of individual participants, finding additional reserves through the STR, this market has become more successful in adapting to new conditions.

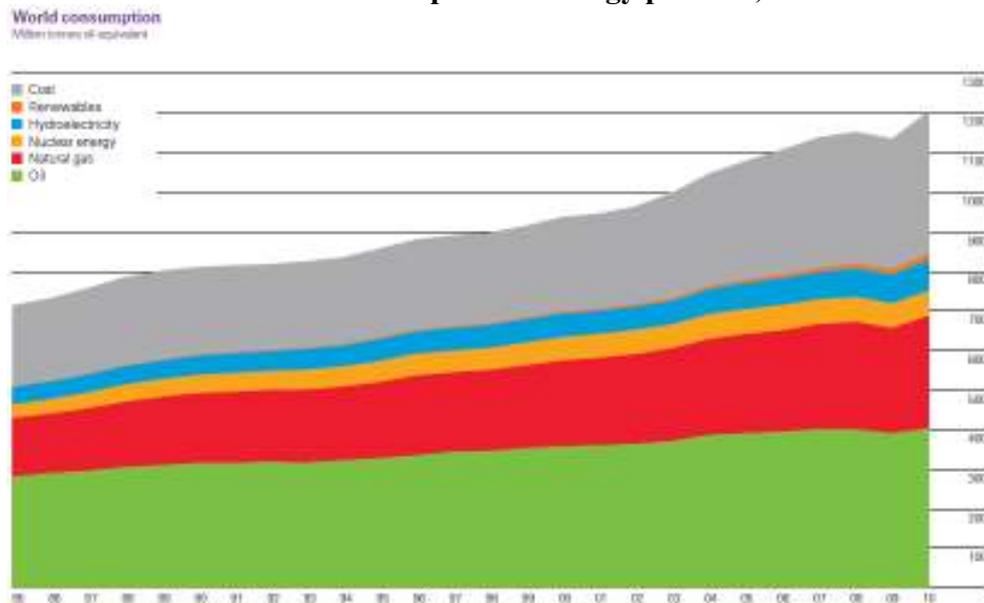
**Relevance research:** The need to study the global oil market is confirmed by a rapid and irreversible changes occurring in this market. Globalization has brought to the development of the world oil market brand new special features, modified some long-term trend has changed the balance of power in the market.

Oil is known to be a major source of energy (at the beginning of this century, oil provides about 40% of the energy needs of humanity), which, in fact, keeps the global economy. In addition, an example of some countries suggests that national economies with predominantly export-commodity nature of the oil was a key factor that affects the stability and sometimes the very existence of the economy.

The world's energy mix has changed right now, as well as the increasingly global markets that distribute that energy. Energy markets include natural gas, coal, nuclear energy and hydroelectricity.

Consumption growth reached 5.6%, the highest rate since 1973. It increased strongly for all forms of energy and in all regions. Total consumption of energy in 2010 easily surpassed the pre-recession peak reached in 2008. While consumption in emerging economies continued to rise rapidly, OECD countries also saw growth well above average. Globally, energy consumption grew more rapidly than the economy, meaning that the energy intensity of economic activity increased for a second consecutive year. The data implies that global CO<sub>2</sub> emissions from fossil fuel consumption will also have grown strongly last year.

## World consumption of energy product, 2010



However, energy prices diverged: oil prices rebounded globally, while natural gas and coal prices varied by region. Not surprisingly, higher prices meant that oil saw the weakest consumption growth among fossil fuels last year. OPEC production cuts, instituted during the global recession, remained in effect throughout 2010 (and so far this year) and informal production increases were not sufficient to avoid higher prices in the face of the strong recovery in consumption.

Natural gas prices remained weak in North America – where production of shale gas continued to climb – and were on average lower in continental Europe, in part due to changes in contractual pricing arrangements. Global LNG and UK spot prices increased more strongly in the face of robust consumption growth. Coal prices grew robustly in Europe, but were weak in the US and Japan.

In the energy consumption leads oil. Oil remains the dominant fuel (33, 6% of global total) but has lost share for 11 consecutive years. The share of coal in total energy consumption continue rise, and the share of natural gas was the highest of record.

Now the question of what constitutes a global oil market, what are the reserves of this energy resource and how prices are formed in the oil, is one of the major problems of the modern world.

Today the world oil market has focused two forces. OPEC is the first, second is Non-OPEC. OPEC countries control approximately two thirds of world oil reserves. What has been their rapid growth due to new discoveries in all member countries of OPEC in the 1980s, but the largest reserves were discovered in Saudi Arabia in 1987.

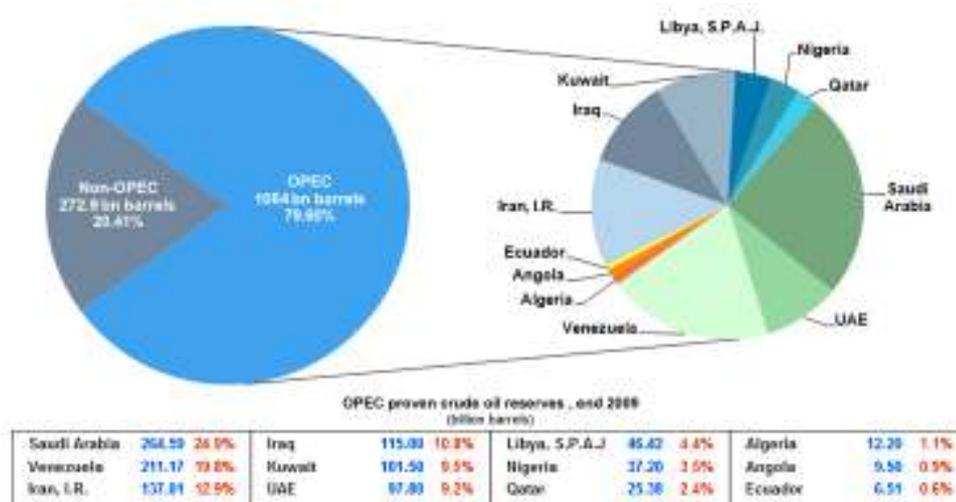
According to statutes of OPEC, one of the principal goals is the determination of the best means for safeguarding the organization's interests, individually and collectively. It also pursues ways and means of ensuring the stabilization of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations; giving due regard at all times to the interests of the producing nations and to the necessity of securing a steady income to the producing countries; an efficient and regular supply of petroleum to consuming nations, and a fair return on their capital to those investing in the petroleum industry.

OPEC's ability to control the price of oil has diminished somewhat since then, due to the subsequent discovery and development of large oil reserves in Alaska, the North Sea, Canada, the Gulf of Mexico, the opening up of Russia, and market modernization.

At the end of 2009, world proven crude oil reserves stood at 1,337,200 million barrels, of which 1,064,288 million barrels, or 79.6 per cent, was in OPEC Member Countries. Global proven oil reserves situated in different regions ( 2010). Largest oil reserves are concentrated in Middle East and it is 754,1 thousand million barrels. Then goes Eurasia with 142,2 thousand million barrels. Africa has 125,6 thousand million barrels, South America – 123,2 thousand million barrels, North America – 70,9 thousand million barrels and Asia Pacific has just 42,0 thousand million barrels.

As of November 2010, OPEC members collectively hold 44% of the world's crude oil production, affording them considerable control over the global market. The next largest group of producers, members of the OECD and the Post-Soviet states produced only 23.8% and 14.8%, respectively, of the world's total oil production.

During the period 2000-2009, OPEC Member Countries added 242 billion barrels to their total oil reserves, substantially more than the reserve additions made by other crude oil producers. As of 2010 O.P.E.C, is the biggest oil distributor in the world.



**OPEC share of world crude oil reserves, 2009**

Historically, most non-OPEC producers have taken advantage of OPEC's voluntary production restraint by increasing their own production whenever possible. As a result, the market share of non-OPEC producers rose for a number of years, but oil prices remained at relatively low levels and the markets were less stable than they could have been. However, the oil price slump of 1998 and early 1999 reinforced OPEC's constant message that oil market stability can only be achieved through co-operation between OPEC and non-OPEC oil producers. In support of OPEC's efforts to restore stability to the oil market by restraining output, several non-OPEC oil producers also cut their production, thus helping prices recover from the slump. These countries included Mexico, Norway, Oman, and Russia.

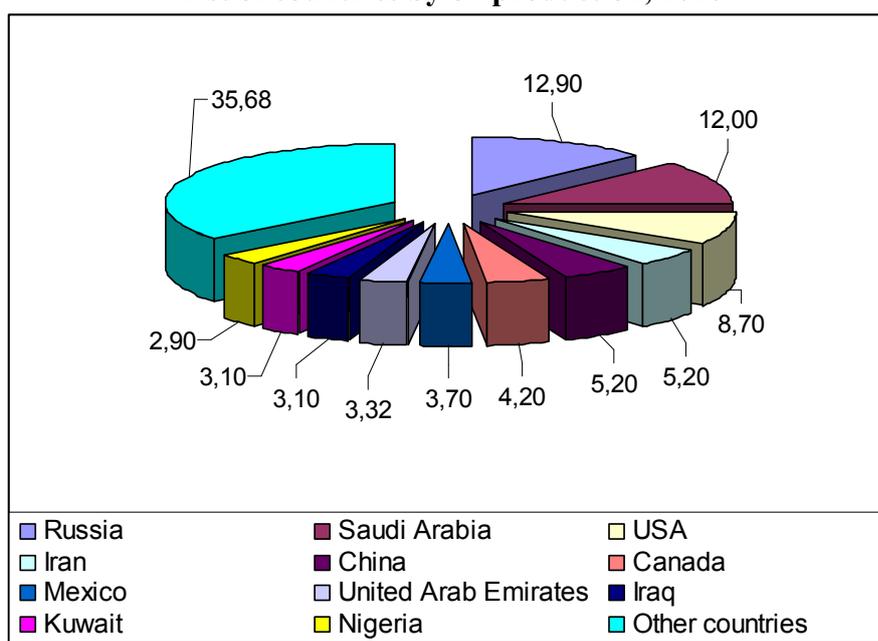
In 2010 the biggest contributor is OPEC expansion projects which includes about 1.3 mbd from Khurais and 0.8 mbd from Khursaniyah. These additions include both crude oil and natural gas liquids and are sourced from Saudi Arabia's official statements which lack independent verification.

Non-OPEC countries at the end of 2009 proven crude oil reserves has 20, 41% or 272 900 million barrels. Main representatives are Canada with 28 900 million barrels, Russia with

13 000 million barrels, Kazakhstan with 6 500 million barrels and USA with 3 000 million barrels. But we see that eight of the top ten positions in oil reserves occupy the OPEC countries. And only two countries are Non-OPEC, they are Canada at second place and Russia at the eighth. It shows dependence of the global economy on oil policy of OPEC.

In 2010 painting by the leaders of oil has changed. And now in first place Russia, which produces 10,540,000 balers daily or it is 12.01% of this world production, followed by Saudi Arabia, which produces 8,800,000 or 11.59%, in third place with 7,800,000 balers daily situated USA. In the list of oil production daily in the top ten leading oil producer and includes most countries from Non- OPEC. This is due to the fact that OPEC existing oil production quotas.

**List of countries by oil production, 2010**



OPEC has quotas that are different for each country; these quotas are also usually smaller than the possible amount of oil country.

OPEC will raise its production quota for the first time in almost four years to help replace lost Libyan supplies and meet growth in demand later this year, a Gulf delegate said yesterday. The group is producing 2 million barrels a day above its official ceiling, the delegate said, declining to be named because he isn't authorized to speak publicly.

Analytical agencies see the future of the world oil market differently. After a drop in oil prices due to the subprime mortgage crisis in the USA, the market has begun to recover. In the coming years, a lot will depend on the policies within OPEC, and whether there will be agreement among non-OPEC countries.

In the long-term, total non-OPEC liquids supply continues to grow throughout the entire period, as increases in non-crude sources are stronger than the slight crude supply declines. Non-OPEC non-conventional oil supply increases by 7.9 mb/d over the years 2009–2030, primarily through increases in Canadian oil sands and biofuels in the US, Europe and Brazil. NGLs from OPEC and non-OPEC in the Reference Case increases from just under 10 mb/d in 2009, to almost 16 mb/d by 2030. All of this means that the amount of OPEC crude needed will rise throughout the projection period, reaching 38.7 mb/d by 2030. The expanding role that non-crude forms of liquid supply will play in satisfying demand is an important feature of the

Reference Case. It signifies that crude supply only needs to increase modestly. Indeed, it reaches only 75 mb/d by 2030.

Oil - the most important commodity in the world - it affects the economic and political well-being of most countries. That's why the issue of forming a common energy policy for a long time will be relevant.

Studies have identified the importance of OPEC in international economic relations. 40% of oil supplies to world market and about 78% of proven oil reserves account for the member countries of the organization. Nevertheless, the global oil market is not monopolized so much as it did in recent years. Now, it is appropriate to speak of oligopolistic market on the supply side, along with a group of OPEC countries like Russia, Mexico, Norway, Britain and others, conducts an independent policy of oil exports.

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### **RUSSIAN FEDERATION AND WORLD TRADE ORGANIZATION: TO ENTER OR NOT TO ENTER**

All major economic powers, including China, have already signed the agreements of the World Trade Organisation (WTO). But Russia, while a member of the G8, is not yet part of the world's key trading regime. Since 2000 the issue of Russia's WTO membership has gradually moved from the world of trade specialists to one of the hottest topics in Russia, debated by industrialists, businessmen, the media and the general public.

In this article the problem of joining WTO is examined from different points of view. There are also advantages and disadvantages of becoming a member of WTO and analysis why other countries are against Russian entry.

**Key words:** WTO, Russia, international economy, international relations.

Today, the WTO has 144 members, and thirty more countries, including Russia, are waiting to enter. The WTO is a club of nations that have undertaken to observe certain rules in their mutual trade and business relations, in the belief that this will ultimately benefit all of them. By joining the WTO, Russia would show its willingness to adopt these rules.

Acceding to the WTO is rather complicated, mainly because it is an exclusive club that demands that a member complies with its complex rules before it is accepted.

The WTO has three important functions. First, it is the conference organization for all multilateral trade issues. Second, it is the depository of a large number of international trade conventions that are binding to all members. And third, the WTO has a mechanism for conflict resolution with an arbitration court and penalties which are universally recognized.

Why does WTO want Russia to become its member do much?

With a gross domestic product of \$1.48 trillion in 2010 and a trade surplus of \$137 billion, the world's biggest after China and Germany, Russia would be a more attractive market if it were more open.

Formally, Russia has been a candidate since the WTO's inception in 1995. However, Moscow has never pushed hard to join, because its biggest exports, oil and gas, are tariff-free, and cutting import tariffs could threaten jobs and factories.

It is remarkable that Russia has not joined the WTO yet. It is the last major international organization of which Russia is not a member. More than 95 percent of world trade is carried out by the 153 WTO members, and Russia remains the biggest economy outside of the WTO.

One reason is that the WTO is a tardy and bureaucratic organization. Unlike the IMF and World Bank, who advocate free market economics as well as financial stability and closely watch potential members, the WTO does not preach anything and its scant staff barely visits potential members. Furthermore, the WTO hardly provides any technical assistance. The main reason, however, for Russia's slow approach to the WTO was that Russia's political leaders failed to realize the importance of the organization.

That has changed, Russian officials say, because the country badly needs to integrate more with the global economy.

If all goes well, the European Union and the United States expect Russia will be able to join the World Trade Organization in January 2012. Washington has put the chances at 95%, while European Commission President Manuel Barroso said he had attended 13 EU-Russia summits on this issue and hopes that the thirteenth was the last.

After 17 years of talks, missed opportunities and more talks, Russia finally has a foot in the door of the WTO.

WTO accession: pros and cons

Russia is already a member in all the major international associations, such as the G8 and the G20, but not the WTO. In fact, it is the only large economy in the world (ranked 10th or 11th) outside of the 153-member WTO.

The World Trade Organization is like the Olympics of trade. It has very strict code of conduct and conditions for participating in its "games," including testing for doping. Member countries are not allowed to approve protectionist taxes and laws for their economies that put other players at a disadvantage.

Russia will sure to be admitted to the WTO, and the truth is this will benefit the organization more than Russia.

WTO membership comes with the promise of more investment, new technology and other benefits crucial for economic modernization. But it will not change anything about oil and gas exports, because they are not regulated by the WTO.

Russian agriculture and manufacturing will be hardest hit in the initial stage following entry in the WTO. These sectors will have to work hard to survive the fierce competition from their foreign competitors.

There are several sensitive issues that remain unresolved: changes in tariff and sanitary regulation, state support for agricultural and industrial sectors, and changes in the area of trade in services. For instance, truck manufacturers are alert and waiting for WTO entry when the the

level of import taxes on trucks should be lowered from 25% to 15% in 2012, and to 10% by 2015. The development strategy for the automobile industry does not envisage such a short transition period. It is necessary to maintain the current level of taxes until 2015, after which the decline should occur gradually to 10% by 2018.

Moreover, the agricultural sector may suffer to a large extent. Some WTO members have put forward as a condition for Russia's entry freezing the level of agricultural subsidies. According to experts, Russia will be able to support the sector of up to \$9 billion by 2012, with a gradual reduction in subsidies to \$4-4.5 billion a year.

The conditions of access to the Russian meat market are somewhat more complicated. The agreements that were reached in 2009 have expired and negotiations regarding this issue are an ongoing concern. According to officials, the Russian side intends to maintain the tariff quotas for a long period of time, proposing a gradual reduction in the volume of imports to give an opportunity for the development of the domestic sector.

Russia has made great strides on these issues but there is more work to be done. The U.S. and EU see largely eye to eye on these unresolved problems in the Russian economy.

One of the strongest lobbies against Russia's membership in the WTO is Hollywood. Executives of the largest companies in the entertainment industry are outraged by Russia's flagrant disregard for copyright laws.

Russia is a lucrative market for Hollywood, because Russian films account for barely 30% of distribution profits, according to the Motion Picture Association of America. And yet film and DVD profits are growing at a snail's pace in Russia due to piracy.

Hollywood wants the U.S. government to force Russia to make firm commitments on this point and to introduce something resembling U.S. copyright laws. A good start would be enforcing Russian laws on copyright piracy, banning free download websites and imposing harsher punishments for violators.

The United States is no longer satisfied with mere promises. When China was admitted to the WTO in 2001, it promised to crackdown on piracy, but the entertainment black market still thrives there. Hollywood does not want to make the same mistake in Russia.

Theoretically, each of the 153 WTO members must approve Russia's entry. The only country that has so far withheld its approval is Georgia, which fought a short war with Russia over South Ossetia in 2008. But the United States and France are confident they can persuade President Mikheil Saakashvili to change his tune.

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**THE RUSSIAN FEDERATION AS THE CENTER OF THE INTERNATIONAL  
LABOR MIGRATION: STRUCTURAL AND LEGAL ASPECTS**

Increasing the role of human capital in national development reinforces the value of processes of the international migration of labor, especially highly skilled, and forms conditions of re-structuring of the centers of international labor migration. So, at the present stage the Russian Federation has become one of the leading centers of the international migration of labor. This fact was promoted by escalating of rates of economic development of the country at the beginning of the XXI century, proceeding natural decline in population and liberalization of a policy of attraction of foreign workers. At the same time the qualitative structure of emigrants from the Russian Federation testifies to necessity of strengthening of a state policy for area of re-emigration highly skilled labor. All in all, this article is devoted to comprehensive analysis of migration flows to and from Russia, and also measures of state influence on them.

By the end of 20th century labor migration has turned to the major factor of global development, having received extraordinary scope. By estimations of the International Labor Organization (ILO), on boundary XX-XXI centuries in the world were 86 million labor migrants. According to branch of the population of the United Nations, at the beginning of XXI-st century 218 countries of the world community have been involved in a migratory turnover. Thus, the majority of the countries of the world are participants of global labor migration.<sup>1</sup>

The main feature of the international labor migration at the present stage is occurrence of the new centers of attraction of migration. In particular, by this time in the world have formed seven world centers of attraction of labor: countries of Western Europe, the North America, oil-producing countries of the Near East, Australia, Asian-Pacific region, the countries of Latin America and the countries of Africa (the North Africa and the republic of South Africa). Simultaneously, disintegration of the USSR and integration of the Russian Federation into world economy against depopulation and natural decline in population has raised value of migratory streams for our country, promoted transformation of Russia into one of the centers of attraction of labor.

From the end of 1980th years migration of population in Russia is defined by features deep and long transformative crisis which has captured base principles of the organization of a society, by disintegration of the USSR, and also by liberalization internal and external migration. Occurrence during this period of scale international migration was the phenomenon essentially new appeared in the center of scientific and public attention. According to the World Bank, today Russia is the second importer of labor after the USA.<sup>2</sup> According to the research conducted by the International fund of development, the share of the Russian Federation is 48 % of total number of migrants of all Europe.

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<sup>1</sup> Reznikoff O. Post-Soviet Labor Migration. // World Economy and International Economic Relations .- 2009. - № 3, p.75-82

<sup>2</sup> Streltsov YA.R. Features of the Russian-Ukrainian migration exchange. // World Economy and International Economic Relations .- 2009. - № 11p. 78-84;

According to the World Bank, in Russia today lives 12, 2 million migrants that makes 8, 6 % from its population. Immigration already is the basic source of filling of population for Russia. As it is marked in one of recent researches of the World Bank, the share of foreign labor in an aggregate number occupied in the Russian economy reaches 6-7 % that is comparable to level of such countries as Belgium, France and Sweden.<sup>1</sup>

Labor migration has got appreciable scales on the post-Soviet territory. In 1997-2009 the share of immigrants to Russia has made of the CIS countries was about 95 % (tab.1).

Table 1 - The Share parity of immigration to Russia in 1997-2009

<b>Country</b>	<b>%</b>
<i>In total</i>	<i>100</i>
<b>CIS</b>	<b>94,50</b>
<b>Including</b>	
Azerbaijan	5,87
Armenia	6,90
Belarus	2,10
Georgia	3,73
Kazakhstan	28,00
Kirghizia	6,52
Republic Moldova	4,19
Tajikistan	5,22
Turkmenia	2,17
Uzbekistan	13,84
Ukraine	20,21
<b>The far abroad</b>	<b>4,50</b>
<b>Other countries</b>	<b>1,00</b>

Source: made by the author by means of the Statistical collection "RUSSIA IN FIGURES 2010"

The basic migratory streams of foreign workers are directed from the states-participants CIS: Uzbekistan, Azerbaijan, and Tajikistan. Their share is 84 % from all involved foreign labor from the states-participants CIS.

In 2010 from Uzbekistan worked 1272 persons from whom 734 people (57,7 %) have been occupied in the field of building, 273 persons (21,5 %) – in wholesale and retail trade, 107 persons (8,4 %) - in industrial sphere worked. The quantity of workers from Azerbaijan in the Russian Federation in 2010 has made 326 people from whom 190 people (58,2 %) have been occupied in wholesale and retail trade, 94 people (28,8 %) – carried out labor activity in cafe and restaurants, 23 people (7 %) – in building. In 2010 in the Russian Federation worked 211 people from Tajikistan from whom 100 people (47,4 %) worked in wholesale and retail trade, 72 people (34,1 %) have been occupied in building, 19 people (9 %) - carried out labor activity in cafe and restaurants.

As of 7/1/2010 distribution of foreign workers by kinds of economic activities the following: building - 320 people (same period of last year – 975,-67 %), trade – 310 people (same period of last year – 496, - 37 %), processing manufactures – 108 people (same period of last year – 151, - 28 %), agriculture – 31 people (same period of last year-30, + 3 %), other kinds of economic activities – 114 people (same period of last year - 136,-16 %). Distribution of foreign workers of other kinds of economic activities the following: activity of hotels and

<sup>1</sup> Rybakovsky L.L., Kozhevnikov N.I. Assessment of the possible and necessary the engagement of immigrants in Russia. - Moscow: Econ-inform, 2010. –p.103

restaurants – 111 people, manufacture, transfer and distribution of the electric power, gas, steam and hot water – 2 people, granting of services in housekeeping conducting – 1 man.<sup>1</sup>

Russia needs immigration replenishment of the reduced manpower and it should become the country of immigrants. By the calculations, stated in Rybakovski's new work, Russia needs to involve annually 400-425 thousand migrants on a constant place a residence or 6250 thousand for all period till 2025.<sup>2</sup>

On the social composition labor migration in the Russian Federation is basically unskilled workers. It for Russia has two sides: positive and negative. In Russia the labor is a little mobile, and many Russians don't want to go on low-paid and especially manual labor. Demographic recession and vocational training disorder also have led to that the great number of free workplaces in the field of manufacture was formed. By this fact labor migration carries out positive functions for us. But there is also variety of the negative moments:

- scanty percent of assimilating labor migrants;
- considerable number of "illegal immigrants";
- "capture" by visitors from other countries of the whole spheres of economic activities thanks to readiness to work for the low salary of 10-12 hours daily and without days off;
- cheapness of work of visitors - a serious obstacle on a way of technical and technological process to the Russian manufacture.

- there are groups integrated to a national sign that leads to criminality growth; the risk of international and intercultural conflicts of migrants with indigenous population etc. grows;

- the money earned by labor migrants, leaves the country practically without the taxation. Cumulative annual earnings of the migrants working in Russia, make approximately 20 billion dollars, and according to the Central Bank of Russia, last year migrants have taken out from the country more than 3 billion dollars in the form of remittances and more than 10 billion dollars cash.<sup>3</sup>

Problems which are born with itself by the international migration of labor, have led to creation of wide system of the state and interstate regulation. We will underline that concerning the international migrants is more rigid and strictly regulated migratory policy. It consists from the system of special measures, acts and the international agreements (bilateral and multilateral) on regulation of the migratory streams, pursuing as economic, as the demographic purposes.

Let's notice also that in the modern migratory policy, its immigration component is defining. The countries of strongly pronounced immigration define a modern migratory situation in the world. It first of all the USA, Canada, Australia, the countries of the Western and Northern Europe, the Arabian monarchy in the Near East, Venezuela, Argentina, in the South America, the republic of South Africa, Zaire and Cote d'Ivoire in Africa, Singapore, Japan, Hong Kong in Asia.

The changes which are taking place in the modern migratory policy in the world reflect very curious tendencies. On the one hand, in many countries of the world acceptance more strict measures concerning the migrants caused both political, and economic reasons (for example, in 1993 of country of Western Europe have spent 11, 6 billion dollars only for registration and placing of the persons searching for a refuge). On the other hand, actively go the integration processes providing within the limits of the created and extending Unions, type of the European union, North American union NAFTA, the Arabian common market, etc. freedom of moving of labor of citizens of the countries-participants through their frontiers.

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<sup>1</sup> Rybakovsky L.L., Kozhevnikov N.I. Assessment of the possible and necessary the engagement of immigrants in Russia. - Moscow: Econ-inform, 2010. –p.103.

<sup>2</sup> Rybakovsky L.L., Kozhevnikov N.I. Assessment of the possible and necessary the engagement of immigrants in Russia. - Moscow: Econ-inform, 2010. –p.103;

<sup>3</sup> Beloborodov I.I. Improving the legislative support of migration policy. // Demographic Research. - 2010. - № 11.

There is a formation as world labor markets as and separate international regional labor markets without what, probably, already further forward development of the world community and its separate components is impossible.

So, for example, regulation of the international labor migration between the CIS countries is carried out according to the Cooperation agreement in the field of labor migration and social protection of workers of the migrants, come into force in Russia since September, 1st, 1995 (workers-migrants use social insurance and social security (except pension) according to the legislation operating on territory of the CIS countries ); and also by the conclusion of bilateral intergovernmental agreements (between Russia, Armenia, Belarus, Kirghizia, Moldova, Ukraine). For example, according to the Contract between Russia and Belarus about formation of community of two states from April, 2nd, 1996 the allowing order of employment of citizens of Republic of Byelorussia in territory of Russia is canceled and especially stipulate the maintenance of the equal rights of citizens of both states in employment and creation of the general information base concerning employment of the population and vacancies of workplaces.<sup>1</sup>

The national migratory legislation in the Russian Federation is constantly improved. Since January, 2007 operate the amendments to laws «About the migratory account of foreign citizens and persons without citizenship in the Russian Federation» and «About a legal status of foreign citizens in the Russian Federation», the Concept of a demographic policy for the period till 2025 and many other things is accepted. However many basic problems in migration sphere remain till now unresolved. For example, till now there are no effective levers of regulation of migratory streams. The question on social guarantees for foreigners who work in Russia isn't solved. The mechanism of restriction of inflow of foreign labor isn't adjusted.

The constructive migratory policy should be scientifically proved and to contain non-standard approaches. The current demographic situation demands from a society and an administrative segment of not ordinary decisions, and the main thing of successful results.

So, in the field of an immigration policy of the Russian Federation the most important problems as the developing situation and experience of foreign countries shows are:

- maintenance of protection of national economy from superfluous inflow of workers-migrants from other countries;
- working out of measures on regulation of quantitative and qualitative parameters of a stream of immigration;
- maintenance of rational use of arriving workers-migrants in economic and political interests of Russia.

Important value as shows experiment of the countries-importers has a choice of the concept of an immigration policy.

Some base principles and offers for realization effective, from our point of view, approaches to construction of an immigration policy, in particular, social management of labor migration in Russia are lower listed.

1) Repatriation: a priority to attraction to Russia compatriots and mentally close migrants living abroad. Outside of Russia, by different estimations, is from 25 to 30 million compatriots, not including descendants from mixed marriages. The real potential of repatriation to Russia makes, by our estimations, not less than 8 million persons.

2) The second category which should have the right to unobstructed reception of citizenship, are women from other states, marrying the Russian men. In order to avoid distribution of fictitiousness of such marriage unions it is expedient to give out citizenship right after a birth of the first child, or in case of the proved bareness, in three years of joint residing.

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<sup>1</sup> Beloborodov I.I. Improving the legislative support of migration policy. // Demographic Research. - 2010. - № 11.

Women from the states in which remain norms of reproductive behavior having many children should have particular advantages

One of measures for attraction of the specified category of migrants should become the opening initiative foreign policy structures and public organizations of the Russian Federation of a network of the Russian marriage agencies abroad.

3) The third category of migrants which could apply for reception of the Russian citizenship, are citizens of the CIS and the Baltic states, not being compatriots who have served three years in the ranks of the Russian armed forces. It is necessary to give possibility of execution of military service of the given category of persons as on the one hand — the offered term of stay in the Russian army becomes the good mechanism of integration, with another — the given measure will allow to solve partially increasing problems with shortage of recruits.

At the same time realization of the given offer in the long term will improve the offer on a labor market. In the given context it is expedient to place emphasis of mentally close, easily integrated migrants from the adjacent states (Belarus, Moldavia, Ukraine, the Baltic State).

4) The fourth category of the migrants who are suitable for the Russian national and geopolitical interests includes foreign students and the post-graduate students trained in the Russian high schools, on actual specializations for the Russian labor market. Within the limits of attraction of the given category of migrants, the state order for foreign students, and also the special program of loyalty should be generated, in the form of privileges on payment for training and etc. Similar practices have Australia, New Zealand, the countries of Europe and USA.<sup>1</sup>

5) To enter a legislative interdiction for adoption by foreigners of Russian children and activity of corresponding agencies and other organizations for territories of the Russian Federation;

6) To enter a legislative interdiction for activity of marriage agencies, and also agencies on the employment, offering services in departure of the Russian citizens abroad for the purpose of a marriage or employment.

This and previous point are dictated by direct demographic and labor losses which are born by Russia owing to the listed kinds of activity. Only according to official figures, because of the active female emigration stimulated with any agencies on employment abroad, from 1994 for 2009 Russia have left almost 900 thousand women. By available indirect estimations, female emigration has led to direct reproductive losses in a kind not a birth 833 thousand children in the nearest five years.

7) Creation by the Russian state and private companies of manufactures and other forms of employment in the next states: China, Tajikistan, Uzbekistan, Kirghizia, Azerbaijan, Georgia, Armenia and etc. For example, in China on parity conditions could function successfully Russian or Russian-Chinese wood, the textile, agro-industrial and other enterprises.<sup>2</sup>

Such approach, in addition, will have financial and economic return and will serve as soil for strengthening of interstate relations of Russia and the named countries.

In the field of labor export by working out of an emigratory policy of Russia the special attention should be given:

- situation improvement on a labor market at the expense of unemployment reduction;
- attraction of currency receipts in the country at the expense of remittances of workers-migrants from abroad;

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<sup>1</sup> Migration policies in foreign countries and the Russian Federation: a comparative analysis of experience / Institute for Economies in Transition. - M., 2003.

<sup>2</sup> Migration policies in foreign countries and the Russian Federation: a comparative analysis of experience / Institute for Economies in Transition. - M., 2003.

- protection of the rights and maintenance of support of the Russian citizens working abroad;

- pay attention on getting professions by migrants, enterprise experience and formation.

As a whole, Russia has entered club of accepting and giving migrants, becoming the new international center of migration. However intensity, structure of labor migration has inconsistent consequences for national economy. Today is required effective planning of streams of migration in the Russian Federation in that its part which is caused by actions of authorities and employers. In the national concept of a migratory policy should be provided not only actions for differentiated "selection" of migrants, but also stage-by-stage steps on moving of immigrants in territory of the state taking into account them social, cultural and ethnic features; actions on rapprochement of various ethno-cultures through mutual knowledge and enrichment; it is required to focus attention of the government on the politician of maintenance of the effective intercultural communications promoting integration of migrants and the accepting society.

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### **PROSPECTS OF INTERNATIONAL MIGRATION IN THE WORLD: POLITICAL AND ECOLOGICAL ISSUES**

Increasing mobility of the population during a globalization epoch has considerably raised value of the factor of migration in world economy and the international relations. In modern conditions (political wars, environmental problems in Japan and the world) migration

generates set of the problems demanding the coordination of efforts of almost all states and development of global approaches to their decision. In my article I will consider the basic problems in this area all over the world for 2011 and their reflection on migration of a labor force.

**Keywords:** migration, migratory relations, ecological and political problems.

Migration of the population - moving of people from one region (the country, the world) in another, in some cases the big groups and on the big distances. The people making migration, are called as migrants, or, depending on character of migration, emigrants, immigrants or settlers. Migration in the country is called as internal, between the countries — external.

According to the International Organization For Migration report, the number of the international migrants in 2010 has made 214 million persons or 3,1 % of a world's population. If growth of this indicator proceeds with former speed by 2050 it will reach values of 405 million. Partly migration is caused by such reasons as wars (emigration from Iraq and Bosnia to the USA and Great Britain), political conflicts (emigration from Zimbabwe to the USA) and natural accidents (migration from Montserrat to Great Britain because of volcano eruption).

Increasing mobility of the population during a globalization epoch has considerably raised value of the factor of migration in world economy and the international relations. In modern conditions (political wars, environmental problems in Japan and the world) migration generates set of the problems demanding the coordination of efforts of almost all states and development of global approaches to their decision. During last period the appreciable intensification of the international dialogue on migration reflects attempts to strengthen a global vector in its regulation and to unite efforts on opposition to negative tendencies in development of migratory processes.

Rates of development and character of migratory processes are caused first of all by increase of requirements of the developed countries in manpower and deepening of social polarization accompanying globalization and an aggravation of the problems connected with steady increase of world scales of poverty and poverty. The international migration became the integral component of social and economic and political development both developed, and developing countries. So, on the conclusion of the Economic commission of the United Nations for Asia and Pacific ocean, in this region where number of the international migrants from the beginning of 50th years has grown almost twice, migration has turned to one of priority problems of development. The countries belonging to an Asian-Pacific area, form group of the largest addressees of remittances of migrants.

The international migration, however, became not only the powerful tool of redistribution of a world manpower, but also field which generates the tendencies complicating interstate relations and an internal situation in many countries. Intensity of the human streams crossing frontiers accrues not only owing to labor migration, but also at the expense of the compelled resettlement caused by political instability and conflicts.

Falling of volume of monetary receipts from migrants was negatively reflected in an economic situation of many countries. In 2007, addressing to the states-participants of the Global forum on migration and development, in particular, Japan. The USA and to EU Member States, the Secretary general of the United Nations Ban Ki-moon has called for carrying out of an open policy in the field of migration. However any shifts in the migratory policy of these countries hasn't occurred, and already the first consequences of world crisis have shown that its approach in general has rejected this problem on the second plan. By April, 2009 Malaysia, Thailand, Austria have frozen delivery of work permits. Spain and Czechia has proposed to render the financial help to the migrants, agreeing to come back in the countries. As a whole

inflow of private and bank financial receipts to the migration countries-sources to first half of 2009 has fallen from 1,16 bln. dollars to 770 bln. dollars.

The serious factor complicating problems of migration, steel «ecological refugees», i.e. suffered from natural accidents. Already now their number makes about 25 million persons. Forecasts in this area are rather unfavourable. So, climate warming can lead 2050 to explosive increase in number of the migrating immigrants which inhabitancy will appear destroyed. Only increase of level of world ocean on one centimeter threatens, by the expert estimations compelled by resettlement more than one million the person.

Sharp increase of a share of such migrations in total amount of migratory processes in the world will lead to that the number of ecological refugees by 2050, according to the experts United Nations University, will reach 200 million persons. Such is an inevitable consequence scientifically - technical progress and a manufacture intensification, a payment for population growth, its concentration near industrial targets. Except destruction of people right after failure, it is necessary to consider consequences of technogenic or natural accidents which can have long-term character, and not only in ecological, but also in the socially-psychological plan, causing in a society strengthening of social intensity.

In 2011, in Japan there was a failure on an atomic power station which has shocked the whole world in the scales. The international reaction to the nuclear accidents has been a humanitarian response to the 2011 Tōhoku earthquake and tsunami, also to those people affected by the events at Fukushima I. The response has also included the expression of concern over the developments at the reactors and the risk of escalation. The accidents have furthermore prompted re-evaluation of existing and planned national nuclear energy programs, with some commentators questioning the future of the nuclear renaissance.

USA, Australia and Sweden instructed their citizens to evacuate a radius of minimum 80 km. South Korea advised to leave farther than 80 km and to have plans to evacuate by all possible means. Spain has advised their citizens to leave an area of 120 km. Embassies of France, UK, Germany, Switzerland, Austria, Italy, Australia, New Zealand, Finland, Kenya, Israel advised their citizens to leave even the metropolitan area of Tokyo.

Travel to Japan is very low, but additional flights have been chartered by some countries to assist those who wish to leave. In mid-March, several nations had begun official efforts to evacuate their citizens from Japan.

The World Health Organization announced its intention to conduct continuing public health studies over the next 20 years.

The Fukushima disaster prompted Switzerland and Germany to announce their complete withdrawal from further use of nuclear power by 2034 and 2022, respectively. On May 27, 2011, the G-8 members met to discuss more regular and intense safety checks for nuclear power plants. On June 13, 2011, The Italian people voted overwhelmingly to reject plans for increased nuclear power.

The international migration became not only the powerful tool of redistribution of world manpower, but also sphere which generates the tendencies complicating interstate relations and an internal situation in many countries. Intensity of the human streams crossing frontiers, accrues not only owing to labor migration, but also at the expense of the compelled resettlement caused by political instability and conflicts.

The 2011 Libyan civil war is an ongoing armed conflict in the North African state of Libya being fought between forces loyal to the country's defacto ruler Muammar Gaddafi and those seeking to depose him. The situation began on 15 February 2011 as a series of peaceful protests which were met with violent responses by the Gaddafi regime. The protests escalated into an uprising that spread across the country, with the forces opposing Gaddafi establishing a

government based in Benghazi named the National Transitional Council whose goal is to overthrow the Gaddafi led government and hold democratic elections.

Three months after the conflict started, the International Organization for Migration (IOM) and its partners (UNHCR, Donor In-Kind) have conducted life-saving evacuations for almost 144,000 migrants. Tunisia has been the largest exit route of migrants fleeing from Libya; due to its proximity to Tripoli and other major Libyan cities, third country nationals and Libyans have flocked to the main border points of R'as Ajdir and Dehiba. From Tunisia, IOM and its partners evacuated by air about 103,000 migrants to their countries of origin. Repatriation movements organized by IOM from Egypt reached 35,000 passengers.

In Niger, about 2,000 migrants received transportation assistance, by bus or by plane, to return to their country of origin. From Algeria, IOM organized the repatriation of about 1,200 migrants that crossed the Libyan-Algerian border to flee the conflict. In three months, about 68,000 Chadian nationals have returned to Chad. Among them, 26,500 have been repatriated by plane by IOM and its partners. The rest have returned in different entry points by trucks.

Prevailing direction of a migratory policy of the states first of all developed, still there is a concentration of efforts on traditional measures on strengthening of control mechanisms: toughening of boundary and visa modes, access restriction to procedures of reception of a refuge both etc. Between the EU countries and the migration states-sources today operates nearby 100 two-sides agreements about readmission, not corresponding to the international standards in the field of protection of the rights of migrants and refugees. As means of struggle against uncontrollable migration arrests, reduction of the social blessings, access restriction to labor activity are used and etc. the Mainstream of a migratory policy still there is a strengthening of a role of the state as the subject who is carrying out functions of prosecution.

The international migration steadily changes the face before our eyes and character of development of the modern world. Its influence on political, social and economic, international, intercultural relations, on a demographic situation so big also is inconsistent that scales of requirements for its regulation are splashed out far for frameworks of possibilities of system of global management functioning today. At the same time the international dialogue on the migratory problems, developing last decades, has designated only initial stage of crystallization of the general vision of results and consequences of influence of modern migration on planetary development.

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**IMPORTANCE OF ENTERPRISE DEVELOPMENT ON THE BORDER AREAS  
(A CASE STUDY OF THE PODKARPACKIE PROVINCE)**

The District, is a main form of regional government, owns relevant role in making different decisions, including area of economy and development. However the development of the district is not steady. The quickness of entrepreneurship's evolution depends on many factors, both technical and human.

Supporting the local economic development is ordinarily connected with series of pro-development actions. A lot of convenience in this kind of development can be achieved with the abilities of strategic planning.

The activity of the district in case of development strategy, can for instance, rely on efficient management of public revenue and also supporting of Small and Medium-size Companies sector, through creating both stable and dynamic factors of economic aid.

The purpose of this investigative project is to show the ability of district Ustrzyki Dolne to support entrepreneurs; what makes that district is one of the major factors for local enterprise progress. I am going to present district's essential influence in creating new possibilities for entrepreneurship and moreover, in breaking barriers to put on their way.

In research, the following issues were put into consideration:

- characteristic of basic economic ideas: district, entrepreneurship,
- entrepreneurship's location in structure of district and motives of taking economic activity,
- range of local government's assistance in case of entrepreneurship supporting (indicating the main instruments),
- perspectives of entrepreneurs' development on the area of district.

## **1. THEORETICAL ASPECTS OF A RESEARCH PROJECT**

### **Local government, district and entrepreneurship terms**

Literature on the subject presents three basic theories of local government: naturalistic, national and political.

Local government is an important element of district's public life, which in turn is a fundamental organization unit of Poland's territorial division. The aim of its existence is to meet collective needs of inhabitants – to manage the roads and streets, to supply with electric, gas and thermal energy, local transport, housing construction, health care, education, social welfare, to keep a cleanliness and other.

Entrepreneurship is multidimensional notion. It is defined as a process that has strictly determined target, which contain financial, psychological and social aspects. It is often considered equivalently with the notion of innovation, which in turn is connected with creativity of man – society, that cause an improvement in development process working.

Latterly, entrepreneurship started to be identified with the role of entrepreneur. Entrepreneur is considered as a person, who links professionally production factors, at the same

time moving economical resources from lower to higher efficiency areas. Furthermore entrepreneurship is also associated with establishing and keeping small, big and medium-sized companies.

### **Importance and role of Small and Medium Sized Companies on the area of Poland**

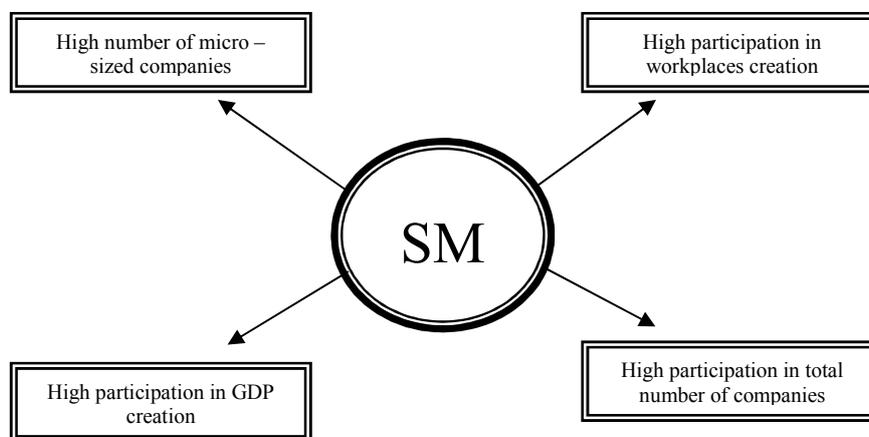
Poland's accession to European Union was a major step for the development of entrepreneurship in the districts. Owing to the union's programs, the districts win the funds for entrepreneurship's development support.

Nowadays the prosperity of small and medium-sized companies is essential element of district entrepreneurship's development. Their role is incontrovertible. This finds its application in statistical data that shows the importance of SMC to the area of Poland. However in final years a number of potentially registered enterprises is slightly falling.

**Table 1.** Basic information about SMC sector

	1996	2000	2005	2009
The number of registered companies	2,4 mln	3,2 mln	3,7 mln	3,9 mln
The number of active SMC	1,3 mln	1,8 mln	1,7 mln	1,9 mln
The number of working in SMC	5,3 mln	5,8 mln	5,9 mln	6,6 mln
SMC participation in GDP creation	40%	48,5%	47,7 %	46,9 %

*Source: Draw up by myself on the basis of Report on the Status of small and medium enterprises in Poland - years 1996/1997;2000/2001;2005/2006;2009/2010, PARP*



*Source: Wilmańska Anna, Zastępca Status and Trends of SMC in Poland in the years 2008-2009, Warsaw 2010*

### **Graph 1.** The role of SMC in economy of Poland

#### **The barriers that contemporary entrepreneurs in SMC sector contend with**

The main barriers of SMC functioning in Poland:

- Unclear law regulations, which manifests in difficult to interpret acts and directives;
- Complicated tax system;
- High burdens of labour expenses.

This is only a part of barriers, which small and medium-sized entrepreneurs come across. One of the key development barrier is also limited access to financial capital. A major limitation is reluctance of banks to involve in service this kind of subjects, because the ratio of

expenses to profit margin generated on the client is unsatisfying. It is precisely lack of capital, that in the vast majority of cases is the main reason of fact, that many good projects, which could bring a profit for the owner, is abandoned.

### **Types of supporting instruments - description**

The district, to support local entrepreneurship development, has to offer for entrepreneurs a lot of instruments, which induces them to establish and continue the enterprising structures advance. The crucial role play here investment expenses, mainly infrastructural and unemployment preventive, which optimally determine the condition of entrepreneurship in given district. Apart from purely investment capital, local government units may dedicate part of their budgets in support of various kinds of institutions, which activities oscillates around an entrepreneurship:

- Local development agencies [their activity mainly concerns support in raising EU funds];
- Entrepreneurship's incubators and *technological parks and centers* [helps in functioning of newly establishing and innovative companies ];
- Entrepreneurship support centres [for entrepreneurs plays informative role, offering consultancy and different kinds of trainings];
- Credit funds [gives an opportunity to access to the capital on relatively good conditions].

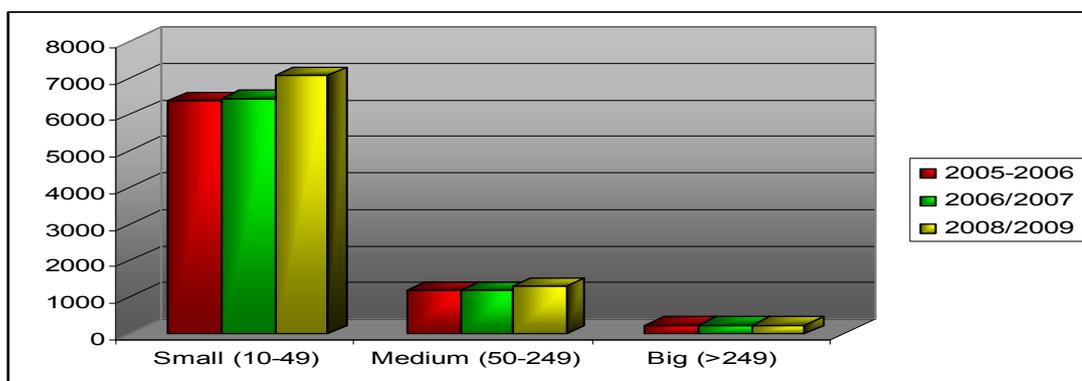
## **2. ENTREPRENEURSHIP SUPPORTING IN USTRZYKI DOLNE DISTRICT**

### **Ustrzyki Dolne district description (location, area, population)**

Administration unit "Ustrzyki Dolne the district and city" is situated in south-east Poland, at the foot of the Bieszczady's mountain range. In the east the district borders on the Ukraine, whereas the shoreline of the greatest artificial polish lake-SolinaLake- makes the west border. The district covers an area of 478 square kilometres, populated by 18 410 people. A majority of Ustrzyki Dolne residents decides on urban character of the whole district.

### **The state and tendency of companies development in the district in comparison with Podkarpackie province**

Nowadays, the boom of small and medium sized companies is a vital element for the development of district entrepreneurship. Their role is undeniable.



Source: Draw up by myself on the basis of Report on the Status of small and medium enterprises in Poland - years 2005/2006;2006/2007;2008/2009

**Graph 2.** Tendency of the increase/fall in the SMC number in Podkarpackie Province (years 2005 – 2009)

Analysis of above presented data, that concerns individual years of SMC functioning on Podkarpacie, shows the important position of small companies. The total number of SMC year by year indicates the growth tendency, which means an improvement in new companies establishing possibilities. (graph 2.)

Ustrzyki Dolne district is the biggest of Bieszczady powiat in regard of inhabitants number. The district's urban character creates many possibilities of SMC development, what is presented in the table below.

**Table 2.** Companies registered in the REGON in Ustrzyki Dolne district according to the employees number. (Years 2005-2010)

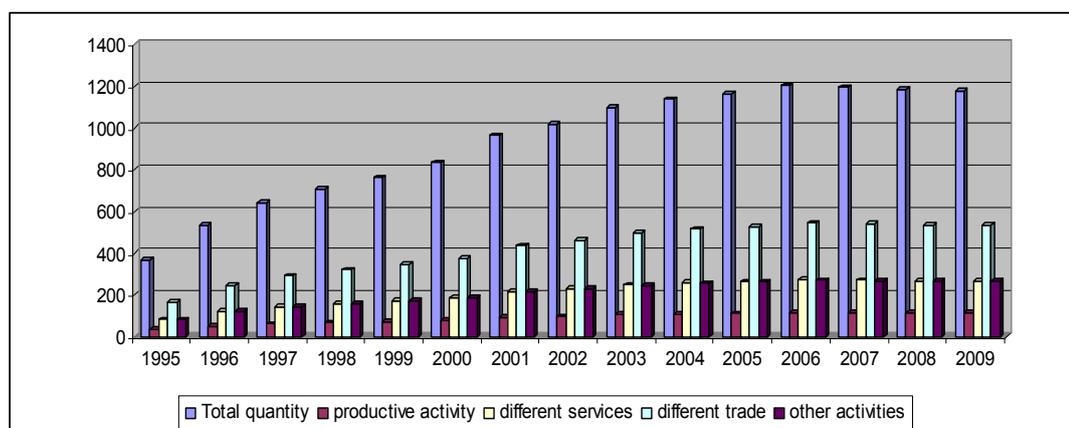
Year	Total	Dynamics of changes (%)	Small-sized companies	Medium-sized companies
2005	1164	100%	798	366
2006	1202	103,3%	803	399
2007	1195	102,7%	798	397
2008	1184	101,7%	813	481
2009	1178	101,2%	854	434
2010	1456	125,1%	867	589

Source: Draw up by myself on the basis of Report on the Status of small and medium enterprises in Ustrzyki Dolne district - years 2005/2006;2007/2008;2009/2010

In 2005 noted 1164 active companies, that operate on the area of Ustrzyki Dolne district (small companies -798, medium companies - 366). Year by year there was a growth in this number. The result of this tendency is visible in 2010, when the growth of total number of active companies that operates on the district's area amounts 21%.

### Detailed list of kinds of business activity according to Polish Business Activity Classification (Polish Classification of Business Activity)

PBAC sections describes economy structure on account of separate business activity kinds. This classification forms the basis for local businesses development potential conclusion. In accordance to Statistical Central Office terminology, PBAC sections may be grouped into four fundamental branches: agriculture, industry, market services and nonmarket services.



Source: Draw up by myself on the basis of statistical data – Ustrzyki Dolne district of the years 1995-2009

**Graph 3.** Quantitative changes of an enterprise in selected PBAC sections in Ustrzyki Dolne district.

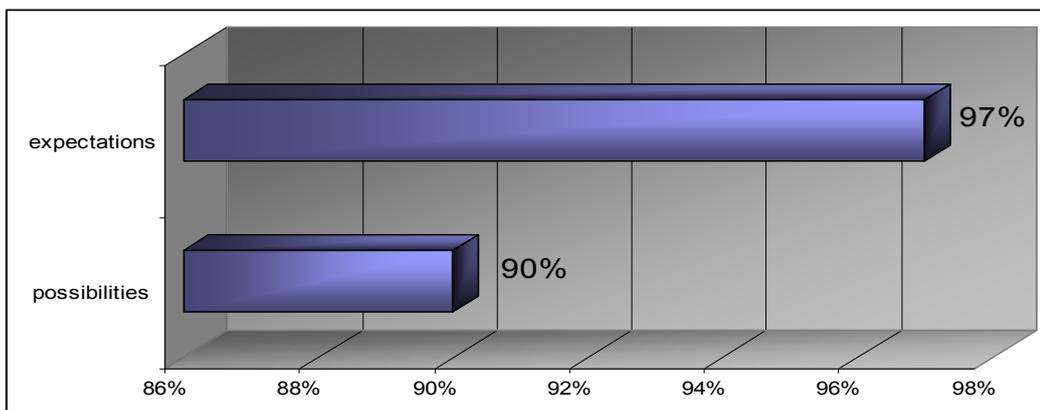
The largest share in SMC structure in Podkarpacie have the following branches: industrial processing (46% share in total number of companies in 2009), the construction industry (around 13%) and commerce with around 6% share. In 2010 noted a slight drop in total number of companies – about 14%.

**Analysis of the research results**

Addressees of the questionnaire form were SMC entrepreneurs conducting activity in the Ustrzyki Dolne district using or wanting to take advantage of services which offers to them that commune. In the examination form participated 30 respondents with 83% share of men and the 17% rest – woman. The age of respondents was placed mainly in 31 – 40 age bracket – 76.6 %, the rest - 13.4 % are entrepreneurs in 41 - 50 years, 6.6 % - above 51 years, and young people (20 - 30 years) constituted the smallest part - only 3.4 %.

**The conclusions of the questionnaire form:**

To the question whether the district in great measure can to affect the development of the enterprise as well as whether specific entrepreneurs would like to be supported by the commune, the obtained results are presented on graph 4.



Source: Draw up by myself on the basis of survey research.

**Graph 4.** The assessment of the possibilities/expectations of supporting entrepreneurs by the district

According to this graph the vast majority of respondents claims, that the district has large possibilities to affect the development of enterprises – 27 entrepreneurs what constitute 90 % respondents. Three remaining entrepreneurs said, that there was no such abilities.

The meaning majority in the first question reflects in the second question where as many as 97 % respondents recognized that it wanted to be backed up with instruments offered by the district. these were mainly entrepreneurs belonging to 31 – 40 age bracket, it reflect the willingness and ambitions of the young „ eagles of the entrepreneurship ”, wanting to make one's dreams come true, to achieve assigned objectives which just thanks to supporting instruments stood in order to oneself feasible.

On this base it is possible to state, that the district is trying not to make it difficult, or not to *close the roads* for current or future entrepreneurs, through convoluted and incomprehensible administrative procedures.

**3. CONCLUSION**

Making the final summary, it is possible to make essential resulting conclusions from conducted analysis. A base for formulating them is not only the results of questionnaire form, to

which on account of relatively small-scale scope and quite subjective replies, it is necessary to approach quite cautiously, but also review of literature concerning discussed problems.

It is possible to state, that in the current legal status self-government units have at their disposal the adequately wide set of the instruments enabling them, from a formal point of view, to conduct active action for supporting the entrepreneurship. In accordance with the law, in the kit of instruments of the influence are both profit-making instruments through reducing compulsory burdens for entrepreneurs for the public sector, as well as *spendings* instruments, coming down to incurring expenditure from budgets of self-government units directly or indirectly funding entrepreneurs or creating better conditions for taking and expanding the business activity.

### **SUMMARY**

This project shows the reality of SMC in the Ustrzyki Dolne district with reference to whole podkarpackie province and Poland. It presents the barriers faced by today's entrepreneurs as well as tools that allow to overcome this barrier and allow further development of enterprises. Thanks to research we are able to make a general conclusion about what kind of tools of supporting using by Ustrzyki Dolne district are the most important for entrepreneurs.

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### **DEVELOPMENT OF SME SECTOR IN POLAND**

The subject of this paper is development of SME sector in Poland. I will describe the impact which small and medium companies make on country's economy and how development of entrepreneurship in Poland looks like. I also want to introduce entrepreneurial barriers, what obstacles await for people wanted to start their own business. At the end of the work will present variety of solutions that can significantly improve the friendliness of Polish economy to the setting up and running of new businesses.

Countries that several years ago began the transformation process, replacing the central planning system-free-market economy, the biggest success in catching up to developed countries in Western Europe and America, achieved through the development of entrepreneurship.<sup>1</sup>

Small and medium enterprises constitute the basis of all modern European economies. This is mainly due to small and medium entrepreneurs economy owes its growth. Poland has registered more than 3.5 million small and medium-sized enterprises, representing 99.5% of all registered companies. They provide about 67% of jobs and make up approximately

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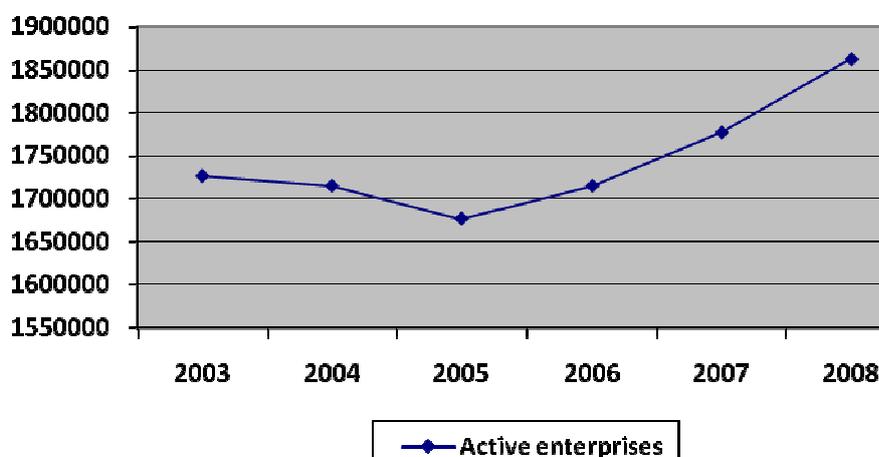
<sup>1</sup> „Krajowy fundusz kapitałowy jako uzupełnienie systemu wspierania rozwoju sektora MSP”, Departament Polityki Regionalnej, Warszawa 2005 r., p. 4

48.6% of GDP. Their impact on the economy, including in particular the labor market, forces public authorities to sustainable development and improve infrastructure and conditions for their operation.<sup>1</sup>

To meet the competition and stay on the market, SMEs generate a lot of innovation. Consequently, these companies increase innovation of whole economy, though their investment opportunities are limited, mainly for financial reasons. Small and medium enterprises are flexible, which means that adapt quickly to changes. They provide a kind of laboratory for the creation of innovativeness. In addition, close contacts between employees and clients affect the more precise identification of needs and satisfaction of buyers. In this way also increases the position of small and medium-sized companies and their ability to compete in the market.

All of these proceeds generated by the SME sector are important for economic growth and development of the country. During the recession, the impact of this is to mitigate its effects. This follows precisely from the flexibility of SMEs that can be adapted in a recession, for example: improving technologies. As a result, most of them can survive giving work to their suppliers, and continuity of supply to its customers. Small and medium enterprises that can survive on the market are stabilizers of the economy, and stimulates the growth period through the creation of new jobs, or the mobilization of savings.<sup>2</sup>

Analyzing the structure of GDP generated by the business sector in Poland clearly draws the dominance of microbusinesses, in 2008 they produced 42% of GDP. In this group the largest businesses in terms of value contribution to GDP are the sections: trade and repairs, real estate, business services and construction.<sup>3</sup>



Source: own work based on the data of book: „Akcesja Polski do Unii Europejskiej – szanse i zagrożenia dla małych i średnich przedsiębiorstw”

Graph 1. The number of active enterprises in 2003-2008

The growth of SME sector in 2008, there were 1 862 462 active companies, of which 1 787 909 were microenterprises, 54 974 - small, 16327 – medium and 3 252 - large. As a

<sup>1</sup> „Krajowy fundusz kapitałowy jako uzupełnienie systemu wspierania rozwoju sektora MSP”, Departament Polityki Regionalnej, Warszawa 2005 r. p. 4

<sup>2</sup> mgr Anna Blajer, mgr Małgorzata Zielenkiewicz, „Akcesja Polski do Unii Europejskiej – szanse i zagrożenia dla małych i średnich przedsiębiorstw”, Uniwersytet Gdański, Gdańsk 2010 r., p. 3

<sup>3</sup> „Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2008–2009”, Polska Agencja Rozwoju Przedsiębiorczości, Warszawa 2010 r. p. 12

result, the number of SMEs reached 1 859 210. In 2008, the number of active enterprises significantly increased (by 4.8% compared to 2007). This result was well above the average annual growth in 2003-2007 (0.7%). This was still quite profitable situation in the economy in 2008 and to improve the situation of enterprises in 2008 and over the period 2003-2008.<sup>1</sup>

Poland, however, it is not the country where doing business is easy and pleasant light. And it is not the matter of stiff competition in the market, but a number of clerical and legal barriers, which every day must struggle the entrepreneur operating in Poland. In the latest ranking of business-friendly states, announced annually by the World Bank, Poland was at far, 70 place.

Weak point of the Polish economy is still a huge number of required licenses or permits, restricted access to many professions, or complicated and prolonged procedure for obtaining a building permit.

Other causes by entrepreneurs are:

- non-wage labor costs;
- administrative procedures;
- lack of skilled workers;
- lack of flexible employment forms;
- competition from grey market;
- inflexible labor laws;
- income tax rate on business;
- lack of transparency of the income tax system on business;
- lack of transparency, clarity of indirect taxes (VAT);
- competition from privileged business.<sup>2</sup>

Small and medium entrepreneurs consider that the main condition for improving their competitiveness is to lower tax rates. Next on the list is simplifying tax structures and reporting. They think simplified tax system with lower rates, but without concessions and exemption would be more favorable solution. Moreover, it is important to facilitate the establishment of new enterprises, access to credit and favorable export insurance, government support techniques and technologies, as well as changes in labor law. Entrepreneurs believe that the rules of movement of persons should be to negotiate and the recognition similar to the flow of goods, without introducing long transition periods (up to 3 years). Small and medium entrepreneurs also expect the government negotiate a great transitional periods. However, most respondents recognize as sufficient 3 –year transition periods.<sup>3</sup>

It is case of more systematic and comprehensive reform of the Polish law, public administration offices, the judiciary economies so that the economic environment that create, conducive to entrepreneurship and enterprises development in Poland. Cases requiring settlement in the first place are amendments to the Act on freedom of economic activity, amendment of the VAT Act, Law, PIT Labour Code amendment, Law, planning and spatial management and the Law -Construction Law, new law on public-private partnership. Properly most of the economic laws require revision, and some of them simply set aside.

With great satisfaction, however, must accept the fact that social initiatives, indicating the existence of specific barriers do not remain unnoticed. There are progressively introduced amendments to laws aimed at systemic and comprehensive reform of the Polish law and public

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<sup>1</sup>„Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2008–2009”, Polska Agencja Rozwoju Przedsiębiorczości, Warszawa 2010 r. p. 33

<sup>2</sup>Joanna Zagórska, Polska Agencja Rozwoju Przedsiębiorczości, „Bariery rozwoju małych i średnich przedsiębiorstw”, Warszawa 2011 r. p. 1

<sup>3</sup>mgr Anna Blajer, mgr Małgorzata Zielenkiewicz, „Akcesja Polski do Unii Europejskiej – szanse i zagrożenia dla małych i średnich przedsiębiorstw”, Uniwersytet Gdański, Gdańsk 2010 r. p. 19

administration, so that the economic environment conducive to the development of entrepreneurship in Poland.

We can be equally optimistic about the development of the continuing associations, organizations, research groups and the support from the higher education institutions. It is precisely those institutions are bridge head for the development of entrepreneurship for young people in shaping their attitudes giving the opportunity to enhance entrepreneurial skills and help to believe in yourself by increasing the courage to start his own company.

Small and medium-sized companies allow to build lasting basis for economic growth – they created the most jobs, are flexible, easier to adapt to customers expectations, as well as to changing conditions management. Better utilize their available factors of production, are more profitable. Because of them the sector of services develops, and large enterprises can optimize their costs by using outsourcing. The SMEs shapes entrepreneurial attitudes, without which the Polish transformation will still based on the pro-market attitudes of people as consumers, and not prone to entrepreneurial activity.

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#### **THE CONSEQUENCES OF FINANCIAL AND ECONOMIC CRISIS ON THE VARIATION OF THE WORLD WAGE RATE**

In the report I represented the average rate of wages in different countries of the world in crisis, which is represented on the example of as many countries as possible. It is too early to

come to direct conclusions that on which spheres and professions the crisis has had the most impact because very few countries have published their data about wage structure. On international level the main source of such data is "October research" of International labor organization (ILO), which is in the stage of the detection of changes in wages according to professions. In these conditions the only concern is that if the economic crisis can lead to the increase in the number of low-paid workers in short-term or long-term perspective. Low wages lead to confusion, since there is a danger of increasing poverty. The number of women's is greater amongst low-paid workers. In addition, these workers are the most vulnerable social layer. Although the low-paid work may be the first step of the path leading to a higher-paid employment, it can also be a trap especially for young workers, which will be difficult to get out due to lack of qualification and other factors. When there is a situation that most people feel they are forgotten, having no hope to "reach" those who have high-paid work, the risk of social and political pressure increases. In Chinese the word "crisis" has also a different meaning "opportunity". The report assumes that the economic crisis has really provided unique opportunity to broaden the scientific base of politics about wage rate and to use the whole political potential of systematic evaluation limitations. In this connection several important issues should be noted, which have an exceptionally large role in improving the pursued policy of increasing the wage rate, especially in developing countries. My report confirms that there are powerful discriminatory elements, which are based on keeping low wages and the differences of payments for work.

- Cause of concern in different countries is low and declining rate of participation in trade unions and the weakening of collective negotiations process.

- Reducing the use of collective negotiations to determine the wage rate, as a rule, creates stimulus to report more important role to the minimum wage so that in some countries it is almost the only way to pursue the wage policy.

- As I'll show in this report, measures that totally increase the net revenue of low-income households, along with it should be taken into account also the traditional policy of collective negotiations and minimum wages. We should work out these measures and evaluate the capacities in order to prevent the low wages to be the reason of domestic poverty.

The report suggests a way of discovering the activity secrets in labour market. Arguments witness that the productivity growth and education is a significant step forward both in increasing the rate and improving the structure of wage distribution. The productivity is the main factor which describes the wage rate and the workers with low education rate are exposed to the risk of low wages.

It is important to recognize that this system of advanced methods, which are used in the field of the salaries, can promote both economic growth and stability.

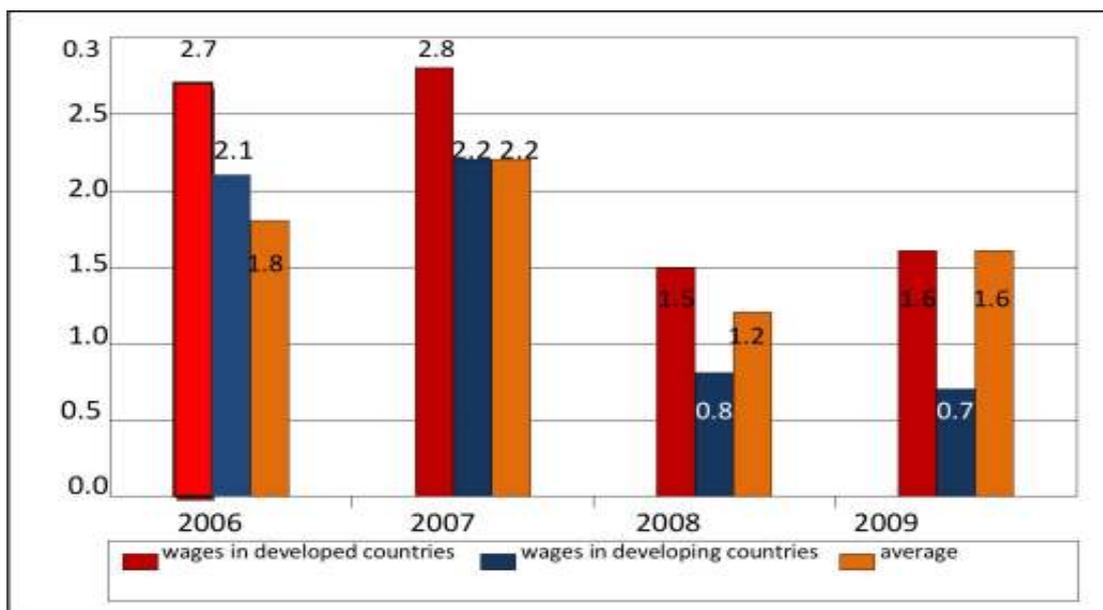
The global economic crisis had devastating consequences for labor market. The number of unemployed in the whole world reached approximately two hundred and ten million people, and this is the highest registered rate in recent years. Naturally, crisis had affected on the salaries level. Now I want to present to you 2006- 2009 the salaries variation graph. The researches have been done with data of possibly many countries

How we can see from a graph the primary circle of financial and economic crisis had not had so much influence on the wage rate in the world. Even in regard with 2006 there is very little difference in growth rate. But the picture sharply changes when we compare the 2008 results with 2007. As it is seen from the graph sharp decline in wages approximately equal to 1.4%. This of course hadn't been left without consequences. Since this year, unemployment has grown rapidly in the whole world and in 2010 it is reached about 210 million people. But in 2009 the average index fell to 1 point and it continued to fall despite the fact, that both in developed and developing countries given wage rates were increased in regard with 2008.

Investigations have shown that the 2007 crisis in the early days about 79 million citizens of European countries stood in danger of poverty, and about 32 million people lost their livelihoods directly. At the same time in USA over 37.3 million people stood at the threshold of poverty or lost their livelihoods; some of these people, approximately 7.5 million people had jobs, but they were considered “working poverty” class. “Working poverty” class belongs to the workers, who receive small wages. For all this workers even the minor changes of salaries in the crisis time period could lead the social level to decline considerably.

Graph 1.

Wages in the world in 2006-2009 (except for Japan)



Source: International Labor Organization database

How we know reduction of the salaries leads to large losses in the state's economy. If we reduce our main consumer, the citizen's wage, then he starts to reduce the consumption basket, which leads to artificial rise in prices of goods, which means, that the offer regularly increases, and demand decreases. All this could have very serious consequences for the country's economy.

In the mid-August 2007 crisis head raised, and shocked the whole world. The increasing pressure aiming to reduce the average salary, which was related to the damages incurred by commercial enterprises, and rising unemployment more pronounced appeared in 2009.

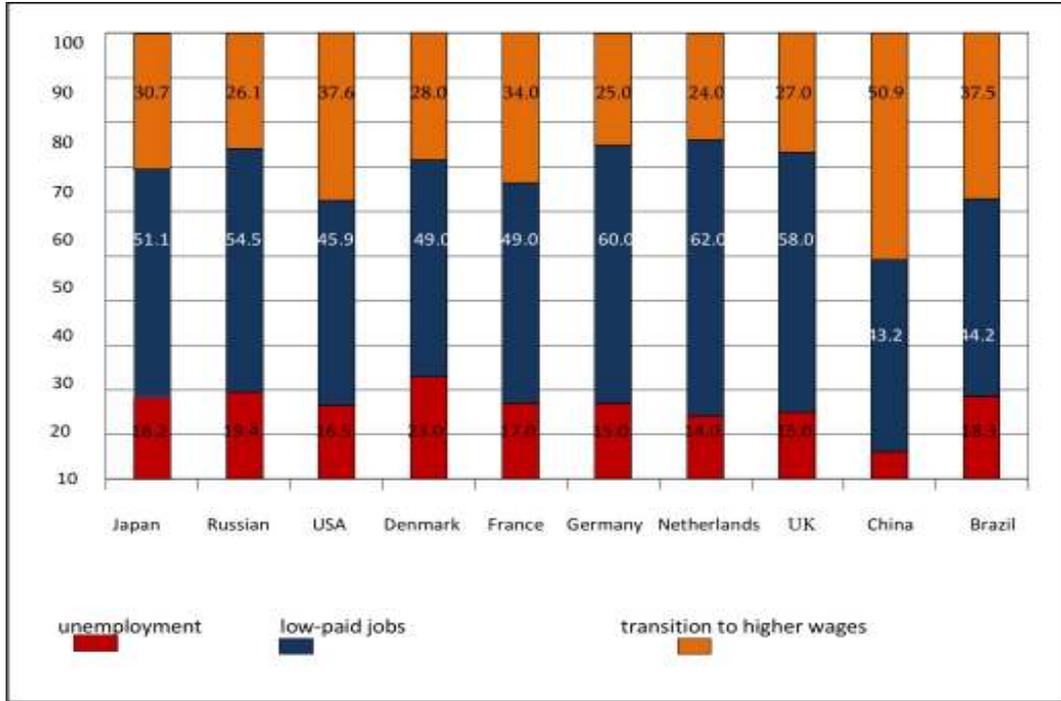
The Economics literature shows that there is no reason to worry, because the reduction of wages is one of the regulatory tools of market, which returns the normal rate of employment in the economy. The fact is confirmed that the more the salary is flexible, the better economy adapts to adverse situations and the easier economy is recovering. However, in 1936 Keynes claimed that decreasing salary leads to decline in demand, and the trend of decreasing wage and prices instead of giving the benefit, more complicates, deepens and prolongs the recession.

Now I want to represent to you a graph, which presents unemployment and transition from low-paid jobs to higher-paid jobs in selected countries.

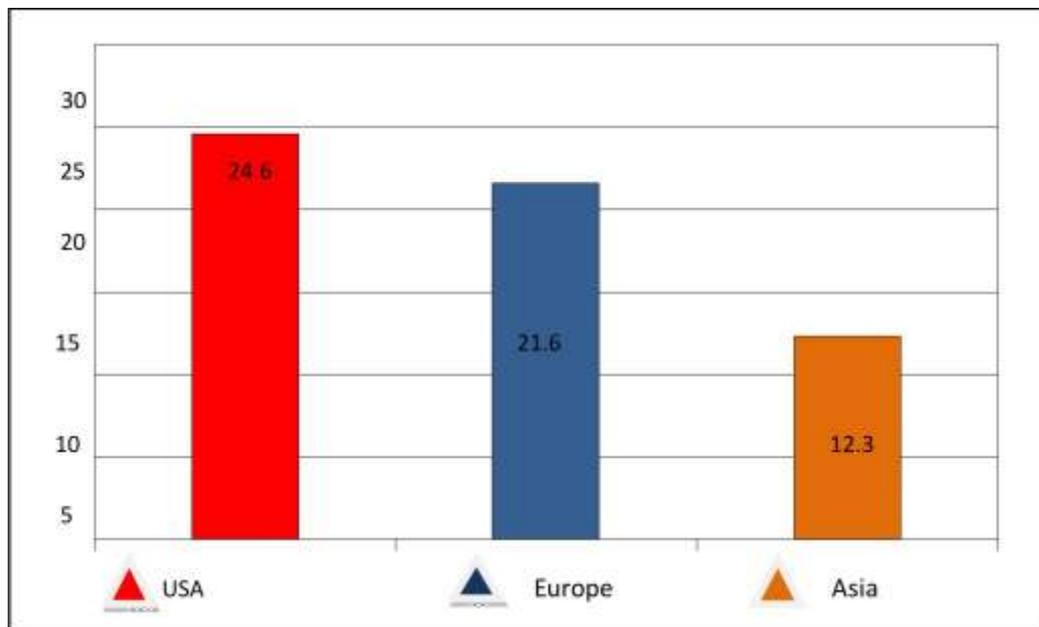
As we can see from the diagram the great fluctuation was in the USA. Many theorists think that the crisis arose in the USA in 2007. The same picture we can see in Europe and the crisis wave broke the Europe labor market equilibrium with 4 point difference in comparison with the USA. Yet we can see another picture in the Asian region. At first glance we can see that the crisis doesn't influence much, but it's not like that. In the Asia the wage level is low

enough as it is compare to above mentioned two regions, hence the crisis wave extremely influences in this region.

Graph 2.



Graph 3.



It's admitted that the wage rate is also depends on workers' education level, productivity and professional skills. We can come to conclusions also from the Table 3 mentioned countries. In all that countries which have higher education level the transition from lower wage work to higher wage work realizes sharply. The decrease of the wage level doesn't depend on lack of qualified workers but on worsening of economic conditions. We have another picture in our

country. We have enough higher education level. We have bright students who succeed in economic, medicine and recycling present technologies. In our country the low wage is the result of lack of labor. Besides our country has brains' migration problem. It's also broke the wage rate equilibrium in the labor market, and the crisis is emphasize this problem.

As I show in my report the crisis has a huge influence on the whole world economy. It broke the equilibrium in labor market and also influenced on the wage rate. Let's return to the solutions for these problems.

- As the education level in future has its great influence on the wage rate in the whole world in my opinion there must be reforms refer to education system and make education available for all stratum of society. It'll not only bring the wage level stabilization in future, but also rise given country's national description.

- Hold up the brain flowing off as much as possible. It's especially a big problem for small countries as our country. This people will make up new systems, which help produce with less cost price and in general for the given country economy growth.

- More gentle tax policy, which is important especially for the development of small and average business. It will bring the opening of new work places, and so that can somewhat influence on the wage rate.

- The use of encouraging rewards will raise the productivity, which is also directly related to the wage rate.

## **SECTION 2.**

# **FINANCE, ACCOUNTING, ENTREPRENEURSHIP: MEGA-, MACRO-, MEZO-LEVEL**

## NEW VIEW AT WORLD MONETARY SYSTEM

In recent years, many famous economists argue that the global monetary system needs reform. The global financial crisis is proof of this. Some consider that it is necessary to return to the gold standard, others that it is necessary to organize absolutely new system, but the fact that there is a transformation all agree. The paper will raise the problem of World Currency and ways of solving them.

**Keywords:** monetary system, gold standard, the Jamaican system, crisis.

### **Modern estimate of international monetary system**

The world monetary system - a form of organization of currency relations in the world economy, which passed a long way from the era of the gold standard, Bretton Woods system, which established the era of the U.S. dollar, to Jamaican currency system, established in the 1976-1978 year. Its foundation is the model of free convertibility of currencies, which are characterized by a constant fluctuation in exchange rates. In light of the global crisis of 2008-2009 began intensive consultations on the principles of a new world monetary system (Anti-crisis summit G20, the London summit of G-20). The world currency system is a specific indicator which to evaluate the state of world economy and the degree of development international economic relations. Some economists compare the international currency system with a thermometer which shows us how the current system is able to satisfy the needs of a modern economy. According to their estimates at the present time this figure clearly reflects the overheating of world economy, which is expressed in crisis situations and aggravation of global problems.

In recent time, after the global financial crisis of 2008, the world's economists acknowledge that the current monetary system can not satisfy the needs of the modern economy. Many followers of the gold standard were thrilled by article World Bank President Robert Zoellick, in which he said that in today's monetary system occurred changes which can force to refuse the Jamaican system, it's time improve the current system or adopt a new one. And in the new monetary system, in his opinion, the main role should play five world currencies: the dollar, British pound, euro, yen and yuan. [1]

### **Problems of international currency system**

The world economy in recent years faced to many problems: the return of currency wars, global crises, the aggravation of political situation in the Middle Eastern countries and structural imbalances.

Christine Lagarde - Managing Director of the International Monetary Fund line three major challenges that the global economy today: sovereign debt, growth, and social instability.

At the head of the problems is the hegemony of the dollar, the world's experts predicted the collapse of U.S. currency, but it manifested itself only partially through the financial crisis.

The global financial crisis of 2008 - a financial crisis, which appeared in 2008 in the form of a strong deterioration of the main economic indicators in most developed countries, and followed at the end of that year, the global recession. The crisis has had a destructive impact on

the global economy. By the International Monetary Fund estimates, in 2008-2009 in the world economy was a period of unprecedented financial instability that accompanied the worst in decades, the global economic slowdown and the sharp decline in trade. [2]

Crises are not born independently, they are caused by processes and relationships that exist in the world economy, from this point of view, the international currency war are a threat to the stability of the global monetary system and effective international cooperation countries.

Currency war return and threaten the global financial system, said the director of the International Monetary Fund Dominique Strauss-Kahn. [3] As an example, he cited China and the United States. The fact is that world governments are trying to reduce the cost of their national currencies in order to improve the competitiveness of the economy and exports.

The USA as the largest economy of the world essentially influences on the world currency system. And problems of the USA are problems of the world economy. On August, 2nd the Congress of the USA has raised as much as possible admissible lath of debts which was till now at level of 14,3 trillion dollars, and thanks to it has prevented insolvency of the country. Right after the administration in Washington took new credits. As a result the volume of the state debts of the USA has reached 14,58 trillion dollars while gross national product of the USA last year has made only 14,53 trillion dollars, writes "Business".

After increase of a maximum permissible lath of debts, the public debt in the USA has exceeded 100 % from volume of a gross national product, informs Stern, referring to the data of a Treasury Department of the US. After the announcement of agency S&P of fall of the highest rating of the United States, there was a falling of all stock markets - the Near East, Asia and Europe.

But not only America now endures symptoms of crisis, Euro area problems threaten world financial stability too. Spain along with Greece, Ireland, Italy and Portugal tests acute problems with a state debt and a budgeted deficit, which steels the reason of debt crisis of all Euro areas. Now the European Union countries try to solve problems, for example the authorities of Spain have made the amendment to the Constitution of the country that till 2020 in the country shouldn't remain any budget, at one level which would exceed 0,4 % of an internal national produce. Germany has suggested to copy the Lisbon contract which is some kind of EU constitution. The German government suggests to expand prerogatives of bodies of EU that they could supervise the budgetary policy of the national governments. The European union has approved a tranche of the financial help of Ireland and Portugal and decide on granting of Greece second package of the financial help over the operating program at a rate of 109 billion euro was accepted.

### **Prospects of development**

Future prospects of the world currency system do not inspire joy, but are proving the need for change. With a fairly pessimistic outlook act economist Nouriel Roubini, who predicted the crisis of 2008.

In 2013, the global economy is set for a "perfect storm" and may collapse in the eurozone. Reason for this will be the debt of the United States and Europe, stagnation in Japan and a slowdown in China. Russian experts consider that his forecast is overly pessimistic. Barack Obama supports the position of Roubini. "It is the duty of America - is the foundation of not only our lives but also the entire financial system in the world. Probably, we are waiting for a repetition of the crisis "- said Obama. [4]

The World Bank predicts that the global economy in 2011 will grow by 3.2%, slowing from 3.8% in 2010, with the slowdown happens in the group of developed and Asian countries. That partially confirms prediction Roubini.

Robert Zoellick, the chairman of the World bank, has declared that at world economy soon there will come much more hard times. He considers that the world transition in new even more stable and a dangerous phase.

Problems of international currency system and future prospects of its development were discussed at 4 Astana Economic Forum, which took place in Kazakhstan, on which were attend Nobel Laureates in Economics. The biggest problem in the global monetary system, according to forum participants, and in particular Robert Mandela "father of Euro", is the hegemony of the dollar in international transactions, exchange rate peg to the dollar and significant U.S. national debt, which compounded the problems of balance of payments deficit and imbalance in bilateral trade of China and the U.S. reached nearly 350 billion dollars USA.

On conference were discussed the evolution of the global financial system, ideas about the mechanism of return of fixed exchange rates. Almost all the Nobel laureates talked about the inefficiency of the system of floating exchange rates because currency surges undermine the economic development of entire regions of the world. And domestic economic problems are solved by manipulating the exchange rate against the currencies of other countries. All of the experts spoke about the existence and stability of the two currency zones for effective international monetary system: the European monetary system (initially with reference to the German mark) and the U.S. Federal Reserve System, with mention of reducing the role of the dollar, which could potentially occupy the Chinese yuan. [5]

All these problems require immediate solutions, and the question of developing a system which will provide the greatest productivity economy is the most urgent and unresolved at the present time.

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**POST-CRISIS DYNAMICS  
OF THE WORLD FOREIGN DIRECT INVESTMENTS FLOWS**

This paper explores the impact of the economic and financial crisis on foreign direct investment flows. The paper shows what changes there were in their dynamics and structure. In addition, it is important to find out what countries, regions and industries will be most affected.

**Keywords:** Foreign direct investment, global economic and financial crisis, FDI outlook, transnational company, mergers and acquisitions

The impact of the economic and financial crisis on foreign direct investment (FDI) was observed in their redistribution between regions, countries and industries. Moreover, the crisis has affected not only the dynamics of investment flows, but also on their structure.

Since the beginning of the XXI century there was a steady increase in FDI. The volume of world FDI in 2007 reached a record to \$2100 billion. Due to the global crisis after a reduction of 16% in 2008, global FDI inflows declined by 37% to \$1114 billion in 2009. This was followed by a modest recovery in the first half of 2010, sparking some cautious optimism for FDI prospects in the short term. In the longer term, from 2011 to 2012, the recovery in FDI flows is set to gather momentum. Global inflows are expected to pick up to over \$1.2 trillion in 2010, rise further to \$1.3–1.5 trillion in 2011, and head towards \$1.6–2 trillion in 2012. These FDI prospects are, however, fraught with risks and uncertainties arising from the fragility of the global economic recovery.<sup>1</sup> (Figure 1).

The growth trend in global FDI flows in 2010 was accompanied by distinctive trends in the structure of the components of FDI. All the components of FDI flows – equity investment, intra-company loans and reinvested earnings – contracted in 2009. Depressed levels of cross-border merger and acquisition (M&A) transactions, as well as the lower profits of foreign affiliates, had a heavy effect on equity investments and reinvested earnings. FDI showed renewed dynamism in the first quarter of 2010. Cross-border M&As – still low at \$250 billion in 2009 – rose by 36 per cent in the first five months of 2010 compared to the same period in the previous year, reflecting both the growing value of assets on the stock market and the increased financial capability of potential buyers to carry out such operations. International greenfield investments, however, still registered a drop in both value and number during the year.

UNCTAD noted that the project value of greenfield investments has held up better since the crisis than that of cross-border M&As. While the value of M&As equalled or exceeded Greenfield investment before the crisis, it is now significantly lower. It was the opposite trend in the pre-crisis period.

FDI declined across all three sectors – the primary, manufacturing and services sectors. Cyclical industries such as the automotive and chemical industries were not the only victims. FDI in industries that were initially resilient to the crisis – including pharmaceuticals and food processing – was also hit in 2009. Only a handful of industries attracted more FDI in 2009 than

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<sup>1</sup> UNCTAD, World Investment Report 2010

in 2008, namely electricity, gas and water distribution, as well as electronic equipment, construction and telecommunications. In all, FDI in the manufacturing sector was the worst affected, reflected in a decline of 77 per cent in cross-border M&As compared to 2008. The contraction in such transactions in the primary and services sectors was less severe – at 47 per cent and 57 per cent respectively.<sup>1</sup>

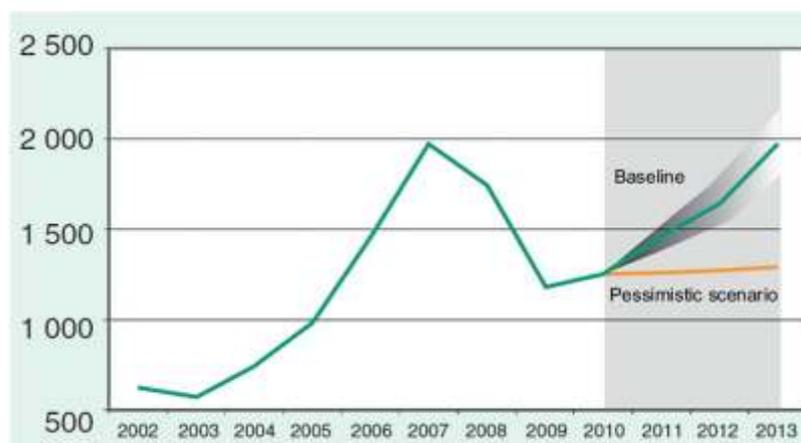


Figure 1. Global FDI flows, 2002–2009, and projections for 2010–2012 (\$, billions)

**Developed countries** did not return to FDI growth in 2010, said UNCTAD, noting that its latest estimates show that FDI flows to this group of economies fell some 7% to \$527 billion, despite the robust recovery in some countries.<sup>2</sup>

Most notably, FDI in the United States surged by more than 40% over 2009 levels, an increase worth \$56 billion, the single biggest increase in FDI among the major economic regions. This rise is largely due to a significant recovery in reinvested earnings of foreign affiliates.

Europe stood out as the subregion where flows fell most sharply, explained largely by two groups of countries.

First, the Netherlands and Luxembourg saw significant declines. Negative FDI flows in the former country were caused by more volatile flows related to transactions of financial affiliates.

Second, uncertainties about sovereign debts caused drops in FDI, with the largest impacts seen in Ireland and Italy (Greece and Spain are less significant FDI recipients). FDI in the region's major economies (France and Germany) fell only slightly.

Within the group of developed countries, said UNCTAD, declining FDI flows were also registered in Japan (-83,4 per cent) due to a number of large divestments (for example, Liberty Group and Ford).<sup>3</sup>

FDI outflows from developed countries in 2009 declined by 43% compared with the previous year. Profits decline and financial pressures have led to decrease in reinvested earnings, shift in the distribution of dividends and curtailment of lending between companies. In addition, in 2009, there were significant changes in the list of top investors. FDI outflows in 2009 relative to 2008 were, respectively, in the U.S. - 248 and 330 billion dollars in France - 147 and 161 billion dollars in Japan - 75 and \$ 128 billion in Germany - 63 and \$ 135 billion.<sup>4</sup>

<sup>1</sup> UNCTAD, World Investment Report 2010

<sup>2</sup> UNCTAD, World Investment Report 2010

<sup>3</sup> UNCTAD: Global Investment Trends Monitor

<sup>4</sup> UNCTAD «WORLD INVESTMENT PROSPECTS SURVEY 2009-2011»

FDI flows to *developing economies* rose some 10% to \$525 billion in 2010, thanks to a relatively fast economic recovery. The value of cross-border M&As doubled – an increasingly important mode of FDI entry into developing countries. Their share in global FDI inflows continued to grow: for the first time in history, FDI flows to developing and transition economies exceeded the FDI flows to developed countries - FDI flows to developing and transition economies accounted for 53% of the total FDI flows in 2010. (Figure 2)

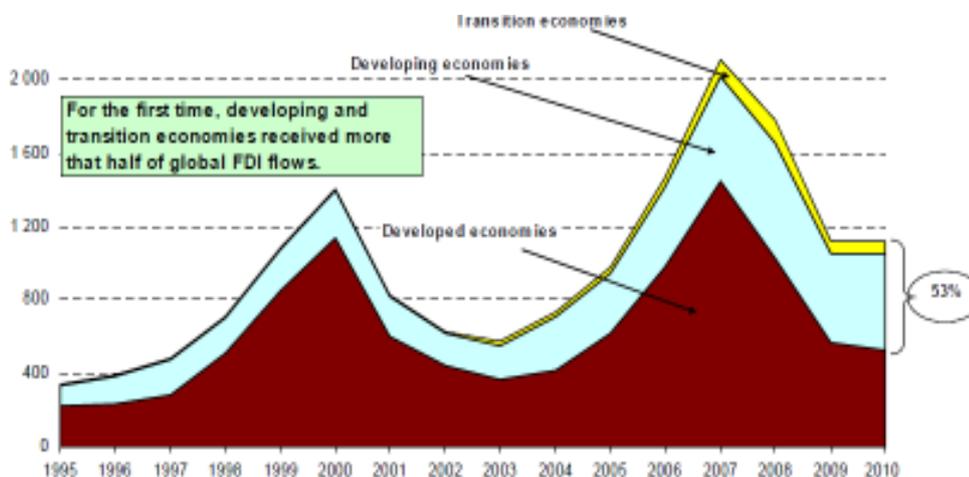


Figure 2. FDI inflows, global and by group of economies, 1995-2010 (\$, billions)<sup>1</sup>

Behind this general increase lie significant differences: while Latin America and South, East and South-East Asia experienced strong growth in FDI inflows, West Asia and Africa continued to see declines. (Table 1)

Among the most promising regions investors have mark out: China (56%), United States (47%), India (34%), Brazil (25%), Russia (21%), Britain (18%), Germany (17%), Australia (13%), Indonesia (11%), Canada (9%). The most vulnerable regions for FDI flows reduction identified by investors are North America, the EU-15, South and East Asia, South and Eastern Europe and CIS, Latin America, the EU-12 (new members), West Asia.

After an eight-year upward trend, FDI inflows to *South-East Europe and the Commonwealth of Independent States (CIS)* shrank to \$69.9 billion, a 43 per cent decline from 2008. FDI inflows to both subregions dropped in 2009, although flows to South-East Europe were less affected than those to the CIS. FDI flows to the Russian Federation almost halved, due to sluggish local demand, declining expected returns in projects related to natural resources, and the drying-up of round-tripping FDI. Nevertheless, the Russian Federation ranked sixth in the global ranking of top locations in 2009. Cross-border M&As collapsed due to sluggish acquisitions by firms from the EU, the largest investors in the region. Investments from developing countries, China in particular, were on the rise, though. The contraction of FDI outflows from the region (-16 per cent) was not as severe as the decline in inflows.<sup>2</sup>

In 2009, the Russian Federation – by far the largest source of outward FDI from the region – became a net outward investor. Stronger commodity prices, a new round of privatization, and economic recovery in large commodity-exporting countries (Kazakhstan, the Russian Federation and Ukraine) should support a modest recovery in FDI in the region in 2010. FDI in South-East Europe’s banking industry has been on the rise since the early years of the new millennium, fuelled by substantial restructuring and privatization. As a result, 90 per

<sup>1</sup> UNCTAD: Global Investment Trends Monitor № 5, 17 January 2011

<sup>2</sup> UNCTAD, World Investment Report 2010

cent of banking assets were owned by foreign entities at the end of 2008. Foreign banks have played a positive role in the region during the global financial crisis. The recent sovereign debt crisis in Greece, however, is reviving concerns that the large presence of foreign banks could channel systemic risks to the region. The transition economies of South-East Europe and the Commonwealth of Independent States (CIS) registered a marginal increase in FDI inflows, of roughly 1%, in 2010 to \$71 billion, after falling more than 40% in the previous year.<sup>1</sup>

Table 1. FDI inflows and cross-border M&As, by region and major economy, 2009–2010 (Billions of dollars)<sup>2</sup>

Region / economy	FDI inflows			Net cross-border M&As		
	2009	2010	Growth rate (%)	2009	2010	Growth rate (%)
<b>World</b>	<b>1 114,10</b>	<b>1 122,00</b>	<b>0,7</b>	<b>249,7</b>	<b>341,4</b>	<b>36,7</b>
<b>Developed economies</b>	<b>565,9</b>	<b>526,6</b>	<b>-6,9</b>	<b>203,5</b>	<b>252,1</b>	<b>23,9</b>
Europe	372,4	295,4	-21,9	133,9	125	-6,6
France	59,6	57,4	-3,7	0,7	4,3	500,3
Germany	35,6	34,4	-3,5	12,2	10,2	-15,2
Greece	3,4	2,1	-38,3	0,5	-1,2	...
Ireland	25	2,4	-66,3	1,7	2,3	31,8
Italy	30,5	19,7	-35,5	1,1	7,7	590,2
Luxembourg	27,3	12,1	-55,7	0,4	2,1	368,9
Netherlands	26,9	-24,7	...	12	3,5	-80,8
Poland	11,4	10,4	-8,9	0,2	1	32,5
Spain	15	15,7	4,3	32,2	2,5	-73,4
United Kingdom	45,7	46,2	1,2	25,2	56,3	123,5
United States	129,9	186,1	43,3	40,1	79,6	98,6
Japan	11,9	2	-83,4	-5,2	7,1	...
<b>Developing economies</b>	<b>478,3</b>	<b>524,8</b>	<b>9,7</b>	<b>39,1</b>	<b>85,1</b>	<b>117,6</b>
<i>Africa</i>	52,6	50,1	-14,4	5,1	7,7	49,3
<i>Latin America and the Caribbean</i>	116,6	141,1	21,1	-4,4	32	...
Brazil	25,9	30,2	16,3	-1,4	9,4	
<i>Asia and Oceania</i>	303,2	333,6	10	32,3	45,3	18,4
<i>South, East and South-East Asia</i>	233	274,6	17,8	34,7	31,5	-9,2
China	95	101,0	6,3	10,9	6	-44,6
Hong Kong, China	42,4	62,6	29,2	3	12,2	301,5
India	34,6	23,7	-31,5	6	5,2	-14,3
<b>South-East Europe and the CIS</b>	<b>69,9</b>	<b>70,5</b>	<b>0,8</b>	<b>7,1</b>	<b>4,3</b>	<b>-39,8</b>
Russian Federation	32,7	39,7	2,5	5,1	2,9	-43,6

\* Source: UNCTAD, World Investment Report 2011

<sup>1</sup> UNCTAD, World Investment Report 2010

<sup>2</sup> UNCTAD: Global Investment Trends Monitor № 6, 17 April 2011

UNCTAD said that FDI flows to South-East Europe continued their decline with a further negative 31% due to sluggish investments from European Union countries (traditionally the dominant source of FDI in the subregion).

In contrast, the CIS economies saw flows increase by 5% on the back of stronger commodity prices, a faster economic recovery and improving stock markets.

FDI inflows to transition countries - South-Eastern Europe and the CIS remained at approximately 2009 and reached \$ 71 billion after falling by more than 40% compared to 2008. The dynamics of flows in the South-Eastern Europe has suffered less compared to the flows of investment in the CIS. Market cross-border M & A has fallen due to lack of activity on the part of companies from the EU, the biggest investors in the region. At the same time there was an increase of investments from developing countries, particularly China. In contrast, FDI inflows reduce the removal of such investment from the region was not as dramatic (-16%).

FDI in the banking industry in South-Eastern Europe grew from the early years of the new millennium thanks to the implementation of major restructuring and privatization programs. As a result, the end of 2008, 90% of banking assets owned by foreign owners. Foreign banks have played a positive role in the region during the global financial crisis. However, the crisis of the public debt of Greece has revived fears that the large scale presence of foreign banks may be a channel for the transfer of systemic risk in the region.

According to research by UNCTAD World Investment Survey 2009-2011, there are the most significant risk factors for investors: exchange rate fluctuation (77%), volatility of petroleum and raw material prices (66%), growing protectionism and changes in investment regimes (62%), inflation and deflation (59%), a general fall in economic growth (56%), increasing financial instability (50%), environmental crisis (e.g. climate change) (29%), threats to personal and business safety (e.g. terrorism, crime) (25%), food crisis (e.g. shortage in supplies, retail price volatility) (21 %), war and political instability (20%).<sup>1</sup>

The modern approach of recipient countries governments to use FDI after the global financial crisis can be expressed briefly - liberalize, but regulate. The desire to liberalize FDI flows and careful regulation are challenge for governments and international policymakers. This duality have strong difference from the uniquely marked tendency of liberalization observed in the pre-crisis years. Today juste milieu should be the goal, because countries want not only growth but also the security of its economic development.

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<sup>1</sup> UNCTAD, World Investment Prospects Survey 2009-2011

**RELEVANT ISSUES OF USING THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS): INTERNATIONAL EXPERIENCE**

The paper reviews relevant problems of practical using the International Financial Reporting Standards (IFRS) in various countries of the world. The theme of present research is receiving considerable attention and is of great scientific and practical interest. The review of the international organizations' efforts in the field of the unification and standardization of the financial reporting is presented. The classification of the IFRS' problems connected their using deserves a special mention. Also there presented possible decisions to solve pointed problems. There is an interesting table illustrating the actions of separate states about scope of the International Financial Reporting Standards' application.

**Keywords:** International Financial Reporting Standards (IFRS), international organizations, unification and standardization of the financial reporting.

The development of world economy is accompanied with globalization in all the spheres of society. Globalization affects many parts of the economy, lead to the institutional system's changes, forms the modern tendencies in development of accounting and financial reporting. One of such tendencies is the *unification* of accounting and financial reporting. The emergence of this issue is connected with a number of reasons:

- the emergence of new global capital markets;
- expansion of investment opportunities;
- strengthening the role of transnational corporations;
- the creation of regional economic spaces;
- rapid development of information technologies, etc.

Development of entrepreneurship and increasing role of international economic integration make certain demands for uniformity and transparency of the principles applied during formation of financial statements.

Nowadays the most popular approach to solve the problem of unification of the accounting and reporting is the *standardization of accounting*.

The idea of standardization is implemented through the working out and publication of International Financial Reporting Standards by the IFRS Foundation. The essence of this approach is to develop a set of standards which could be applied to any situation in any country of the world. So there is no need to establish national standards. As for the introduction of these standards, then it should be achieved not by legislation but by voluntary agreement of professional organizations of the countries.

IFRS are more and more spread in the international community both through the direct implementation of these standards into national practice, and due to the convergence of requirements of international and national standards.

The Financial Stability Forum<sup>1</sup> has identified the IFRS as one of 12 sets of global standards for steady functioning of the global economy. So, the analysis of problems of IFRS' practical application is of great significance. This article examines primarily issues of using IFRS internationally.

At the international level the IFRS are realized as a part of the global financial infrastructure. In the formation of institutional mechanisms to ensure implementation of IFRS in practice, we should note the work of various international organizations.

One of the significant international organizations dealing with the application of IFRS is the International Working Group of Experts on International Standards of Accounting and Reporting (ISAR), operating under the UNCTAD (United Nations Conference on Trade and Development). This group was founded in 1982 to participate in the standardization of accounting and financial reporting. The ISAR is involved in this process, so helping to developing countries to apply the best international practice. At the annual meetings of the group the issues of practical using IFRS in various countries are actively discussed for the last few years. The results of the meetings are reflected in special collections (in particular, «International Accounting and Reporting Issues: 2008 Review»; «International Accounting and Reporting Issues: 2009 Review»<sup>2</sup>), which contains conclusions concerning tendencies of convergence with IFRS and the practical problems of application of these standards.

In the process of application of IFRS at the national level for listed companies the important part is played by the International Organization of Securities Commissions, IOSCO. In 2005 IOSCO announced that its Technical Committee has started a project on "regulatory interpretations of IFRS". The goal of this project is to provide interaction between members of the organization for the consistent application of IFRS.

Also the work of the International Federation of Accountants (IFAC) should be noted. This organization conducts researches regularly on issues and successful solutions of issues of IFRS' and international auditing standards' application. The activities of the World Bank, which prepares regular Reports on Observance of Standards and Codes (ROSC), since 2001, deserve a special mention.

As a result of work of named organizations to standardize accounting and financial reporting at the international level, an international accounting system is being established. This system is based on general accounting principles and develops uniform standards of financial accounting and reporting for comparable activities of enterprises in all countries of the world.

However, the introduction of IFRS in the international practice of accounting and financial reporting is accompanied by certain problems, which can be classified as follows:

1. The need for the formation of institutional mechanisms to work out and implement IFRS, and to control their application at the international level;
2. The need to solve problem of enforcement of IFRS into national practice;
3. The need for a clear understanding of the scope of using the IFRS at the national level;
4. The need to resolve technical issues related as to the specifics of IFRS themselves as to national characteristics.

All these groups of problems are nearly connected which each other and are required an integrated approach to solve them. Let's consider each of them in more details.

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<sup>1</sup> The Financial Stability Forum - an organization united representatives of national financial regulating organizations, international financial institutions and others, established to promote international financial stability, to improve the functioning of international financial markets: <http://www.fsforum.org>.

<sup>2</sup> International Accounting and Reporting Issues: 2008 Review. Report by the Secretariat of the UNCTAD – United Nations, New York and Geneva, 2009; International Accounting and Reporting Issues: 2009 Review. Report by the Secretariat of the UNCTAD – United Nations, New York and Geneva, 2010.

*The first issue* - the need for the formation of institutional mechanisms to work out and to implement IFRS, and to control their application at the international level - determines conducting the work in three areas: ensuring a due process of global standards' working out; ensuring a due process of IFRS' application in various countries; ensuring a due supervision over the implementation of IFRS in various countries, guaranteeing coherent and consistent application of the standards.

To solve these problems the following mechanism can be offered:

- representation of developing countries in the International Financial Standards Foundation should be increased;
- there should be developed a more effective mechanism of communication between international developers of IFRS and national regulatory bodies;
- the work of the International Financial Standards Foundation and work of other international organizations which are interested in international standardization should be coordinated well.

As accounting standards cannot function on their own, in addition to high quality of standards themselves, the success of their application depends on the availability of a national infrastructure of their existence:

- the availability of effective corporate governance;
- the availability of high quality audit standards and auditing practices.

Several countries have already undertaken efforts to create such complex infrastructures. For example, in the UK, a special Financial Reporting Council (FRC) has been created. It is composed of committees which are responsible for developing accounting standards, audit standards and actuarial standards. It also comprises committees which are responsible for supervision and committee on corporate governance<sup>1</sup>.

*The second issue* - the need to solve problem of enforcement of IFRS into national practice - is closely connected with solving the issues of the previous block. The introduction of IFRS in the country's business practices may require changes in national laws. And it requires the coordination of all the legislation relating to application of IFRS, determining the IFRS place in the national legal system. To solve these problems it's necessary to do:

- to work out a clear conception, strategy and plan for the application of IFRS at the national level;
- to determine the interaction of IFRS with existing national legislation, to estimate the scale of its change.

*The third issue* - the need for a clear understanding of the scope of using the IFRS at the national level – is connected with that fact that IFRS are primarily intended for large listed companies to prepare consolidated financial statements. The positions of the countries over the use of IFRS for financial statement by unlisted companies vary widely. Some countries permit their use, some countries don't permit. The table below is an excerpt from the table in the Report of Euro commission to the European parliament, prepared in 2008. Table shows the decision of some countries of Southern and Eastern Europe on the IFRS' application by different types of companies (table 1).

As the table shows, the majority of the countries of Southern and Eastern Europe which joined the European Union recently and re-form their own system of regulation of accounting, are active in the application of IFRS for domestic companies.

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<sup>1</sup> Boyle P. Report on the conference "Accounting Today and Tomorrow," December 10, 2007 under the project "Implementation of the reform of accounting and financial reporting in the Russian Federation" // <http://accountingreform.ru>.

Table 1: Solutions of some countries of Southern and Eastern Europe on the of IFRS' application by different types of companies.

Countries	Listed Companies				Unlisted Companies
	IFRS are not permitted	IFRS are permitted	IFRS are required for some companies	IFRS are required for all the companies	Use of IFRS by unlisted companies
Armenia				X	IFRS are required for all
Belorussia			X Banks since 2008		IFRS are required for banks
Bulgaria				X	IFRS are required for large unlisted limited liability entities. Other unlisted companies are permitted to use IFRS.
Czech Republic				X	IFRS are permitted in consolidated statements.
Estonia				X	IFRS are required in both consolidated and separate financial statements of financial institutions. IFRS are permitted in both consolidated and separate statements of other companies.
Greece				X	IFRS are permitted in audited consolidated and separate company financial statements
Macedonia				X	IFRS are not permitted
Malta				X	IFRS are permitted for all the companies
Moldova	X				IFRS are not permitted
Poland				X	IFRS are required for consolidated financial statements of banks
Romania				X	IFRS are required for consolidated financial statements of banks
Slovenia				X	IFRS are required for financial institutions, are permitted for others
Ukraine				X	IFRS are not permitted

*The fourth issue* - the need to resolve technical issues. Technical problems concern the adequate translation of IFRS into other languages, the lack of qualified specialists, the

complexity and constant changes of IFRS. For example, the translation of IFRS into other languages is a fairly complex problem, both from a technical point of view and in terms of time and resources. The differences in translation can lead to a lack of consistency in application of IFRS in different countries.

In conclusion, it should be noted once again, that these four sets of problems are nearly connected and are required an integrated approach to solve them.

Thus, an overview of efforts undertaken by various international organizations for international standardization of financial reporting has been presented in this paper. And also the classification of problems concerning application of IFRS and the possible solutions to solve these problems was proposed. Identification of problems of practical application IFRS and sharing the experience of their solutions is a key success factor in creation of uniform high-quality financial reporting standards that ensure international capital markets with information.

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### **THE INFLUENCE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ON THE SOUTHERN AND EASTERN EUROPEAN COUNTRIES' INVESTMENT ATTRACTION**

This article deals with the problem of attracting foreign investments to the countries of Southern and the Eastern Europe under the influence of International Financial Reporting Standards (IFRS).

Information provided in accordance with International Financial Reporting Standards exerts essential impact on the size of investment flows. The European experts in the field of investments estimate International Financial Reporting Standards as a crucial factor when choosing an investment strategy and making investment decision. The crisis phenomena have

essentially affected reduction of foreign investments in the Southern and the Eastern Europe countries which use mainly national standards in the economic practice. In this connection there arises the problem of harmonization and unification of the national financial reporting of the countries of this region with the international standards.

**Keywords:** International Financial Reporting Standards (IFRS), Southern and the Eastern Europe, investment.

In modern conditions of the capital market globalization there is a need to harmonize the financial reporting of companies of different countries. In this connection it was determined that it is necessary, that all companies irrespective of a national identity equally formed and revealed: a current financial position (balance sheet); financial results (profit and loss statement), dynamics of a financial position (cash flow statement)<sup>1</sup>

The necessity of providing the accounting reports in a single format and the same rules is realized by all users of financial information. The management needs reliable information on the current activity of the company to make good management decisions, planning future activity and strategy development. Proprietors pay special attention to the objective reflection of company's financial position and efficiency of administrative policy from the point of view of conservation and an increase of the share capital. Investors on the basis of financial statements assess the profitability of investment and risk. Fiscal bodies and creditors are interested in truthful reflection of the financial performance of the company to estimate its tax and debt. For the national economy to provide financial information according to international standards opens up access to Western capital markets, helps to attract more foreign investment into the country. In addition, such standardization contributes to the effectiveness of the global market as a whole.

Currently, there are two systems of international accounting - International Accounting Standards (IAS) and General Accepted Accounting Principles (GAAP). In this case, it is worth noting that the principles of accounting and reporting forms of these two systems of financial reporting are very similar, and, accordingly, an expert of the reporting under IAS can be fairly easy to switch to reporting GAAP. Moreover, the reporting itself prepared on a standard, can be under certain conditions and necessary adjustments transformed into others<sup>2</sup>. In Europe the greatest distribution was received by International Accounting Standards (IAS).

International Accounting Standards (IAS) is a set of documents (standards and interpretations), the rules governing financial reporting required for external users to make economic decisions concerning the enterprise. IAS, unlike some national reporting rules, are the standards based on principles, rather than hard-coded rules<sup>3</sup>.

In Europe the international standards issued by International Accounting Standards Committee foundation, are widespread. Without a doubt, creating a single financial market for the European countries would be impossible without uniform standards of the financial reporting. Therefore, the work on harmonization of accounting standards was carried out in Europe for several decades. However tangible success this work: guidelines published by European Union in the future lay in the framework of the national laws that are significantly different in various EU countries (e.g., accounting systems of Great Britain, Germany and France are not smaller than differences among themselves, than with IAS). The historical abundance of options for consideration, a different way thinking and democratic procedures prevented unification of accounting systems. In such circumstances a compromise was needed

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<sup>1</sup> [1]"The financial newspaper", №12, 2011

<sup>2</sup> [2] The report about international application of IAS: [www.fesm.com](http://www.fesm.com)

<sup>3</sup> [2] The report about international application of IAS: [www.fesm.com](http://www.fesm.com)

which became International Financial Reporting Standards (IFRS). Not so much because they are considered to be generalization of the best international accounting practices, but because they are supranational accounting system<sup>1</sup> [3].

However not all European countries use their economic practices of international financial reporting standards. Southern and Eastern Europe up to now mainly applies national standards. In each of the countries of this region historically folded its own rules of accounting and reporting consistent with the first requirements for the reporting of its primary users. The content and the amount of information also depended on the needs of its primary users.

Consider the national accounting systems on the example of Greece, Romania and Russia.

Regulation of accounting in Greece is carried out by National Board of the Financial Accounting Standards and the Institute of sworn Accountants. The Board is supported and financed by the state. The financial reporting and accounting system in Greece is based on the Corporate Law 2190/1920, the accounting standards issued by the Ministry of National economy, Recommendations on the application, issued by the National Standards Board, the Greek chamber of professional accountants established by the presidential decree 1123/80. The board publishes standards which aren't obligatory to execution.

Accounting in Romania is regulated by the Ministry of Finance through the General Department for Accounting Regulation. The General Department for Accounting Regulation is responsible for setting accounting standards for the private sector. However, due to the further development the establishment of accounting standards has been restructured as follows. Cabinet of Ministers Order 1999 requires all leasing companies, organizations of public interest, large and medium-sized companies to be guided by the International Financial Reporting Standards (it will protect banks and the insurance companies). Under the old system the Ministry of Finance issued guidance and interpretations of laws. In the new system the Ministry of Finance no longer issue (produce) interpretations. Recommendations of the Standing Committee on interpretations of IAS will be accepted<sup>2</sup>.

The regulation of accounting in Russia is assigned to the Ministry of Finance of the Russian Federation. Legislative framework which underlines the entire accounting in Russia is the FEDERAL LAW "ON ACCOUNTING" dated 21/11/1996 N 129-FL (as adopted by State Duma on 2/23/1996). However, despite the existence of a national accounting system, Russian President Dmitry Medvedev in 2011 signed the federal law «On the consolidated financial reporting». This law establishes general requirements for the mandatory preparation, presentation and publication of financial reporting in accordance with International Financial Reporting Standards. Since 2015 all organizations have to keep their reporting in accordance with international standards.

Consolidation of national accounting standards with international intensified due to the global financial crisis of 2008. The crisis led to widespread reduction in foreign direct investment. This especially felt the countries of Southern and Eastern Europe. Direct investment in the state of the region in 2009 compared with the previous fall to 38,7 %. Common foreign investments in the region over the past 2010 have decreased by 50 % - to \$77 billion.

The real estate was the least attractive for foreign investment. The decline in investments was 71 %.

Russia in this study doesn't stand out from the rest of the countries represented in the report. Over the past 2010 foreign direct investment into the country fell by 48 %. The lowest

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<sup>1</sup> [3] The magazine "IAS. Application practice", №3, May-June 2010

<sup>2</sup> [3] The magazine "IAS. Application practice", №3, May-June 2010

flow of investments, as well as throughout Southern and Eastern Europe, is directed to real estate and a mining industry. It is noteworthy that in the pre-crisis years, it was the most interesting areas for foreign investment — they accounted for more than half direct investments addressed to Russia<sup>1</sup>.

The sharp reducing in investment flows, largely due to increased risks of capital investments in the crisis period. The output in this situation may become an open transparent financial reporting. The information provided in accordance with International Financial Reporting Standards, has a significant impact on the size of investment flows. European experts in the field of investment estimate International Financial Reporting Standards as a crucial factor when choosing an investment strategy and making investment decisions. To attract foreign investors, the additional capital investment in the national economy is necessary to harmonize and unify accounting standards and financial statements with International Financial Reporting Standards.

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**ACTUAL PROBLEMS OF APPLICATION OF THE INTERNATIONAL FINANCIAL  
REPORTING STANDARDS  
IN THE SOUTH AND EAST EUROPEAN COUNTRIES**

**Abstract**

The problems of application of the International Financial Reporting Standards (IFRS) on the territory of Southern and the Eastern Europe, reliability of the provided reporting, distinctions of national and international standards, influence of financial crisis are considered in this article.

Now the processes of adaptation of the International Financial Reporting Standards and their further use are of global importance. The states of the considered region of Europe, being developing economies, are interested in investment attraction, capital inflow and financial sector development as a whole. In this connection advantages and disadvantages of IFRS application in comparison with national standards of the financial reporting are stated in this article.

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<sup>1</sup> "Alliance of Media" on materials [www.truth.ru](http://www.truth.ru)

**Keywords:** IFRS, financial crisis, Europe.

Globalization of the world economy has led to requirement for creation of a uniform set of the International financial reporting standards. Recently level of integration and globalization of the financial markets steadily grows. Economy of many countries of the world is engaged today in processes of application, adaptation of the International financial reporting standards. The Southern and Eastern European countries, being, basically, developing economies, extremely need attraction of investments, capital inflow and development of all financial sectors.

Financial crisis has essentially affected investment processes in the European Union, debt problems of some European countries have mentioned their credit ratings that have essentially aggravated an economic situation in the countries of considered region. Application of IFRS allows to involve new investors and to raise trust of other potential users of the economic information. So, according to the spent research of the company PricewaterhouseCoopers, 79 % of the interrogated share managers consider the reporting presented according to IFRS as considerable. Three quarters of the interrogated have noticed the importance of the international standards of the reporting in display of financial risks that allows to build correct perception of the company and, finally, to be reflected in investment decisions.

More than 100 countries require, permit or are converging to IFRS  
All major capital markets have or are moving toward IFRS

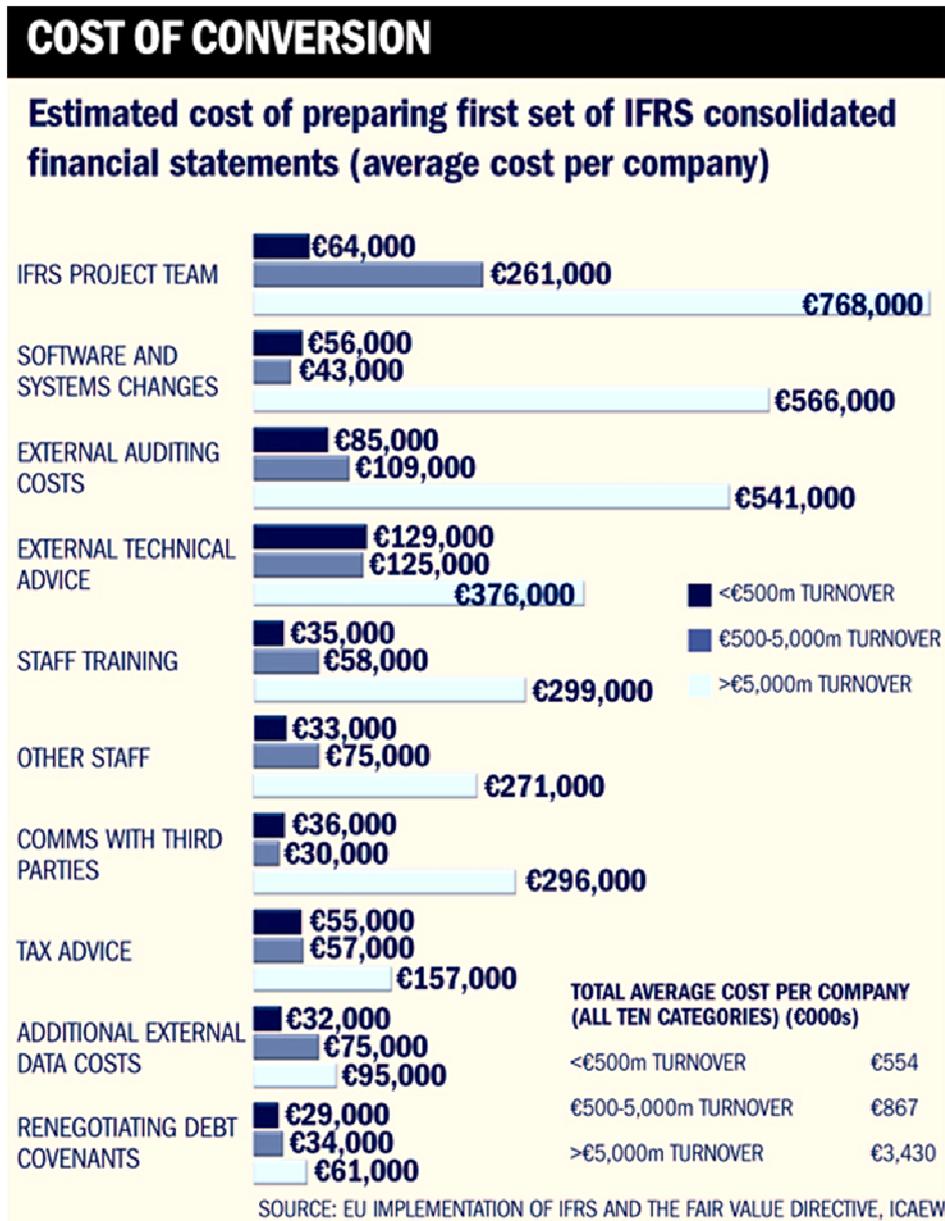


One of the difficulties of introduction and application of IFRS in region of East and Southern Europe is that nominal in developing countries with transitive economy exists more problems as many IFRS have general character (i.e. there are no detailed instructions how to introduce these standards).

Many countries have problems with shortage of highly-skilled personnel in the field. In most cases the reporting according IFRS in the countries of the Southern Eastern Europe is prepared generally by auditor firms that in turn bring an attention to the question about independence of auditors. From this fact there is one more problem – a problem of reliability of the given reporting. Acceptance of IFRS will allow involving independent experts in the field of IFRS.

The major problem is that a number of the EU countries afford some changes in standards.

The risk of dependence of the auditor considerably increases in considered region where insufficient experience with IFRS among bookkeepers and auditors represents additional complexity. Besides, it amplifies also because of absence of materials on IFRS in transfer into a working language of this or that country.

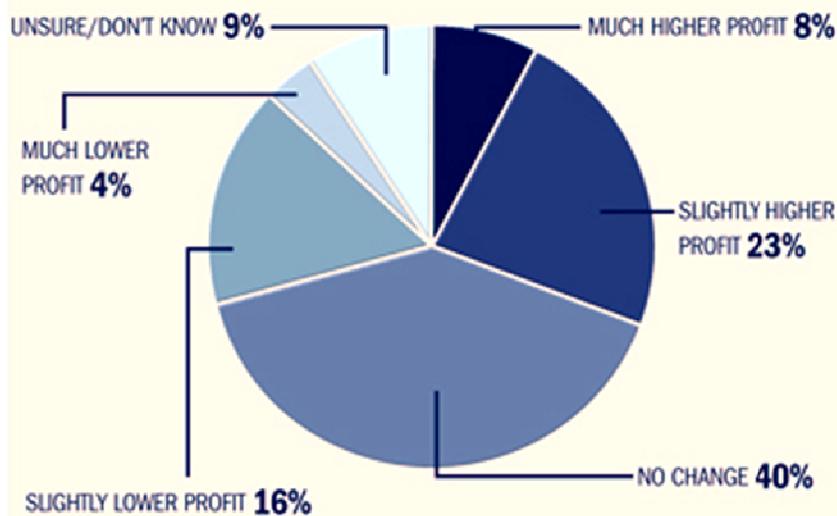


In the countries where there is no sufficient knowledge of English language as the working language, it is necessary to provide, an application guide that would be accessible in a high-quality translation.

One of questions which is necessary to resolve while transition on IFRS is a question concerning small enterprises. Small business doesn't have resources to introduce a full set of the international standards of the reporting.

## THE BOTTOM LINE

### Account preparers' view on IFRS' impact on profits



SOURCE: EU IMPLEMENTATION OF IFRS AND THE FAIR VALUE DIRECTIVE, ICAEW

Many IFRS rely on use of estimations at definition of the size of assets and the liabilities included in the balance sheet, and, hence, incomes and expenses in the financial reporting. However in many countries with transitive economy there is no experience in realization of an appropriate estimation by preparation of the financial reporting, especially in those from them where in the past there was a detailed regulation of the financial reporting. The unwillingness to use estimation sometimes can be connected with influence of tax departments.

The analysis of the data done in the Institute of Chartered Accountants of Scotland and The World Bank has shown that at application of IFRS drawing up of the financial reporting in this or that country is necessary to pay attention to the following moments:

- Preparation of the qualified experts in the field of IFRS;
- Independent audit;
- Effective, standard-legal base regulating introduction of IFRS;
- Specialized standards IFRS for small-scale business;
- Maintenance of supervision over use of all international standards.

In the countries of Europe the active phase of transition to the international standards of the reporting has occurred in 2002 when the European Union has accepted the law demanding from the companies, registered on stock exchanges of Europe, to apply IFRS at drawing up of the consolidated financial reporting. Today the International financial reporting standards are used in many countries of the world, and the countries of Southern and Eastern Europe are interested in full adaptation of IFRS in the territory as it will allow them to get access to the international markets of the capital and to integrate into global system of the world markets.

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### **RELEVANT PROBLEMS OF REORIENTATION OF RUSSIAN STANDARDS TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS**

This report is devoted to transition of the Russian national system of accounting and financial statements to the IFRS. It’s about the reasons of the unified approach of reformation in the CIS countries and about topicality of IFRS all around the world. The special attention is given to a problem of introduction of IFRS in domestic practice of the accounting and the reporting in Russia as well as positive and negative consequences of reorientation for the Russian companies.

**Keywords:** IFRS, problems of accounting and reporting, accounting in Russia.

#### **IFRS — a basis of national systems’ reforming of accounting and the reporting**

Development of accounting now at a critical stage when a centuries-old positive influence of national schools gives way to the period of unified accounting information system’s formation. The basis of reforming process is forming a transition from national standards to the international standards of the accounting and the reporting.

There were considerable changes in the field of accounting and the reporting in the CIS’ participant-states in a last decade. A mainstream of these changes — providing to the interested users useful information about financial position and financial results of the economic entity’s activity.

The accounting statements became more informative. Economic entities use in accounting and reporting the ways of estimation of assets and liabilities, focused on market economy conditions. With a view of accounting the set of new technologies is applied. The largest businesses (oil, gas, electro power, metallurgy, car industry, chemical industry, banking sector) prepare the consolidated financial reporting.

Common line of national accounting and the reporting systems’ reforming in the CIS participating countries there was an acceptance of the IFRS as the basic tool.

#### **Why IFRS?**

Such conceptual unity of the approach to the reformation is caused by following principal causes.

*First*, transition from the centralized economy to the market relations, occurred in the CIS participating countries, has displaced accents in the usage patterns of the accounting information from the control over property's availability and movement to demonstration of a real financial position and financial results of business activity.

*Secondly*, IFRS, that developed last 40 years by independent international non-state institute, now represent universal and most qualitative system of the accounting information requirements, which allow to make on its basis economic decisions.

*Thirdly*, the aspiration of the CIS participating countries to the stimulation of investments into national economy, to the activation of the national capital markets is realizing through the creation of favorable information environment for investors by using IFRS, which playing in the modern world a role of an international business language.

*Fourthly*, the international IFRS popularity has sharply increased for last years; standards are accepted as regulating act in more than 100 states. As such, an application of IFRS is considered as an element of the separate states integration to the global economics.

Experts considering that today IFRS are the best accounting standards in the world that allow to receiving the objective reporting. Now they operate in the EU countries where at stock exchanges registered about 8700 companies which own almost a quarter of the world capital.

### **Destiny of IFRS in Russia**

With transition of Russia to the market economy, there was a problem of accounting reforming according to the customary practice. It was necessary for our enterprises to get involved with the international markets, and accounting standards should fairly express companies' activity and a property status.

Before appearance of determinate order of recognition IFRS as regulatory enactment, which applied in the Russian accounting practice, it wasn't possible to apply the IFRS in Russia.

De facto the IFRS application in Russia is accomplished fact for a long time. However de jure IFRS application in territory of Russia was not only authorized, but not forbidden until recently. It's paradoxical, but it's the fact. A truly event in the legislation, opening a new way for IFRS, was an acceptance of the Resolution from 2/25/2011 where the Government of the Russian Federation has confirmed Provision of the international standards recognition of the financial reporting and explanations of the international standards of the financial reporting in territory of the Russian Federation. Appearance of this document was a real news, expected for a long time.

In Russia, in the terms of the heightened risks, the international standards recognition of the financial reporting is the important step for foreign investments attraction. In fact, for example, according to an analyst of bank "Morgan Stanley" D.-P. Smith foreign investors "are not ready to come seriously on the Russian market until improvements in the field of a corporate transparency will be made". Transition to the international practice of accounting will essentially enable mutual relations with foreign investors, will promote to increase mutual projects.

### **Difficulties of transition to the new standards**

The problem of the financial reporting reforming in Russia is connected with a number of subjective and objective factors. Among them it is possible to allocate the following:

1. *Absence of a shared sense about how national accounting techniques will be considered in the policy formulation process of drawing up the reporting of IFRS in Russia.*

It is necessary to underline that accounting reform should be carried out with the account of the developed national traditions, specificity of economic development of Russia,

instead of blind copying of the western experience. Therefore at the current stage of accounting system reforming there should be a consecutive smoothing of misfits that will promote more successful advancing of the Russian companies on the capital markets. Herewith, it is necessary to underline that automatic acceptance of IFRS is impossible without any changes. After all, as a matter of fact, the international standards are the compromise between world leading accounting systems. It is impossible to deny that fact that in Russia is already stored a great experience. For example, according to A. Bakayev, the head of Department of methodology of accounting and the reporting of the Ministry of Finance of Russia «Our Chart of Accounts – one of the most unique documents in world accounting practice». Therefore using the international standards of the financial reporting for creation of new national system of accounting the international experience should be adapted for the Russian specificity.

*2. IFRS application is too extravagant.*

These are expenses on employees' re-education, investments into the new software for financial reporting preparation according to international standards, increasing in workers of accounting service quantity, and expenses for reporting acknowledgement by independent auditors.

*3. Small number of internal and external users of the accounting information in Russia based on IFRS;*

*4. Absence of standards official transfer on Russian language; absence of the accepted order of their timely updating in the conditions of IFRS content changes for last years.*

By this time through the Program of reforming of accounting according to IFRS are elaborated and already operating 21 Russian Accounting Standards (RAS). But eleven IFRS have no parallel in Russian accounting.

It's an important problem. Russian legislation, per se, lag behind the international practice. A basic infrastructure formation of the international standards application in Russia and changes of all regulation system of accounting and reporting is necessary.

*5. Increasing labor input of accounting work in connection with orientation on requirements of the Tax code of the Russian Federation, RAS, IFRS and primary interests of the organizations in qualitative tax reporting preparation;*

The Russian accounting is traditionally focused on tax laws and there is a problem of necessity of accounting for tax departments and for the financial market simultaneously, not included that because of imperfection of our tax laws almost all enterprises have off-the book financial scheme. It proves once again that reforming of accounting system should be carried out in a complex with satisfied changes in allied branches of law.

### **Consequences of IFRS' introduction**

Transition to the international standards of the financial reporting can cause both positive and negative consequences for the companies. Among positive aspects - increasing of accountability, improvement relatives comparability and, as consequence, increase in possibilities for their activity analysis and simplification of access to the international markets of the capital.

However the reporting in itself doesn't guarantee foreign investment. Besides, for example, the net profit size according to the international standards can be lower, than under the Russian standards. Transition on IFRS will demand from the company of additional labor inputs and financial expenses, and will be difficultly enough to estimate positive economic consequences from an innovation at an initial stage.

It is important to notice that in case of full transition of Russia on IFRS it is not necessary to expect, that Russia will be deluged with the foreign investments. However it will be the important step in the course of mutual confidence construction between Russia and the

international community. The increasing in a corporate transparency will mean that investments become less risky for investors, and so, cheaper.

Transition on IFRS should not be goal in itself, because actually any industrially developed country in the world does not use IFRS completely as national standards. As a rule, the general principles of the national accounting systems and IFRS are similar, however frequently they have considerable differences. For example, in 1996 as a result of the comparative analysis of the IFRS and the American standards (US GAAP), conducted by Financial Accounting Standards Board (FASB), it detected, at least, 255 distinctions between these systems, from interpretation of some principles to the basic differences in the approach to the analysis. Therefore it is necessary to consider IFRS as a starting point and to search for such ways of the international standards adaptation to the Russian specificity which would provide the general comparability of the financial reporting of the Russian and western companies.

It is obvious that any national financial market cannot normally develop separate from the international market. First results of reformation have led to increasing reference to the positive results and transition problems alike. Nevertheless, reform will be really finished only when each accountant will become proficient with IFRS basics, and the companies owners will be really interested in reporting of the precise and objective information.

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## **THE STANDARDIZATION: NECESSITY AND IMPLEMENTATION**

### **Abstract**

With business development we had to define a minimum set of requirements that would guarantee the uniform quality of required products and also prevent the product, not provided by the specification, to reach the customer (user). This fact requires the appearance of standards. The subject of this paper is the concept of standardization and standards that currently exist. The main objective of standardization is the continuous improvement of all processes that affect the quality of products / services. The quality is not just enough to enter to the market, but also the internationally guaranteed proof of quality proven by ISO certification. The aim of this paper is to point out the necessity of implementation of standards, which are important for safety and health of population, and also for competitiveness in the global world market. Some of the standards that will be subject of paper are the ISO 9001, HACCP, etc. Standard ISO 9001:2008 is a generic, base standard called Quality management systems - Requirements, and it governs the general operations of each organization. It's the only standard that can be used for certification of management in the business world. The abbreviation HACCP stands for Hazard Analysis Critical Control Point. This standard is a logical, scientifically-based control system of the process of production and distribution of food products.

**Key words:** standardization, global competitiveness, safety.

## Introduction

Serbia's return to the worldwide, especially the European market requires that the Serbian economy adapt to new forms of business. One of these forms is the standardization. Basically, standardization should ensure competition and safety of products. Improvement and promotion of the Serbian economy requires comprehensive standardization in key areas of business. The goal of standardization is to encourage the development of competitiveness of enterprises through the introduction of quality standards of performances, motivation of communication and exchange of experience between companies.

The object of labor is exactly standardization, the reasons for its introduction, as well as the main forms of standardization. As noted, the standardization should provide quality of products, with the help of families of ISO standards and product safety, with the help of the HACCP standard. The aim of paper is to emphasize the necessity of introduction and implementation of standards. The introduction of standards should put into effect the idea that the needs and demands of the customers are the characteristics of products and processes, which should ensure the achievement of high quality products.

### 1. Term of standardization and concept total quality management

The equalization of operations whose final product should satisfy certain qualities or standards is *standardization*. Through the prescribing of established standard we provide the possibility of comparison under any reason, or objectivity. Standardization in the field of enterprise is tightly associated with the modern concept of enterprise management, Total Quality Management (TQM). Quality culture in a company implement those managers who believe that their company should produce a mutually beneficial relationships between itself, its employees and its customers. On the list of core values of corporate culture are the three items - integrity, focus on customer and people. The concept that completely covers the culture of quality is TQM.

TQM is a management system that focuses on the man, with aim of constant growth in customer satisfaction, with a tendency of reduction of the real costs.<sup>1</sup> TQM works horizontally in all functions and sectors, covers all employees at all levels and in all directions. TQM emphasizes learning and adapting to continuous changes as key factors of successful organization. The prerequisite for survivor and development of enterprise in the global economy is the achievement of business excellence and creation of products and world-class services, which is the reason why more and more companies implement TQM.

The basic principles of total quality are:

1. *The focus on user / customer* - the organization's efforts must focus on development of new products that truly impress users, therefore we have to react adequately to any changes in customer and market demands.

2. *The participation of all employees and teamwork* - the involvement of employees in making decisions that affect their work and which are essential for the good of the company. Individually or in teams, managers create a wide room *for man oeuvre for improving quality*.

3. *Continuous improvement and learning* - should become an integral part of managing systems and processes. Continuous improvement applies to the incremental, but also to the suddenly rising improvements.

*The final goal of a quality management system* based on the concept of TQM is to **achieve business excellence** (which includes the commercial success of the organization in

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<sup>1</sup>Murphy, Craig N., The International organization for standardization (ISO) : global governance through voluntary consensus, Routledge New York, 2009

financial terms and terms of meeting the demands of all interested parts), which is reflected in continuous increase of profit and market share with reduction of costs.

## 2. Main types of standards

Modern business conditions imposed the need for a large number of standards, but the standards ISO 9001, or his representative ISO 9001:2008 and HACCP are basic standards that each company, who plans to expand to international markets must provide because of the insurance of safety of products and competitive position of companies.

### 2.1. ISO 9001:2008

The business internationalism that blurs the boundaries for goods and services and long-term connection between international companies sharing same interest have imposed the need to create a single international framework that will define the widely accepted rules and requirements to ensure continuity in business i.e. in achieving the requires of products and/or market as well as their continuous compliance with regulations and internationally agreed rules of business.

As response to this need, the International Organization for Standardization ISO, more precisely its Technical Committees (Technical Committee ISO/TC 176, Quality management and quality assurance, Subcommittee SC2, Quality systems) identified and specified the requirements of international standard ISO 9001<sup>1</sup>, which will serve as framework for creating a management system quality in organizations. An organization which in accordance with the requirements of ISO 9001 develop and implement a quality management system gives a message to all her potential customers and wider international community that the aim of its operations are identification of needs, demand and expectations of users (customers, suppliers, employees, local and international community) and their satisfaction through the effective and efficient implementation of QMS.

Standards for quality management systems are standards of ISO 9000 family. They represent a coherent set of standards for quality management system and facilitate mutual understanding in national and international trade.

*The main goal of QMS* is continuous improvement of all processes that affect the quality of products and services. So, to enter to market is no longer enough just quality, but also internationally established proof of quality in form of ISO certification. **Standard ISO 9001:2008** is a generic, based standard called Quality management systems - Requirements who governs the general operations of each organization.<sup>2</sup>

This standard is applicable no matter what are business activity and business results. This is the only standard that can be used for certification of management in the business world.

Standard ISO 9001:2008 as rarely any other international standard respects and encourages the special qualities of organizations. He doesn't want to impose uniformity in the structure of the quality management system or uniformity of documentation of QMS.

Phase of implementation of QMS:

Phase I: Introducing the project ISO 9001:2008 to employees

Phase II: Recording, analysis and evaluation of the existing system

Phase III: Design and development of QMS documentations

Phase IV: Development and implementation of QMS documentations in work processes

Phase V: Organizing and conducting internal audits

Phase VI: Preparation for assessment and certification

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<sup>1</sup> www.tqmkonsalting.com

<sup>2</sup> www.sertifikacija.com

Quality Management System (QMS) is the way the organization manages the quality. The aim is management of the quality using a Process approach, with the help of the management of all processes and activities promoting quality through all levels. In addition, the expression quality does not mean only the quality of product and service, but also the other two dimensions: the quality of operations (relations with customers, suppliers, legislation, wider community) and the quality of the organization (relationship with employees, work culture, attitude to material resources and so on). Thanks to the QMS, at any moment we can have a look over all processes and activities, beginning with supply, contracting, implementation of production, distribution, sales, and through the process of training staff, development of new ideas and services, improvement of marketing processes through the elements of cost, distribution, coverage of market and monitoring of competition, and all that through the procedures, manuals and records, i.e. forms that are filled and which contribute increase of awareness of quality among all employees. Implemented QMS transmit the responsibility for realization of the activities from management to the direct perpetrators, so that in a hierarchical chain, every link carries its part of responsibility for part of the running process.

## **2.2. HACCP - Hazard Analysis Critical Control Point**

Developed by the Pillsbury Company, HACCP is a response to requirement of American space agency NASA to produce 100% healthy safe food for astronauts. The concept which was developed by the Pillsbury Company was called HACCP (*Hazard Analysis Critical Control Points*).

**HA** - is the identification of hazards at each stage of production, processing and distribution of food and beverage, then risk analysis, i.e. probability of these dangers, and at the end assessment of their risk to human health.

**CCP** - (Critical Control Point) is totality in which is performed the process of identifying the points i.e. elements of process and activities in production, processing and distribution of food and beverages, in which can occur the risk of contamination of food. By defining the parameters (border measures) in these items we enable their control, by preventive activity which prevents or eliminates the risk to the safety of food and drink or his influence is reduced to an acceptable level.

### **The seven principles - the foundation of the HACCP system**

1. The implementation of hazard analysis - risk, identification of hazards / risks that may arise in the production process. Danger is related only to food safety.

2. Determination of critical control points (CCP), points in the process with possible occurrence of danger - risk.

3. Establishing critical limits, maximum or minimum value by which the biological, chemical and physical hazards control, to act as a prevention to them or to eliminate them completely.

4. Determination of procedures / processes for monitoring CCP, procedures to ensure that the CCP remains in critical limits.

5. Determination of corrective measures - measures in case the monitoring shows that the CCP is not within the critical limits.

6. Establishment of procedures / processes for verification - procedures and attestation that HACCP system is effective and that works well.

7. Establishment and management of effective records and documentation - documenting that HACCP system is working well.

In contrast to the control of finished products at the end of the production process, HACCP is a preventive system that ensures food safety in every step of the manufacturing process. It is developed specifically for each product/group of products or process, and should

be defined and set up to suit the specific conditions of production and distribution of each product separately.

In short, **HACCP** is a system that can be used as a range of procedures for process control and sensitive points in the food chain production, with the ultimate goal that the customer consumes foods in the state and in a way safe for his health.<sup>1</sup>

The essence of the HACCP concept is contained in a constant effort and specific planning activities to position, define and eliminate at the time all dangerous situations or stages in the entire production cycle of agricultural - food products (from primary production of basic and secondary raw materials to immediate consumption of finished products). Thus, the essence is in the preventive action to eliminate in time, reduce or lead to an acceptable level all the real potential risks in food safety. It is obvious that this concept is a systematic, well-designed, active and preventive norm which can provide a full hygienic - sanitary, toxicological and any other safety of food.

*The ultimate goal of the HACCP system is the production of as safe as possible products by applying as safe as possible procedure. This means that the application of HACCP does not always provide 100% safety for users, but it does mean that the company products food in the best and safest way as possible.*

### **Conclusion**

The reason for the introduction and implementation of standards is the requirement to meet certain necessity so that form of standard depends on the goal, as well as the institution that sets the standards. Profit and nonprofit organizations define standards to meet needs, primarily of the customers, namely, respecting the subject of work, safety and product quality. World associations have created the ISO and HACCP standards to ensure the competitiveness and safety.

With understanding the criteria for standardization Serbian businessmen gain insight into what work processes and values is attached the greatest importance in the best companies in the world, so that they begin, through analysis of their own processes and activities, to compare, not with anyone but the best in the world.

Finally, Serbian businessmen must know that, from the standpoint of the market, manufacturers and exporters of food products from countries outside the EU wishing to sell their products to market in the EU must engage in business activities procedures related to safety and competitiveness of their products. This will ensure continuous improvement of value for consumers and continual improvement of overall company performance. Performances should be measured in five key areas: customer satisfaction, financial and market results, human resources, suppliers and partners, the organizational characteristics.

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<sup>1</sup> [www.sertifikacija.com](http://www.sertifikacija.com)

## THE FLAT TAX – A REALITY IN EASTERN EUROPE

*As we can easily see from the last years, politicians in Eastern European capitals have enthusiastically adopted **flat taxes**, which seem to become the new model of fiscal **convergence** of these countries. This paper tries to outline the **impact** that the implementation of the flat tax will have on Europe. Also, it analyses if we can speak about a "**race to the bottom**" effect or about a harmonization of direct taxation at European level, in terms of fulfilling the conditions of real convergence.*

In early 2005, Romania introduced a system of income taxation of individuals based on a flat tax of 16%, which meant that once Romania joins the European Union in 2007, this country became the largest country in the European Union which had a flat tax system. Romanian movement was not the first of this kind, nor the last, but this fact led to the reconsideration of the fiscal policy in the European Union.

The flat tax is, by no means, an invention of modern times. What we see today is nothing but a revival of it. In modern times, the first state that adopted such a measure was Hong Kong, in 1947. Many people believe that this contributed largely to the economic prosperity of the small Asian territory, until recently the British dominion. Moreover, two other British territories have adopted the flat tax, one of them just before Honk Kong. These are tiny islands in the Channel: Jersey (in 1940) and Guernsey (in 1960). From this perspective, we might consider that the revival of the flat tax is due, in the first place, to Great Britain. Also, in South America, Bolivia has adopted a flat personal income tax since 1986.

The road to the flat in Europe was a long and difficult one. The first state that adopted the flat tax was Estonia, in 1994. This country chose a personal income tax rate of 26%, despite the recommendations of the International Monetary Fund. The flat tax was applicable both to the labor income and to the capital, but in 2000, Estonia stopped taxing corporate profits, except the cases when they were distributed as dividends. This has prompted companies to retain profits and reinvest them, leading to a resumption of growth at an annual rate of about 6%. Such a measure did not determinate a reduction of the revenues, as you might think: in 1993, the share of revenues was 39,4% of the GDP, while in 2002 the share was 39,6% of the GDP (The Economist, 8, p. 64). In terms of personal income tax, its share fell by one percent, from 8,2% of GDP in 1993 to 7,2% of GDP in 2002 (The Economist, 8, p. 64). Currently, to meet the new realities of tax, Estonia has already adopted legal framework that would allow reducing the tax rate from 26% to 20% by 2007. Immediately in the same year, Lithuania followed Estonia's example, adopting a personal income tax rate of 33% (the highest rate of all flat taxes adopted) and a profits tax rate of 15% (one of the lowest in Europe, only Ireland with a tax rate of 12,5%, which is below this threshold). A year later, Latvia followed the example of her Baltic sisters and implemented tax reform measures, resulted in a single tax rate of 25% and personal income tax rate of profit, which in 2004 reached the same level of 15% (after previously being 19%).

As easily can be seen, the Baltic countries were the first in Europe who have adopted at about the same time, a new model of fiscal policy, characterized by a flat personal income tax and a reduced rate of taxation on profits, which contributed greatly to their economic recovery

and transformation of former Soviet-style state economy in a real fully functioning market economy. According to the Index of economic Freedom (Marc Miles, 2005), Estonia was the fourth country in the world in 2005, in terms of economic freedoms.

With the example of Baltic countries, the first step towards the flat tax has already been done. There was a lull in which the countries in similar situations have contemplated the success of small Baltic countries. It was necessary the example of Russia in 2001 for the business and academic environment to lean more attention and interest on the issue of the flat tax. In 2001, the Russian giant, faced with serious macroeconomic imbalances and huge gaps in public budget, introduced a flat tax of 13% on all personal income, but opting for a rate of 35% for corporate profits. The reason for such radical reform was simple: the budget revenues were very low, Russia was unable to meet obligations (for example, in 1998, the revenues were only 12,4% of GDP, according to the magazine "The Economist"). In the first year after the reform, the revenues collected from the personal income tax increased by 46% in nominal terms and by 26% in real terms (Payne, James, 1993). Although subsequent studies (Anna Ivanova, 2005) showed that this significant increase is due less to the changes induced by the flat tax (the growth of the predilection to work) and more to the growth of real wages, due to extensive structural reforms. The example of Russia has sparked chain reactions, which have resulted in the adoption of the flat tax in the other countries, all developing countries. Among these, Slovakia is distinguished by the originality of adopting the flat tax, which adopted the same flat tax (19%) for the personal income, business profits and value added tax.

In 2005, Romania introduced the flat tax. The deepest mutations which were recorded to the taxpayers were, undoubtedly, those recorded to the individuals who are no longer taxed progressively in 5 installments, with marginal rates of 18%, 23%, 28%, 34% and 40% but with a single rate of 16%. Regarding the companies, the changes were less extensive, as they were previously taxed at all at a single rate (it was a tax of 25%). It seems that the success of Romania in terms of economic growth, regarding the reduction of the unemployment and attracting the foreign investment persuaded other countries to adopt flat tax.

Currently, the European countries that have adopted the flat tax are:

**Table 1**

**The personal income tax rate in Europe**

No.	Country	Personal income tax rate in Europe in 2010 (%)	Year of the adoption of the flat tax
1.	Estonia	21	1994
2.	Lithuania	24	1994
3.	Latvia	25	1995
4.	Russia	13	2001
5.	Serbia	14	2003
6.	Ukraine	15	2004
7.	Slovakia	19	2004
8.	Romania	16	2005
9.	Iceland	35.7	2007
10.	Montenegro	15	2007
11.	Albania	10	2008
12.	Czech Republic	15	2008
13.	Bulgaria	10	2008

Source: <http://www.hoover.org/pubaffairs/dailyreport/archive/3582451.html>

Iceland's position is inconsistent with the general trend, not only in terms of geographical location, but especially by the high level of the flat tax. If the main goal of the countries from Eastern Europe has been the reduction of taxes, in the same time with the tax simplification, Iceland has sought rather to simplify the tax settlement with the consequences of the tax administration costs and less with the tax reduction. The influence of the Nordic model of high taxation is still felt in Iceland. In this context, it appears evident that the issue of a single personal income tax rates attracts in a greater measure extent the new EU members (Estonia, Lithuania, Latvia, Slovakia, Romania, Bulgaria, The Czech Republic), while old Europe remains still reluctant. However, the pressures of various interest groups in favor of adopting similar measures in countries from Western Europe are becoming more pronounced, at least in Spain (The Economist, July, 2005, p. 34), in Germany and in The UK (Richard Theater System). In the EU countries the maximum marginal tax rates of personal income are presented below:

**Table 2**

**Maximum marginal tax rates of personal income in the EU countries (%)**

No.	Country	1989	1993	1999	2002	2007	2009	2010
1	Austria	50	50	50	50	50	50	50
2	Belgium	55	55	55	56,2	50	50	50
3	Czech Republic		47	40	32	32	15	15
4	Denmark	68	68	59	59,7	26,48	26,04	18,67
5	Finland	44	39	38	53,8	32	30,50	30
6	France	51,79	56,50	-	60,4	40	40	40
7	Germany	56	53	53	51,2	45	45	45
8	Greece	50	40	45	40	40	40	45
9	Hungary	-	40	40	40	36	36	36
10	Ireland	58	48	46	42	41	41	41
11	Italy	50	51	46	45,9	43	46	43
12	Luxembourg	56	50	-	39	38	38	38
13	Netherlands	72	60	60	52	52	52	52
14	Poland	-	40	40	40	40	32	32
15	Portugal	40	40	40	40	42	42	45,88
16	Slovakia	-	-	42	38	19	19	19
17	Spain	56	56	40	48	27,13	27,13	27,13
18	Sweden	72	30	31	55,5	25	25	25
19	UK	60	40	40	40	40	40	50

Source: [http://www.oecd.org/document/60/0,3343,en\\_2649\\_34897\\_1942460\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/60/0,3343,en_2649_34897_1942460_1_1_1_1,00.html)

From this table one can notice the general trend of decreasing of the maximum marginal tax rates of personal income over the studied period. From all the European countries, the Czech Republic can be appreciated (ex-communist country), as the country with the lowest maximum marginal rate. In 2008 the Czech Republic adopted the flat tax of 15%. In the last 3 years, the maximum marginal rate has increased in the UK, from 35% in 2008 to 50% in 2010.

Those countries that show greater openness to the flat are those from former communist bloc, this can be attributed to the fact that "these countries have not inherited the complicated

tax system from the countries of Western Europe" (Stephen Castle, 2005) and are open to all kind of experiments as a result of the transition that they have crossed, the period has led to the development of positive and flexible attitudes and rapid response capacity to changes that may occur in the economic environment. By contrast, the Western European countries (or Old Europe) exhibit some conservatism when it comes to radical changes in an area that seems to have reached the full functionality, which is safe from any threats. But in the new realities, the old EU members will have to react by adopting certain measures in response to the initiatives of the countries which have adopted or plan to adopt the flat tax.

These reactions can channel response into two directions. The first reaction may result in individual adaptation to fiscal policy undertaken by each Member State and the second reaction - by concerted reactions of tax harmonization in Europe.

Given that fiscal policy prerogatives are still available to national authorities, there is a possibility for each state to respond in their own way to the initiative of the states that have introduced the flat tax. In the domain of the fiscal policy, the situation is different from that of the monetary policy, where national authorities from the field have already delegated the most important tasks to a pan-European structure, namely the European Central Bank. The lack of strong institutions at European level in terms of taxation may create a dangerous fiscal competition between old and new members, likely to cause tensions within the EU, despite the existence of regulations. The official EU position is that the tasks in the personal income tax should be left up to the Member States, even when the European Union reached a high degree of integration. The essential requirement is that the Member States should respect the fundamental principles of non-discrimination and of the free movement of workers, and in this context, the general objectives of fiscal policy in Europe are (The Commission of the European Communities, 2001):

- Supporting the European economy in its approach to become the most competitive and dynamic knowledge-based economy in the world;
- Ensuring the full functionality of the single European market, especially after the integration of the new members;
- Reducing the tax burden on the EU as a whole, ensuring a balance between tax cuts, investment in public services and fiscal consolidation of the member countries;
- Strengthening the protection of the economic, labor, health and consumer fields, the promotion of the sustainable development and energy strategies and environmental protection;
- Supporting the modernization of the European social model.

Contrary to these principles, there are increasingly numerous voices in the old European Union challenging the measures taken by newcomers to the taxation of personal income. Former German foreign minister, Joschka Fischer said that "it is intolerable for his country, facing budget deficits and rising unemployment over 10% of the European subsidies to finance the countries causing a leak of employment places and of the investment in Germany "(The Economist, 7, p. 34). Its position was subsequently confirmed by the Nokia reaction who left Germany for Romania, sparking large controversy and causing extensive union events and vehement public reaction in Germany. France joined Germany and the two countries proposed a tunnel and the European countries had to be able to set their own tax rates within the tunnel limits. Such a measure would be designed to avoid tax competition between the European countries, competition that could have profound negative effects. One of the most important negative effect is the reduction of tax rates to a level that would not be sustainable to ensure the financing of public costs in conditions of budget balance. This effect is known in literature as the "race to the bottom" (race to the end). Data from Table no. 1 suggest that such a race has already begun, and the effects of participation within it are still unknown. Under these conditions, the implementation of a "corridor" at European level in which the tax rates applied

by the EU would establish a lower threshold below which they could not come down, which would reduce the effect of the "race to the bottom. "

Is the fiscal convergence, implied by such a measure, more appropriate than the tax competition in the domain of direct taxes that seems to be born in the new Europe? If in terms of indirect taxes, the EU seems to have reached a consensus on the harmonization, the adoption by some new members of the flat income tax seems to have generated several disputes, not only within the Union but also in other institutions (International Monetary Fund). Until the appearance of the flat tax in the European landscape, the tax harmonization measures on the direct taxes line were channeled by eliminating the deductions, the exemptions in order to ensure an uniform tax base as possible, measures which are circumscribed to the overall objective to promote a favorable climate for free and fair competition within the single market. The adoption of the flat tax solved in a simple manner the issue of the harmonization of the deductions and exemptions regime, due to the simple fact that they are mostly removed. The negotiations and the recommendations of the European experts on harmonization of tax bases lose their utility as long as the risks remain pointless. The more the attractiveness of the flat tax will increase, the more the concerns of tax harmonization focus will shift to the optimal size of tax rates and will not endanger the European construction. However, you should not lose sight of that a flat tax, with the continuation of financial support from the EU newcomers can help countries to accelerate the reduction of the gaps that separate them from the Western European countries (catching-up process) and in this way to shorten the duration and to extent the financial assistance from the most developed EU countries, together with the increasing concerns of these countries to increase their competitiveness to meet the new members of the European single market. Under these conditions, the flat tax adopted by the countries with a lower level of economic development and the generated benefits can help to accelerate the real convergence in the European Union. The only restriction in the way of adopting low single rate concerns, in our opinion, the Maastricht criteria (especially those of fiscal and budgetary field), especially for those European Union countries which aim in the near future the accession to the euro-zone. Adopting a low single rate tax should not increase the deficit or the public debt.

However, at this point, it is hard to predict what will be the European orientation in matters of direct taxation, but it is certain that the flat income tax of individuals and on the company's profits has determinate a new approach of the problems, which razed interest and many controversial issues, whose resolution will decisively influence the European construction, without departure from its fundamental principles: the free competition and the social cohesion.

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### **PROBLEMS OF THE NATIONAL DEBTS IN SOME COUNTRIES OF EU AND WAYS OF THEIR RESOLVING**

This paper describes the global problems of economic system, connected with the shortage of the national resources in some countries of European Union, especially in Greece. The paper shows interesting indexes, the dynamics and positions of the most vulnerable countries. In addition, there are some ways of recovering the whole economy in Greece and researching the future aims.

**Keywords:** national debts, the deficit of the budget, crises, Greece, new opportunities, future plans and decisions.

Nowadays we have the promissory economic system in all countries because the most of them have the shortage of national resources for realization of internal development, covering deficit of budget, realization of social and economic transformations and implementation of debt obligations in the external borrowing.

Financial relations connected with forming, services and covering the national debts, pay more attention on the state of money circulation, budget and tax sphere, investments, industry, employment, consumption, bank sector and many other elements of social and economic life of the society.

Analysis suppose that the anxiety, connected with the level of the national debt in different countries has had time already to render considerable influence on the market value of bonds. The main factors that influence profitableness of government promissory responsibilities in the nearest year are to be the actions of these countries in the sphere of credit and monetary policy.

Learning the statistic of European statistical organization, we can see, that the middle level of the budget deficit of 27 countries of European Union in 2010 increased to 7,8% of Gross Domestic Product(GDP) . In addition, the 20 countries from 27 countries of European Union in 2010 had a deficit of the budget higher 3% GDP. The middle size of the national debt reached 112,6% GDP. Nowadays they attract additional funds from the international capital

markets for covering the budget deficit of the government. It's surprising, that debts of the countries of Eurozone are in the centre of market players. The countries of Eurozone are limited in the choice of facilities of close-economic policy that is sent to minimize the influence of these negative factors. For example, they can't go independently on devaluation of national currency's exchange rate or on the declining of interest rates to stimulate the economic activity for the improvement of the position in public finances.

In accordance with international practice, government promissory responsibilities, as a rule, are paid off due to budgetary profits, gold-value backlogs of country, monetary resources and also new borrowing. In the system of operating under the managing the national debt, the most important is its service and redemption. With the purpose of non-admission of promissory crisis, the most developed countries accept the programs connected with narrowing the deficit of the budget and maximally possible increasing of budgetary profits (for example, due to the increase of taxes). Nowadays countries of EU have recession. It passes in the situation of mature globalization, creating for EU new possibilities and new calls. Today the countries of European Union have to save more in two times and obtain the annual diminishing of state debt on a sum corresponding to 1% GDP. Also they have to go on the high rates of the economy growing, reduce interest rates, diminish inflation and accept a financial and economic help. In future it is necessary to obtain the size of state debt of countries EU, that should be 60 percents GDP. Presently, this index exceeds 80%, having a steady trend to increase.

Nowadays the huge problem of deficit of the budget is in six countries-members of EU: Greece, Portugal, Spain, Italy, Ireland, Great Britain (table1).

The indicators show that these countries approach the line of crash, they ask support and help more and more often. So, for example, Portugal does not have a high level of national debt, an external debt (sum of debts of the state and companies) in 2 times exceeds GDP. Spain does not need help of the European Union now, but the indexes get worse. Unemployment is very high. Italy is named as the main threat for euro. This country has one of the worst indexes, but experts say that Italy has a winning position because it has more competitive economy than other countries. Ireland has large stock of monetary resources (about 23 billion euros), that gives a hope on overcoming the present crisis of sovereign debts "in comfort terms", although the whole situation in this country is also very hard. Great Britain has chances too. The country has one substantial advantage - independence from euro. And it gives United Kingdom opportunity to look at the situation with debts from outside. Greece has the highest level of national debt and enormous deficit of budget. All of it is a result of uneffective economy and large social obligations. The debt of Greece negatively influences not only Greece itself, but also on the economy of other countries and leads to decrease of the population living standards.

**Table 1** - The indexes of 6 problem countries of European Union<sup>1</sup>

Country	National debt/of GDP 2010-2011	External debt of GDP 2010-2011	Deficit of budget of GDP 2010-2011	Unemployment 2010-2011	Change of GDP 2010
Portugal	76,8	232,3	-9,4	9,6	-2,7
Spain	53,2	168,1	-11,2	18	-3,6
Italy	146,8	118,4	-5,3	7,8	-5
Ireland	64	985,3	-14,3	11,9	
Great Britain	68,1	320,4	-11,5	7,6	-4,9
Greece	148,5	186	-14,7	10,4	-3

<sup>1</sup> "Finance and the Crisis" Financial and economic news in 2011

Greece could devalue the currency and partly improve the balance of payments before, but now it is impossible because of including to Eurozone. The deficit of budget and considerable height of national debt makes a global financial crisis in Greece. Many analysts are sure that Greece will declare a default in three years, or will obtain the postponement of payments of the credits, it's had. Filing a petition for bankruptcy to Greece would mean the crash for zone of euro and falling of rating of many leading European banks that have the Greek state bonds on ten of milliards euro in the brief-cases. Thus, creditors think about non-admission of default. A country gets credits within the framework of the three-year program « EU and MFF» on 110 billion euro, which it has to pay along with redemption of it's obligations under an enormous external debt in an exchange on obligations to short the deficit of the budget to 7,6% in 2011., 6,5% in 2012., 4,9% in 2013 and 2,6% in 2014.

Many countries try to help Greece, Germany and France brought the most contribution to the grant of international credits to Greece: their stakes made 1,496 billion and 1,12 billion euro.

A project was undertaken, by the government of Greece. It has to improve a situation in a country. But the main investigation of it will be a height of unemployment. It will increase to 14,5% in 2011 and to 15% economically active population in 2012. A government forecasts, that the decline of unemployment rate will begin in 2013 when it, as assumed, will be 14,6%. Greek statistical service fixes a permanent price advance in the country because of increasing of taxes.

It is possible to distinguish **ten largest tasks** in the sphere of economics, which the government of Greece should decide in 2011:

- to control the government spending /a cabinet will work out the medium-term strategic program on 2012-2014 for narrowing the deficit of the budget/;
- a fight against avoiding tax payment;
- reduction of deficits of state companies and services /program of economy 880 million euro;
- the reforms in labour relations /predominance of contracts above collective labour agreements;
- the reform of state sector/single net of salaries;
- a fight against squandering in state hospitals and in a pharm sector (price-cutting on medications, development of the new system of purchases;
- liberalization of closed professions (advocates, builders, etc.);
- changes of terms of doing business, reformation of financial sector of country;
- functional division of state Fund;
- using state property, including, handing over privatizing.

The country reduced the size of fiscal deficit, because of the government spending, increases of taxes and diminishing public servants of salaries, bonuses and also pensions to the pensioners. Greece reached the aims that it wished to solve in 2010. The most difficult task now is continuation of structural reforms in tax sphere and at the market of labour.

Nowadays we can only believe that country will solve all the problems and trust will return to it also.

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**TRANSFORMATION OF THE RUSSIAN FEDERATION'S FOREIGN DEBT  
 PROBLEM AT THE CONTEMPORARY HISTORY OF THE COUNTRY**

This article is dedicated to the foreign liability problem of Russian Federation's transformation in a modern country history. It is about Russian foreign liability's dynamics, external debt structure of USSR and Russian Federation. This article address trends of the Russian foreign liability's development at present, problems and opportunities of it's direction.

**Keywords:** foreign liability, external debt structure, adjustment of external debts, trends of foreign liability's development, foreign liability's direction.

**Foreign debt's dynamics of the Russian Federation**

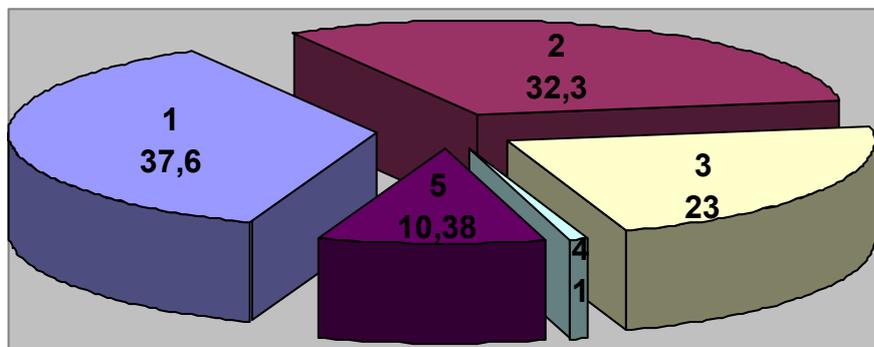
Every independent state formed after the USSR's collapse was supposed to pay a share from the mutual external debt of the USSR (it was \$ 108 bln. that time) and to have a corresponding share in the USSR's assets.

But only Russia could pay its liability that was why it was amicably decided that Russia would take all of the debts to itself in exchange for the Soviet asset share they had.

According to this agreement 61 % of the debts and 61 % of the USSR assets was Russian.

At the beginning of 1992 the total domestic and foreign USSR debt which had not been restructured and divided yet was \$ 93 bln.

Summarily following governments debts were included to the external liability of the Soviet Union (figure 1).



**Figure 1.** Domestic and foreign debt of USSR in 1992

**Foreign and domestic debt of the former Soviet Union, \$ bln. :**

1. To the Paris Club- \$ 37 bln.
2. To the London Club - \$ 32, 3 bln.
3. Liability to countries, not included to the Paris Club (Czech Republic, Bulgaria etc.) and commercial debt which made up \$ 0,8 bln. (lend- lease liability) - \$ 23 bln.
4. Debts of Soviet facilities and organizations - \$ 1 bln.
5. Liability to the CMEA (Council for Mutual Economic Assistance) - \$ 10, 38 bln.

In 1991 the Russian Federation made its own external debts to the sum of \$ 77, 1 bln. besides the ormer Soviet Union's liabilities.

Since 1992 Russia borrowed more than \$ 20 bln. from IMF. In terms of the following service IMF's loans are inconvenient because according to the Fund Regulation loans can't be restructured and must be paid compulsorily. Credit lines of the Western countries opened within the limits of the Western help package became another big source of the debt.

To the 31st of December 1997 Russian state foreign debt was \$ 123 bln. On the 17<sup>th</sup> of August 1998 Russian authorities had to pronounce default on the state internal debt.

The government of Russia took \$ 0, 8 bln. of unrelated loans from IMF, World Bank and Government of Japan from July to September 1999.

From January to September 1999 the total foreign lending and loans volume taken by the Government of Russia was \$ 2 bln. (including unrelated loans).

The Russian Federation's debt (new Russian debt) was \$ 51 bln. on 01.01.2002.<sup>1</sup>

On the 1st of January 2010 external liability of the Russian Federation was \$ 37,6 bln. It's structure is presented in the table 1.

**Table 1-** State external liability structure of Russian Federation to the 1 of December in 2010<sup>2</sup>

<b>Debt category</b>	<b>\$ million</b>	<b>€ million</b>
State external debt of Russian Federation (including former USSR's liabilities , taken by Russia )	40736,7	30679,9
Liability to the Paris Club	777	585,2
Liability to the official creditors- not to the Paris Club	1762,4	1327,3
Liability to the official creditors- former CMEA countries	1126,4	848,3
Commercial liability of former Soviet Union (debts, not accommodated at the time of commercial liability reissuing of former USSR and calculation with London Club)	812,9	612,2
Liability to the international financial organizations	3169,8	2387,3
Liability on bond loans	30456,5	22937,6
Foreign bond loan in 2015	2000	1506,3
Foreign bond loan in 2020	3500	2635,9
Foreign bond loan in 2018	3466,4	2610,6
Foreign bond loan in 2028	2499,9	1882,7
Foreign bond loan in 2030	18990,2	14302,1
Liability on OVGZ	1774,9	1336,7
Including the 7 series of OVGZ	1750	1318
Liability on the Russian Federation' s safeguards in the foreign currency	856,8	645,3

<sup>1</sup> Vorobiev A.E., Chekushin T.V. National economic safety of Russia: methodology of state debt management. RUDN. Moscow. 2006. 71- 99p.

<sup>2</sup> www. minfin.ru

It can be seen from the table 1 that the structure of the total foreign debt of the Russian Federation hasn't changed compared to the rates before the crisis: banks and facilities' debts are prevailing in total- 90, 6 % from whole cumulative liability to non- residents, also 62,8 % (\$ 291, 2 bln.) are the debts of facilities, 27,8 % (\$ 129 bln.) are the bank's liabilities, government bodies weight of debts to the non- residents put down to the 1 of April in 2010 and became 6, 75 % as compared to 7,74 % on the 1 of January of 2008 at the total volume of the Russian Federation's cumulative foreign debt.

Comparing the statistical data of 1991 and 2010 relating to the foreign liability's volume of the Russian Federation (\$ 108 bln. and \$ 37,6 bln.), one can say that there is a positive trend of stabilization and reduction of the Russian foreign debt.

There are instruments of foreign liability's settlement which help to reach this result:

1. Foreign debt's conversion of USSR was made to the Soviet assets
2. Restructuring of USSR's liability to London Club was made in 2000 besides obligatory payments which Russia had to pay.

3. In 2000 the Russian Federation issued new liabilities (Eurobonds), what made Russian debt practically equal to the Soviet one.

4. Part of the former USSR's liability was written off in 2000, in consequence of what the Russian state foreign liability reduced to \$ 148,7 bln.

5. The debt to a number of countries was paid as deliveries of goods. Such a way, at the expense of some kinds of goods export from 2000 to 2001 the liability volume to the former Soviet countries was reduced from \$ 14,6 bln. to \$ 14, 1 bln. and to official creditors which are not members of Paris Club from \$ 3,3 bln. to \$ 2,9 bln.

6. In 2001 USSR debt to the London Club was reissued to the Eurobonds of Russian Federation, thus this part of state debt finally transformed to new liabilities of Russia.

All of these foreign liability instruments of settlement allow to solve the Russia's foreign liability problem.

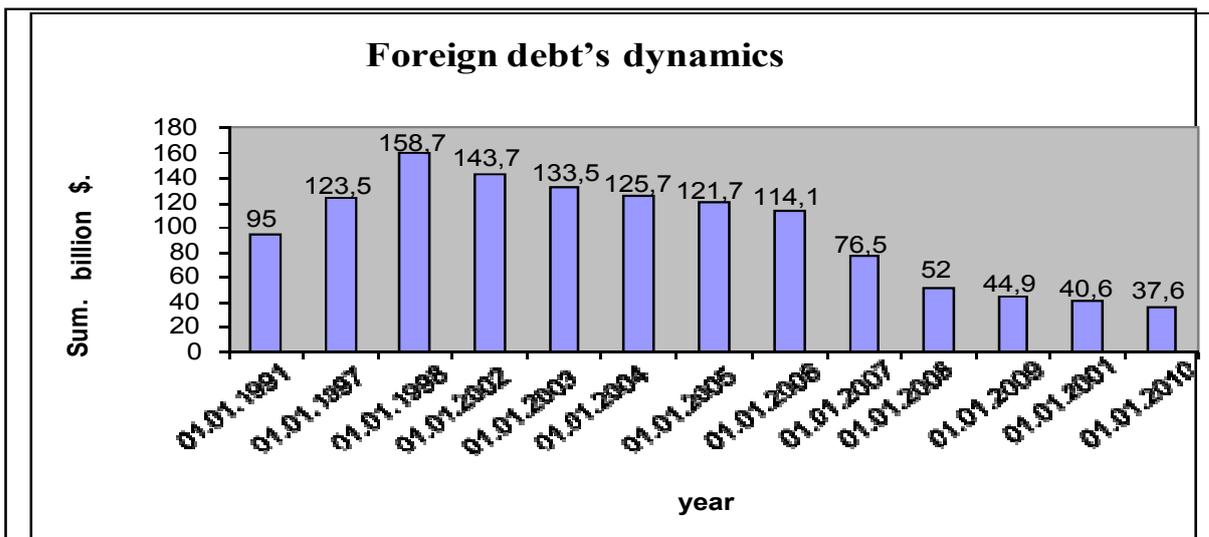
### **Trends of Russian foreign liability's development at present**

At present we can talk about new period of foreign liability problem's development. This period is defined by:

- changing of liability's trend to trend of stabilization and reduction;
- reduction of debt's volume by restructuring;
- liberation from illusion of possible debt forgiveness of a big part of liability, tedious work with separate creditors and debt categories;
- more active using debt management's market methods;
- consolidation of foreign debt management system.

According to the picture 2, reflecting Russian foreign liability dynamic of growth, one can say that there is a trend of Russian foreign liability reduction. In 1998 it was \$ 158,7 bln. and on the 1 of January 2010 it reduced to \$ 37,6 bln.

Russian Federation is on the safe level in indices of attitude of total foreign liability to the export of goods and services. It was \$ 136, 7 on 1 of January in 2010. The critical volume at this index according to the world practice is 220 %.



**Figure 2.** Diagram of the Russia's fireign debt dynamics in 1991-2010

### **State foreign debt management of Russian Federation: problems and opportunities**

State Duma worries about the state foreign debt of Russia. Unfortunately, there is no conception of foreign liability's payment in Russia. If there is no foreign economic relations conception in all government programs, starting from 1992 it is impossible to solve the foreign debt problem.

Government's external debt problems are closely connected with the monetary, fiscal and financial policy, balance of payments, balance of claims and liabilities, economic development, phenomena taking place at the domestic and foreign markets of loanable funds.

The next problem is connected with foreign debt's sources of payment. Usually it is provided by the state budget, there is a special statute in it. Equalization fund was founded for the state foreign debt's payment in 2004 to the Paris Club and it's the main function is external liability's payment.

At present our government pays these liabilities from other sources, specifically from the Equalization Fund's resources. It is necessary to pay foreign debt in time, although extra cash flow can be late.

That's why extra finances don't ensure external debt's payment in time though it is an important source.

Also government has other serious needs. They are: growth of population's standard of life, providing the country safety in conditions of international position's intensification.

The Government would like to use the significant part of extra finances for the foreign liability's payment.

All of the above gives evidence of the positive trend of Russian foreign liability's development.

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## SOVEREIGN DEBTS AND THE SPEED OF ECONOMIC RECOVERY IN SOUTH-EASTERN EUROPEAN COUNTRIES

### **Abstract**

The actual financial crisis has revealed the black holes of national strategies breaking week structures and spreading uncertainty all over the world. The question that arises is: a high level of sovereign debt is a solid, long-term solution for the recovery? The aim of this paper is to analyze the rhythm of economic recovery related to the structure of sovereign debt in South-Eastern European countries. In the first part, we define the national frameworks in order to extract the common elements of the selected area and the divergences determined by internal particularities. In the second section, we compare the structure of sovereign debts in the selected countries, highlighting the risks involved and we point out the role of International Monetary Fund (IMF). In the third part, we test the correlation between gross domestic product (GDP), sovereign debt, unemployment and the inflation rate in order to build an econometric model. The results show the position of the South-Eastern European countries and the road to reform. To conclude, the speed of economic recovery is determined by national particularities, the solidity of decisions and the implication of the European institutions.

**Keywords:** sovereign debt, gross domestic product, risks, economic recovery.

### **1. Introduction**

"The crisis has led to a deteriorating trajectory for debt burdens and sharply higher sovereign risk. Vulnerabilities now increasingly emanate from concerns over the sustainability of governments' balance sheets" (IMF, Financial Stability Report 2010). Sovereign debt strains may infect the banks and prolong the collapse of credit, with the risk of a vicious circle as this feeds back into the economy.

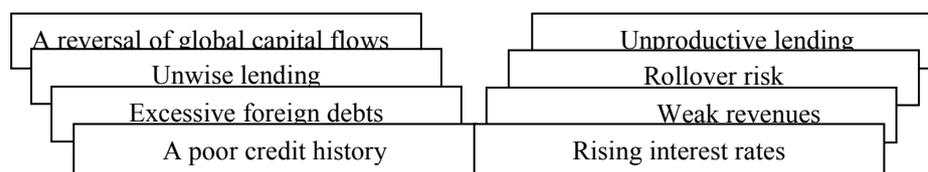
An important topic such as sovereign debt requires a clear perspective on circumstances, especially in time of crisis. Our paper aims to offer a short view of the South-Eastern European countries in terms of associated risks, implications of the IMF and solutions for the recovery. In the third part we choose four countries (Romania, Greece, Bulgaria and Croatia) in order to analyze the correlations between the macroeconomic indicators (gross domestic product, sovereign debt, unemployment and inflation rate).

### **2. Predicting a sovereign debt crisis**

Growing debt levels and the uncertainty surrounding the exit from discretionary fiscal stimulus have become a major source of concern about a future debt crisis. As the literature on debt crisis suggests, absent improvement in their fiscal balances, emerging market countries may face a higher risk of default on their obligations than mature economies, a risk that may be exacerbated by tighter debt markets and the financing needs of higher-income countries.

In good times, money is disbursed from the financial centers to the periphery in order to obtain higher rates of return. When a crisis occurs, the panic determines chaotic behaviors, we assist at banking failures and sometimes banking crisis turns into a debt crisis. Also, competition among banks generates a deterioration of lending standards with negative effects

on the real economy. A foreign currency loan can lead to a default on external debt. The risk transfer is a short-term strategy which delays the inevitable. Time is different in this financial crisis? The answer is no. The collapse of financial institutions led to massive international capital flows, the countries report increasing fiscal deficits and sovereign default concerns spreads all over the Europe.



**Fig.1. The common circumstances for a debt crisis**

### 3. Sovereign debts, risks and the IMF

The role of domestic banking sectors is vital, with the financial system transforming global risk into sovereign risk through two channels:

- ✓ in times of financial distress the government might be obliged to recapitalize banks using public money, increasing its fiscal liabilities.
- ✓ shortages in banking liquidity restrict credit to the private sector causing economic recession, increasing fiscal imbalances further. A different degree of banking exposure to global financial conditions determines a heterogeneous impact of the common global risk factor on national spreads.

Cumulative probability of default (CPD) quantifies the probability of a country being unable to honor its debt obligations over a given period of time. According to Global Sovereign Credit Risk Reports (2007-2010), the evolution of CPD in 2009 and 2010 is different in Greece compared to the other three selected countries.

**Table 1 - Global Ranking by CPD in four South-Eastern European countries**

Country	Q2 2009	Q4 2009	Q2 2010	Q4 2010	Q2 2011
Greece	12.3%	16.8%	25.4%	58.8%	80.6%
Romania	25.4%	17.2%	13.3%	18.7%	16.2%
Bulgaria	25.1%	13.8%	13%	16.2%	14.4%
Croatia	20%	13.9%	12.7%	16.8%	17.9%

Source: Global Sovereign Credit Risk Reports, 2007-2010

Greece remains the most risky sovereign debt in 2011. The austerity measures set by the EU and IMF were approved by the Greek parliament, but the effects can be seen on medium and long-term. In Greece, the poor market sentiment and high spreads would create pressures for credit contraction, affecting business and accelerating the contraction of domestic demand.

**Table 2 - Characteristics of aid packages in Greece and Romania**

Country	Characteristics
Greece	<ul style="list-style-type: none"> <li>✓ 110 billion euro+109 billion euro (2011) → the loan will be granted by euro zone members and the IMF;</li> <li>✓ Its maturity and the maturity of all future loans has been extended to 15 to 30 years, with a grace period of ten years, from the current 7.5 years;</li> <li>✓ The interest rate has also been brought down from 4.5% and 5.8% to 3.5%, which is lower than market rates.</li> </ul>
Romania	<ul style="list-style-type: none"> <li>✓ 19.95 billion euro (May 2009-May 2011)-IMF, EU and World Bank (WB)</li> <li>✓ 3.6 billion euro (IMF)+1.8 billion euro (EU, WB)-2011</li> </ul>

Source: National Bank of Romania, National Bank of Greece, IMF

The aid packages from IMF and European Central Bank partially explain the reduction of CPD in the fourth quarter of 2009 and second quarter of 2010 in Romania.

The crisis in Romania has been severe and rather prolonged by comparison with some other countries in the region, but the economic prospects are looking much better now. It is expected 1.5% growth in 2011 and 4% in 2012.

In Croatia, there is a large current account deficit, a high level of external debt, and significant balance sheet exposures to interest and exchange rate risks. Market confidence deteriorated in 2009, financial asset prices collapsed and sovereign spreads shot up.

Bulgaria's external debt is still significant, and generates a relatively high total financing need of about 25.5% of GDP for 2011. External debt peaked in 2009 at 108% of GDP. The rapid adjustment in the current account deficit, though, has already resulted in a reduction of external debt to 93.1% of GDP at end-March 2011.

**Table 3 - Evolution of selected economic indicators in Greece, Bulgaria, Romania and Croatia 2009-2010**

Country/Indicator	Real GDP (growth rate)		Unemployment rate %		Consumer prices (HICP)	
	2009	2010	2009	2010	2009	2010
Greece	-2	-4.5	9.4	12.5	1.3	4.7
Romania	-7.1	-1.3	6.3	7.6	5.6	6.1
Bulgaria	-5.5	0.2	6.9	10.3	2.5	3.0
Croatia	-6	-1.2	9.1	11.8	2.4	1.0

Source: \*\*\*IMF Country Reports No.11/158, No.11/159, No.11/175, No.11/179

#### 4. The analysis

For the econometric analysis we used four variables in four South-Eastern European countries: Greece, Romania, Bulgaria and Croatia. We collect the data quarterly: from 2000-Q2 until 2011-Q2. The tested variables are presented in table no. 3:

**Table 3 - Indicators used in the econometric analysis**

Variables	Countries	Abbreviations used in E-views
Gross domestic product (GDP)	Bulgaria	<i>gdp b</i>
	Romania	<i>gdp r</i>
	Croatia	<i>gdp c</i>
	Greece	<i>gdp g</i>
	European Union	<i>gdp eu</i>
Unemployment rate	Bulgaria	<i>u b</i>
	Romania	<i>u r</i>
	Croatia	<i>u c</i>
	Greece	<i>u g</i>
	European Union	<i>u eu</i>
Inflation (HICP – harmonized index of consumer prices)	Bulgaria	<i>i b</i>
	Romania	<i>i r</i>
	Croatia	<i>i c</i>
	Greece	<i>i g</i>
	European Union	<i>i eu</i>
Sovereign debt (% in gross domestic product)	Bulgaria	<i>sd b</i>
	Romania	<i>sd r</i>
	Croatia	<i>sd c</i>
	Greece	<i>sd g</i>
	European Union	<i>sd eu</i>

A regression relationship must be created just with stationary variables. A variable is stationary when a shock in its evolution is temporary and absorbed on long-term. We tested the variables using Augmented-Fuller (ADF) test and we applied first difference in order to obtain a final database. The results of the analysis show the followings:

### Romania

Dependent Variable: D\_SD\_R  
 Method: LeastSquares  
 Sample (adjusted): 2000Q2 2011Q2  
 Included observations: 45 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.857628	0.489296	1.752778	0.0871
D_U_R	-0.281404	0.543179	-0.518068	0.6072
D_GDP_R	-0.000869	0.000248	-3.503646	0.0011
I_R	-0.017013	0.025678	-0.662560	0.5113
R-squared	0.232423	Mean dependent var	0.184444	

In Romania, the relationship between sovereign debt and unemployment, inflation, GDP is negative. The value of R-squared shows that 23.24% of sovereign debt change is explained by GDP, which has a significant value ( $Prob < 5\%$ ).

### Bulgaria

Dependent Variable: D\_SD\_B  
 Method: LeastSquares  
 Sample (adjusted): 2000Q2 2011Q2  
 Included observations: 45 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.418032	0.720880	-1.967086	0.0560
D_GDP_B	0.001334	0.003716	0.359006	0.7214
D_U_B	1.696111	0.741425	2.287638	0.0274
D_I_B	-0.064951	0.250305	-0.259489	0.7966
R-squared	0.115071	Mean dependent var	-1.364444	

In Bulgaria, the relationship between sovereign debt and unemployment and GDP is positive, but inflation follows an opposite direction. Unemployment has a significant level ( $Prob = 2.74\% < 5\%$ ) The value of R-squared shows that 11.5% of sovereign debt change is explained by unemployment. *Unemployment doubled over the course of the downturn and remains high.* Registered unemployment peaked at 10.3% in 2010, although labor force data suggest it continued to rise to about 12% in Q1 2011.

## Croatia

Dependent Variable: D\_SD\_C  
 Method: LeastSquares  
 Sample (adjusted): 2000Q2 2011Q2  
 Included observations: 45 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.671253	0.296636	2.262882	0.0290
D_GDP_C	-0.006003	0.001529	-3.926968	0.0003
D_U_C	-0.329171	0.610108	-0.539530	0.5924
D_I_C	0.310443	0.223444	1.389356	0.1722

R-squared 0.300653 Mean dependent var -0.104444

In Croatia, the relationship between sovereign debt and GDP and unemployment is negative. The relationship between sovereign debt and inflation is positive. The value of R-squared shows that 30.06% of sovereign debt change is explained by GDP, which has a significant value ( $Prob=0.03\% < 5\%$ ).

## Greece

Dependent Variable: D\_SD\_G  
 Method: LeastSquares  
 Sample (adjusted): 2000Q2 2011Q2  
 Included observations: 45 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.200687	1.891841	1.691837	0.0983
D_GDP_G	-0.000782	0.000965	-0.810570	0.4223
D_U_G	1.940654	1.450862	1.337587	0.1884
I_G	-0.618545	0.511689	-1.208830	0.2337
R-squared	0.145849	Mean dependent var	0.875556	

In Greece, the situation is different; the budgetary deficit determined an important sovereign debt. The analysis shows that no indicator is significant (all  $Prob < 5\%$ ). The relationship between sovereign debt and GDP and inflation is negative, but unemployment change is following the same path with sovereign debt.

## The European Union

Dependent Variable: D\_SD\_EU

Method: LeastSquares

Date: 07/24/11 Time: 17:20

Sample (adjusted): 2000Q2 2011Q2

Included observations: 45 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.923467	3.652960	-0.252800	0.8017
D_GDP_EU	-4.09E-05	7.83E-06	-5.221448	0.0000
I_EU	-0.121178	0.398467	-0.304111	0.7626
U_EU	0.277714	0.364309	0.762303	0.4502
R-squared	0.408936	Mean dependent var		0.402222

In the European Union only GDP is significant for the analysis. There is a negative relationship between sovereign debt and GDP and the value of R-squared shows that 40.89% of sovereign debt changes is explained by GDP.

## 5. Conclusions

Recent financial crisis started in the banking system and turned into a debt crisis troubling the heart of Europe and spreading all over the world. In these circumstances the question that arises is: the economic recovery will be sound and viable in a near future? In this paper we tried to analyze the environment of a debt crisis, in four South-Eastern European countries: Greece, Romania, Bulgaria and Croatia. The most acute problems are in Greece, where the government is trying to secure domestic political backing for a strengthened package of measures to put its economy on a more secure footing. The country will also need additional financing to help it overcome the crisis. The implication of IMF in Greece and Romania assured a stable financial environment as a guarantee for the stability of the European area. On the other side, Bulgaria and Croatia are in such positions that don't need assistance with the imposition of conditions.

The econometric analysis shows that in all selected countries (except Bulgaria-the results show an increased level of unemployment linked to sovereign debt) as well as in the European Union there is a significant connection between sovereign debt and gross domestic product (GDP). Also, inflation and unemployment as macroeconomic indicators have not significant influence on sovereign debt value.

The speed of economic recovery is determined by the efficiency of the implemented measures proposed by governments or imposed by the European institutions.

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## INTERNATIONAL MONETARY FUND: CURRENT STATE AND FUTURE PROSPECTS

The article regards the activity of International Monetary Fund as the international organization, called to regulate currency-credit relations between members, render them the financial assistance at currency difficulties, and also works with developing nations to help them achieve macroeconomic stability and reduce poverty. Now the world is overflowed by conversations on future changes in IMF management, namely changes of the managing director. This article outlines the main positions of the two contradictory parties, offering their candidates for the post.

**Keywords:** Development of the International Monetary Fund, Euro-American duopoly, developing countries, BRICS.

The IMF was conceived in July 1944 when representatives of 45 countries meeting in the town of Bretton Woods, New Hampshire, agreed on a framework for international economic cooperation, to be established after the Second World War. They believed that such a framework was necessary to avoid a repetition of the disastrous economic policies that had contributed to the Great Depression.<sup>1</sup>

The IMF came into formal existence in December 1945 when its first 29 member countries signed its Articles of Agreement. It began operations on March 1, 1947. Later that year, France became the first country to borrow from the IMF.

The countries that joined the IMF between 1945 and 1971 agreed to keep their exchange rates (the value of their currencies in terms of the U.S. dollar and, in the case of the United States, the value of the dollar in terms of gold) pegged at rates that could be adjusted only to correct a "fundamental disequilibrium" in the balance of payments, and only with the IMF's agreement. This par value system—also known as the Bretton Woods system—prevailed until 1971 when the U.S. government suspended the convertibility of the dollar (and dollar reserves held by other governments) into gold. While the dollar had struggled throughout most of the 1960s within the parity established at Bretton Woods, this crisis marked the breakdown of the system. An attempt to revive the fixed exchange rates failed, and by March 1973 the major currencies began to float against each other.

From the mid-1970s the IMF sought to respond to the balance of payments difficulties confronting many of the world's poorest countries by providing concessional financing through what was known as the Trust Fund.

Within 1970s years and up to 1990s IMF remained the organization which helped the countries to overcome financial difficulties.

The fall of the Berlin wall in 1989 and the dissolution of the Soviet Union in 1991 enabled the IMF to become a (nearly) universal institution. In three years, membership increased from 152 countries to 172.

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<sup>1</sup> IMF—International Monetary Fund Home Page.

During the Asian financial crisis which has begun in 1997 almost every affected country asked the IMF for both financial assistance and for help in reforming economic policies. Conflicts arose on how best to cope with the crisis, and already then the IMF was exposed to the first criticism that was more intense and widespread than at any other time in its history. From this experience the IMF drew several lessons that would alter its responses to future events. First, it realized that it would have to pay much more attention to weaknesses in countries' banking sectors and to the effects of those weaknesses on macroeconomic stability. In 1999, the IMF—together with the World Bank—launched the Financial Sector Assessment Program and began conducting national assessments on a voluntary basis. Second, the Fund realized that the institutional prerequisites for successful liberalization of international capital flows were more daunting than it had previously thought. Third, the severity of the contraction in economic activity that accompanied the Asian crisis necessitated a re-evaluation of how fiscal policy should be adjusted when a crisis was precipitated by a sudden stop in financial inflows.

And now, with its near-global membership of 187 countries, the IMF is uniquely placed to help member governments take advantage of the opportunities—and manage the challenges—posed by globalization and economic development more generally.<sup>1</sup> The IMF tracks global economic trends and performance, alerts its member countries when it sees problems on the horizon, provides a forum for policy dialogue, and passes on know-how to governments on how to tackle economic difficulties. But if in the past, the major share of IMF quotas owned to developed countries, now there is quite a different trend...

The world has long observed the growth of developing countries in trade of goods and services as well as in international economic relations. In connection with accelerated development of developing countries, and with faster overcoming of the crisis period, earlier at the various summits questions of role changing of developing countries as a part of IMF were brought up, as for example, at the Pittsburgh Summit, President Obama led the G-20 in calling for enhancing the role of dynamic emerging market and developing countries in the International Monetary Fund. Such reforms will help to create a more effective, credible, and legitimate IMF that better reflects the global economy of the 21st century and which helped different countries to find common ground with its partners on the policies needed to secure a strong and balanced global recovery that avoids the reemergence of dangerous imbalances. The main themes of reforming the IMF are following:

- Increases the voting power of under-represented dynamic emerging market and developing countries by over six percent;
- Moves Brazil, China, India, and Russia into the top 10 shareholders of the IMF to reflect the size of their economies;
- Protects the voting share of the poorest countries;
- Enhances emerging market and developing country representation on the IMF's Executive Board, creating a Board that is more representative of today's global economy.

Then in 2010 at the summit of G20 Financiers was revised allocation of quotas of developing countries in the structure of the IMF. At a meeting in South Korea, they agreed a shift of about 6% of the votes in the IMF towards some of the fast-growing developing countries.<sup>2</sup> Those nations will also have more seats on the IMF's Board, while Western Europe will lose two seats. According to the accepted decisions, Russia has a quota in 2,73 % against 2,494 %, China - almost 4,42 % against less than 4 %, India - 2,75 % (2,4 %), Brazil - 2,3 % (1,8 %). The U.S. share has declined as a result of redistribution to 17,4% from 17,7%; Japan's

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<sup>1</sup> IMF—International Monetary Fund Home Page.

<sup>2</sup> WorldNews.

- down to 6.46% from 6.56%; Germany's - down to 5.59% from 6.11%; France's and Britain's - 4,93.

In connection with an increasing role of developing countries and the latest changes occurring in IMF (namely: changing of Managing Director), in this paper I would like to stop more in detail on International Monetary Fund Organization Chart, because there are two contradictory parties, offering their candidates for the post:

One force is that of the traditionally dominant Europeans, who want to retain their privilege of naming one of their own to the post and – frankly – need the IMF to fill Europe's political vacuum in dealing with its financial crisis.

The other force is the muscle flexing coming from the developing world, which wants to end the Euro-American duopoly that has run the IMF and World Bank since inception, and argues that an outside candidate would allow developing world economies to more fully trust the IMF.

All people, who were Managing Directors in different time, were Europeans but in connection with latest developments and bringing accusations, Dominique Strauss-Kahn, the last Managing Director of IMF, has resigned. And therefore some questions arose: Who will become the head of IMF? Will it be an European or an Asian? These and still many questions interested not only all Europe but also the whole world. And I think that it is absolutely right that these matters concern all countries, because of those who will be the next head of the IMF depends the future of different countries, and precisely, rendering of financial assistance to one or other countries by the IMF.

Historically, the IMF managing director has always come from Europe. This antiquated spoil system is a leftover of a post-World War II order, where the winning powers shared the leading positions. This arrangement made some sense when the United States represented 35% of the world economy and Western Europe another 26%. Today, the balance of power has changed. The United States represents only 20% of the world economy and Western Europe 19%. But the world has changed now. Not only do the developing countries represent a much bigger share of the world output, they also represent an even bigger share of the world lending. As you do not want the biggest borrowers to be in charge of administering a bank, why is it necessary that a European should be in charge of the IMF?

Thus if the IMF wants to be a truly international institution and not just a leftover of WWII, it should represent the world. In this respect a managing director coming from China or India would be ideal. That's why Executive Directors representing Brazil, Russia, India, China and South Africa in the International Monetary Fund, have the following common understanding concerning the selection of Managing Director of the International Monetary Fund:<sup>1</sup>

1) The convention that the selection of the Managing Director is made, in practice, on the basis of nationality undermines the legitimacy of the Fund.

2) The recent financial crisis which erupted in developed countries, underscored the urgency of reforming international financial institutions so as to reflect the growing role of developing countries in the world economy.

3) Accordingly, several international agreements have called for a truly transparent, merit-based and competitive process for the selection of the Managing Director of the IMF and other senior positions in the Bretton Woods institutions. This requires abandoning the obsolete unwritten convention that requires that the head of the IMF be necessarily from Europe.

4) BRICS share statements made in 2007 at the time of the selection of Mr. Strauss-Kahn, made by Mr. Jean-Claude Juncker, president of the Euro group: "the next managing

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<sup>1</sup> IMF—International Monetary Fund Home Page.

director will certainly not be a European” and “in the Euro group and among EU finance ministers, everyone is aware that Strauss-Kahn will probably be the last European to become director of the IMF in the foreseeable future”.

5) BRICS believe that, if the Fund is to have credibility and legitimacy, its Managing Director should be selected after broad consultation with the members. It should result in the most competent person being appointed as Managing Director, regardless of his or her nationality.

6) The Managing Director of the Fund should not only be a strongly qualified person with solid technical background and political acumen, but also a person that is committed to continuing the process of change and reform of the institution so as to adapt it to the new realities of the world economy.

But Europe seemed unwilling to give up the privilege of having one of its own at the top of the IMF, particularly at a time when the IMF’s main job is crafting bail-out packages for euro-area countries. Although non-Europeans had good chances to win, it didn’t occur. Christine Lagarde, French lawyer, former Minister of Economic Affairs, Finances and Industry of France became the first woman who headed the organization. On 5 July 2011, the International Monetary Fund board elected Lagarde as its next managing director and chairman for a five-year term. Her appointment comes amidst the intensification of the European sovereign debt crisis especially in Greece, with fears looming of loan defaults. The United States in particular supported her expeditious appointment in light of the fragility of Europe’s economic situation. U.S. Treasury Secretary Timothy Geithner has said that Lagarde’s “exceptional talent and broad experience will provide invaluable leadership for this indispensable institution at a critical time for the global economy.” After the introduction on a post of Managing Director, Ms Lagarde said she wanted to improve diversity at the IMF. She pledged to push ahead with reforms to give emerging markets greater sway at the international lender. As soon as Lagarde has entered on a post of Managing Director, her new desk in Washington was piling up with folders, and the most significant problems demanding the urgent decision, are:

First folder: the Greek crisis and the IMF’s role. In an attempt to fill the European institutional vacuum, under its previous leadership the IMF took unprecedented political and financial risks, which have now irreversibly tied the institution to the political and financial developments of the euro area, while narrowing its ability (and credibility) to leverage upon the Greeks and the European creditors to pursue a more effective approach.

Ms Lagarde faces a double challenge: in her new role she will have to urge her fellow Finance Ministers in Europe to take resolute and convincing action, while distancing herself from a basic approach she has helped to shape. More importantly, in her new capacity she will face the close scrutiny of the IMF membership, starting from its largest shareholder—the United States—who has proven impatient with the nuances and complexities of European policymaking.

Second folder: the global economy and the G-20’s mutual assessment process. Though formally distinct from the consultations that the G-20 has charged the IMF to conduct with analogous systemically-important economies, both the spillover reports and the consultations themselves will test her ability to facilitate the dialogue between China and the U.S., on which the success of the MAP ultimately hinges. As the U.S. administration comes increasingly under pressure to rebalance its fiscal position, it will become necessary to compensate for the fall in domestic demand resulting from fiscal consolidation, with an expansion of foreign demand, putting China and other emerging economies under substantial pressure to rebalance their current account surpluses in a shorter-term horizon.

Third folder: IMF's governance reforms. Right from the start, Ms Lagarde will have to ensure that the agreement reached at the G-20 Summit in Seoul in November of last year, later approved by the IMF's own governance bodies, is ratified by the membership before the Annual Meetings in 2012.

The agreed-upon package of reforms foresees China rising to the rank of third shareholder and the other BRICs among the institution's top ten shareholders. Importantly, the package is also tied to a reform of representation in the IMF's main policymaking body, the executive board, whereby Europe has agreed to give up two of its approximately eight seats in favour of under-represented members.

The latter measure will prove extremely contentious given that the European countries who have agreed to it—including France—in the context of the G-20 are not those who will have to forfeit their chairs. There is, however, more than a sense in some European quarters that the current turmoil may provide the chance to delay any such reform.

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### **IMPACT OF GLOBALIZATION ON MONETARY POLICY IN EUROPE**

The purpose of this article is to provide some background for a discussion of the monetary policy implications of globalization. The article contains such problems as the emergence of «speculative bubbles», the growth of cross-border flows and financial innovation, disintermediation, untimely response of central banks to changes in the economy. And also the article discusses how the European Central Banks conduct monetary policy and try to eliminate the negative effects of globalization.

**Keywords:** Monetary policy, globalization, inflation targeting.

The process of globalization produces a profound impact on practically all spheres of life of the modern society and all countries of the world. Nowadays, a country that develops

international economic relations with other countries of the world gets inevitably involved in the process of globalization, which, to a significant extent, stimulates the cooperation between countries on all levels, including economic. In recent years, globalization has become one of the hottest topics for central banks.

By globalization John B. Taylor means the increased mobility and interdependence of the world's financial markets, goods markets, and labor markets, due to improved information technology and the reduction in government barriers to doing business internationally.<sup>1</sup>

So financial globalization is reflected in the emergence of new trends: the emergence of «speculative bubbles», the growth of cross-border flows and financial innovation, disintermediation, untimely response of central banks to changes in the economy.

Firstly, the growth of cross-border capital flows increases the risk of emergence of speculative bubbles in asset markets and the extent of their negative effects. The European Monetary System had a crisis in 1992. Bright examples are the series of financial crises in major emerging markets from 1994 to 2001 in Mexico, Southeast Asia, Russia, Brazil, Turkey, Argentina; the decline in the stock markets of developed countries in 2001-2003; the recent mortgage crisis in 2007 in the US, which led to changes in global financial markets.<sup>2</sup> According to the International Monetary Fund, all of the United States, the Euro area, and Japan are expected to experience negative output growth in 2009 for the first time in the post-World War II era.<sup>3</sup> In this regard, it is necessary that the central banks regulate not only the dynamics of inflation, but asset price.

Secondly, because of the growth of cross-border capitals flows and increase the depth and liquidity of world financial markets is reducing the difference in interest rates between countries. The growth of innovation activities leads to the emergence of financial derivatives.

Thirdly, reducing the difference in interest rates between countries leads to a change within the system of financial intermediaries and the increasing role is played by institutional investors.<sup>4</sup> Although the conduct of monetary policy by central banks aimed primarily at banking institutions (they can obtain loans from the central bank or to participate in the conduct of open market operations).

Fourth, central banks in practice respond to significant changes in prices of financial assets after the fact. Central banks provide assistance to financial institutions, which have significant costs as a result of downturns in the stock market. Many researchers note that national sovereignty is lost partially. However, about a total loss of independence of monetary policy can speak only on several occasions: country knowingly refuses the national currency (the case of full dollarization) or when the choice is made in favor of the regime "currency board".<sup>5</sup> Central banks need to take into account the impact on the national economy the dynamics of world financial markets to construct theoretical models of the functioning of the monetary sector and its regulation in the new environment.

Thus, many central banks in Europe don't know how to combat the negative effects of globalization and the global financial crisis of 2008-2009. The task of monetary authorities in a crisis is difficult because in front of them while standing goal of ensuring stability of financial systems and to stimulate the national economy despite the fact that due to financial turmoil, there have been breaches in the transmission mechanism of monetary policy.

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<sup>5</sup>Fetisov, Lebedev, «Financial globalization: a general overview and challenges for Russia», IMPEPI. Moscow. 2003.

The main directions of the reaction of monetary policy of European countries to the crisis are:<sup>1</sup>

1. A policy of low interest rates (Britain and the Swiss central bank interest rates were reduced almost to zero level). Change in interest rates in the Euro area is shown in Figure 1.

From 1998 until 2010 the Euro Area's average interest rate was 2.89 percent reaching an historical high of 4.75 percent in October of 2000 and a record low of 1.00 percent in May of 2009.

2. Expanding the list of counterparties of central bank operations to provide liquidity.

3. The increase in terms of provision of funds by central banks in the banking system.

4. Expansion of the range of securities accepted as collateral for central bank operations.

5. In some cases there was a cross-border assistance by providing liquidity through currency swap transactions (the Swedish Riksbank).

But most European central banks follow a policy of inflation targeting. Number of countries adopting inflation targeting regime, has increased significantly - from 22 at end 2003 to 44 in the spring of 2008.<sup>2</sup> Under this policy, price stability, appropriately defined, is the principal goal of monetary policy. Price stability contributes to maximum sustainable employment and economic growth in Europe. Price stability is achieved when inflation remains low and stable for a long period of time.



Figure 1. Change in interest rates in the Euro area from 2004 to 2010.<sup>3</sup>

The inflation rate in Euro Area was last reported at 2.7 percent in May of 2011. From 1991 until 2010, the average inflation rate in Euro Area was 2.24 percent reaching an historical high of 5.00 percent in July of 1991 and a record low of -0.70 percent in July of 2009. Change in inflation in the Euro area is shown in Figure 2.

<sup>1</sup>Golovnin Michael, «Monetary policy in Russia and Central and Eastern Europe in the context of globalization», Moscow. 2010.

<sup>2</sup>Golovnin Michael, «Monetary policy in Russia and Central and Eastern Europe in the context of globalization», Moscow. 2010.

<sup>3</sup>Eurostat www. TradingEconomics.com (May 2011).



Figure 2. Change in inflation in the Euro area from 2008 to 2011.<sup>1</sup>

In April 2011, the lowest annual rates were observed in Ireland (1.5%), the Czech Republic (1.6%) and Sweden (1.8%), and the highest in Romania (8.4%), Estonia (5.4%), Lithuania and Hungary (both 4.4%). Compared with March 2011, annual inflation rose in sixteen Member States, remained stable in two and fell in eight.<sup>2</sup>

Inflation targeting has several advantages as a medium-term strategy for monetary policy. In contrast to an exchange rate peg, inflation targeting enables monetary policy to focus on domestic considerations and to respond to shocks to the domestic economy. Inflation targeting also has the key advantage that it is easily understood by the public and is thus highly transparent. Another key feature of inflation-targeting regimes is that the transparency of policy associated with inflation targeting has tended to make the central bank highly accountable to the public. Sustained success in the conduct of monetary policy as measured against a pre-announced and well-defined inflation target can be instrumental in building public support for an independent central bank, even in the absence of a rigidly defined and legalistic standard of performance evaluation and punishment.<sup>3</sup>

Critics of inflation targeting have noted seven major disadvantages of this monetary policy strategy. Four of those disadvantages -- that inflation targeting is too rigid, that it allows too much discretion, that it has the potential to increase output instability, and that it will lower economic growth. The fifth disadvantage, that inflation targeting can only produce weak central bank accountability because inflation is hard to control and because there are long lags from the monetary policy instruments to the inflation outcome, is an especially serious one for emerging market countries. The sixth and seventh disadvantages, that inflation targeting cannot prevent fiscal dominance, and that the exchange rate flexibility required by inflation targeting might cause financial instability, are also very relevant in the emerging market country context.<sup>4</sup>

Nevertheless, monetary policy in developed countries has not coped fully with its objectives and failed to prevent recession.

The main conclusions of the paper are:

<sup>1</sup>Eurostat www. TradingEconomics.com (May 2011).

<sup>2</sup>Eurostat www. TradingEconomics.com (May 2011).

<sup>3</sup>Frederic S. Mishkin, «Inflation targeting», National Bureau of Economic Research.

<sup>4</sup>Frederic S. Mishkin, «Inflation targeting», National Bureau of Economic Research.

1. Financial globalization has created new challenges for national monetary policy, coupled with the increasing influence of external factors on national monetary and credit sphere.

2. The most serious challenge for monetary policy has become a global economic and financial crisis of 2008-2009, the first global crisis associated with dysfunction of the financial markets in the national economy and the global economy as a whole.

3. European countries failed to develop a new monetary policy to cope with the consequences of globalization.

Therefore, European countries need a fundamentally new paradigm of monetary policy, because the results of monetary policy become less predictable; monetary policy faced with restrictions as to the purposes and on the tools available to its implementation; greater responsibility for the ill-conceived monetary policies, which can lead to an outflow of capital from the countries and to financial and economic crisis of greater magnitude.

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### **IMPLICATIONS OF CURRENT GLOBAL FINANCIAL CRISIS ON THE FINANCIAL SYSTEM IN THE COUNTRIES OF CENTRAL AND SOUTH EUROPE**

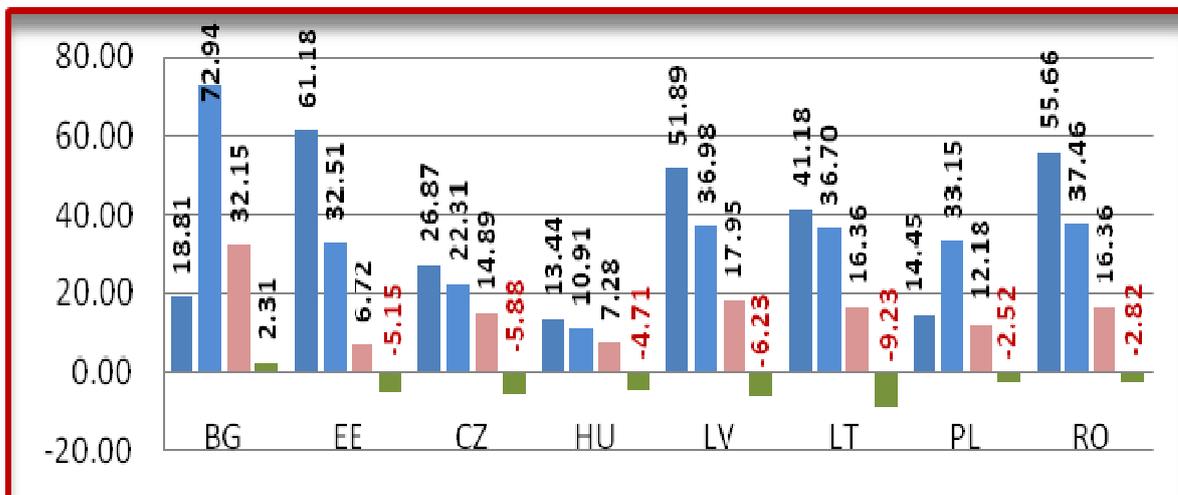
The financial system is vitally important for the real economy, contributing decisively to support economic activities. A series of theoretical and empirical studies have highlighted a significant correlation between the functioning of the financial system and long-term economic growth. The paper aims to underline the features of the financial system of Central and Eastern

European countries (Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania and Hungary), the major imbalances accumulated during the period preceding the onset of the current global economic crisis on the financial system of the countries examined and the measures taken by monetary and financial authorities to restore the confidence in it. The analysis conducted in this paper suggests that the financial system is characterized by a high sensitivity, subjected to pressures from international financial turmoil and the risks that have occurred in its structure have been growing. In order to obtain our data, we have used official statistics of the central banks from the analyzed states, official statistics of IMF, World Bank, different reports, studies and researches.

**Keywords:** financial crisis, financial intermediation, financial stability, public authorities.

Financial stability has faced significant challenges in recent years, it depends largely on the social system, the degree of development of each country, but also the promoted economic policies. This stability means, in the countries studied, a restoration of confidence in the financial system, promoting sustainable economic growth and mitigation that occurs in this context.

A first implication of the international financial crisis is manifested in the *banking sector*, namely the restriction on bank lending. Thus, with reference to loans to non-financial entities and population, there was a downward trend of growth, due to adverse macroeconomic developments, currency depreciation, high cost of maintaining the credit and saving tendencies manifested by population (see Figure 1).



Source: Own processing after ECB, "Eu Banking Structures", report available at: [www.ecb.eu/pub/pdf/other/eubankingstructures201009en.pdf](http://www.ecb.eu/pub/pdf/other/eubankingstructures201009en.pdf)

Fig. 1. Evolution of growth of loans to non-financial companies between 2006-2009

Another challenge to financial stability is related to credit risk. Due to the high level of household indebtedness and economic adjustments induced by recession, it occurred pressures in good performance on debt service, leading to amplification of non-performing bank loans size.

Thus, as shown in Table. 1, there was an increasing trend of these, in the top countries being analyzed was Lithuania, Latvia and Romania. Although non-performing bank loans remain at a manageable level, it's obvious the need to maintain close monitoring and increased provisioning efforts.

Table 1

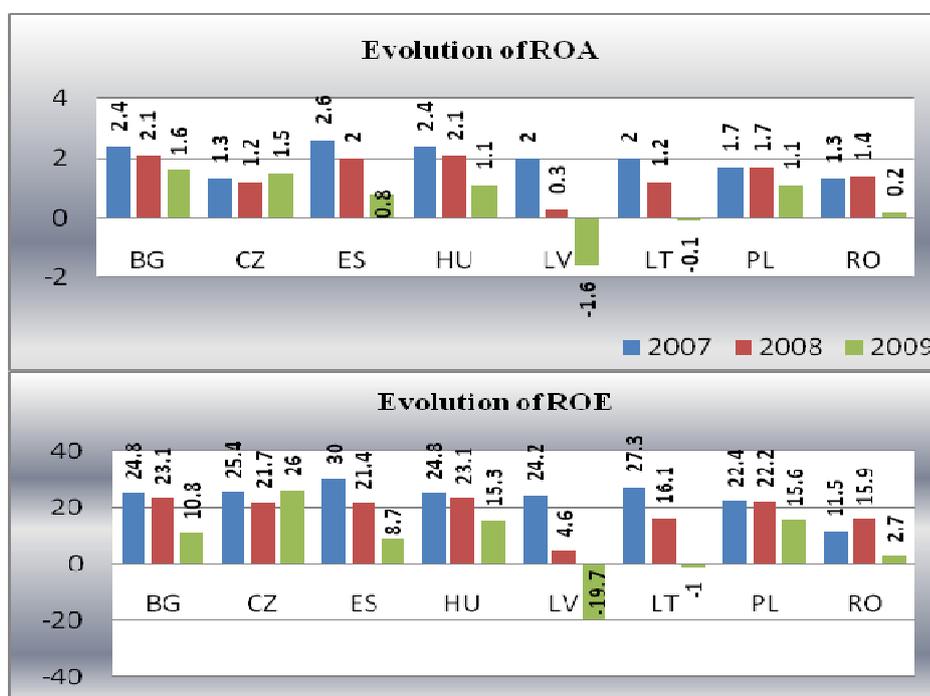
The evolution of financial soundness indicators in the countries examined, between 2007-2009 (%)

	<i>Capital adequacy</i>			<i>Provisions related to nonperforming loans</i>			<i>Nonperforming bank loans (total loans)</i>		
	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
<b>BG</b>	13.8	14.9	17.0	100.4	109.0	78.3	2.1	2.5	6.4
<b>EE</b>	10.8	13.3	15.7	110.9	57.2	83.5	0.4	1.9	5.2
<b>CZ</b>	11.6	12.3	14.1	60.0	58.1	50.1	2.7	3.2	5.2
<b>LV</b>	11.1	11.8	14.6	129.8	61.3	57.4	0.8	3.6	16.4
<b>LT</b>	10.9	12.9	14.2	42.1	27.2	38.4	1.0	4.6	19.3
<b>PL</b>	12.0	11.2	13.3	68.8	61.3	50.2	5.2	4.5	7.6
<b>RO</b>	13.8	13.8	14.7	61.6	60.3	50.6	4.0	6.5	15.3
<b>HU</b>	10.4	11.2	12.9	64.8	58.9	53.2	2.3	3.0	6.7

Source: Centralized data after IMF, "Regional Economic Outlook: EURO Building Confidence October 2010", report available at: <http://www.imf.org/external/pubs/ft/reo/2010/eur/eng/ereo1010.pdf> and Financial Stability Reports

In reporting the financial results of banking sectors analyzed, it can be stated that there have been positive, but modest values, and in some countries the profitability entered in a negative territory, due to increased provision expense (see Figure 2).

Thus, banks were forced to engage in cost reduction by resizing the bank branch network, using the same time reducing or eliminating investment projects, but also different strategies, such as the increase in interest rates.



Source: Centralized data after Raiffeisen Bank International, "CEE Banking Sector Report", September 2010, report available at [http://www.rzb.at/eBusiness/services/resources/media/677012584775275435677012584775275436\\_677251119927032833\\_677257048341086064-679588600387211306-1-9-DE.pdf](http://www.rzb.at/eBusiness/services/resources/media/677012584775275435677012584775275436_677251119927032833_677257048341086064-679588600387211306-1-9-DE.pdf), and Financial Stability Reports

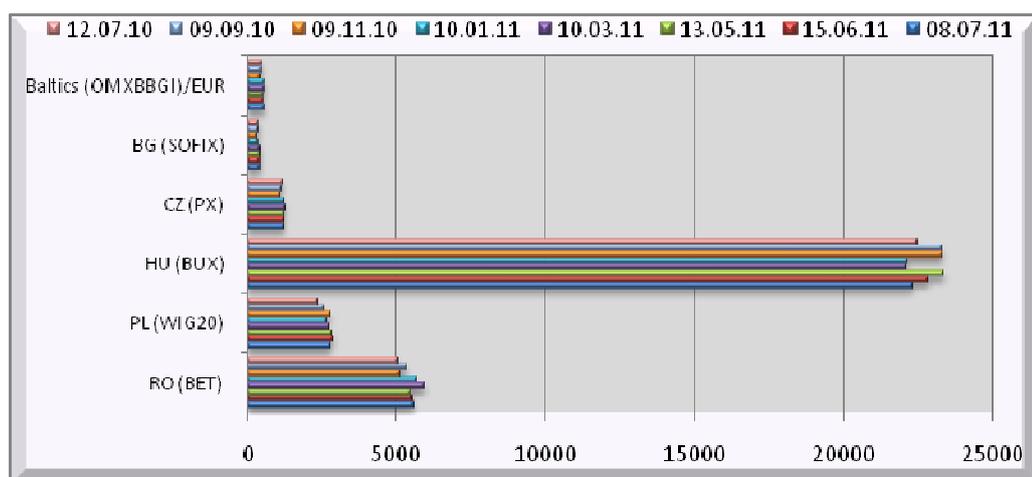
Fig. 2. Evolution of indicators of bank profitability in the countries studied, between 2007-2009

From the perspective of *insurance companies* it can be indicated that there may have been implications for economic activity, pointing out negative effects on growth of life insurance and general insurance. However, despite the adverse developments, insurance companies have obtained high yield of interest on deposits and investments in government securities. In this context, stands as the main risks relating to sensitive economic environment, but also the increasing prices on auto insurance.

About *pension funds*, it can be indicated that there was a lower growth rate of contributions and the implications in *nonfinancial institutions* were deeper. Thus, their ability to continue work in good conditions is constrained by economic contraction issues but also on liquidity. It is also noted the orientation on investments in fixed income instruments and a decreased risk. There is a deterioration in the loan portfolio, restricting access to finance and reduce credit demand.

*Capital market* was affected in the same proportion of the crisis and although in early 2010 there was a trend to improve investor confidence, it has deteriorated in recent years due to concerns about sovereign debt crisis. Within that there was an aversion index representative of stock exchanges which recorded values falling in most countries (see Figure 3).

Monetary authorities have intervened to support the financial system through a set of measures that can be grouped differently. It has been noticed *ad hoc measures* adopted for individual credit institutions, and *complex schemes*, applied when the international financial crisis intensified.



Source: Own processing after report Stock Exchange

Fig.3. Stock price indices in the countries analyzed between 2010-2011

At the same framework it has been noticed the measures taken by monetary authorities and the government.

Under *government measures*, is observed as the main courses of action the guarantee bank deposits, bonds, bank recapitalization, the delimitation of so-called "Bad Banks" and the nationalization of financial institutions (see Table 2). The first step involves increasing the level of bank guarantees from 20.000 EUR to 100.000 EUR, wishing to emphasize the solidity of the banking system. The recapitalization was used to inject funds into the financial system, primarily for institutions that additional capital was required for smooth running of the business. To absorb losses in the system was used and the delimitation of credit institutions which registered losses and delays in payment obligations, known as "Bad Banks". In the latter method, nationalization was turned into a low rate, as implied transfer of state-owned financial institutions to realign their primary objective.

Table 2

Governmental measures adopted in the countries surveyed between 2007-2010

	<i>Guarantee schemes</i>	<i>Recapitalization schemes</i>	<i>Mixed schemes</i>	<i>Financial institutions affected</i>	<i>Deposit guarantee (EUR;2010)</i>
<b>BG</b>	-	-	-	-	50.000
<b>CZ</b>	-	-	-	-	50.000
<b>EE</b>	-	-	-	-	50.000
<b>HU</b>	-	-	x	-	45.252
<b>LV</b>	x	-	-	2	50.000
<b>LT</b>	-	-	x	-	100.000
<b>PL</b>	x	x	-	-	50.000
<b>RO</b>	-	-	-	-	50.000

Source: Centralized data after A., Sutton, "Bank State Aid In The Financial Crisis Level Playing Field-or fragmentation?" available at: <http://www.ceps.eu/book/bank-state-aid-financial-crisis-fragmentation-or-level-playing-field>

Of significant importance are the *measures* adopted by *monetary authorities*, which have mainly used monetary policy instruments, acting to decrease progressively monetary policy rate and reserve requirements. Also, to ensure financial stability have imposed regulations to ensure a certain level of liquidity and solvency.

Also, at European level were noted other remedies, to counteract the negative effects of global financial crisis, namely the European Economic Recovery Plan (2008), Initiative Vienna (2009), College of Banking Supervision (2009), Agreement Basel 3 (2010) and macro-prudential supervision framework.

With a major impact on financial systems studied, noted the Vienna Initiative, which has as main concern analyzing problems of nonperforming bank loans, the loans in foreign currency, establishing a minimum level of capital adequacy.

A fundamental role plays Basel 3, which involved the establishment of new regulations on the capital adequacy and liquidity, marking response to the deficiencies caused by the global financial crisis. This involved the establishment of improved commercial settlement arrangements, arrangements to prevent bank failures and ensuring greater transparency on the management of financial institutions.

Performance of the financial system is directly dependent on the nature of the social system, development level of each state and the economic policies promoted. Thus, Central and South European countries have acted to achieve a set of reforms to adapt the financial system at the standards promoted by developed countries.

### Conclusions

This paper aimed to highlight the main implications of the international economic crisis on the financial system in the countries of Central and South Europe, namely Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania and Hungary, stressing negative effects, manifested mainly on banking sector and measures taken by public authorities.

Amid the global financial crisis, financial systems studied showed a restriction of activity in credit institutions and the increase of non-performing bank loans, a contraction of the insurance activity, noticing also implications in the capital market by characteristic aversion of investors.

Thus, to support the financial system and counteract the adverse effects of economic crisis, authorities have been involved through various measures aimed at restoring confidence

in the financial system, strengthening and enhancing its capacity to face adverse international developments.

The results of this analysis suggest that, despite all the progress of the countries studied due to transition to a market economy, financial crisis manifested in each country, closely related to the specific vulnerabilities of different economies.

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#### **PROBLEMS OF FREE CURRENCY CONVERTIBILITY IN DEVELOPING COUNTRIES: CASE OF RUSSIA AND CHINA**

Influence of free currency convertibility on economic development of the country is doubtless. Levelling of trading balances, profit rates, goods markets saturation and improvement of internal macroeconomic balance allow to consider this process as the positive factor of development of the several countries. However there is variety of risk factors

connected with hasty establishment of convertibility in the conditions of imperfect market mechanisms specific to many developing countries and emerging economies. These problems are analysed in the paper on case of Russia and China.

**Keywords:** Currency, Convertibility, Free currency convertibility, Rouble, Yuan, Settlement payments of BRICS.

The financial and economic crisis of 2008-2009, accompanied by a sharp increase in instability of leading world currencies -both dollar and euro against each other and against the currencies of other countries, significantly accelerated the understanding of the need to reform the international monetary and financial system, to expand the list of reserve currencies used in international payments. The members of BRICS, primarily Russia and China, play the most active role in promoting and implementing this idea.

Currently there are no conventional and generally established notions of freely convertible currency. Generally, full convertibility can be defined as absence of restrictions on the free exchange of domestic currency into foreign and, conversely, foreign currencies on the national [7].

Basically this definition has a provision reflected in Article VIII of the Charter of the International Monetary Fund (IMF) in which the status of the convertibility of currencies is recognized only for those member-countries that undertake not to place limitations on payments and transfers for current international transactions without transfer capital. In today's world, only a limited number of countries have fully convertible currencies: the USA, eurozone countries, the Great Britain, Japan, Canada, New Zealand, etc. These are primarily the major industrial countries, or major oil exporters, or countries with a developed and a highly open economy. The credibility of these currencies is determined only by investors, holders of those currencies, exporters and importers, who decide how convenient, profitable and safe it is to operate and keep capital in a particular currency.

According to many economists, arrangement of favorable conditions for operation of economy and its involvement in the international division of labor must precede a phase of introducing full convertibility [3].

In terms of theory and world practice basic premises of introducing full convertibility are a stable economy, low inflation, reducing balance of payments deficit, the settlement of external public debt, the normalization of political and socio-economic situation in the country. Introducing the convertibility of the currency must be based on, first, to what extent the basic economic and political conditions are matured for it and, secondly, whether the government intends to use the convertibility as an instrument of currency policy and economic strategy in a whole [1].

The transition to full currency convertibility and to its circulation on the international markets is not a single act but gradual process. Just abolition of monetary restraint on capital transactions is not enough.

First, there must be created an economic base in the form of free market economy, competitive quality products and also be provided a high level of balance and stability of internal and external factors of production and exchange.

Secondly, there must be taken measures to make the domestic foreign exchange market become part of the world foreign exchange market, which is freely convertible currency guarantee.

Third, it is important to choose the optimal exchange rate on the way to full convertibility. Indeed, among the important goals of full convertibility stands creation of favorable investment climate in order to attract foreign capital. Global experience has shown

that only a strong national currency is an incentive for foreign capital to invest in the economies of other countries.

The main advantage of freely convertible currency is an opportunity for residents of the country of issue to use the currency for international payments without additional transaction costs. It increases the competitiveness of its exporters. Also among the positive effects there are increase of investments, especially in undervalued sectors, and also growth in demand for currency on the world market which allows the government to expand issue of the currency, increase funding of national economy, and promote growth of its competitiveness on the global market [7].

Negative effects are also known. This is increased dependence of the domestic financial market on external influences and global financial crises. Exchange rate fluctuations may damage exporters or importers. Open market economy depends on fluctuations of world prices and interest rates. And it is impossible to avoid the influence of factors of the world market. Therefore coming to a freely convertible currency, country must take into account probable losses and develop measures to protect itself against negative fluctuations of the world market.

Thereby achievement of full convertibility of national currency is a significant event for the economy of any country and it has many advantages. However, to avoid the negative consequences of transition, the movement toward full convertibility should be smooth, gradual and contain a range of preparatory measures [1].

Following the results of BRICS's summit participants of this informal block made the first serious step towards reducing dependence on the dollar in bilateral trade, and their development banks have signed a credit agreement of joint projects. China, the richest partner of BRICS, has already laid out for this purpose 10 billion yuan (over 1.5 billion U.S. dollars (USD)). Members of BRICS signed a declaration that they support reforming of the international monetary system, including the expansion of a currency basket of Special Drawing Rights (SDR) of IMF. So far only the Chinese yuan is the only real candidate out of the currencies of BRICS for inclusion in the basket consisting of USD, euros, pounds sterling and yens [5].

To become a full convertible currency, and to have the same spread as the USD, the yuan must be secured by full convertibility of all operations. Until recently there were serious restrictions of the yuan exchange to other foreign currencies. But on the January 1, 2010 was established the world's largest free trade zone, created by China and the Association of Southeast Asian Nations (ASEAN). Inside this zone - CAFTA (China - ASEAN Free Trade Area) there is a common customs area, and the main payment currency is the yuan [4].

Beijing plan to make its currency wide-spread and used consists of several main points:

Exporters and importers should move to payments with foreign partners in yuan.

China will have to open long-term capital market to foreign investors.

Encourage foreign issuing banks to replenish their foreign exchange reserves into the Chinese yuan.

Allow foreign enterprises to make direct investments in the yuan from their own reserves.

The power of the Chinese yuan is provided by the country's volume of GDP, and first of all by the industry. That is, Chinese goods are competitive in the world market and that will hold quite high rate of the yuan. Without all these factors there would have been no use to talk about convertibility of yuan. Today, the yuan is quoted higher than yen and Taiwanese yuan, to say nothing of the ruble, which is supported by only oil and gas.

Chinese yuan is supported by almost the whole branches of products and services that China produces on its territory. In 2010 China produced the domestic production of 39 trillion yuan – it's about 5.8 trillion USD [4].

Chinese products are competitive in the world market. And there are opportunities for free convertibility of the yuan. It was the right decision of the Chinese government not to go directly to the full conversion. Yuan kept partial convertibility on individual transactions in order to attract foreign capital. In 2010, China attracted 106 billion dollars of foreign investments, it's just during one year. This is a huge amount. Russia has foreign direct investment less than 7-8 times, meanwhile, majority of these investments are portfolio investments [4].

However, investors have serious doubts about the stability of the political system in China and the guaranteed growth of its economy:

The poverty of the country. China is still a quite poor country compared to the United States, Japan and the EU.

The banking and financial systems in present China are still undeveloped, and it is not conform to full currency market openness [6].

Despite this, according to some anticipation, the full convertibility of the yuan is the question of the next three to five years. It's good for China: its dollar relations will be reduced, there will be more domestic resources for lending to the economy, which meant that living standards will rise faster. We can say that China will get rid of what economists call the original sin of developing countries, where citizens and businesses borrow money not in the currency in which they earn. However, there arises a risk is of the yuan's consolidation.

What might be the consequences of free convertibility of the yuan to the Chinese economy? And the conversion of the ruble to Russia?

There may be a slowdown in Chinese exports and it will be more difficult to enter the world market to China. However, we should expect investment growth in China; in the future it will stimulate strength and competitiveness of the Chinese economy. Russia, having made a similar move in the same conditions, will be deprived of such benefits. Strictly speaking, Russia does not have a lot to present on international markets. Structural changes in the economy are moving slowly, and country suffers variety of competitive products. Add to that complication of extraction and transportation of oil and gas, Russia may find itself in a situation where investment in the oil producing industry will significantly reduce.

Today, the ruble exchange rate is determined by the results of trading on the MICEX (Moscow Interbank Currency Exchange). The course changes depending on behavior of players in the market. Central Bank of Russia is a major player; it supports ruble's rate within the limits of predetermined rate trying to compensate influence of the rest players.

Bi-currency basket is a standard that specifies the exchange rate to which Central Bank seeks. It was introduced in February 2005 and then it was equal to the arithmetic sum of 0.1 and 0.9 euro-dollar exchange rate. At the moment it contains EUR 0.45 + USD 0.55. Ruble exchange rate to this "basket" is set to 30 rubles. At the same time the Central Bank allows ruble exchange rate to deviate from the standard, expanding the boundaries of the corridor.

The main problem of ruble exchange rate is that market participants can't know for sure beforehand if the Central Bank will devalue or strengthen the ruble; all they can do is forecast the reasons for changes in rates.

The problem of convertibility are often considered in terms of the opinion that if the most developed countries have freely convertible currencies then, therefore, Russia should strive for full convertibility of the ruble.

In fact, the level of national development and competitiveness of the economy increases not by achieving the convertibility but by economic development, growth of its efficiency as the basis for future introduction of full currency convertibility [2].

"The world trust in Russian ruble could rise if the Government and the Central Bank were able to keep inflation at a low level for a long time" – said Vice Premier Minister of

Finance Alexei Kudrin. In his view, only after that there will be a "significant increase of trust in the ruble and a significant expansion of payments in rubles." In the meantime, the current situation with inflation doesn't allow make transactions between business entities of Russia and other countries in rubles [8].

In 2011, Russia has placed Eurobond in rubles, which was the largest bond issue in local currency, which is not reserve, and, in fact, was another step towards expansion of payments in rubles.

Moreover the Russian ruble is supported by a large extent of foreign-currencies and gold reserves which currently total \$ 516 billion.[8]

As the modern world economy dictates competitive market's conditions, enforced by globalization, the problem of convertibility of the ruble should be solved through strategies such as:

- provision of the Russian economic stability, increase of its competitiveness (in the technical level, efficiency, quality, production costs and prices);
- diversification of production, reducing raw material orientation of Russian exports and dependence of national economy on the world prices for energy resources and other commodity prices;
- rise of the financial and banking system's stability, development of banking and monetary market infrastructure;
- significant reduction of inflation and establishment of economically relevant exchange rate.

The modern state of Russian legislation and market development of conversion operations permit us to state that the ruble has all the formal and actual signs of the currency which has internal and external convertibility for current transactions. However, the level of development of Russian economy and its banking system and financial markets, the pattern of the country's participation in world economic relations argue that the necessary conditions for transition to full convertibility of the ruble has not yet been created [3].

Transition to full convertibility of national currency is logical in terms of deeper integration of a country in the world economy, but its effects are ambiguous. Only with the establishment of important economic preconditions, and first of all with support of stability and equilibration of the economic situation in the country, with occupation of significant place in the international division of labor, transition to full convertibility could bring a range of advantages. However, for countries with dependent economy it can have negative consequences. The uncertainty of problems, relating to the neutralization of the effects of "waves" of the inflow and outflow of capital, determines the retention of any foreign exchange restrictions in most developing countries and the transition to full convertibility of national currency usually has an evolutionary, progressive nature and is caused by the formation of the economic prerequisites [3].

For countries with developing economies a freely convertible currency is a luxury. In order to permit it, it is necessary to reach the mature level of not just reserves, but also in restructuring of the economy and in improving the business climate in the country. It must not be only accumulation of economic reserves, there must be understanding what it was done for.

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### **EXPERIENCE OF DEVELOPING COUNTRIES IN CREATION OF INTERNATIONAL FINANCIAL CENTERS**

The paper examines positive experience of creation and development of international financial centers in a number of developing countries. Special attention is paid to analysis of experience of China and Russia in this field.

**Keywords:** world capital market, financial centers, developing countries.

International financial centers (IFC) are one of composing parts of world capitalistic economy and include namely, financial market, market of bank loans and securities.

International financial centers act as a market mechanism which is an operating tool for money flow. Banks and credit organizations concentrate in IFC and put through international exchange, credit and financial operations, transactions with securities, precious metals and derivatives.

IFC are gradually turning into powerful centers of analytic intelligence, which have great credit potential. Firms, serving IFC's needs, including law, audit and operating consultants, take leading positions in IFC. More than that, IFC attract a lot of specialists, who analyze condition and perspectives of world economy in a whole and economies of different countries. Nowadays there is the increasing role of analytic centers, which are capable of providing processes of researching, preparation of indexes and ratings.

Over the last years one of the most important functions of IFC became realization of long-term strategy of strengthening and expansion of world financial system formed in the end of the 20<sup>th</sup> century. They are working on "game rules" for financial markets, modifying institutional law system for providing free access to financial service market.

IFC also operate international debt and restructure international loans to ensure future payments and receipt maximum volume of current ones. IFC, concentrating money funds, head them to outlying countries that more and more depend on receipt of new loans and foreign

investments. Local authorities are working out concerted actions to govern current situation and coordinate formation of new world financial order. Now they do their best to create new system of control and to prepare appropriate law base, unificate of reporting system and audit, ensure its transparency and access.

Nowadays there is a great number of IFC in the world: some of them were based on local capital markets, others – on international ones.

Location of international centers is not random. They are where they are because of a historical process that has resulted in certain places offering a cluster of attraction to the banks that have established their activities there.<sup>1</sup>

Today about 80% of investment transactions directly or indirectly pass through London, so British capital by right started to present itself as the leading financial center of the world. It takes 70% of world bond trade, 32% of currency market turnover, 36% of world trade of derivatives out of stock exchange, about 50% of world share's trade, 20% of market of international bank loans and about 90% of world trade of primary metals. London City is the most liquid spot gold market. London – the biggest trade center of foreign currency and this market here grows by 36% annually – faster than in New York with its 8% of growth. Almost 80% of hedge funds are operated from London.

New York, on the other side, is the most important financial center of the USA. Here are situated headquarters of majority of the biggest and the most influential banks, insurance companies, industrial and other corporations. Companies whose headquarters are in other cities usually have their representatives in New York. New York stock exchange – world leader of share's trade with total capitalization of 9 trillion dollars by the end of 2008. Two thirds of all assets of foreign banks are concentrated in New York.

Location of the leading IFC in Europe and the USA is historically defined by the fact that from the end of World War II these countries appeared as a locomotive of economic growth and centers of trade flows and flows of capital. In this connection by analyzing functioning of IFC in these countries we can distinguish main prerequisites for their creation and successful development:

- economically strong and credible banks;
- free market and private enterprise environment;
- open economy (free flow of international capital);
- political independence from government;
- stable exchange rate;
- good telecommunications;
- minimum nonprudential bank regulation;
- critical mass of financial activity;
- free entry of foreign banks and bankers;
- strong legal system, including property rights, contract enforcement, functioning court system and bankruptcy processes;
- peacetime environment.

At the same time changes of the last years in the world economy show the increasing influence of group of developing countries, and especially of BRICS. So, over the past 10 years share of advanced economies decreased on 13,4%, and now it is 66% of world GDP, and over the next 3 years they can lose 7% more. As for BRICS, they steadily increase their share (from 8% in 2000 to 22% by 2015).

It is expected that BRICS will become locomotive of world economy. Their economic potential is not a news: these countries collectively occupy 30% of earth's surface, their

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<sup>1</sup> Adrian E Tschoegl

population is 42% of world, their GDP is 18% of the world's rate, and their share in world trade is 15%. And this trend is going to strengthen. BRICS show growth of 170% over the past 5 years (leader is China – 202%).

Analysis of presented data shows a trend of changes in polarity of world economy. On basis of increasing macroeconomic rates of emerging sovereign markets over the past 10 years, necessity of reconsidering of “developing countries” and “advanced economies” definitions becomes obvious. For the first time this question was raised at the G20 summit in South Korea in November 2010, where Chinese representatives even didn't insist on status's reconsidering of developing Chinese market. Nowadays world community admits that domination of China in global economic space is an objective reality. If we speak about BRICS in general, we must admit that this union actually started to demonstrate not only success of separate countries, but serious influence on current condition and further development of world economy.

Thus, considering increasing role of countries above, it is interesting to examine how some countries of BRICS create IFC on their area. In this article special attention is paid to experience of China and Russia.

China's State Council, in March 2009, made a decision to develop the Shanghai into an international financial center by 2020.

The turnover of Shanghai's stock exchange is already the second largest in Asia, and in terms of market capitalization it is number 4 in the world. The Shanghai gold spot market is the largest of its kind worldwide and, with about 250,000 employees in the financial service industry, Shanghai is closing the gap with Hong Kong.

For the first time ever, the Shanghai municipal government gave the green light for foreign private equity firms to raise money from domestic investors. Equally important, the government spent RMB 320 million to set up the Advanced Institute of Finance at Shanghai Jiao Tong University, thus contributing to the city's “intellectual finance infrastructure”.

Future steps will include the listing of foreign companies on Shanghai's stock exchange, starting from this year, and the introduction of an international board. There are also plans to reduce the income tax for financial staff and executives to internationally competitive levels; and to launch a court specialized in financial issues. Last, but not the least, the city will accelerate its investment in infrastructure spending about 100 billion RMB over the next three years on enlarging and upgrading Shanghai's free trade zone, Lujiazui finance zone, and the Zhangjiang Hi-Tech Park.

Developing Shanghai into an international financial centre will also mean competing with the established centers in terms of the flows of global capital. Shanghai's comparative advantage is surely its hinterland, i. e. China's strong economy. Shanghai's challenges lie with the microeconomic environment for business and the efficiency of the financial system. Both factors can, in principle, be measured by using the following criterias:

- clients: public and private institutions located within the financial centre;
- geographic reach: whether the financial centre is mainly domestically, regionally, or globally oriented in terms of business;
- product portfolio: range and sophistication of financial products on offer;
- value-added-chain: necessary supply chain, including the intellectual infrastructure.

Regarding the first aspect, clients, Shanghai has to overcome its comparative disadvantage of not being the home for the headquarters of important financial institutions such as the PBC and the CBRC. Furthermore, most of the domestic banks, in particular the biggest ones, have their headquarters in Beijing. One way to overcome this issue is by delegating power to respective branches in Shanghai. But even more important, Shanghai has to attract more regional headquarters of foreign banks and MNCs. Commerce in China shows that main obstacles for MNCs to relocate their regional headquarters to Shanghai include: the regulatory

and tax environment, the limited access to international financing, and the lack of experienced talent.

With regards to the second criterion, Shanghai's geographical position is still limited to the domestic markets; and even within mainland China it has to compete with other cities, particularly Beijing. Overall, Hong Kong and Singapore are still dominant in Asia.

Without a fully convertible RMB, Shanghai cannot become an international financial centre in the near future.

And now to the third criterion: the financial product portfolio of Shanghai's markets is still comparatively narrow. A necessary condition for the enlargement of the product portfolio is the further liberalization of the interest rate as well as exchange rate systems. Furthermore, a more 'light-regulatory' environment is required, including more openness for the operations of foreign banks. On top on that the city has to attract more private equity firms because many Chinese families owned businesses will needed to be acquired in the future.

Finally, an analysis of the value-added-chain criterion shows that the city still has to attract an army of money managers, lawyers, accountants, actuaries, brokers, and other financial professionals – both Chinese and foreign – if it wants to rival the established centers, particularly Hong Kong and Singapore. Moreover, the city has to strengthen its own financial talent pool, which requires an improved and enlarged financial education system at all levels.

Another example of turning emerging market into IFC is Russia's attempts to establish in its capital such a center. During years of economic reforms Moscow became the biggest national financial center with great separation in development of financial infrastructure and concentration of financial recourses from other Russian cities.

The leading Russian stock exchange is also located in Moscow. The Moscow Interbank Currency Exchange (Micex) ranks among the world's top ten largest stock exchanges: it accounts for over 80% of Russia's organized securities market, with roughly 30% of all deals being struck by non-residents. All the top companies from the leading nations have representative offices and operate in Moscow. The majority of large foreign companies that work on different regional markets also have their headquarters in Moscow. Even today, the Russian capital is the world's third largest city in terms of its city budget, which exceeded \$40bn in 2007 and increased by 20% in 2008. All of this makes Moscow's further integration into the global financial system an absolute necessity, which will most likely result in the strengthening of its international position later on.

The conception of creating IFC in Russia is designed by Economic Development of Russia in 2008 with participation of the Russian Finance Ministry, FFMC of Russia and other interested federal executive authorities, Central Bank, the Moscow government, representatives of businesses and financial institutions.

At the summit in Davos in 2011 first deputy chairman of Russian Central Bank, Aleksei Ulyukayev, defined 5 principal bases of creating IFC policy. First is free capital flow. Second is liberalization of Russian internal currency market. All is moving to realization of inflation targeting and free flow of ruble. Central Bank minimized its transactions in internal currency market. And now exchange rate of ruble is a result of market dealings (demand and offer in currency market). Third aspect is organization of modern and appropriate payment system. And very important point here is simplification of opening accounts in Russian banks for nonresidents. Forth aspect is status of ruble as a reserve currency, or at least regional reserve one. At the moment Russia has bilateral agreements with some countries about using local currency in mutual trade. Ruble is used in securitization transactions. More than that, ruble bonds of nonresidents appeared in market. And, finally, conversions in city's governance. Now there are not only theoretical, but practical reasons for turning Moscow into IFC.

Approval of special tax and financial legislation will also contribute to developing capital as IFC. It will make concentration of world investment recourses in Moscow more attractive and profitable.

Considering all above and due to approved federal arrangements, it can be expected that Russia has all necessary features to enter into Top 5 leading IFC by 2020 and in nearest 10 years claim to be leader in regional financial market of CIS, Baltics and Eastern Europe.

In conclusion, can be said, that China as long as Russia has a potential to create IFC on its area. Both economies have number of obstacles on this way, but appropriate policy and federal arrangements will lead to success.

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## **SECTION 3.**

# **CORPORATE SECTOR, ITS PLACE AND ROLE IN THE DEVELOPMENT OF COUNTRIES AND HUMAN POTENTIAL**

## CORPORATE SOCIAL RESPONSIBILITY AS A FACTOR OF LONG-TERM DEVELOPMENT OF SOCIETY

Nowadays in the international community is increasingly raised the question of large-scale business's role and influence on society. For the first time Russian multinational companies have paid attention to the issue of corporate social responsibility in the early 1990's in order to create a positive image in the eyes of foreign investors. Today the practice of implementing CSR is widespread among the majority of Russian companies. The article examines the experience of Russian companies in implementing CSR principles in conduct of business and their development tendencies.

**Keywords:** corporate social responsibility, social investments, long-term conditions for development both business and society.

Nowadays large-scale companies penetrate into every sphere of daily life, having great influence on consumer choice, environment. In this connection the question of large-scale business's role in modern society is increasingly raised in the international community. Corporate social responsibility (CSR) assumes management of a business following not only standard commercial and financial performance, but also the broader ones: there are social interests, requirements for sustainable development, necessity of environmental protection, observance of business ethics, non-infringement of social and economic rights. In other words it is responsibility of a business to its clients, employees, suppliers, shareholders and population of the regions where the business operates. CSR includes social and environmental issues, and also issues of corporate management and transparency.<sup>1</sup> Today more than 4000 companies in the whole world publish non-financial CSR reports<sup>2</sup> that reflect the growing attention of large-scale companies to the problems of society.

In IBM research 2008 five basic characteristics of the enterprise of the future are formulated<sup>3</sup>, one of them is CSR. Company's executives consider that social investments promote to the growth of consumer material prosperity and their awareness of the company activity and so they have an opportunity to expand company's sales markets.

For the first time Russian multinational companies have paid attention to the issue of corporate social responsibility in the early 1990s with the transition to market economy. During privatization most public companies have moved into private hands, so-called oligarchs. The enterprises performance of that period can be characterized as non-transparent, corrupt and criminalized.

In the 21<sup>st</sup> century Russian large-scale companies had to revise the approach of doing business. On the one hand, such decision was demanded by public distrust to the business, on the other hand, expansion to foreign markets required compliance with "the rules of the game"<sup>4</sup>,

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<sup>1</sup> From Russia with Love. 2008. The Economist Intelligence Unit. URL: [www.rusal.ru/docs/FromRussiaWithLoveENG.pdf](http://www.rusal.ru/docs/FromRussiaWithLoveENG.pdf)

<sup>2</sup> CR reporting awards 10 official report: global winners and reporting trends.2010. April. CorporateRegister.com. 2010. URL: <http://www.corporateregister.com/pdf/CRRRA10.pdf>

<sup>3</sup> The enterprise of the future: the results of Global CEO Study of IBM company, 2008.

<sup>4</sup> Douglass North Institutions, institutional change and economic performance. Cambridge University Press,1990.

transparency in the conduct of business, responsibility for the performance results. All of this contributed to the implementation of CSR principles in corporate management.

In the 2000s Russian business began to actively participate in global initiatives, first of all in UN Global Compact (UNGC) which aims to ensure the power of market relations with the universal values.<sup>1</sup> It means use of creative potential of private enterprise to increase the welfare of society. UNGC suggests that companies will be guided by 10 fundamental principles aiming at observance of human rights, working conditions, environmental protection and counteraction against corruption.

In 2004 Russian Union of Industrialists and Entrepreneurs (RUIE) developed the Social Charter of Russian Business, which was first formulated the social role, mission, values and goals of the corporate sector. The Charter is like a standard of responsible business performance for Russian companies. In 2010 the Charter was joined by more than 230 companies and organizations, combining 5,5 million employees.<sup>2</sup>

Entry into the UNGC network, the adoption of Social Charter of Russian Business required companies to implement the corporate practice of one of the important elements of CSR, that is annual publication of social reports reflecting the operation of business in the sphere of CSR. Due to such reports investors, partners, clients and employees can get necessary information not only about the results of financial performance but about quality and quantity of intangible assets as well.

Today a lot of large-scale Russian companies have already realized necessity of CSR principles implementation. They adopt new social technologies and build partnerships with authorities of different levels.

The number of Russian companies, joining the movement of voluntary social reporting, is growing annually. By the 12<sup>th</sup> of January 2010 non-financial reports of 92 companies had been introduced into the National Register, 250 reports published during the 2000s had been registered.<sup>3</sup>

Considerable attention in Russian reports is paid to the issues of social policy in relation to employees, development programs in area of presence, and also charity and sponsorship. Companies spend substantial funds for these programs. It follows from “Social investments report-2008” that social strategies of Russian companies differ from European ones over the last five years. Social investments were sufficiently conservative until 2008 and were directed to internal investment, rather than to local community, consumers, business partners and environment and were not systematic.

Nevertheless the same research showed that, on the one hand, companies proclaiming the GSR principles recognize their strategic capability, report on development of social investment, but, on the other hand, it is not always possible to follow clear logic behind the variety of social programs, and the set the tasks do not necessarily lead to expected results.<sup>4</sup>

Economic crisis 2008 has had a tremendous impact on the implementation of CSR practices of Russian companies. Businesses faced a serious question of CSR efficient and necessity in the time of crisis. «In addition the situation had clear understanding that what had been an attempt to follow the fashion must be economically well-founded and efficient too».<sup>5</sup>

Management center of RUIE’s CSR and non-financial reporting note that companies have to be mindful of what they do, of the choice of tools and estimating results.

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<sup>1</sup> Russian business and UN Global Compact. The practice of social responsibility, 2007. URL: [www.undp.ru/publications/GC\\_3\\_rus.pdf](http://www.undp.ru/publications/GC_3_rus.pdf)

<sup>2</sup> Responsibility of entrepreneurship. Information openness. Information bulletin. M.: April 2010. URL: <http://archive.rssp.ru/Default.aspx?CatalogId=2293>

<sup>3</sup> The RSIE library of non-financial reports. URL: <http://archive.rssp.ru/Default.aspx?CatalogId=2257>

<sup>4</sup> Social investments report in Russia – 2008/ U.E. Blagov ( and others).- M.: Manager’s Assosiation,2008.

<sup>5</sup> CSR TREND REVIEW 2009, 2009. URL: [www.csrforum.ru](http://www.csrforum.ru)

The challenging year showed that those companies which accumulated positive experience in CSR managed to implement it into the anti-crisis measures system, in other companies CSR tools proved ineffective. Many companies realized CSR – programs only to achieve PR-effect and they cut investments in social sphere. For example, the results of the study “Charity in crisis”<sup>1</sup> confirm that investments from commercial ventures decreased in 65% NGOs from 440 questioned. The chief of sustainable development UNGC project in Russia noticed that crisis inevitably involves a reduction of costs. The costs of employees, regional programs and other elements of the CSR (by some estimates up to 35% on average) significantly reduced, which indicates that the shareholders and top management of most companies have chosen to adapt to the crisis at the expense of employees, local communities and other stakeholders.

Such trends emerged as early as 2007. That was reflected in the “Social Investments report -2008” prepared before the crisis. The share of social investments in the balance sheet profit of companies in the period from 2003 to 2007 almost halved, in 2007 it was 6.25% (2003 - 11.25%). The report's authors note that similar results were also obtained by the Fund Charities Aid, according to which Russian companies spend an average of 10 to 17% of net profit for the external social program. Companies themselves have little interest in assessing their social investments. The study showed that it was conducted only by 56% of companies. The crisis has revealed only the accumulated problems in the CSR, such as opacity, optionality, the absence of sufficient interaction with the business strategy, the PR-effect prevalence. “The intensity of social investment in the companies is directly dependent on the level of business and economic development. But the amount of expenditures did not increase- companies learned to spend money more effectively.”<sup>2</sup>

In 2009, the UN Development Program and the Ministry of Economic Development launched a five-year project aimed at greater involvement of the private sector in addressing development challenges by joining the Russian companies to the UNGC. The project “Involvement of Russian business in the process of sustainable socio-economic development based on the principles of the UN Global Compact” (2009-2014) aims at providing participants with a network of UNGS recommendations on the strategic nature of socio-economic issues and joint projects in this area with companies and regional authorities. The main goal of this project in the coming years is the development and implementation of projects to minimize the economic, social and environmental impacts of the global economic crisis for the Russian participants of the Global Compact Network in the areas where they operate.

And while such problems as corruption (22.8%), tax regulations (9.1%), access to financing (7.6%) remain an obstacle to business success in the report on the competitiveness of countries<sup>3</sup> for 2011-2012, RUIE promotes and protects the interests of business. The mission of the RUIE is aimed at supporting private property rights, innovation, creation of a trust relationship with the business community, developing employer-employee-state relationships. Overcoming the problems identified in the future will create a positive image of companies that will help change the negative attitude to the big business of the public, investors, consumers, what Russian entrepreneurs are in dire need of. Thus, the socially responsible behavior is one of the aspects of long-term development of business and society.

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<sup>1</sup> Charity in crisis. The study results. 2009. URL: [www.cafussia.ru/files/blocks/Research\\_CAF\\_full.pdf](http://www.cafussia.ru/files/blocks/Research_CAF_full.pdf)

<sup>2</sup> Nikolaeva D. Social investments come down from peak. // “Kommersant”. 08.12.2008. №223/II(4040). URL: <http://www.kommersant.ru/doc/1090739>

<sup>3</sup> The Global Competitiveness Report 2011-2012, 2011. World Economic Forum. URL: [http://www3.weforum.org/docs/WEF\\_GCR\\_Report\\_2011-12.pdf](http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf)

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**CORPORATE SOCIAL RESPONSIBILITY  
AND THE POSSIBLE MERITS BY ITS IMPLEMENTATION  
IN THE COUNTRIES OF SOUTH-EAST EUROPE**

### Abstract

Corporate Social Responsibility refers to a corporation that is held accountable for any action that affects people, their communities, and environment. This speaks to social responsibility as a voluntary acceptance of accountability. However being social responsible does not mean that a company must abandon its other missions. A business has many responsibilities, economic, legal and social. The challenge for management is the blending of these responsibilities into a comprehensive corporate strategy while not losing sight of its

obligations. CSR requires companies to balance the benefits against the costs of achieving those benefits.

As an ideal, the best social responsibility strategy is constantly changing, depending on the year, time and place in which was implemented. The latter becomes obvious when investigating the actual understanding of the concept in the individual countries of the South-East Europe. Ranging from simple implementation to broad strategies, taking into account the long term perspective of achieving CSR, the definition differs across these regions.

In the same time, it is crucial, to understand that the concept of CSR started in countries with different history, economy and focuses from the South-East Europe's. Implementing the same methods, transferred, from western economies could cause more problems than solving them. Thus it is vital for a company to estimate the risks, prepare a careful plan and use the latter in accordance to the public and environmental needs.

**Key words:** Corporate Social Responsibility, CSR, , South- East, Europe, Strategy, Company, Business, Ethics, Green

### **Introduction**

In definitions set forth by the Global Reporting Initiative (GRI) and ISO 26000 Social Responsibility is “the responsibility of an organization for the impacts of its decisions and activities on a society and the environment, through transparent and ethical behavior”. This definition is rather complex, since it states a responsibility and not a requirement. It considers responsibility as an ideal and voluntary action. Furthermore, it is crucial to understand the impact one corporation could have through its actions and decisions, and the outcomes of the latter, to the society. Society cannot exist without the environment. Human rights, social development are as important as ecological protection in the context of Social Responsibility.

CSR is continuously gaining importance with regard to both, public and private sectors of Europe. It is obvious that the term of CSR, has different interpretations depending the country or even the organization or business in which is applied. The approaches used could range from narrow to broad implementation, while considering the stakeholders' needs.

The success of CSR depends on the trust of the society towards specific companies, since by gaining that trust there could be a more stable cooperation between the organizations or businesses and their stakeholders. However being social responsible does not mean that a company must abandon its other missions. The challenge for management is the blending of responsibility into a corporate strategy while not losing sight of its obligations.

### **CSR in South-East Europe**

At an individual Country State level a multitude of different public organizations exists with the task to promote CSR as a strategy. European companies are aware on their social responsibility and engaged in CSR activities but without referring to them as such. This can be interpreted as an effort to comply with an unwritten ethic code, but without the knowhow or the will to engage with more professional ways in the CSR strategies.

South- East Europe still doesn't understand the profits of using CSR techniques, since most of the companies that reside in this region consider CSR either as an improvement of the company's image or as obedience to a state regulation.

CSR activities are based on decisions and ethical considerations of a company's manager and targets. These decisions are also influences by other stakeholders. Furthermore the familiarity with socially responsible techniques as well as the use of them in maximization of the corporations profits, affects the decision making as well.

The path to CSR is slow, among companies, but in the same time state organizations don't manage sufficiently in the matter. This is due to a lack of transparency, red-tape and a turbulent political past in most countries of this region.

Another hindering factor is corruption, which is usually accompanied by economic stagnation. It is obvious that there is a relation between the levels of corruption and social responsibility of companies and state organizations of the South- East region. Due to the high levels of corruption managers tend to prefer using corrupted methods instead of creating long standing deals with customers, partners, employees and other stakeholders. This indicates that if the countries of the South- East Europe need to use CSR as a tool, they must firstly limit the levels of corruption both in the private and public sectors.

On the other hand these countries understand the increasing demand for CSR. Reports on CSR from Russia demonstrate that companies try to be responsible over social and environmental matters, avoiding internal and external conflicts. Furthermore corporations started publishing annual environmental and sustainability reports.

In addition an effort was started to inform corporations and state actors of the CSR's importance. According to Alexey Kostin, Executive Director from the CSR Russian Ctr, Russia is set to gradually become the basic ideology of corporate governance and management. The same is also possible that will apply in the rest countries of the South- East Europe.

### **Impact of CSR Strategies in Corporate Profitability**

According to a global survey of senior managers and board directors, reported in 2002, that corporate responsibility has emerged as a significant business issue. Government officials also ensure corporate compliance with laws and regulations that protect the general public from abusive business practices. It becomes obvious that both the supporters and the critics of CSR need businesses to act in social responsible ways. Research and experience concludes that implementing CSR allows experiencing a range of bottom-line benefits, the major of which are presented below.

Companies can benefit from connecting themselves to a cause since consumers have a more positive image of companies that do something to help the world and they would buy a product associated with a cause they cared about. Some of them even state that could switch brands to support a cause and that responded negatively to companies they perceive as not being social responsible. In this way they can increase sales and market share. Further more such acts can strengthen the brand positioning in the market.

In addition to positive press from reports that cover standards and assessment of performance in the area of corporate Social Responsibility, companies that demonstrate actions that go beyond regulatory compliance requirements are being given less scrutiny and more free rein by both national and local entities. In times of crisis a good reputation in the community can be a real asset.

Several businesses can site decreased operating costs and increased revenue from grants and incentives as a result of using corporate social strategies. One such case is the company's effort to reduce waste, reuse materials and conserve electricity. Furthermore an action that benefits the public or the environment draws attention. Free publicity reduces potential promotion costs.

There are occasion that CSR initiatives increased stock value. Companies that are less exposed to social, environmental and ethical risks are more highly valued by the market. These moves could increase appeal to investors and financial analysts.

### **Hindering Factors for a CSR implementation**

According to Anne T. Lawrence (2005) some economists fear that the pursuit of social goals by businesses will lower firms' economic efficiency.. One of the arguments is that when a business uses some of its resources for special purposes it risks lowering its efficiency. An unproductive factory that is kept functioning for avoiding negative social effects on the local community results in a financial problem for the corporation. Even if CSR is well- intended, social activities could lower business's efficiency, thereby depriving society of higher levels of economic production needed to maintain a basic standard of living. Furthermore the business's cost could be higher thus reducing profits. The stockholders' returns would be also reduced depriving the corporation of future growth.

In addition some analysts believe that CSR could in some cases impose unfair cost on more responsible companies. In a global perspective, where laws and regulations differ from one country to the next, this problem becomes acute. Competitors who might not apply responsible techniques might manage to gain profit easier resulting in higher costs.

Furthermore Corporate Social Responsibility requires social skills managers may lack. Solving social problems may lead to unnecessarily expensive and poorly conceived approaches. Business leaders are not elected by the public and therefore do not have mandate to solve social issues. It is understood that businessmen might not have the expertise or the popular support required to address essential issues of public policy. This case is also used as an argument against CSR,

These arguments are used to counter Corporate Social Responsibility's strategies and claim that the latter adds burdens on business and society without producing the intended effect of social improvement.

### **CSR Implementation Strategies**

Possible approaches to encourage CSR strategies in the countries of South- East Europe could be used. The government should take the lead in promoting CSR to business and the general public. According to the United Nations Development Programme (UNDP), without the government encouragement, it is possible that corporations will not achieve the substantive results. The funding of organizations founded for the encouraging CSR is also a way for the state to promote these strategies.

However, CSR implementation is hindered through phenomena like corruption and red-tape. It is vital that there must be a better enforcement of the law. Loopholes in the legal system should be examined thoroughly, but in the same time unnecessary regulations that cause frustration and delays should not be left unchecked. Through research, there were identified a few major social initiatives, regarding CSR that could be used in South- East Europe since they are already used in the majority of these countries but without the understanding of being CSR material.

A corporation commits to making a contribution or donating a percentage of revenues to a specific cause base on product sales. This initiative is called Cause- Related Marketing. This strategy is used for an announced period of time, for a specific product and a specific charity. Corporate Philanthropy is when a corporation makes a direct contribution to a charity cause. The third initiative is the Corporate Social Marketing where the company supports the implementation of a behavior change campaign intended to improve public health, safety, the environment or the community in general.

A corporation could also encourage its employees and partners to volunteer to support local community organizations and causes. This particular initiative is the toughest to used, especially in countries where the public awareness of CSR and its importance is low.

## Conclusions

Managers and public actors in the South- East European region have yet to recognize the general need for CSR showing strong resistance and considering CSR as an appropriate mean in marketing, since most of them believe in achieving profits and expanding the business.

Companies are already providing CSR activities without recognize them as such. Larger corporations do so mostly for promotion. Nevertheless consumers appreciate CSR initiatives and corporations should find ways to make these initiatives known to the public, since it would expand their market share.

There are many factors that differentiate the South- East Europe's CSR implementation than the western countries. For the post- communist transition countries CSR is a new concept and its growth is very slow and with few supporters. In addition a strong public sector that always took care of social support created the assumption that private organizations and businesses should not support their local communities or the environment unless it is needed by a state regulation.

It is crucial, to understand that the concept of CSR started in countries with different history, economy and focuses from the South-East Europe's. Implementing the same methods, could cause more problems than solving them. It is vital to estimate the risks, plan and use CSR in accordance to the public and environmental needs. Therefore, the implementation should begin with the identification of the factors and the benefits that affect these needs.

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### **MNC AND DEVELOPING COUNTRIES: CASE OF RUSSIA**

Expeditious process of transnationalization is characteristic for modern world economy. The multinational corporations are a motive power of this process.

In the article it is considered presence of the foreign MNC in Russia, their quantity and specialization industries. Also it is analyzed the reasons of arrival of the MNC in the Russian Federation. It is considered positive and negative influence on economy of Russia, in particular on macroeconomic indicators and on competitiveness in world economy system.

**Keywords:** Multinational corporations in Russia, specialization industries, influence on economy of Russia, macroeconomic indicators.

Growth of the Russian economy is inseparably linked with increase of quantity of transnational corporations (multinational corporations), working in Russia. Unfortunately the increase of presence of transnational players is more a consequence, rather than a reason of growth of the Russian economy. However over the last years Russia, along with such countries as China, India, Brazil, is one of the most attractive destinations for TNCs. Distribution of oil and gas incomes, growth of economy and constant growth of consumption involve the increasing quantity of manufacturers of consumer goods to Russia. At the same time, level of the basic industrial expenses in Russia is still lower than in Europe and the USA and some developing countries. Many MNCs find an optimum combination of competitive advantages of business in the Russian market. On the one hand, access to cheap resources, on another - presence of constantly growing commodity markets; as well as economy on import duties and transport costs. Majority of the multinational corporations that open business in Russia are guided by three basic corporate strategies. The first - multinational corporation aspires to take a nominal place on the market to «raise a flag», reveal potential competitors and choose an optimum moment for further development on national market. More often, following the given strategy, the multinational corporation is limited to opening a small representative office without any distribution and industrial infrastructure. The second - multinational corporation uses Russia as a “reloading” point for promotion of the goods and services. The logic of the given corporate strategy is complicated and rarely can be analysed externally. The third strategy is equitable to interests of Russia to the greatest degree. It is used when the multinational corporation is interested in a gain of an essential place in the Russian national or regional market. In this case the MNC, pursuing the aim of minimisation of costs and profit maximisation, builds factories invests in an extensive infrastructure, trains personnel, cares about corporate image in the country [5].

At the moment 80 of 100 world's largest multinational corporations are present in Russia. This fact ensures inclusion of Russia in the world process of globalization [4]. Multinational corporation operating in Russia are mostly powerful on such indicators as foreign actives, sales, and number of staff. Their foreign actives are estimated more than in \$1,3 trillion, sales - \$1,25 trillion, and hired staff - almost 11,7 million persons.

Majority of the multinational corporations started development of Russian market with creation of conditions for sales of their products (that included investments into creation of

distribution networks, systems of post-sale service, advertising campaigns, etc.). Some MNCs started with cooperation with Russian partners in a form of joint ventures (for working out design documentation, manufacture of industrial samples, including on the goods of serial release). There is also a number of the enterprises with 100 % foreign control [1]. This group of multinational corporations («group 80») is a little less diversified in branch aspect, than the one hundred multinational corporations, but it covers the most representative branches (except oil refining). Multinational corporations are presented in fourteen branches, including electronic and electro-technical industry, motor industry, oil extracting, chemistry, food industry, pharmaceuticals, trade and other services.

American MNCs are presented in eleven branches with the greatest share in the electronic and electro-technical industry and oil extracting. Japanese multinational corporations are mostly in electronics and the electro-technical industry, trading and other services.

Now foreign direct investments into Russia make up to 18-20 % from gross national product, that is more, than in China (14 %) and in the USA (13 %)[6]. Integration of non-strategic branches into world economy and, first of all those working on the consumer markets, is still mainly connected with capital import. The Russian proprietors of the enterprises in these branches are oriented on sale of the actives to global players.

According to Russian Statistics Agency - RosStat, total volume of foreign investments into Russian economy exceeded \$114,746 bln. in 2010. That is 40,1% more than their inflow in previous year. The volume of FDI in 2010 was at the level of \$13,810 bln. (13,2 % less than in 2009. Volume of portfolio investments reached \$1,076 mln. (21,9 % more than year before). Other investments exceeded \$99,860 bln. (53,3 % more than in 2009) [2]. Total volume of the investments from foreign investors into Russian economy is presented in chart 1.

Chart 1 – Volume of investments made by foreign investors to Russia in 2007-2010

	2007		2008		2009		2010	
	Mln. %	%	Mln. \$	%	Mln. \$	%	Mln.\$	%
Total investments	120941	100	103769	100	81927	100	114746	100
FDI	27797	23	27027	26	15906	19,4	13810	12,1
Portfolio investments	4194	3,5	1415	1,4	882	1,1	1076	0,9
Other investments	88950	73,5	75327	72,6	65139	79,5	99860	87,0

Source: Site of Federal Service State Statistics of Russia <http://www.gks.ru>

Thus, in the general the structure of inflow of foreign investments into Russia in 2010 is as follows: 87,0% - other investments, 12,1 % - foreign direct investments, and 0,9 % - portfolio investments.

The largest foreign investors of Russia are Cyprus, the Netherlands and Luxembourg with a share of 18,3 %, 18,1 % and 13,9 % accordingly. Other top investors origin from Great Britain (8,8 %), Germany (7,2 %), China (3,9 %), Ireland (3,4 %), France (3,2 %), Japan (3,1 %), the Virgin Islands (2,9 %)[2].

Russia can boast with presence on its territory representations and factories of such automobile giants as General Motors, Toyota, Nissan. In November 2008 General Motors has started manufacture of a full CKD-cycle of model Chevrolet Lacetti on Avtotor factory. Company invested \$350 mln. and employed 1450 people[4]. In April 2005 Toyota signed an agreement with ministry of Economic Development of Russia and Administration of St.-Petersburg on building factory in Industrial Area Shushary. Assembly line started functioning

on December 21, 2007; at the first stage the factory produced 20 thousand cars of «E» class (Toyota Camry) a year for the internal Russian market. Later on manufacture volume increased up to 50 thousand cars a year, in the long term it planes to reach to 200-300 thousand cars. The volume of investments into the project is estimated at level of about \$150 million. In Russia also operate: Nissan - industrial area Kamenka (St.-Petersburg), Renault – AZLK factory (Moscow), Volkswagen - Grabcevo (Kaluga), Hyundai - TAGAZ (Taganrog), KIA Motors - Avtotor (Kaliningrad), IGavto (Izhevsk).

Majority of multinational corporations are presented in two interconnected branches - electronic and electro-technical: world famous IBM, GeneralElectric, ITT, AT&T, Hewlett-Packard, Digital Equipment, GTE, Motorola (all the USA), Sony, CanonInc., NEC, SharpCorp (Japan), Alcatel, Alstom, Thomson (France), ABB-AseaBrownBoveryLtd (Switzerland-Sweden), Electrolux (Sweden), PhilipsElectronics (Netherlands), Siemens (Germany), Cable&Wireless (Great Britain)[1].

A severe competition made 19 multinational corporations undertake a time-tested approach - market section on spheres of influence. Thus, company Hewlett-Packard officially proclaimed as its priority development of market of computer technics for support of functioning of the state projects in thermal power and metallurgy of Russia and Kazakhstan. IBM and Gazprom signed the long-term contract on partnership for the purpose of creation of the uniform network connecting this Russian company with the international information centre of the gas industry.

A number of the largest MNCs willingly cooperate with Russian companies in the field of software development. Japanese NEC Corporation and Toshiba are a good example of such collaboration. It is interesting that an extensive Russian market of telecommunications is still of a little attractiveness to foreign MNCs. Only cellular network "Beeline" was founded with the assistance of a little-known American family firm F.G.I. Wireless. Experts foretell that investments in to the Russian communication market will undergo the big changes in the nearest future: WTO rules demand updating and expansion of the list of participants and kinds of activity where foreign capital can be invested.

In the world market of power equipment Russian companies are considered as a real force . This sector is one of the few where foreign multinational corporations really aspire to cooperate with Russian enterprises. The example of activity of the Swedish-Swiss concern ABB which has created in Russia holding structure according to developed «specially under Russia» strategy is, in this respect, indicative. Its essence - the maximum emphasis on development of local manufacture. On 18 ABB companies in Russia works 1600 people, and taking into account branches its in 14 cities of Russia – over 3000 people, and the volume of the investments into Russian enterprises has exceeded 100 mln. dollars[4].

Out of 210 multinational corporations working in Russia 80 declared the intentions to carry out investments for a total sum 52-54 bln. dollars in six branches of Russian industry: automobile, oil and gas extracting, chemistry, food and tobacco industry, public catering system. Despite constant decrease in relative density of direct investments in total amount of foreign capital investments in economy of Russia, this form of attraction of the capital remains to the most important for a national economy.

Activity of the foreign multinational corporations in Russia faces a number of constrains: high taxation, weak development of infrastructure (except for Moscow, St.-Petersburg and some other large cities). Besides it, question of the right to dispose land and bowels is still not solved as well as the issues of protection of the property rights and corporate governance, development of institutes of bankruptcy and protection of the rights of creditors, effective antimonopoly policy, development of a financial infrastructure. Foreign companies are frightened off by arbitrariness of officials and bureaucracy.

Presence of transnational companies in Russia has positive and negative moments. Positive - in ordering influence of this situation on the market. The western companies carry the European standards and technologies, high level of management, civilized means of competitive struggle. Powerful inflow of the capital allows the branch to significantly upgrade [3].

Certainly, in the conditions of a growing competition from the western companies it is getting more and more difficult for local manufacturers to develop their branches – they are gradually superseded from their own markets. On the other hand, entrance of the new strong competitor to the market is a tough and disturbing phenomenon, but not a new one. "Foreigners" with their fair competition are not so terrible as some of our unfair compatriots who forge trade marks, buy cheap raw materials of poor-quality in order to decrease a cost price of a product, simplify technology ... Besides, even taking into account the big financial possibilities which are available for the foreign companies, Russians have competitive advantages such as adjusted trade channels, communications, partner relations based on mutual trust and it has a great value. And new, civilized market principles which, it would be desirable to hope, will introduce the western companies will give the chance to domestic manufacturers "to upgrade" the level, to raise quality of work that will enable them to compete on equal terms with "foreigners" in future.

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#### **TNCs AND THEIR ROLE IN THE DEVELOPMENT OF AFRICAN ECONOMIES**

Starting from the 1980s, the economic globalization has become an irresistible historical trend. The expansion of multinational corporations, as the forerunner in this process, has been presenting a continued momentum. This paper serves as an effort to analyze the causes of the large-scale penetration into Africa by multinationals as well as its role in and impact on the development of African economies. Furthermore, the author attempts to illustrate that

economic globalization not only poses serious challenges to African countries, but also brings to them opportunities for development.

First, making up the insufficiency of development funds in African countries to a certain degree and promoting the growth of the total amount of their economies while profits are flowing out in large quantity. Since independence, despite considerable achievements in economic development, most African countries are under-developed in commodity economy and confronted with a common problem of fund shortage. Due to the extremely low rate of domestic savings, foreign capital utilization becomes one of the very important channels for African countries to augment their fund base and input. Currently, multinationals are intensifying their investment in Africa, which could, to some extent, fill in the gap in fund adequacy and promote economic development. For instance, Equatorial Guinea used to be a very poor country. However, since Mobil Oil Corporation injected large sum of investment in exploring the Zafiro Oil Field, it now turns out 80,000 barrels of oil daily and generates a revenue of US \$ 100 million per annum, which is equivalent to the original GNP of the country. As a result, that country has become one of the fastest growing countries in Africa. Similarly, Nigeria as a major country in West Africa has always been the No.1 investment destination for multinationals. In the period 1991- 1996, it received 1/3 of the DFI in Africa. Shell Oil Corporation alone brings in US \$ 7 billion of revenue to Nigeria, enabling the country to maintain its economic growth at some 3.5%. Thus, it is evident that the growth rate of foreign capital inflow is in direct proportion with the average annual GNP growth. Nevertheless, due to the contradiction between the profit motives of multinationals and the reciprocal demands of host countries, multinationals resort to all means to transfer large sums of profits abroad in spite of promoting the economic development in African countries. This compelled African countries to take regulatory measures of restriction and guidance so as to lower the investment returns of multinationals. In turn, this will affect the multinationals' interests in African investment and become detrimental to the efforts of African countries to attract investment. It becomes obvious that the extent of how far the African countries could go in profits distribution constitutes the key to attracting foreign investment in Africa.

Second, introducing advanced technologies to and effecting certain improvement in the industrial structure of African countries while single economy still exists. Due to historical reasons, industrial structures in African countries tend to be identical, i.e., a fairly developed mining industry with under developed manufacturing sector. This not only aggravated African countries' dependence on the world market, but also limited the exchange of commodities among themselves. The influx of multinationals played the role of guidance and catalyst in transforming the economic pattern and promoting the optimization and upgrading of the industrial structure in African countries. Firstly, multinationals bring with them advanced technologies when making investment in industries and sectors such as transportation, communications, energy and infrastructure, creating the necessary conditions for the readjustment and advancement of industrial structure in these countries; Secondly, since multinationals invest in the forms of joint ventures, licensing and contracting, especially involvement in technical trading and transfer through their subsidiaries, the change in the economic and industrial structures in these countries will be affected to the effect that the allocation of resources could be modified. More importantly, the sectoral choices of multinationals have great bearing on the evolution of the industrial structure in African countries. In countries where multinationals make investment in the manufacturing sector, the chain reaction effect thereof seems to be more significant. However, from the perspective of Africa as a whole, the focus of multinationals' investment are mining and service industries, which can hardly promote the upgrading of the entire industrial structure. Moreover, affected by the future WTO foreign investment regulations, it would become almost impossible for

African governments to take measures to spur chain reaction. Therefore, the role of multinationals in the optimization of industrial structures in African countries should not be over-estimated. Besides, since multinationals attach great importance to production efficiency, lopsided distribution of investment seems inevitable. This aggravates the imbalance among African countries in economic development. On the whole continent, multinationals prefer to invest in those countries with political stability, well developed infrastructure or rich mineral resources. Such preference widens the income gap among African countries; in one African country, multinationals' investment concentrates on urban area, business centers, mines, ports and infrastructure facilities related to the export of primary products. This will surely strengthen the irrational communications pattern and become inconducive to the urban -rural and interior -coastal exchanges of commodities and to the formation of a unified market in African countries. It becomes clear that there is still a long way to go before African countries could make a change in the single economic pattern inherited from the colonial period characterized by the export of primary agricultural and mineral products.

Third, strengthening the competition mechanism and promoting the formation of market economy while national industries come under attack and certain sectors run the danger of being manipulated by multinationals. As is well known, national industries in African countries developed under the protection of import substitution industrialization strategy, which, by separating from the international market through self-seclusion, lacked competition awareness, efficiency and vitality. Today, multinationals are conforming to the trends of privatizing state-owned enterprises in African countries and intensifying their investment in Africa. In particular, the practice of joint operation exerts direct impact on the development of African enterprises. As required by multinationals, African enterprises certainly care about the changes of commodity supply-demand situation on the world market and strive to reduce production costs through the application of new technologies and the improvement of management standards so as to raise the international competitiveness of their products. This, in turn, could stimulate the vitality and enhance the adaptability of these enterprises. In promoting joint operation with African countries, multinationals would surely bring with them various kinds of business contacts such as marketing channel, technological development, market and credit connections. It would more or less give impetus to their counterpart enterprises to make use of these business contacts linking with the rest of the world and gradually entering the world market. Thus, it will promote the overall development of international economic exchanges in Africa. However, one must recognize the monopolistic and exclusive nature of international operation of multinationals. Therefore, national industries in Africa also face severe tests.

In a nutshell, the influx of multinationals has both positive and negative impacts on the economic development of African countries. The most fundamental conflict lies in the contrariness of the profit motive of multinationals to the objectives of economic development and social interests in African countries. To this end, it presents urgent issues for African countries to avert the negative effects while advantageously get benefited in the face of unprecedented onslaught of multinationals.

## **INNOVATION BY LARGE COMPANIES IN RUSSIA**

The need for innovative development in Russia is particularly relevant in light of key challenges facing the national economy today. Decrease in available natural resources, low labor productivity, low energy efficiency, and the economy's dependence on natural resources mean that stimulation of innovation is a key task for Russia's economy and society. Because it is important to assess the level of innovation among large corporations, to explore the key factors which determine the level of innovation and the key barriers to innovation, to identify government policies which would, in the opinion of large business, be most effective in fostering innovation in Russia.

**Keywords:** innovation, company.

The need for innovative development in Russia is particularly relevant in light of key challenges facing the national economy today. Decrease in available natural resources, low labor productivity, low energy efficiency, and the economy dependence on natural resources mean that stimulation of innovation is a key task for Russia's economy and society. That is why it is important to assess the level of innovation among large corporations, to explore the key factors which determine the level of innovation and the key barriers to innovation, to identify government policies which would be most effective in fostering innovation in Russia.

This research attempts to assess the level of innovation activity by large companies inside Russia. The research reflects the extent of innovative product development and implementation of innovative production technologies and business processes and how to use the introduced technology effectively.

This is in line with the broad definition of "innovation" used by the OECD (Organisation for Economic Co-operation and Development). First, innovations can refer to implementation of new or significantly improved products or services, new production technologies or new business processes. Secondly, innovations can be of a global nature when a company is a global pioneer in a certain field.

One of the distinctive features of this survey is its focus on large Russian companies. It is important to understand to what extent large companies implement new products, technologies and business processes<sup>1</sup>. The role of large companies in driving, innovation is especially significant in Russia, taking into account in view of inadequate levels of innovation activity by national small business. Also innovation activity by Russian companies depends mainly on internal intellectual and financial resources of the companies themselves, and this further enhances the role of large business<sup>2</sup>. The lack of mature markets for financial capital coupled with the role played by political connections put large business at a major advantage in matters of innovation. It should be noted that many of the survey participants carry out

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<sup>1</sup> According to 2008 data of the Russian Statistical Agency (Rosstat), there are 3269 companies in Russia with annual turnover of more than USD 100 million. Their aggregate annual revenue exceeds USD 2 trillion. For comparison, revenue of the 120 largest companies amounts to USD 1 trillion.

<sup>2</sup> Daron Acemoglu, Philippe Aghion, and Fabrizio Zilibotti, "Distance to Frontier, Selection, and Economic Growth," *Journal of the European Economic Association* 4, 1 (2006): 37-74; Daron Acemoglu, Philippe Aghion, Claire Lelarge, John Van Reenen and Fabrizio Zilibotti F (2007) "Technology, Information, and the Decentralization of the Firm," *Quarterly Journal of Economics* 122, 4 (2007): 1759-1799

innovation activity. According to research 2008-2010 majority of companies launched completely new products and twice more company introduced innovative technologies and business processes. However, innovative products, even when they are successfully introduced, usually play a limited role in generating profits. Only a few companies account for more than 50% of his company's revenues, where as half of the companies bring less than 10% of revenues, and one third said that they bring 10-25%.<sup>1</sup> The level of innovation activity in individual industry compared with the same industry in foreign countries, and in the Russian economy as a whole compared with global leaders is shown in Figure 1<sup>2</sup>.



Figure 1: Level of innovation activity in individual industry compared with the same industry in foreign countries, and in the Russian economy as a whole compared with global leaders<sup>3</sup>

The same is true for innovative technologies. The survey's findings reveal that a company's appetite for innovation activity is driven strongly by its profile. Companies in Russia that launched innovative products between 2008 and 2010 included four times as many private companies as state-owned or partly state-owned enterprises. This effect can be partly explained by differences in the size of government-owned and private companies as well as the industry they represent in our sampling.<sup>4</sup> But econometric analysis, which takes these factors into account, still shows that private companies are at least one-and-a-half times more likely to implement innovative products than state-owned and partly state-owned companies. New products, technologies and business-processes by type of ownership is shown in Figure 2.

Other things being equal, the probability of implementing a new technology is 1.7 times less for firms which are 100% state-owned than for partly state-controlled companies.

State-owned and partly state-owned companies, which participated in the survey, did not implement innovative products that are new to global markets in 2008-2010. The data suggest that the international companies operating in Russia pursue much more intense innovation activity than local firms. There were twice as many international companies operating in Russia among all companies that implemented new products as there were among local companies, and there were approximately 1.5 times as many international companies as

<sup>1</sup> Innovations in Firms. Microeconomic Perspective. OECD, 2009. Data on companies employing more than 250 people; country surveys were conducted in 2002-2004.

<sup>2</sup> www.innovbusiness.ru

<sup>3</sup> Innovation 2010. A Return to Prominence – and the Emergence of a New World Order. BCG April 2010.

<sup>4</sup> Innovation 2010. A Return to Prominence – and the Emergence of a New World Order. BCG April 2010.

there were local among the companies that implemented new technologies and business processes. Russian companies operating on global markets implement new technologies and business processes as often as international companies. However, they lag significantly behind their international peers in terms of innovative products.

	Products	Technologies	Business Processes
100% privately-owned	52.2	73.1	64.2
State has up to 25% interest	-	75.0	50.0
State has 25%-50% interest	20.0	80.0	80.0
State has over 50% interest	12.5	100.0	75.0
100% state-owned	12.5	56.3	68.8
<b>Total number of firms</b>	<b>39 (100%)</b>	<b>73 (100%)</b>	<b>66 (100%)</b>

Figure 2<sup>1</sup>: New products, technologies and business-processes by type of ownership

The main incentive for implementing innovative products is to outpace competitors, while implementation of new technologies is driven mainly by the need to cut costs. It is worth noting that 35% of the companies surveyed have a top manager responsible for innovations, whereas only 17% of the company have special processes for gathering innovative ideas within their companies, and only 7% have an incentive system to encourage staff to engage in innovation activities<sup>2</sup>.

Sample companies usually finance innovation from their own funds (87%). Only 18% of respondents used funds provided by Russian Venture Company and ROSNANO and a mere 10% used foreign investments. So companies develop innovation by themselves without recourse to external intellectual and financial resources. The sources of financing company use to develop innovative products are shown in Figure 3.

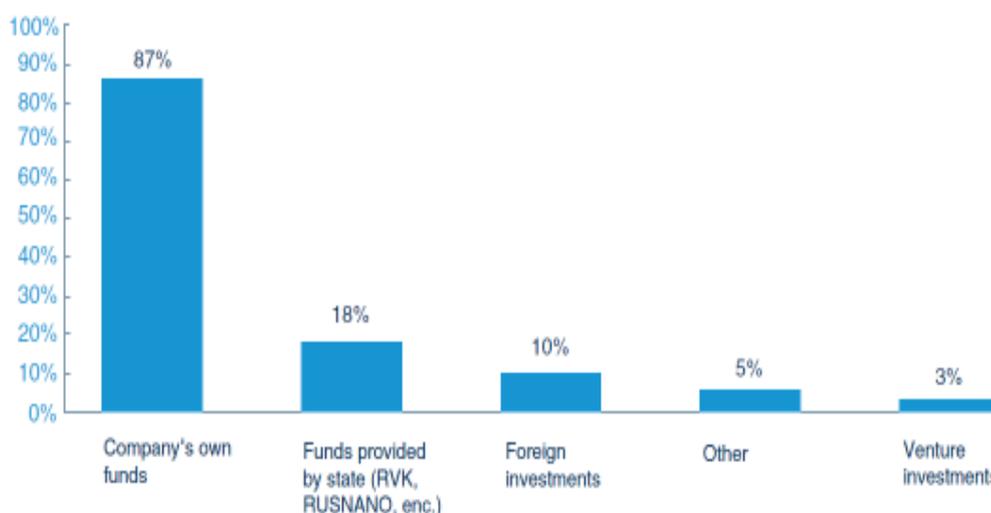


Figure 3: The sources of financing company use to develop innovative products

<sup>1</sup> www.innovbusiness.ru

<sup>2</sup> Innovation 2010. A Return to Prominence – and the Emergence of a New World Order. BCG April 2010.

The biggest barriers to innovation activity, according to companies, are difficulties in financing development of new products and bureaucratic obstacles. Respondents said that the most useful actions by government to stimulate innovation would be improvement of higher education, increased state financing of R&D, tax incentives for innovation, and improvements to legislation.

The many company think, that the policy measures that could be implemented by the government in order to foster innovation it is:

- Improving the quality of higher education;
- Increasing state funding of R&D;
- Providing tax incentives to innovators;
- Improving legislation;
- Investments in development of infrastructure;
- Attracting highly-skilled foreign professionals;
- Protecting Russian markets;
- from foreign competitors;
- Political support for Russian products on global markets.

Finally we can say that most companies believe that the innovative component of the Russian economy will expand significantly by 2020. Companies that have already implemented globally innovative technologies are much/more optimistic in this respect.

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### **INNOVATIVE ACTIVITY OF LARGE BUSINESS IN RUSSIA**

Nowadays business is an economy basis. But that the economic realm developed innovations are necessary.

I consider the problem of introduction of innovative projects is actual today.

My paper considers aspects of business dealing to Russia, innovative activity, economic activity of the large enterprises, and as factors and projects of innovative development of Russia

**Keywords:** innovations, business, problems, prospects.

The world practice shows that it is a business structure that plays a key role in the development and implementation of innovations. The share of costs for corporate R&D in the national expenditure on R&D exceeds 65%, while the average for the countries of the Organization for Economic Cooperation and Development (OECD), close to 70%.

In recent years, modernization and innovative development have become the key focus of Russia's economic policy. The need for innovative development in Russia is particularly relevant in light of key challenges facing the national economy today and Stimulation of innovation (in a broad sense) is a key task for Russia's government and business leaders. PwC (PricewaterhouseCoopers), the New Economic School, the Russian Venture Company, and the Russian Corporation of Nanotechnologies conducted a survey of 100<sup>1</sup> large companies operating in Russia in order to assess the level of innovation among large corporations. The study uses a broad definition of "innovation" according which, "innovation" includes both implementation of products and services, production methods and business process that are essentially new to the global market or represent significant improvements.

For positioning of the Russian business on level of innovative activity the rating of the innovative review of EU was used (European Innovation Scoreboard 2010)<sup>1</sup> in which the world countries are united by results of innovative activity on 4 groups: (Table 1)

Table 1.

<b>1. Leaders</b>	<b>2. Catching up leaders</b>	<b>3. «Modest innovators»</b>	<b>4. Lagging behind</b>
Denmark	Austria	Australia	Bulgaria
Finland	Belgium	Cyprus	Croatia
Germany	Canada	Czech	Greece
Israel	France	Estonia	Hungary
Japan	Iceland	Italy	Latvia
Sweden	Ireland	Norway,	Lithuania
Switzerland	Luxembourg	Slovenia	Malta
Great Britain	Netherlands	Spain	Poland
USA		Russia	Romania
			Slovakia

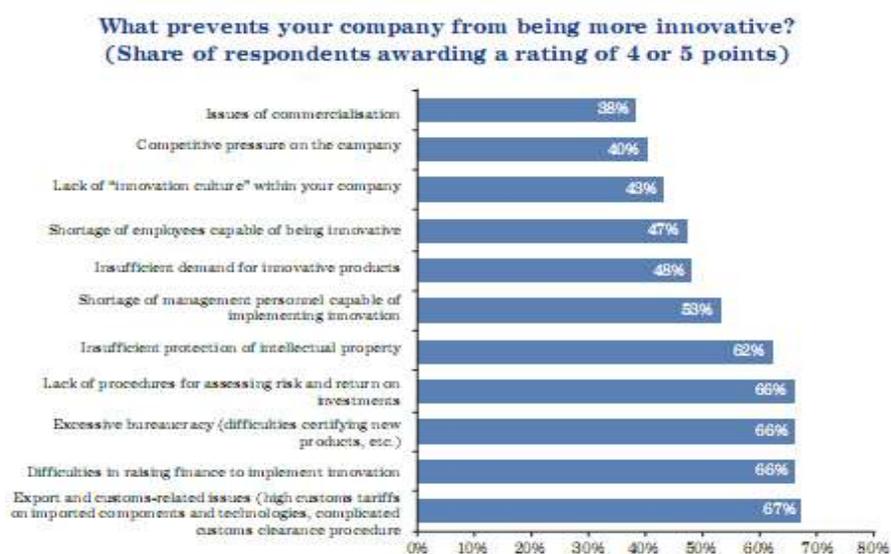
<sup>1</sup> European Innovation Scoreboard 2009: The Dynamics of the Innovative Performance of Countries.

Russia is «Modest innovator». Level of innovation activity. Many of the survey participants carry out innovation activity: 39% of respondents reported that their companies had launched completely new products between 2008 and 2010, and twice more respondents said that their companies introduced innovative technologies and business processes (73% and 66% of respondents) In response to the question on key types of innovation activities on which the company spent money over the past two years, 64% of respondents indicated "R&D", 52% named "procurement of machinery and equipment", and 40% named "staff training and development". However, innovative products, even when they are successfully introduced, usually play a limited role in generating profits. Half of the companies, which introduced innovative products, said that they bring less than 10% of revenues, and one third said that they bring 10-25%. At the same time, a considerable share of respondents admit that their products, technologies and business processes were only new to their companies (26%, 27% and 35%, respectively, of all the companies that implemented such innovations).

The international companies operating in Russia pursue much more intense innovation activity than local firms. There were twice as many international companies operating in Russia among all companies that implemented new products as there were among local companies, and there were approximately 1.5 times as many international companies as there were local among the companies that implemented new technologies and business processes. This is due to the fact that corporations in the international level 15 times smaller. Also on the outcome affects the size of the company. It is much easier for TNCs to introduce new technologies and the innovations. The probability that TNCs will implement new business processes is 46% higher compared to companies with sales of 100-500 million dollars. Generally, innovation held at the initiative of the owners, executives, and active workers. (50% of companies abroad) Unfortunately, in Russia this trend is not well developed.

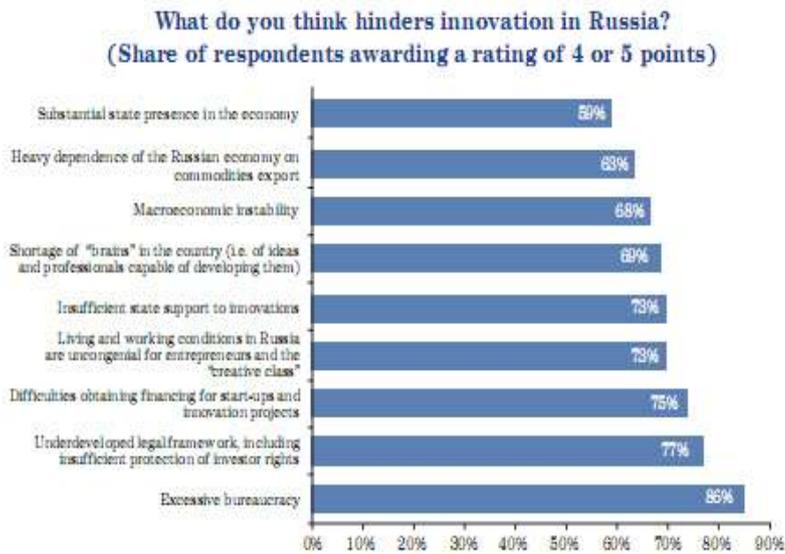
#### Barriers to innovation.

1 position is occupied - "difficulties in raising finance for innovation projects" and "excessive bureaucracy", than "insufficient protection of intellectual property" and "customs-related issues", lack of suitable staff, inadequate protection of intellectual property "and" customs. Lack of innovation culture is of more concern to companies that have already implemented innovative business processes in the past.



Picture 1.

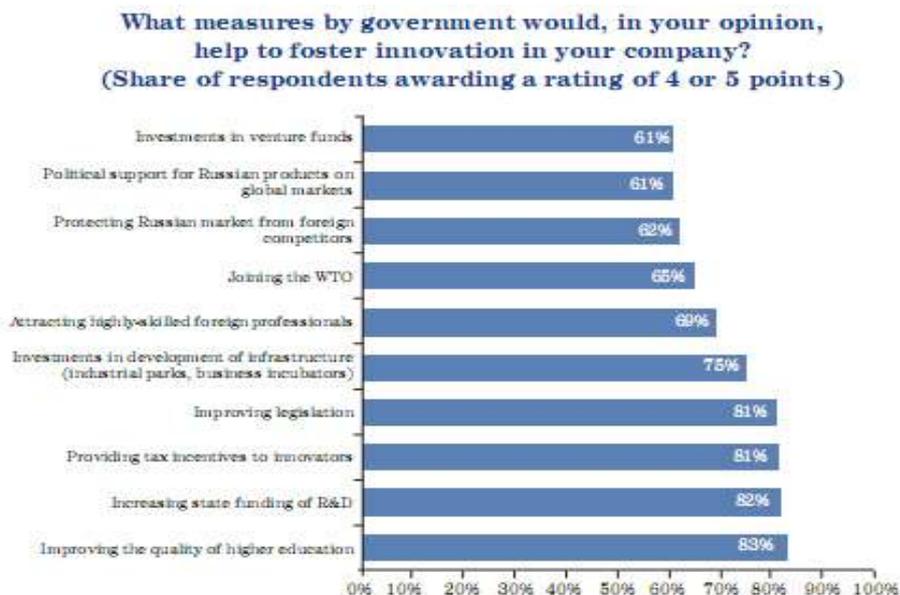
**Barriers facing the Russian economy in general** are difficulties in obtaining financing for innovation projects”, “uncongenial living and working conditions”, under-developed legal framework”, “poor access to financing for startups and innovative projects”. Excessive dependence of the Russian economy on export of commodities and heavy economy.



Picture 2.

Fostering innovation: proposed policy measures.

The most popular measure (rated at 5 points by 58% of respondents) is “providing tax incentives,” closely followed by “improving legislation” and “attracting highly-skilled foreign professionals, “improving the quality of higher education” and “increasing state funding of R&D at universities and research institutes”.



Picture 3.

Accession to the World Trade Organization (WTO) is more important for companies that have already implemented a globally innovative products and business processes. The increase in state funding R & D in universities and other research organizations is increasingly important for companies that already have experience in introducing innovative products.

Unfortunately, a large business in Russia is considerably inferior to foreign leaders. R & D funding is just over 20% of the total investment in research and development. (Look at the desk) The U.S. private investment accounts for more than 25%, 38% in Japan, South Korea 45%. Russia is represented by only three participants in the rating of 1400 largest in terms of absolute expenditure on R & D companies in the world, which is compiled annually by the Joint Research Centre of the EU. These are JSC "Gazprom" (83rd place), AvtoVAZ (620th) and "Lukoil" (632-th position). In 2010, the development and introduction of technological innovations carried out 9.4% of total Russian industrial companies. For comparison: in Germany -69.7%, in Ireland - 56.7% Belgium - 59.6%, in Estonia - 55.1% in the Czech Republic - 36.6%.

In Russia not only a low share of innovative companies, but also the intensity of expenditure on technological innovation, which is 1.9% (same period in Sweden - 5.5%, Germany - 4.7%). The business susceptibility to innovations of technological character remains low, in 2010 working out and introduction of technological innovations were carried out by 9,4 % from total number of the enterprises of the domestic industry that is considerable below values, characteristic for Germany (69,7 %), Ireland (56.7 %), Belgium (59,6 %), Estonia (55,1 %), Czechia (36,6 %). The share of the enterprises investing in acquisition of new technologies (11,8 %) is small. It is low not only a share of innovatively active enterprises, but also intensity of expenses for technological innovations, a component in Russia of 1,9 % (a similar indicator in Sweden of 5,5 %, in Germany – 4,7 %).<sup>1</sup>

Modern information technology is poorly used by the enterprises. The share of the enterprises using a network the Internet for placing of orders, in 2010 has made in Russia of 25 % in comparison with 55-72 % in Finland, Germany, Great Britain, Sweden (as of 2007). The share of the enterprises which had own Internet site in 2010 has made in Russia of 27 % in comparison with 76 % in Finland, Germany, Great Britain, Sweden). A share of hi-tech innovative production in release total amount (1,4 % in extracting, processing manufactures and distribution of the electric power, gas and water) much more low even indicators of "catching up" countries of Eastern Europe. The Russian companies have modest look in the world markets. In 2010 the share of the goods made by them and services in universal volumes of export of hi-tech civilian production has made 0,35 % (in 2003 – 0,45 %) that incomparably there is less than share of such countries as China (17,5 %), the USA (16,5 %), Germany (8,6 %), etc. stably weak positions the Russian enterprises-exporters occupy in such areas as office and computer equipment (0,05 % of world export), electronic components and the telecommunication equipment (0,1 %) and pharmaceutical production (0,09 %), i.e. in the segments calculated on the mass end user. The greatest activity is concentrated in narrow specific directions: not electric cars (2,02 %), chemical production (0,77 %, mainly – radioactive materials), the aerospace techniques (0,39 %), measuring devices (0,33 %).

Above all, the key problem is, low demand for innovation in the Russian economy, as well as its inefficient structure. Also, same imitative nature of the Russian innovation system focused on technology adoption are ready, rather than to create their own breakthrough innovations. 80% of Russia's biggest companies are not prepared to submit detailed results of

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<sup>1</sup> Global Innovation Index INSEAD.

their innovation activities. The share of leading companies and innovators Russia 16%, Japan, Germany -35%, 41-43% in Belgium, France, Austria, 51-55% in Denmark and Finland.

Leaders in terms of investment in research and development in Russia are the engineering company, but even their R & D costs related to revenues do not exceed 2%. In less technologically advanced sectors of the gap even more.

In 2010-2011, among the leaders of Russian business and implementing innovative projects that are "LUKoil", "RusHydro" SUEK, Railways, AFK "Sistema", the holding company IDC, FGC, "Rosoboronprom", "Power Machines", "Civil Aircraft dry ", GAS, Concern" Tractor plants ". In terms of number of projects being implemented most actively innovation in engineering, information and communications sector, metallurgy, energy and chemical complex. Actively developing innovative center "Skolkovo", which is the main in the country, will start the project "Innovative Russia-2020". At this stage, the adaptation of the Russian innovation companies to the international market.

In conclusion, in the Russian market the most innovative activity demonstrate the largest companies in selected industries. According to representatives of big business, high priority government measures to stimulate innovation activity should be to improve the quality of higher education, increasing public R & D funding, tax incentives for innovation and improvement of the positive characteristics of law. Talk about the great successes is difficult, but Russia has huge potential to make a soon occupy high position in the field of innovation.

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## **RELATIONSHIP MANAGEMENT OF UKRAINIAN ENTERPRISES-INNOVATORS<sup>1</sup>**

The modern business environment requires constant development of principles and methods of business activities. Today the classic marketing cannot satisfy all requirements of the information age of the 21st century. There are the considerable quantity of competitors and the glut of information. The attracting of new customers is becoming more and more expensive in these conditions. That's why the retention of existing customers is more effective. This is the key issue in the activities of customer-centric companies-innovators.

Business is going to direct its activities to the needs of consumers as the main goal of the company. It leads the reorientation of the marketing activity of the company, as well as marketing strategies that lie at its base.

The special role of marketing consists in creation the strategy for the selection of the customers from the point of view of available and controlled enterprises' resources and competencies; establishing relations with them, and, consequently, the partnership based on trust, enhancing their long-term loyalty primarily through providing them with values bigger than competitors [1].

During its activity the company can interact with many external economic players: customers or clients, suppliers, partners, resellers, government, media, etc.

Therefore there is the need of relationship management (RM) with economic players. **Relationship management** is the business strategy, which is directed to reduce costs and increase profitability through strengthening customer satisfaction, creating loyalty and building long-term economic cooperation with partners.

According to the author, it is necessary to identify the following major subsystems of relationship management:

- CRM – Customer Relationship Management;
- SRM – Supplier Relationship Management;
- PRM – Partner Relationship Management;
- GRM – Government Relationship Management;
- MRM – Media Relationship Management.

Efficient relationship management with economic players should be under construction on three key elements:

- Staff,
- Process,
- Technology.

*The staff* cooperates with economic players directly. Therefore each company's employee from the general director to an office worker should believe in the main client-focused enterprise mission. The company management should convince their employees that

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<sup>1</sup> Work performed at the budget funds provided as a grant of the President of Ukraine for the research GP/F32/087 "Formation the management mechanism of innovative potential of industrial enterprises in the context of the concept of sustainable development"

introduction of relationship management will offer advantages to the staff as well as to the client.

Relationship management with economic players has many technological aspects, but *business processes* lie in their basis. It is the way of business activities which concentrates attention on satisfaction of consumer needs and the account of interests of clients, partners and the public. It is based on technology, unites and distributes logically the necessary information about economic players, sales, marketing efficiency and market trends, etc. Therefore the company should analyze industrial and business processes before to choose a technological platform. All or some of them will need reengineering for the best servicing and interaction with economic players. Besides, the company has to define what information about economic players is necessary and how it is better used.

Finally, firm must carefully select *technologies* for the management of these improvements. The key factors for the evaluation of technology are the coordination business strategies with the purposes of company activity and possibility of providing the correct information to the correct employees. The choice of a program platform can be carried out by group of heads of the company which well understand enterprise business processes as a whole and what are necessary for automating, together with experts from a firm-supplier of the software who know its specificity.

Apparently, effective management of relationships with economic players can be made only sure the presence of these three elements.

The model of transition to the new concept of business and relationship management with economic players is shown in Figure 1.

The transition process includes the diagnosis of the current situation in the enterprise to identify problem areas and necessary changes. The next stage of the transition is creating the new business concept at three levels: staff, processes and technology.

After the transition to relationship management with economic players the company must constantly perform the analysis of the effectiveness and adjust the components for its improvement.

Business process automation is not an indispensable condition of relationship management, but it facilitates the work of the staff and increases the efficiency of the enterprise's activity.

There are different kinds of software to help relationship management with economic players. Computer programs help to compile and organize information about economic players, facilitate the development of the individual approaches.

However, there are often problems facing organizations which want to automate business processes that are not reflected in the standard software solutions. Examples of such processes may be managing dealer network, working with individuals and organizations in government, relationship management with suppliers or partners, and more.

In such situations some organizations decide to develop the software by yourself, by your own IT-staff. Comparing the advantages and disadvantages of its own design and purchase finished programs is shown in Table 1.

There are many ready-made software solutions from leading CRM-market. Software of companies SAP, Oracle, Salesforce.com, Microsoft are paid (it is possible to receive the demo version, but with the limited functionality and the period of validity). The software SugarCRM and Compiere are shareware, i.e. there is no necessity to buy the program, it can be downloaded from the official website of the product and the payment is raised for additional functions, customization and support.

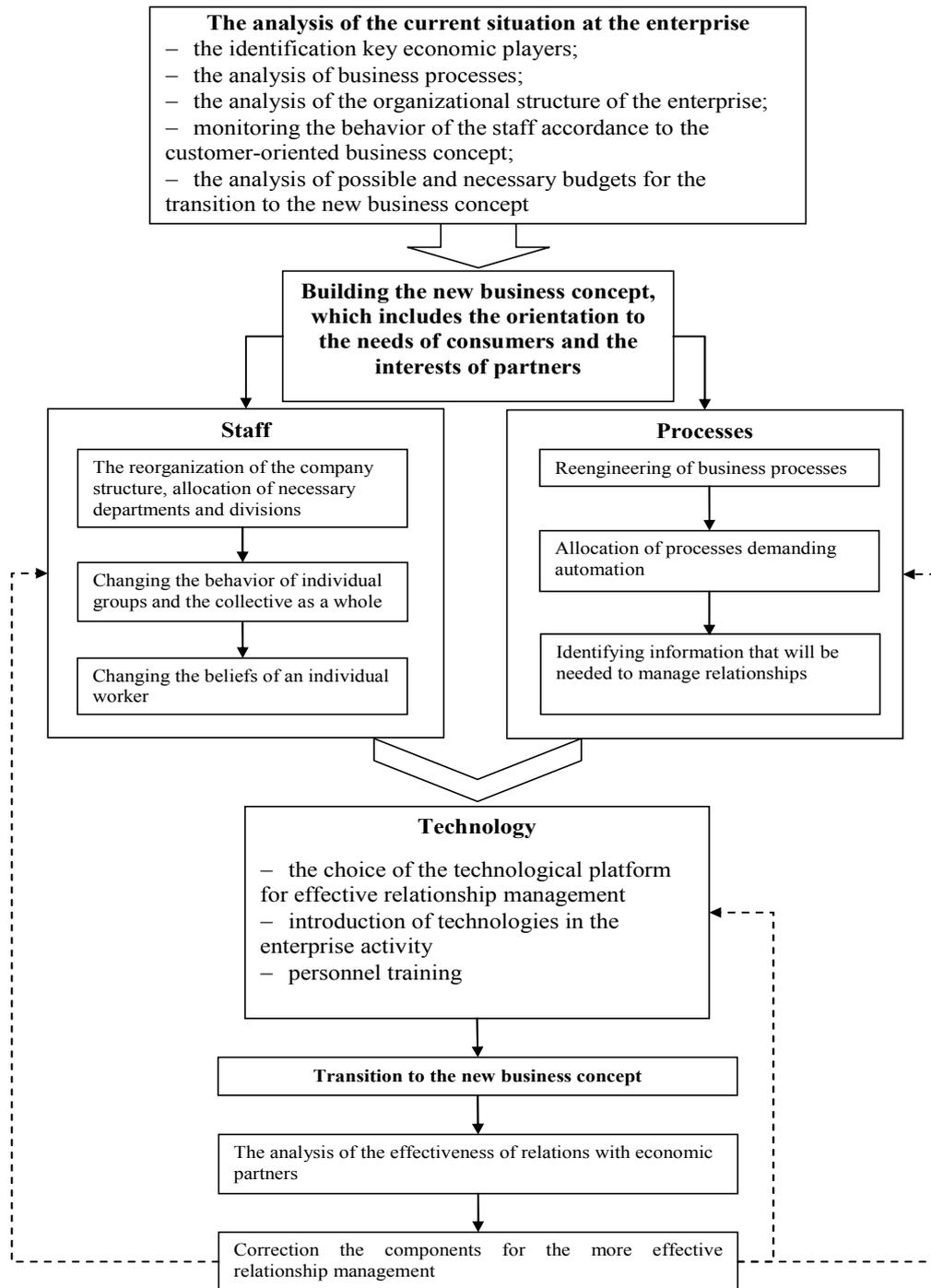


Fig. 1 – The model of transition to the new concept of business which orients to the needs of consumers and the interests of partners

CRM-solutions help ensure that your sales, marketing, and support the efforts of all employees will be integrated towards the common goal, that can raise the success of the enterprise-innovators in the business to the new level.

However, there is the erroneous opinion that the introduction of the special software provides effective relationship management. First of all, it is necessary to rebuild business philosophy to become effective management.

Table 1 – Advantages and disadvantages of different methods of obtaining software (compiled from [2])

Methods of producing software		
	<b>Purchase of finished software technology</b>	<b>Development own software application</b>
Advantages	<ul style="list-style-type: none"> <li>– there is no phase of development solutions that saves time before starting;</li> <li>– the process of technology implementation takes place in a shorter time;</li> <li>– the efficiency from introduction is appreciable faster;</li> <li>– the flexible cost of technology;</li> <li>– service, training of the personnel, updating and support from the company of the developer, more skilled manufacturer of technology</li> </ul>	<ul style="list-style-type: none"> <li>– creating the application with business requirements;</li> <li>– bigger control over the development and implementation;</li> <li>– there is no dependence on another company (the developer)</li> </ul>
Disadvantages	<ul style="list-style-type: none"> <li>– a company have to adjust business processes under system work that is not always possible or necessary, and in the end still it cannot give proper results;</li> <li>– dependent on support and updates of the another firm. And it does not guarantee the timeliness and quality of service (due to the large number of clients the firm developer, to change the priorities of other software products or liquidation of a company)</li> </ul>	<ul style="list-style-type: none"> <li>– development the own technology solution will cost more expensive considerably;</li> <li>– functions are limited by the principle of relevance;</li> <li>– high cost of support and development;</li> <li>– updating and making corrections demand more time</li> </ul>

Partnerships with economic players and focusing on the loyal customers are the key to the stable activity of the enterprise during crisis times.

The ability to introduce innovative solutions in the enterprise relationship management helps to maximize own strengths, identify weaknesses and neutralize them effectively, to develop resistance against external threats and to counter the economic crisis.

Effective and innovative management of external relations will help Ukrainian enterprises-innovators to establish communication in the company, to increase profits on the basis of existing capacity and to interact better with the environment, to develop resistance against external crisis tendencies.

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**UKRAINE**

## **THE ACCEPTANCE OF MARKETING INNOVATIVE DECISIONS IN A MANAGEMENT SYSTEM OF UKRAINIAN ENTERPRISES<sup>1</sup>**

The important features of the management sphere, in which a contemporary enterprise is functioning, are the creation and use of innovations, as well as transformation them into a key factor of production. Under these conditions, support and development of innovational and research activity are becoming a strategically important area of business enterprises. In connection with this, a current management task performs improving enterprise innovation, which, in turn, can adequately respond to changes in economic environment, strengthen the market position of the company and identify the areas for further development.

In Ukraine, at different levels of management the urgency of solving theoretical and practical issues of innovation is understood, however numerous issues of innovational sphere have not yet been resolved. Questions that remain undeveloped are of building and settlement mechanisms of financing and innovational tax incentives, internal economic relations settlement of innovative development, the formation of innovation information system innovation, etc. In addition, approved by the Law of Ukraine "About priority directions of innovational activity in Ukraine" [3] the list of priority directions of innovative development is overly broad and abstract, and it is difficult-to-implement under resource-limited conditions. Opportunity for Ukrainian economic growth based on the innovational principles is also prevented by the existing innovational infrastructure. As a rule, the actions of the structures, which affect the activity level of innovation and provide further innovation in the economic process, are inconsistent and incoherent. It should be noted that the development of the economy on the innovational principles tends to raise the competitiveness of the country as a whole and individual companies and goods in particular. This, in turn, increases the country's national security and stabilizes other areas of management.

Recently, the evaluation of the competitiveness of countries, regions and companies is the subject of many studies. One of the most significant and widespread is the rating of national competitiveness Growth Competitiveness Index (GCI), which is held annually by the World Economic Forum (WEF). GCI, a 12 indices-set of a country's competitiveness, explores such elements as the development of state institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market sophistication, technological readiness, market size, business sophistication and innovations. After analyzing the dynamics of the innovational component of the GCI of Ukraine [14-17] for the last five years (Table 1), we note that the competitiveness of Ukraine in the innovational sphere can be characterized as stable with a positive trend towards improvement of the ratings.

Having compared the country's place in the rating with a total rating in a given year, it is observed that in 2009 there was a general decline in innovational activity of enterprises and institutions of the country. In our opinion the main reason for this decline is the crisis processes that took place in Ukraine and the world in tote. We should note that starting in 2010, a

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<sup>1</sup> Work performed at the budget funds provided as a grant of the President of Ukraine for the research GP/F32/087 "Formation the management mechanism of innovative potential of industrial enterprises in the context of the concept of sustainable development"

restoration of the innovational component occurred, but at the beginning of 2011 pre-crisis level had not been yet reached.

Table 1 – The dynamics of the GCI-Ukraine index in 2006 – 2010

Index	2006	2007	2008	2009	2010
Position in the rating	61	65	52	62	63
Total quantity of positions in the rating	122	131	134	133	139

The characteristics of the innovational component of the global competitiveness index GCI-Ukraine are detailed in Figure 1:

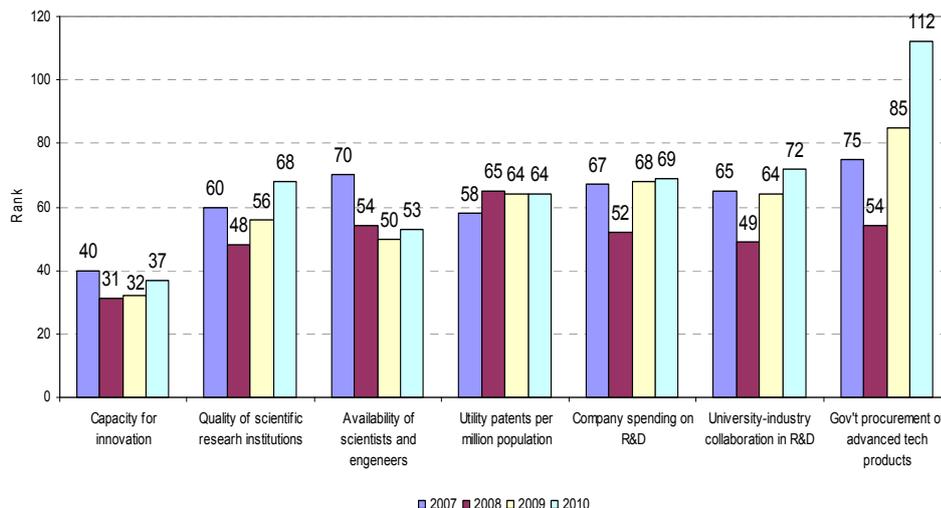


Figure 1 – Characteristics of the innovational component of the global competitiveness index GCI-Ukraine

Comparison of the most problematic factors of the business environment functioning in Ukraine in 2008 - 2010 shows that the main destabilizing factors are: policy instability (15.6%), corruption (13.9%) and access to financing (10.8%). It should be noted that the rapid growth (compared to 2009) of such factors as corruption (3.6%) and tax rates (4.5%) are of the major concern. The positive tendency to the negative effect reduction (in comparison with 2009) is observed for such factors as: poor work ethic in national labor force ( $\downarrow$ 1.7%) and inadequately educated workforce ( $\downarrow$ 0.8%). Also the Ukrainian enterprises are characterized by the tendency to crime and theft rate growth, bureaucratic processes intensification, government instability increase and development of the market infrastructure inadequate to modern economic conditions. All this affects the ability of enterprises to innovate.

Analysis of the experience of the Ukrainian enterprises showed that the level of their development and performance of the companies are significantly lower than those in developed countries. It should be noted that nowadays innovations have become the constant companions of the economic development. In turn, the choice of innovative development implies a willingness to function in conditions of uncertainty and risk, to use modern tools and methods of management, obtain ongoing training and staff development, and to use actively the marketing and management technology, etc. From our point of view, an innovative line of business of the modern enterprise is an important strategic factor in its development. However, innovation is not the solution to all problems. Innovation should be regarded as a prospect that we must know how to implement.

Performing of innovational activities is connected with taking a variety of decisions. The issue of necessity to take innovative decisions appears at any stage of innovational activity,

and the innovational approach itself is a strategically important element of the economic functioning of an enterprise. Thus innovational approach at the enterprise becomes a key element of the intensive growth, which leads to strengthening its market position, increase of gross revenue and clear profit. In its turn the enterprise's development on the innovational basis strengthens its positions in the competitive struggle.

By defining the essence of the “innovative decision” concept it was determined that nowadays the issues of this category's exploration still remain not enough developed. In scientific literature authors equate the notions of “administrative decision” and “innovative decision” [4-5, 7-9, 11], and together with it “administrative decision” notion in contrast to “innovative decision” notion is defined wider and more general. Thus under the notion of “marketing innovative decision” we suggest to understand the result of intellectual-psychological and creative activity of a person or a group of people which leads to choosing a definite alternative actions on mastering newer spheres of activities, implementation of the untapped potential, bringing in and using new non-typical methods and techniques which indulge into development and increase of the functionality of the object where they are used.

Basing on the research [4, 6, 12] we systematized principles which should be met by the qualitative innovative decision (Figure 2).

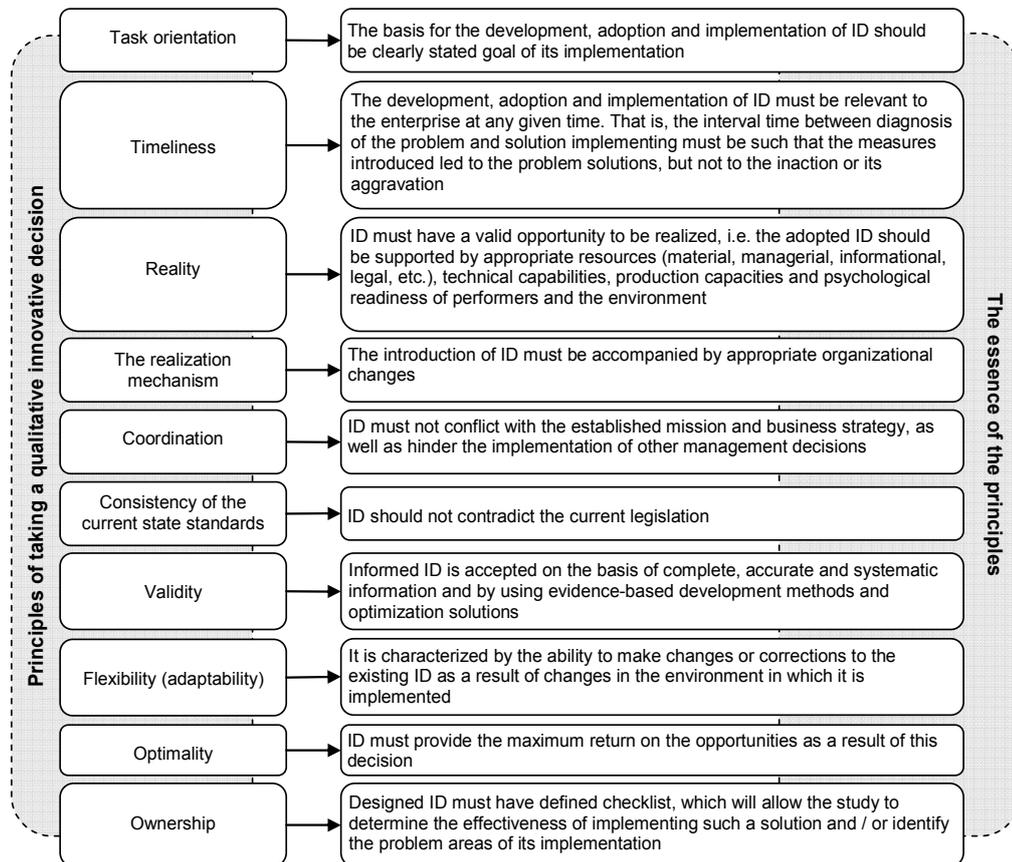


Figure 2 – Principles of taking a qualitative innovative decision

As a result of our research we believe it's appropriate to view in detail internal factors at an enterprise which promote (Fig. 3) and hinder (Fig. 4) from development, acceptance and implementation of marketing innovative decisions (DAIMID).

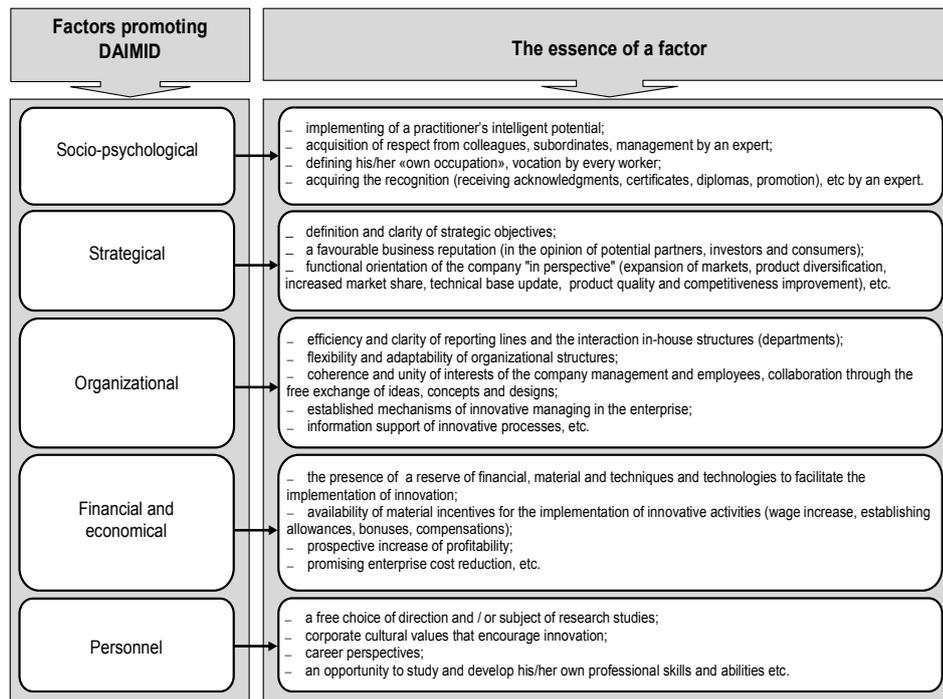


Figure 3 – Internal factors which promote the DAIMID

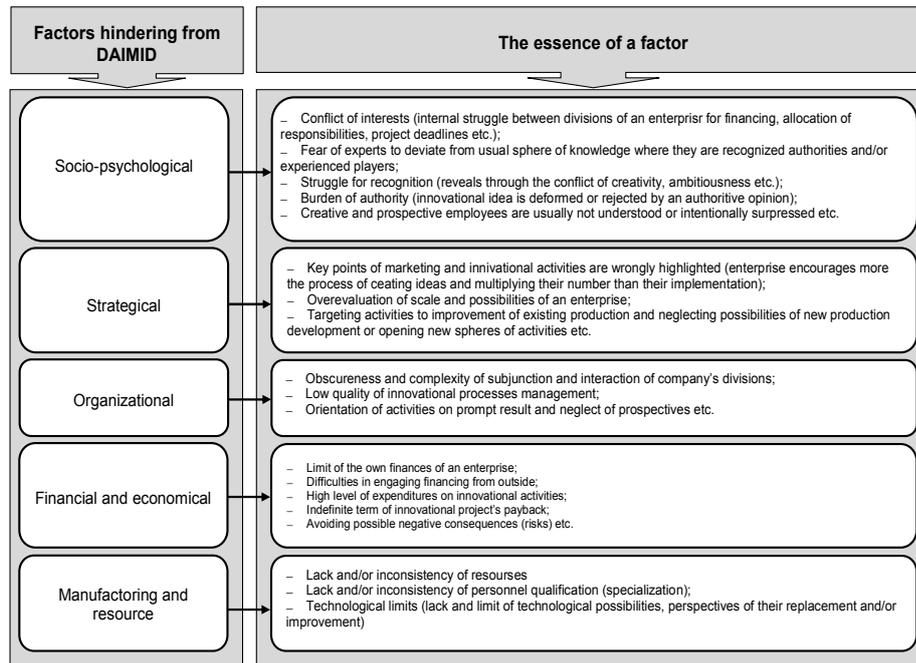


Figure 4 – Internal factors which hinder from DAIMID

Any process suggests existence of a definite list of consequent stages of its implementation. The DAIMID process isn't an exclusion. It's necessary to mention that the majority of authors suggest similar set of stages. Research of publications on this issue [1-2, 6; 10-11; 13; 18] allows to form staged of the marketing decision's development, acceptance and implementation process (Table 2, Column 6).

Table 2 – Influence of activating factors and constraints on DAIMID

DAIID activating factors					Stages of the DAIID process	DAIID constraints				
1.1	1.2	1.3	1.4	1.5		2.1	2.2	2.3	2.4	2.5
xxx	xxx	xx	x	xx	1. Diagnosing a problem	xxx	x	xxx	x	xx
xx	xx	xxx	x	xx	2. Researching a problem's essence	xx	x	xx	x	x
x	xxx	x	x	x	3. Putting the goal	xx	xxx	xx	xx	x
x	xxx	x	xxx	x	4. Defining criteria of the decision	xxx	xx	xx	x	x
xxx	x	x	xxx	x	5. Developing alternatives of the decision	x	xxx	xxx	xx	xx
x	x	xx	xx	x	6. Defining tools of developed decision alternatives implementation	x	xx	x	x	x
x	xxx	x	x	x	7. Comparing and choosing the decision	xxx	xxx	xx	xxx	x
xx	x	xxx	x	xx	8. Implementation of the chosen decision's alternative with using according tools	xxx	x	xxx	xxx	xxx
x	xx	xxx	x	x	9. Analysis and control over decision's implementation	xx	x	xxx	x	x
xxx	xxx	xx	x	x	10. Drawbacks correction	x	xx	xx	x	x

1.1 Socio-psychological;  
 1.2 Strategic;  
 1.3 Organizational;  
 1.4 Financial and economical;  
 1.5 Human resources

The level of factor's importance:  
 x - low;  
 xx - medium;  
 xxx - high

2.1 Socio-psychological;  
 2.2 Strategic;  
 2.3 Organizational;  
 2.4 Financial and economical;  
 2.5 Manufacturing and resource

After researching factors of influence on the DAIMID process by the Ukrainian enterprises we formed a summary table which defines the level of factors influence at each stage of DAIMID process (Table 2).

The research showed that for the Ukrainian enterprises the most vulnerable and important from strategical point of view stages of DAIMID are: problem's diagnosis, putting the goal, decision's alternatives development, comparing and choosing decision and implementation of the chosen decision's alternative. In our opinion in majority of cases the Ukrainian enterprises work with traditional and pattern schemes which don't strengthen existing and don't form strategical directions of development but constantly keep the enterprise in satisfactory condition.

Process of DAIMID in connection with a wide variety of tasks requires the involvement and processing of large volumes of marketing information. To marketing information could be used in DAIMID it is necessary to create an adequate marketing information system and to form appropriate to the situation information fields. Creation of a marketing information system requires a systematic approach, comprehensive cooperation of structural divisions of the enterprise and use of newest methods of communication and information processing. So developing and acceptance of marketing innovative decisions is not among objectives which can be performed by a separate division itself. Marketing innovative decision will have more chances for success in case of close and defined cooperation between divisions of an enterprise. Cooperation between divisions helps to effectively distribute tasks, responsibilities, resources and receive an adequate feedback.

It is also obvious that using methods of supporting and accepting marketing innovative decisions is postponed and strategical planning is limited by surface research. For the Ukrainian enterprises it is a characteristic feature to overestimate expectancy from marketing innovative decisions and activities. Marketing innovative decisions are expected to bring fast and large-scale results and when first forecasts aren't brought to life stable aversion of all future innovations is formed. Consequently innovations and innovative activities are viewed as "expensive whim", unprofitable and prospectiveless direction of work, whim of creativeness etc. But we should mention that marketing innovative decisions have a right for failure which in its turn can become a valuable experience, stimulus for future achievements.

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**FOREIGN EXPERIENCE OF NON-MOTIVATION OF STAFF  
AND ITS SOCIO-ECONOMIC RATIONALE  
IN THE MANAGEMENT STAFF OF THE RUSSIAN COMPANY**

**Abstract**

The article written on the current topic. This is due to the fact that the current personnel management system is the foundation of enterprise management, since implementing the main task - organizing activities. Modern concepts of personnel management based on the recognition of the increasing role of the individual worker, on the knowledge of its motivational systems, the ability to create and submit in accordance with the tasks facing the organization. Today, more and more noticeable shift from the principles of hierarchical control, a rigid system of administrative sanctions to the creation of a new organizational culture, the emergence of specific value orientations.

An important advantage of a multifaceted analysis of international experience intangible motivational component that will integrate and to suggest possible methods of motivation for Russian enterprises.

Author of the article stated that with the effective application of methods of non-motivation may achieve high levels of efficiency and productivity and, consequently, improve the efficiency of the enterprise.

**Keywords:** Motivation Management, Motivation systems, non-motivation, international experience of motivation.

At the present stage of development, management, and in particular human resource management a special attention is paid to motivating and encouraging of employees. This is primarily due to the understanding of the importance of human factors in the organization and its contribution to the effective functioning of the entire organizational system - the enterprise. The first and accordingly most formed system of non-material motivation appeared to foreign practice.

Thus, for the top of foreign manufacturing companies is significant how top managers master methods of non-material motivation, since the methods of material incentives, such as salaries, bonuses, social package have already been provided at high level and they are everywhere given a paramount.

Experience in personnel management at IBM deserves special consideration because it is very different from that used by most other companies' personnel policies of the West. Rather, this management style, typical of Japanese firms based on the "Theory Z" [1]. What is unique is the approach used by IBM for employee analysis and evaluation. A primary element of IBM governance structure is the relationship between a supervisor and a subordinate. They are controlled by a specially created institution - the system of appraisals and interviews (SAS) [2].

A key principle of IBM non-motivation is a guaranteed lifetime employment. As a result, there emerges the need for regular personnel retraining and change of their activities, herewith the human resources department acts as a guardian and must do what is necessary for workers to realize their full potential.

Inalienable rights of company employees are also equal opportunities - single status. Although IBM employs a large number of temporary employees contract workers, attitude towards them is different.

The most powerful IBM motivational tool is opinion polls (surveys) which are conducted every two years. According to the results of these surveys each manager prepares an action plan to eliminate identified deficiencies and reconciles it with his subordinates.

Encouragement in the form of gifts becomes widespread in British. So, the company «British Telecom» awards employees by valuable gifts and travel vouchers. The procedure for awarding is conducted in accordance with the achievements: at workplaces, at public events and celebrations. This allows promoting achievements in enhancing the effectiveness of its quality, which previously wasn't noticed [3].

Employee motivation through the promotion of civil servants used by industrial firms can be consolidated with the rotation, subject to the account of personal qualities and work experience. The first is more often applied to enterprises in the USA; the second characteristic is typical of Japan.

One of the most effective methods of motivation is the creation of self-managed groups. As an example, we can refer to the experience of the American firm «Digital Equipment», where such groups are formed in the management of general accounting and reporting being part into one of five centers of financial management. The groups are responsible for work planning, hiring new staff, holding meetings, coordinating with other departments. Members of the groups participate in turn in meetings of company's managers [4].

"The main factor in the business - its creativity" - says the head of Sony A. Morita, 30 years ago. In conditions of today's dynamic and hypercompetitive economics development of business is increasingly dependent on creative ideas that promote more efficient usage of resources, expansion of production capacity, creating new and improving existing products and their effective promotion [5].

One of motivation forms, which found a wide application in the practice of foreign and domestic enterprises, has become the introduction of flexible work schedules. It was introduced in public institutions of Oxford shire (UK) at the beginning of 90's on a pilot basis. A new form of work organization, giving employees a substantial degree of freedom - the opportunity to work both at the workplace and at home, depending on the specific responsibilities of the employee and the agreement between him and its leader. In some cases, the number of working hours spent in a facility is specified in advance. Specific meeting hours collecting all the office staff can be assigned to share information, familiarization with new tasks. This mode is recommended to managers as well. For example, a contract of a Chief of an Accounting Department in British institutions suggests the following distribution of working time: 75% (30 hours per week) - in an institution, 25% (10 hours per week) – off home. A head of Accounting Department basically works at home on computer, verifies the digital data of financial documents, and institutions he or she participates in meetings and is engaged in other deal that require contact with staff.

It can be concluded that various methods of staff non-motivation of an organization is actively used overseas of this. The consequence is a high activity of employees, which leads to the efficient operation of an enterprise. The usage of various forms and methods of stimulation in foreign countries allows a management company to form effective motivation of employees to effective operation, which, in turn, contributes not only to functioning, but also to the development of an enterprise.

Little attention has traditionally been paid to the problem of motivation in our country, but the people responsible for this proceeded from two opposite assumptions. One of them, ideological, recurrence of which almost always occurs in actual practice, implies that all employees, as conscious and responsible members of the society must work wholeheartedly. The second, the power play, which is also still popular in the minds of leaders, implies that if employees do not work appropriately, they can get forced to do so.

Formation and implementation of employees' behavior motivation is not a momentary thing, it's quite long, figured not for one year, the process of making significant changes to the existing system of incentives, gradual change of them. Hence practicability long-range plan developing of that work. The plan should be based on a thorough analysis needs in behaviors encouragement, assessment of necessary resources for implementation of systems. If it turns out that it would be desirable to go to the widespread usage of behavior motivation systems, then, focusing on the possible amount of funds for these purpose it is necessary define priorities of the transformation of existing systems, i.e., from what areas, what group of workers should work be started with on what it is advisable to carry work further, etc.

As for funds, it is obvious that these are means that can be allocated to the increase of cash and non-cash income of workers. They depend on many internal and external reasons, but the main is the efficiency of enterprises and the goals that are defined by the company towards its current and future periods. Since the company employees are interested in introduction of systems, they may be involved in searching and implementing production reserves. At the same time it can be determined that any additional resources, found by workers due to the proposed introduction of incentive schemes should be directed to their introduction. In the long term there should be defined the basic units of an enterprise, which should be responsible for developing and implementing incentive systems.

Today, more and more specialists and managers are convinced that salary does not encourage employees to achieve success, as it was in the recent past, and in the list of preferences of workers, both of foreign and domestic companies, tangible benefits are far from being in the first place giving priorities to social benefits. According to the experts of Ward Howell International, 86% of the compensation packages in the leading Russian companies are not inferior to Western counterparts in their content [6].

Activities aimed at encouraging non-motivation that are applicable to domestic enterprises in the light of international experience:

1. Work is not only a means of earning for a man, but also the expression of physical and mental abilities. A man tends to acquire knowledge, accumulate experience use it at work;
2. Employees develop strategic thinking on behalf of company's functioning;
3. The active participation of employees in the development of goals of the company, actions to achieve them, as well as the realization of these objectives and arrangements;
4. The process of humanization of work, excluding the approach to the personnel of the enterprise as a tool, a means of achieving production and economic goals of the enterprise. A rule of business is to ensure the employees of such living conditions at the enterprise and beyond, which would allow them for create and initiative work;
5. An increase of corporate culture;
6. The efficiency of the functioning of industrial society increases;
7. As a consequence of the above points, high productivity and quality of work.

Thus, analyzing of foreign experience in application and implementation of non-motivation, there was offered a real methodological tool to improve non-material interests of staff, taking into account the specific character of Russian enterprises. On the one hand its own experience in developing systems of motivation, and on the other hand the knowledge and specially collected information about the implementation of various systems, it was possible to characterize the existing methods of non-motivation abroad and provide specific recommendations for their use in Russian enterprises.

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## **EMPLOYEE MOTIVATION – THE KEY OF COMPANY SUCCESS**

Employee motivation describes an employee's intrinsic enthusiasm and drive to accomplish work. Every employee is motivated about something in his or her life. Motivating employees about work is the combination of fulfilling the employee's needs and expectations from work and workplace factors that enable employee motivation - or not. These variables make motivating employees challenging. There are many problems in organization. That's why motivation tools are very important thing to bring positive results for the company. [1]

### **TYPES OF MOTIVATION**

#### **Extrinsic motivation**

Extrinsic motivation refers to motivation that comes from outside an individual. The motivating factors are external, or outside, rewards such as money or grades. These rewards provide satisfaction and pleasure that the task itself may not provide. An extrinsically motivated person will work on a task even when they have little interest in it because of the anticipated satisfaction they will get from some reward. The rewards can be something as minor as a smiley face to something major like fame or fortune. An extrinsically motivated student, for example, may dislike an assignment, may find it boring, or may have no interest in the subject, but the possibility of a good grade will be enough to keep the student motivated in order for him or her to put forth the effort to do well on a task. Extrinsic motivators are limited but we can't really place them out of the picture. We can't ignore the fact that extrinsic motivators keep us moving when the going is tough. They give us perseverance when we've lost interest or drive for the task at hand. [2]

#### **Internal Motivation**

Internal motivation is the driving force that comes from inside us, and causes us to do a good job because we feel good about ourselves when we accomplish something. When we are internally motivated, we operate according to our own values. There are some techniques of motivating employees without money. [3]

- **Personal Recognition.** Almost all companies have the management decide rewards for good performance. A variation in this could be giving the employees the choice of their reward. This will make employees enjoy the reward more and also motivate them to work towards the same.

- **Encouraging Leadership Qualities.** Every employee in the company surely dreams of becoming a leader himself. So why not present him with an opportunity? A manager can allow one person from the team to be the leader for a week and perform all duties of a manager like delegating work, arranging meetings and planning for future growth.

- **Training Sessions and Workshops.** A person is never done with learning and the same holds for employees as well. A manager can always send young employees to various training sessions happening all over the country. This gives the employee an inclination that the organization does seem interested in his growth and future in the company, motivating him to give his best performance.

- **Work Environment.** Work environment includes employee-manager relationship,

recreation facilities at work place, people working with the employee and cosmetic look of the office among other things. Managers should try and create a more livelier and happier place out of the office premises, making employees wanting to come back to the workplace at every possible opportunity.

- **Informal Awards.** Informal awards involve using a sense of humor and keen observation qualities, to create a host of fun awards which employees are presented with. It could be for anything, hard work, good team spirit, peculiar habits of employees, their lack of work or any other informal aspects one can think of. [4]

#### **Successful Motivated Behaviour**

Good and effective actions or behaviour usually involves the harmonizing of these two types of motivation. If one is driven by both intrinsic and extrinsic motivations, then inner conflict is reduced and a person is more likely to devote uninterrupted and harmonious actions towards a particular task.

The inner and external rewards too, are good reinforcing mechanisms. For many people, this is really the means towards success. By choosing goals that you desire - both in its intrinsic and extrinsic rewards - you can harmonize your own actions and devote your energies to your goals. In such instances, the chances of achievement increases greatly.[5]

#### **MOTIVATION METHODS**

There are as many different methods of motivating employees today as there are companies operating in the global business environment. Many organizations today find that flexibility in job design and reward systems has resulted in employees' increased longevity with the company, improved productivity, and better morale.

- **Empowerment.** Giving employees more responsibility and decision-making authority increases their realm of control over the tasks for which they are held responsible and better equips them to carry out those tasks.

- **Creativity and innovation.** The power to create motivates employees and benefits the organization in having a more flexible work force, using more wisely the experience of its employees, and increasing the exchange of ideas and information among employees and departments. These improvements also create an openness to change that can give a company the ability to respond quickly to market changes and sustain a first mover advantage in the marketplace.

- **Learning.** If employees are given the tools and the opportunities to accomplish more, most will take on the challenge. Accreditation and licensing programs for employees are an increasingly popular and effective way to bring about growth in employee knowledge and motivation.

- **Quality of life.** Programs incorporating flextime, condensed workweeks, or job sharing, for example, have been successful in focusing overwhelmed employees toward the work to be done and away from the demands of their private lives.

- **Monetary incentive.** Monetary and other rewards are being given to employees for generating cost-savings or process-improving ideas, to boost productivity and reduce absenteeism. Money is effective when it is directly tied to an employee's ideas or accomplishments. [6]

In conclusion, it would be necessary to light common tips about employee motivation.

- You can't motivate another person. You can only provide an environment at work that is conducive to and supportive of employees choosing to become motivated about issues related to work.

- Actions and activities in the workplace that provide an environment supportive of

motivating employees don't have to be expensive. Activities and recognition that cost money are welcomed by employees as part of the motivation mix.

- Motivation is prevalent in workplaces where people are treated as valued human beings. Trust, respect, civil conversation, and listening prevail in a workplace that fosters employee motivation.

- Clear direction plays a serious role in motivating employees. Employees want to know exactly what you expect from them. When they have the reassurance of clear direction, motivating employees becomes easier.

- Supervisors ask frequently about how they can motivate employees. Wrong question. They can't. But, supervisors can create an environment for motivating employees.

- Employee motivation is a constant challenge. Research indicates that while treating employees nicely is a factor in motivation and happy employees are also a factor in employee motivation, more is needed for a successful organization.

- Actively solicit information from the employees who report to you and from your coworkers about what motivates them. Employees know what they find motivating and they can tell you if you ask. Responding to employee needs and complaints is key in motivating employees.

- Motivation at work is a choice employees make. No matter how hard managers try or how supportive company policies are, there is a bottom line for motivating employees.

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### **MANPOWER - ENGINE OF DEVELOPMENT**

**Keywords:** Development; HDI; Education; Responsibility.

The purpose of this paper is to determine the origin of issues and factors that reduce development gaps and increase growth.

Since the specific features of each state are unique and there is no single solution to enhance development, it is very important to discover and understand which are the individual engines for growth and reducing disparities in economic development.

Throughout history there have been presented a number of models for economic development, which largely proved to be generating waste of resources. Thus, scientists and many policymakers propose a new model of development based on sustainable human development.

Sustainable development adds up to the following elements:

- expansion;
- increase;
- progress;
- development and underdevelopment, with a twofold purpose;
- economic development;
- human development.

The Human Development Index (HDI) provides a complete scan of the level of human development in countries of the world, an overall assessment of progress and various strategies that are followed by countries to achieve human welfare.

Drawing their attention to creating a new society, a society of people for people coupled with sustainable human development being their purpose.

Economic theory is very extensive on the concept of economic and every school of economists has opted for its own growth engine: agriculture - for physiocrat; international trade surplus - for mercantilist; free market - for classic scholars; capital - for Marxists; entrepreneurship – for the neoclassical school.

Defining the object of economic development theories is based on the concept of economic growth. Although there is no unanimously accepted definition of economic growth, many economists consider that this means: *increasing the amount of useful economic effects in a period*.<sup>1</sup> There are other definitions of economic growth: *product growth per capita or per hour of work*<sup>2</sup>; *long-term growth capacity of countries to ensure increased supply of different economic goods to the people*<sup>3</sup>; *long-term trends of macroeconomic phenomena*<sup>4</sup>.

Lately, after 1970, there appears struggle to differentiate the following concepts: growth, development and progress. Thus, **economic growth** refers essentially to increasing the quantitative value of synthetic macro-economic indicators. **Development** takes into account all changes in national or global economy, focusing on the qualitative changes. **Progress** indicates the upward direction of movement and its implications on the standard of living. Thus, growth < development < progress.

The main underlying factors of development and growth are:

- direct factors: human resources: labor supply, education, discipline, motivation; natural resources: land, subsoil resources, fuel, weather conditions; stock of capital: machinery, equipment, buildings, transportation, technology: science, engineering, level of organization, management, entrepreneurship, innovation;
- indirect factors (economic and institutional environment): size of aggregate demand, banking changes, system efficiency, savings rate and investment rate; international environment, competitive products, the marginal propensity to import compared to that of export;

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<sup>1</sup> Betty G. Fisman and Leo Fisman, *The American Economy*, Princeton, 1962, p. 258 ;

<sup>2</sup> W. Arthur Lewis

<sup>3</sup> Simon Kuynets

<sup>4</sup> Aurel Iancu

The main goal pursued by economic development is to identify the laws, cases, forms and trends of these changes. Another central objective is to study the direction and nature of these changes: are we, really, truly witnessing the movement to riches ( Adam Smith), of poverty reduction (WALewis) or growth (Sen)? What must be done to trigger, accelerate and control this trend? Which are measures or factors that contribute to growth and development?

Development through the people and for the people has brought out the fourth dimension of human development: participation with opportunities they have to create their personal wealth and national wealth by default.

People are the instruments and beneficiaries, but also victims of all development activities.

Their active involvement in the development process is key to success. Moreover, if we do not always strive to improve people's lives, environmental programs will fail with certainty.

The poor generally are the hardest hit by environmental degradation and the most ill equipped to protect themselves, but also they are the ones that cause the most damage due to their short term needs, either because of ignorance or lack of resources.

It is therefore very important to involve the poor and those marginalized in the process of development, allowing them to meet their own needs through their own productive efforts.

Any process of development must have a human finality, otherwise it is doomed.

Sustainable development is a new way of development that supports human progress not only in a few places and for some years, but the whole world population towards a long future.

As human development, sustainable process first of all shows that development is made for people and involving them to achieve economic results and fair distribution of income<sup>1</sup>.

Knowledge is the most important factor to create human wealth, but also the most effective means to achieve compatibility between man-made environment and natural environment. This resource to create wealth - knowledge - can be used simultaneously by everyone who owns it and is accessible to the weak and poor, not only the powerful: "By placing knowledge at the base of the construction of the human economy, we create the real premise for clean economical activities, whose mechanisms of cleaning will work permanently in the economic processes, which because they are synthetically integrated, will enable the control of man, through the levers of the mind, both upstream and downstream, companies developing this process during the entry, during production itself, at the exit and during the post-use of the good or service<sup>2</sup>."

The second feature of human development shows that economic and social development is achieved by people, and therefore, be created and perfected on the investment in human potential human that in education, education and culture, training and health.

Equitable distribution of income and investment in man creates the material and socio-cultural frame for human life expectancy so the longevity or the individual's ability to lead a long and healthy life constitutes the third fundamental feature of human development.

National reports, regional and global on human development have played a key role in promoting human development.

From the first appearance of the Human Development Report in 1990, the Human Development Index (HDI) served successfully as an alternative method of assessment development, complementing the economic indicators.

It assesses the country's achievements in three areas of human development:

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<sup>1</sup> Income means an individual access to the resources necessary to ensure a suitable standard of living, it guarantees the satisfaction of needs, normal consumption of goods and services and social mobility of the individual.

<sup>2</sup> Toffler, A., *Al treilea val*, Editura Politică, București, 1993.

- longevity<sup>1</sup>;
- educational level;
- standard of living.

The Human Development Report 2010 found in a new detailed long term analysis of the Human Development Index that most developing countries have achieved spectacular progress in recent decades, but are for now underappreciated in health, education and living standards, and many of the poorest states have incurred the fastest evolution.

Eastern Europe has a relatively equal situation on all three dimensions of the Inequality-adjusted Human Development Index, even though there is a significant regional diversity, according to the Human Development Report 2010.

In the region, the Human Development Index has found a reverse in the life expectancy in three former Soviet states - Belarus, The Russian Federation and The Ukraine compared to the year 1970.

Starting this year, the study takes into account other indicators such as the gender inequality index, reflecting how the female population is disadvantaged and takes into account reproductive health, the power available to women in society and their involvement in economic activities.

In the spirit of the concept of human development, the most profound and effective form of participation is access to work and pay which means that a priority objective of human development strategies needs to be the creation of new jobs, improvement of the existing job situation, the revisal of the concept of employment and labor, extending the concept of capital which, in addition to physical capital, financial, etc.. to include the human and cultural capital.

Resource allocation in the new models of sustainable human development must take into account, individuals and the natural environment because it is both national and international and it is this global vision of human development that is a key feature of the concept of sustainable economic development. It shows that both domestically and internationally, there is a need to create new models and concepts of development, namely:

- use of new models of sustainable development, to be organized around the needs of the people, not to marginalize groups or individuals and to create a framework for investing in human potential;

- elaborating and implementing a new security concept, the security of people, not only of states, security provided by human development, not weapons, namely food security, employment and the environment, a security for regional alliances both economic and for peace, not military, as it is known that: "to pollute is an aggression, because it deprives others of the joy provided by the free use of property rights<sup>2</sup>";

- implementation of a partnership between state and market so that the population and not the state is guiding the market;

- the development of new models of management, on both a national and a global scale, to increase the role of individual and group aspirations and weaken the role of governments and inter-and supranational bodies, the decentralization of national and international public affairs, while encouraging the association of populations and nongovernmental organizations, to enable their broad participation in decision making;

- creation of new forms of international cooperation, taking into account the real needs of people and focus less on political and military issues. International institutions must ensure

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<sup>1</sup> Longevity is measured by life expectancy at birth; knowledge - a combination of the level of adult literacy rate of employment in primary, secondary and tertiary; standard of living.

<sup>2</sup> Lepage, H., *La nouvelle économie industrielle*, Hachette, Paris, 1989

better integration of diversity levels of human development focusing on human security coupled with sustainable development;

- promotion of economic progress through a judicious distribution of growth results to eliminate disparities<sup>1</sup>;
- eliminating poverty and ensuring a decent standard of living for everyone;
- raising the general living standards by increasing revenue, ensuring a high level of employment, an education and greater access to cultural and human resources;
- expanding the range of economic and social choices, both for individuals and for nations;
- improving the performance of production factors and of production itself;
- improvement of institutions and constant renewal of knowledge;
- rationalizing the public and decision-making system.

Strategic directions to achieve this model of development, have also been elucidated.

The most difficult problem still remains to be solved: the resources to create a new society.

There are many problems that still have not found an answer.

Will human interest indeed prevail over the military-strategic interests, the interests of people living in underdeveloped, in a struggle for survival against the interests of developed nations, human security over security based on arms?

Will those truly worried for the misery of the poor manage to promote measures which refer directly to building their capacity to meet their basic needs and not tax cuts for the rich?

What mechanisms should be created to ensure, objectively, the transition from current models of development towards a sustainable human development model?

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<sup>1</sup> Todor, M. , *Economic development* ,Longmann, Londra, 1997

## INTELLECTUAL POTENTIAL OF SUSTAINABLE INNOVATIVE DEVELOPMENT AS A COMPONENT OF KNOWLEDGE ECONOMY

Research is devoted to the analysis of correlation among knowledge distribution and innovation appearance in the sphere of environmental economics and sustainable development. The main targets are to summarize the reevaluation of innovative human factor in economic, social and environmental spheres according to the concept of sustainable development. In spite of individual character of so called «human capital», formal and informal interrelations among talented workers, knowledge management, creative environment, “social capital”, organizational culture becomes the new frontier of competitive advantage. So we analyze the ability to create, accumulate, distribute and implement specific professional knowledge as a crucial factor for sustainable innovative development of organization, region or society in general. And the concept of intellectual potential is used in this work as a potential tool for economic evaluation of innovative human interactions in the conditions of knowledge economy formation.

**Key words:** intellectual potential, human capital, social capital, sustainable development.

Usually the main hopes related to sustainable development achievement is linked with expected people’s intelligence and different kind of innovations as its result. The main idea here is that new innovative technologies and know how may become the substitute for overexploitation of limited natural resources. This is common assumption of so called weak sustainability concept. But there is also some skeptic opinion (represented, for example, in the citation “Ingenuity can replace a whale-oil lamp with an electric light bulb, but not the whales that we may hunt to extinction” [1]) related to ability of innovative technologies to preserve environment. We wanted to check the latter somehow using data of European countries (as the most concentrated at one continent innovatively developed). To measure the intellectual aspect of economy we can use Knowledge economy index [2]. And the “ecological footprint” indicators [3] to represent natural capital these countries use to meet their needs. The results presented in Figure 1. We can see positive correlation between the intellectual economy level of the country and its “ecological footprint”.

So the countries with the most educated population and great amount of innovative patents and royalty payments show the greatest number of planet hectares per person to meet his or her needs. And it can mean great danger for whales because no natural preservation may be expected with increase of intellectual level of our economy if this process is accompanied with such growth of our needs. All my hopes about substitution of nature overexploitation with human intellectual potential should be implemented only together with the strong sustainability concept and its main hypothesis of natural capital and manufactured (or human, or intellectual) capital complementarity.

Future generations will be definitely smarter and more developed than we are now. But this also means that we definitely use available natural resources less efficiently than they will. So without saving current natural possibilities of scientific investigation and simple recreation

for future scientists and simple tourists sustainable development will loose a lot of its potential. Our current economic growth and technological development should be linked with obligatory preservation of non-renewable resources and control on the rate of regeneration of renewable ones – separate for each particular resource – to maximize the chances of future generations explore each of them in more details.

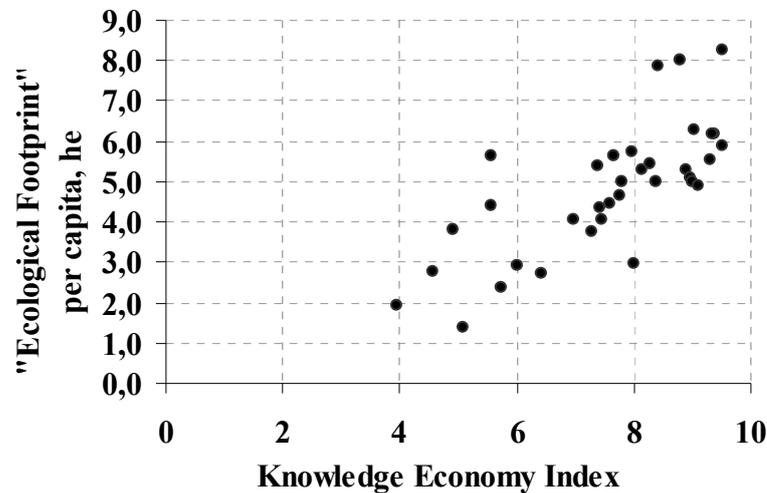


Figure 1 – The correlation between the “Ecological Footprint” per capita and Knowledge Economy Index for 36 European countries

The whales mentioned in the citation above are not the exception. Possibility to deal with maximum diversity of species means maximum of harmonic coexistence and smooth path of development in current ecosystem. And even ecosystem under some possible extreme circumstances (radiation or earthquakes) may be understood better with complete picture of species reaction. In other words our current environmental mistakes should not prevent the future generations from overcoming their own ones.

But still the best thing we can rely on is innovative development and human intellectual potential capable of making it sustainable. Due to our assumption of interpersonal character of modern innovation related activity we expect to look in more details on the intellectual component of so called social capital, identified according to Westlund [4] definition as “social, non-formalized networks that are created, maintained and used by the networks’ nodes/actors in order to distribute norms, values, preferences and other social attributes and characteristics, but which also emerge as a result of actors sharing some of these attributes”. For this goal we decided to review modern theoretical statements as well as respective position and main discussion ideas in the publications of such analytic institutions as McKinsey & Company, Harvard Business School, Accenture Institute for High Performance, MIT Sloan School of Management and others.

According to the western researches opinion [5] the theory of post-industrial society defines a particular central principle, a specific conceptual order for many social development forms of modern (preferably Western) society. At the same time, Peter Drucker, in his book “The Age of Discontinuity” already refers to knowledge as centre of modern society and as the ground for its economy and social action. Daniel Bell also employs the term “knowledge society” in the context of his discussion of the emergence of post-industrial society, and regards knowledge as a “fundamental resource” of post-industrial society. The same Bell indicates that his theory is concerned primarily with the changes in the social framework, which completes

society along with the state administration policy and culture. The kind of changes in the social structure Bell refers to - its "economy, technology and the occupational system" - are induced by the "axial principle" of his theory of society, namely "the centrality of theoretical knowledge". Thus, theoretical knowledge has a dual function: both a foundation for policy formation in society and the source of innovation. So the axial principle mentioned above is likened to "director of social change" in and for post-industrial society.

Nowadays post-industrial society is primarily different relations among people. It is no longer organized around the co-ordination of individuals work with and without machines for the production of commodities and services provision, but around knowledge. Therefore, a desirable standard of life in post-industrial society is no longer defined by the quantity of goods but by the quality of life as reflected in easy access to services such as health care, education, leisure, and the arts.

At the same time more and more types of work individuals perform requires theoretical knowledge. According to Bell, the chief "resource of the post-industrial society is its scientific personnel". Indeed, the above-mentioned aspects affect the scope of cultural and intellectual development as an individual, and the development of groups of people at an individual organization or even society as a whole. The knowledge concept as a factor of development referred to in practically all theories of modern society along with cultural centrality and public or political influence. The general task of sustainable environmentally balanced development in this case is formulated as a reduction in the level of cultural entropy simultaneously with an increase in the number of existing cultural values of the desirable to the organization and society as a whole. Thus, the particular target is "to create" a new model of expert and economist, aimed specifically at innovative development through the creation of new ideas and their skillful use for business practices.

According to Cross and Thomas research [6] such new rising expert stars (high performers - top talents of organisation) may be characterised by the following features. They: position themselves at key points in a network and leverage the network around them when implementing plans; invest in relationships that extend their expertise and help them avoid learning biases and career traps; value networks and engage in behaviours that lead to quality relationships.

At the same time such talented workers experience some risk of going into "network traps" like becoming an overloaded bottleneck, biased learner or chameleon in their personal professional networks due to willingness to control everything, to rely on similar experts or to fit in with whatever group they happen to be with at the time. The rising stars can also rely too much on the formal structure failing to leverage informal networks or rely on loose ties to others and become so called surface networker. All these situation needs additional team diagnostics to be detected and special dynamic optimisation of such teams' structure to be cured on time.

The importance of such analysis is proven statistically for some developed countries. For example, in McKinsey Quarterly [7] it is stated that knowledge workers make up more than 40 percent of the US work force. And their productivity faces special barriers on the way to increase. These obstacles refer to technology (lack of effective tools for locating the right people due to large geographic distance and different time zones of their activity), culture (rigid hierarchy and consequent limitations of communication), professional context (due to translation of obtained knowledge between different fields of activity) etc. In addition, Davenport research [8] indicates that there are two divergent paths for improving access to the information that lies at the core of knowledge work: free access to different informational tools and resources and structured provision of exact amount of necessary information and knowledge for each particular piece of analytical task. First variant is usually implemented for

improvisational work of the collaborative teams, the second one – for individual routine, but mixed combinations of both are also possible.

Gary Hamel in Harvard Business Review [9] lists the examples of successful development during XX century (like General Electric, DuPont, Procter & Gamble, Visa, Linux) achieved because of management innovation. The main elements here to deal with are: deconstruction of management orthodoxies, analogies from atypical organisations that redefine what is possible with a commitment to a big management problem, etc. Again all components of successful innovation process require analytical talent of individual knowledge worker together with creative possibilities of expert group. On the other hand such changes in management practice need to be understood by the other teams of organisation to be implemented. So the formal and informal connections between creators and implementers can contain one more barrier for sustainable innovative development. Very interesting in this aspect for example how effective the teams use the knowledge previously codified and stored in the organization and does it improve their project performance. The research of Staats, Valentine and Edmondson [10] states that knowledge use was related to improved efficiency and quality for teams completing more complex work. Also there were conditions resulted to decrease of either quality or effectiveness of project work.

Another research of Cross and Thomas [11] with their colleagues also dedicated directly to the innovative collaboration of knowledge workers networks in the organisation. Again main accent is given to the fact that executives should analyse connection of high-performing individuals with their teams and try to design such networks in order to optimise transportation of innovative ideas through technical, functional and geographical space borders.

Finally, great attention in talent management is given to the executors of potential innovative ideas. Vey and Benton [12] illustrate this situation with kind of pyramid of the knowledge workers with 1% of analytical champions (who lead analytical initiatives) and 70-80% of amateurs (who work with ready-made analytical models). The rest 20-30% are the analytical professionals and semi-professionals, who build new analytical models according to innovative initiatives and apply them to business problems respectively.

To summarize our beginning results we may mention the reevaluation of innovative human factor in economic development and professional social sphere towards the target of optimal allocation of talented analytics and experts within creative organizational network. According to the concept of sustainable development common socio-economic-environmental system in general is also under consequent human innovative-intellectual influence. In spite of individual character of so called “human capital”, formal and informal interrelations among talented knowledge workers, their special creative environment and organizational culture can to our opinion illustrate intellectual aspect of so called “social capital”, which becomes the new frontier of competitive advantage and to some extent even special substitution of different natural resources in production process.

As the future steps in this research we expect to develop integrated indicator of regional intellectual potential for sustainable development taking into account evaluation of personal talents and educational backgrounds as well as institutional and social networks possibilities for potential sustainable development analytics and practical implementation of its innovative results.

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### **M&A MATURITY INDEX AS THE M&A MARKET EFFICIENT ANALYSIS INSTRUMENT**

Mergers and acquisitions planning is part and parcel of any corporation’s strategic planning process that takes high money and time expenditure. Unfortunately, valuation of M&A intended effect is not always objective. But how to choose a target company? And where to start? In 2010 was suggested a new index that makes possible to evaluate M&A market maturity (M&A Maturity Index). Russia do not have a long history of M&A market, that is why it’s of great interest to research this index as an assessment tool. In this article is briefly outlined the methodology of M&A Maturity Index; M&A maturity Index is compared to Protecting

Investors Index; the objectivity of index's creators results is esteemed (evidence from BRICS countries).

**Key words:** M&A Maturity Index, Russian M&A market, BRICS, FDI.

In the first half of 2011 global M&A activity has a 22% increase from last year levels [11]. 2010 was a year of recovery for Russian M&A market – the total value of deals almost doubled from 48.8 to 95.6 billion US dollars. In the first quarter of 2011 foreign investors were very active, a great number of deals concerning buyouts of Russian companies' assets were closed. Its part in the Russian M&A market was 47%, whereas in 2010 it came to 14% [13] of total investments. Experts believe that foreign investors' activity will continue to grow. Russian government has an interest in attracting of foreign investors, so quite possibly we are entering a new phase of development of the M&A market in Russia. As for the trends of the second quarter 2011, Russians investors show the increasing cross-border M&A activity (from 345 billion US dollars in May to 1487.9 billion dollars in July) [8].

Mergers and acquisitions offer companies the opportunity of external growth. However, to choose a better target company it is necessary to evaluate risks to avoid a fatal mistake. Risk assessment and identification is a complex process. But apparently, a target country should be chosen first.

In November of 2010 M&A Research Centre (MARC) conducted a research, from which M&A Maturity Index was resulting. It shows the capability of countries to encourage investment and to sustain M&A activity. The index rates 175 countries according to their regulatory, economic, financial, political, technological and socio-cultural environments (factor group). Each factor group includes a number of sub-factors (Table 1.):

Table 1 - Factors and sub-factors for M&A market maturity estimation

<b>Factors</b>	<b>Sub-factors</b>
Regularity	- rule of law
	- regulatory quality
	- merger control
	- foreign investment approval
	- labour regulations
	- business licensing and permits
	- completion formalities
	- protecting investors
	- registering property
	- paying taxes
	- trading across borders
- enforcing contracts	
Economic	- GDP size
	- GDP growth
	- economic freedom
	- investment climate
	- inflation
	- current account balance
- economic structure risk	
Financial	- development of equity market

<b>Factors</b>	<b>Sub-factors</b>
	- development of bond market
	- availability of domestic banking credit
	- currency risk
	- access to finance
	- labour costs
Political	- political stability
	- sovereign debt rating
	- corruption of officials
	- control of corruption
Technological	- high-technology exports
	- R&D expenditure
	- innovation
Socio-cultural	- population size
	- level of education
	- labour skill
	- level of training offered

Source: URL: <http://www.cass.city.ac.uk/marc>

According to groups of factors and sub-factors described above, domestic markets were divided into mature, transitional and emerging markets. South Korea, Singapore and Hong Kong have high scores at par with traditionally mature markets for M&A purposes. China is also classified as a mature market, though it's M&A Maturity Index score is lower than countries mentioned above due to the negative influence of regulatory and political groups of factors. Saudi Arabia, Brazil, Turkey, Russia and India are approximately at the same level but, according to the report are classified as transitional markets with growth potential. To become fully mature for M&A purposes, further development is needed to boost technological output and to improve the regulatory environment in these countries.

At various stages of maturity M&A markets' activity are influenced by different factors. Mature markets react to changes of socio-cultural, financial environment and regulatory environment, as technological and political environment is a kind of prerequisite for M&A maturity. The most important driver for transitional M&A markets is a technological advancement. Economical and financial factors are also important at this stage, but political factors are negatively related to M&A activity, that is why more M&A deals tend to occur in periods of high political instability.

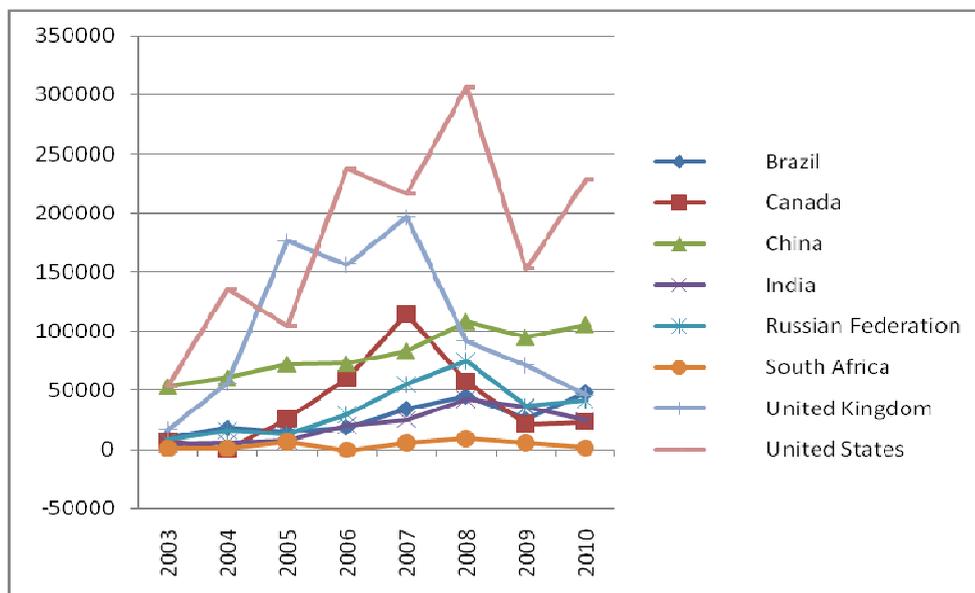
There was no analogy to M&A Maturity Index up to the present. The only alike index was suggested in 2008 by The World Bank Group – Investor Protection Index. It measures the strength of minority shareholder protections against directors' misuse of corporate assets for personal gain. Investor Protection Index is an average of three other indexes: transparency of related-party transactions (Disclosure Index), liability for self-dealing (Director Liability Index), shareholders' ability to sue officers and directors for misconduct (Shareholder Suits Index). The Investor Protection Index's data for 2010 is represented in Table 2.

Table 2 - Investor Protection Index and its indicators for BRICS countries  
(Canada, United Kingdom and USA are given in contrast)

Economy	Extent of disclosure index (0-10)	Extent of director liability index (0-10)	Ease of shareholder suits index (0-10)	Strength of investor protection index (0-10)
Brazil	6,00	7,00	3,00	5,3
China	10,00	1,00	4,00	5,0
India	7,00	4,00	7,00	6,0
Russian Federation	6,00	2,00	7,00	5,0
South Africa	8,00	8,00	8,00	8,0
Canada	8,00	9,00	8,00	8,3
United Kingdom	10,00	7,00	7,00	8,0
United States	7,00	9,00	9,00	8,3

Source: <http://www.doingbusiness.org/data/exploretopics/protecting-investors>

As the FDI dynamics into these countries shows (Figure 1), China outdistanced the other BRICS countries either by volume or by investments stability. It is evidence that investors place relatively more confidence in its economy. On the contrary South Africa's score is overestimated.



Source: <http://unctadstat.unctad.org>

Figure 1 - FDI Inflows, 2003-2010 (USD)

Investor Protection Index is weakly correlated with FDI activity – 0.3. As for the M&A Maturity Index, it shows high enough correlation with M&A activity of 0,81. BRICS countries scores are illustrated in Table 3.

Table 3 - M&amp;A Maturity Index's BRICS countries scores by factor

Indicator	Brazil	Russia	India	China	SA
GDP growth 2009 - 2015*	3,90%	2,80%	7,80%	9,60%	3,20%
Patents granted in 2008**	582	22871	1282	48815	402
Population size*** (million)	192.3	141.2	1140.2	1325.6	48.4
M&A Maturity Index score	2,7	2,7	2,7	2,2	2,3
Regulatory environment	3,6	3,4	3,2	3,3	2,4
Economic environment	2,9	2,9	2,4	1,7	2,7
Financial environment	2,8	2,8	2,0	1,7	1,6
Political environment	3,3	4,3	3,5	3,0	2,4
Technological environment	1,7	1,7	2,0	1,0	2,3
Socio-cultural environment	2,0	1,3	3,3	2,3	2,5

\* GDP growth is average GDP growth from 2009 to 2015 (estimated). [2]

\*\* Number of patents granted is per country of origin. [6]

\*\*\* Population size is total population. [5]

According to the UNCTAD data, BRICS countries had a downtrend of inflow investments on the M&A market during the collapse (Table 4.). China stands out against background, its sales on the cross-border M&A market overtopped before-the-crisis figures yet in 2009-2010. The rest BRICS, except Brazil, countries showed unfavorable results.

Table 4 - Cross-border M&amp;A overview, 1995-2010 (sales, net)

Year	1995-2006 (average)	2007	2008	2009	2010
Country	(millions of dollars)				
Brazil	6535	6539	7568	-1369	8874
Russia	240	22529	13507	5079	2907
India	584	4405	10427	6049	5537
China	7853	9332	5375	10898	5965
South Africa	1652	4301	6676	4215	3943

Source: World Investment Report 2011

M&A Maturity Index shows that Russian position on the M&A market leaves much to be desired. Though the average score of M&A Maturity Index is approximately at the same level with Brazil and India, our political environment has the worst result among BRICS. The reason for such a state of things is the high level of corruption. Indeed, Russia has the lowest score of Corruption Perceptions Index among BRICS – 2.1. China, Brazil, India and South Africa have 3.5, 3.7, 3.3 and 4.5 respectively (for reference: Denmark, New Zealand, and Singapore – 9.3) [4]. Such investor's perception of Russia is not optimistic at all. Perhaps, it's time to think of a Russian Federation makeover. It is particularly topical on the back of government interest in forming of Russia an International Financial Centre and pushing Russia to the top three of IFC rating.

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## **ENTREPRENEURSHIP AS A FACTOR FOR ECONOMIC GROWTH**

### **Abstract**

The role of entrepreneurship and its importance are considered as important factors for growth, even in periods of economic crisis. In these periods there is a strong need for change of the production model as the existing businesses close and new businesses with new business practices are introduced. Entrepreneurial activities, can lead to economic welfare, economic growth, creation of new jobs and national competitiveness.

D. Audretsch and M. Keilbach (2004), support that entrepreneurship is crucial in driving the process of selecting innovations, hence in creating diversity of knowledge, which operates as a mechanism facilitating the spill over of knowledge across individuals. The same views are shared by other scholars like Mark Casson (2005), M. Minniti and M. Levesque (2008) etc.

Entrepreneurs are an important link between entrepreneurship and economic growth while economic development is reinforced by the variety of demand for goods. So, the key contribution of entrepreneurship to economic growth is the word "innovation". This includes the start-up of new firms, especially the transformation of inventions and ideas into economically viable entities.

In this paper, we shall explain and make an effort to illustrate the positive relationship between entrepreneurship and economic growth and the role of entrepreneurship as a significant factor for economic growth.

**Key Words:** Entrepreneurship, Economic growth, Entrepreneurs, Economic development.

The world changes rapidly due to the rise of global competition, the increase of uncertainty, the growth and the technological progress (Carlsson 1992) leading to major changes in the sector of employment (Acs 1992).

The emphasis placed from the international scientific community on entrepreneurship is a phenomenon that started blooming since the early 1990's. However, since mid-2007 the global economy is showing signs of crisis. Even though, the national differences between Member, characteristics of the crisis affecting all economies.

There is a growing body of literature suggesting that entrepreneurship plays a significant part in regional development. Therefore, it is crucial for policy makers to recognize the factors affecting entrepreneurial activity on a regional basis.

The role of entrepreneurship and its importance are considered as important factors for growth, even in periods of economic crisis. In these periods there is a strong need for change of the production model as the existing businesses close and new businesses with new business practices are introduced.

This can help for the faster exit from the crisis and to economic recovery. (Varsakelis, Koutsoulouanos & Zikou, 2010). Furthermore, the cultivation of entrepreneurship and its promotion are in the policy agenda of all governments and are considered as key components in order to enhance competitiveness.

However, it is important to underline that there is not an agreed definition about entrepreneurship. Rural Policy Research Institute (RUPRI)<sup>1</sup> defines entrepreneurship as the processes which entrepreneurs create and grow enterprises. According to David Audretsch and Max Keilbach (2004), entrepreneurship is crucial in driving the process of selecting innovations, hence in creating diversity of knowledge, which operates as a mechanism facilitating the spillover of knowledge across individuals. Mark Casson (2005), also defines entrepreneurship as the key to the growth and survival of firms in a volatile environment, because entrepreneurial judgment is necessary for success in making complex decisions under uncertainty. Additionally, Maria Minniti and Moren Levesque (2008), support that entrepreneurship matters for individuals, organizations and countries. Together with other social and management sciences, economics help to understand how individuals make decisions, create and grow organizations and what the intended and unintended consequences of these actions are.

However, it is important to know that according to Dolinski et al. (1993) and Bates (1990), the initial entry to entrepreneurship is increased with the increasing level of educational attainment. Another study found that education is positively associated with the probability of self-employment (Cowling and Taylor 2001), while, Borjas and Bronars (1989) suggests that self-employed are more likely to be college-educated. They usually, recognize that the entrepreneurial role can seemingly be culturally and experientially acquired, and indirectly gives support to the view that it might also be influenced by education and training interventions (Petridou, Sarri, Kyrgidou, 2011; Petridou and Glaveli, 2008).

Thinking "entrepreneurially" leads to start a business and to act on that aim (Busenitz and Lau 1996). However, it is important to say that the tendency to think entrepreneurially and to perform entrepreneurial activities are conditioned by many factors, among which culture has

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<sup>1</sup> RUPRI is a joint venture of Iowa State University, University of Nebraska, and University of Missouri (MU) and was established by Congress in 1990 in order to provide non-partisan, unbiased, independent analysis and counsel to policymakers.

an important part (Mueller et al. 2001). Culture has a great influence on gender equality and empowerment.

However, policy aims and aspirations in relation to entrepreneurship at regional and national level, are measured by its effect in the total jobs, unskilled and skilled, jobs created for youth, women and groups who face problems entering the labor market, the growth of GDP at regional and country level, per capita GDP, the growth rate, and the reduce of poverty and inequality (Varsakelis, Koutsoulianos & Zikou, 2010).

At the same time, it is important to know that the main factors which affect them are the government, the regional and local government, the social organizations and employee associations and all other kinds of the related associations and bodies of entrepreneurs, such as chambers and the media (Varsakelis, Koutsoulianos & Zikou, 2010).

So, if a region or a local community desires to succeed they have to collaborate with the above communities and take into account the above indexes.

Moreover, it is important to know that if we want to study the relationship between entrepreneurship and regional development, we firstly have to see the relationship between unemployment and entrepreneurship. Carree and Thurik (2002) support, that according to the literature, unemployment stimulates entrepreneurial activity, known as the “refugee effect” and that high levels of entrepreneurship reduce unemployment, a fact known as the “Schumpeter effect”.

Many studies also, (GEM 2005) have shown that entrepreneurs introduce innovations related to new products and services. Entrepreneurs are an important link between entrepreneurship and economic growth and economic development is reinforced by the variety of demand for goods and services (Carree and Thurik 2002).

So, one could argue that the key contribution of entrepreneurship to economic growth is the word “innovation”. This includes the start-up of new firms, especially the transformation of inventions and ideas into economically viable entities (Baumol 1993).

Furthermore, as Carree and Thurik (2002) support, there are many strands in the literature which show the effect of entrepreneurship on regional economic development, such as:

- *the question of the effect of turbulence on economic growth.* Turbulence is the sum of entry and exit in industries or regions and can be an indicator for entrepreneurial activity.

- *the effect of the size in regions for economic growth.* This means that a region which has a number of small firms when compared to another region it could indicate a higher level of entrepreneurial activity.

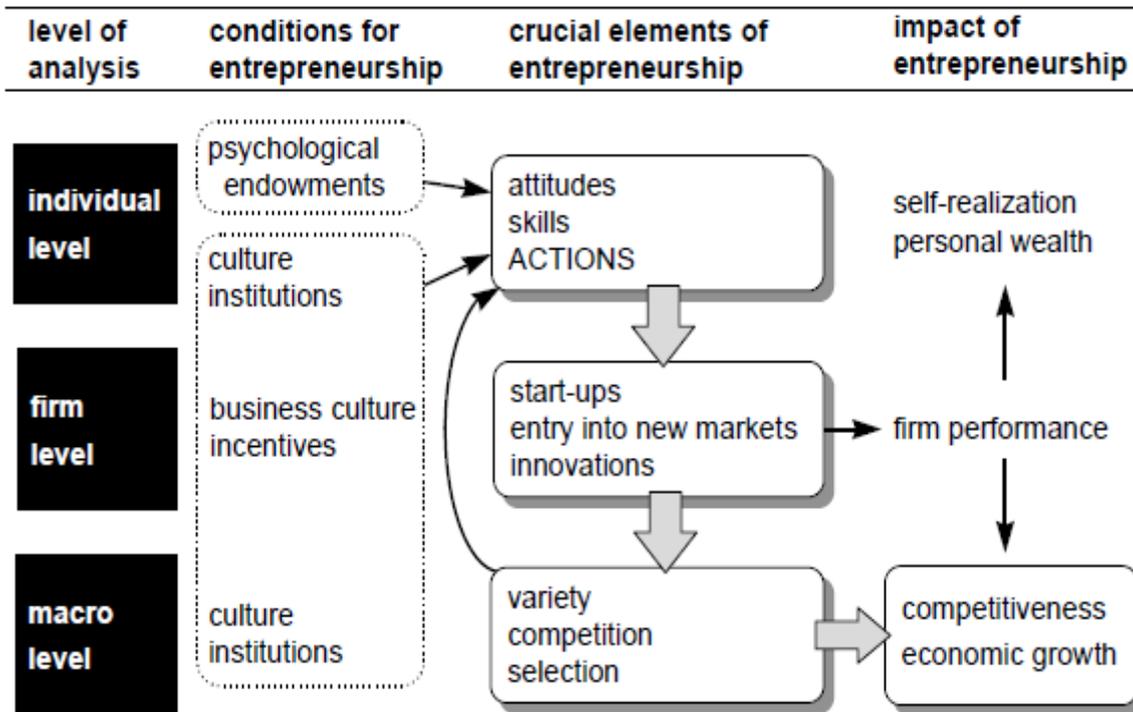
- *the effect of the number of market participants in an industry for economic growth.* This means that an increase of the number of competitors leads to entrepreneurial activity.

- *the effect of the number of self-employed on economic growth.* It is known that, in developed economies the rate of self-employment is related to the entrepreneurial activity.

- *the economic history of the formerly centralized planned economies.* The positive relationship between entrepreneurship and economic growth at the regional level has been studied from many authors. For example, Foelster (2000) examined not just the employment impact within new and small firms but also on the link between self-employment and total employment. Hart and Hanvey (1995) found that the employment creation came from SMEs, while they also identify that most of the job losses came from SMEs too.

However, in order this positive relationship to be more clear, we shall present a table that depict the three levels of analysis linking entrepreneurship to economic growth. Firstly, it should be noted that entrepreneurial action happens at firm level. Entrepreneurs need a vehicle to transform their personal ambitions into actions, newness (Carree and Thurik 2002).

**Figure 1:** Framework for linking entrepreneurship to economic growth



Source: Wennekers and Thurik (1999)

This figure, presents a framework inspired by the different insights of the literature. Three levels of analysis are distinguished, linking entrepreneurship to economic growth which means linking the individual level to the firm and the macro level. Moreover, to the above model, reference is made to the national or regional cultural environment and to the internal culture of corporations. Entrepreneurial action happens at the firm level. Entrepreneurs need a vehicle in order to transform their personal qualities and ambitions into actions. Furthermore, it is important to know that the linkages between culture and entrepreneurship are simple and straightforward (Carree and Thurik 2002). The history of the rise and fall of nations has shown that cultural vitality, flourishing sciences and high tide in entrepreneurship often coincides (Wennekers and Thurik, 1999). It is also indicated, that the countries which have entrepreneurial activity have at the same time high rates of growth and economic development (Carree and Thurik 2002). In fact, entrepreneurship generates growth because it serves as a means for innovation and change and as a channel for knowledge. For this reason in a region of increased globalization, entrepreneurship plays an important role and the impact of entrepreneurship is to generate growth (Carree and Thurik 2002).

Entrepreneurship as a local and regional activity with new firms creates benefits for the regions and business owners. It also can address the needs, which are related to income and employment and creates jobs for the entrepreneur as well as income, but the most important is that it generates income for other people (Desai 2009). Moreover, it helps to maintain the social and economical balance, to increase the added value, to increase the entrepreneurial awareness of the local community and generally it contributes to knowledge transfer and innovation, producing new products and services in a deprived area.

Entrepreneurship is an increasing part of the economic makeup and is a key to economic growth and development. People through entrepreneurship strengthen their role in the society and at the same time help in the empowerment of the economy's productive potential.

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**INTELLECTUAL PROPERTY MANAGEMENT.  
MANAGING THE DEVELOPMENT OF AN INNOVATIVE PROJECT**

**Key-words:** intellectual property, PCT (patent cooperation treaty), TRIPS (trade-related aspects of intellectual property rights), patent, know-how

The urgency of this issue is misrepresented, that in post-Soviet countries and Eastern Europe countries are actively developing innovative models of development of States. Due to the increased role of innovation in the economy of the island becomes a question of intellectual property protection and management.

The term "intellectual property" refers to the temporary possession of copyright and related rights, the possession of valid certificates for trademarks and patents in force. Legal content of the term in most countries is not defined. In Russia the term "intellectual property" as the list of results of intellectual activity and equalized to them means of individualization, which provided legal protection.

In a broad sense of "intellectual property" means the temporary law set forth the exclusive right to the result of intellectual activity or means of individualization. Legislation that defines the intellectual property rights, establish a monopoly on certain forms the authors use the results of their intellectual and creative activity, which thus can be used by others without authorization first.

Intellectual property (IP) plays a crucial role in the innovation business. Often the IP is the main part of company property at the stages of SEED and START-UP. However, it should be understood that the value is not so much the presence of security documents as:

- the idea that they are protecting,
- the ability to protect the interest of competitors in the market,
- the lack of "loopholes" to allow legal copying of products by competitors.

In designing the optimal regime of IP protection should be understood that this is a very costly and lengthy process, but its primary function - protection against possible competition. There are three main groups of intellectual property: copyrights, patents facilities, know-how (the objects of official or commercial secret.) For the technical resources of commercial interest, copyright is not enough because it protects the form, not content. In such cases, more suitable objects of patent rights: an invention, industrial design or utility model.

Patents can serve as an alternative to the know-how (trade secret) - information and technology solutions that are not patented or registered, the essence of which is not disclosed, but the turnover is carried out in a regime of proprietary or trade secret.

One reason for the use of know-how is that very description of the patent may disclose the main features of the technology and lead to the emergence of competing technological solutions, which formally does not violate the patent. In some recent research indicates that in developed economies, such as the United States, patent protection enjoyed only a few industries. In addition, the overall benefit of patent protection for the companies is only about 15-25% of R & D spending. Thus, know-how is a widely used instrument of effective protection of inventions in the world.

**Disadvantages mode of know-how:** Firstly, it cannot prevent the reproduction of a similar idea by another company, if it found a way to play this. Secondly, know-how can be taken outside the company by unscrupulous employees, which may not always be challenged in court. Thirdly, in order to speak about the presence of know-how needed to lock on the storage medium, which increases the likelihood of leakage.

One of the major "bottlenecks" of investments in the Russian innovative companies is the risk of presentation of exclusive rights to intellectual property, if there was government funding at any stage of product creation. And the works that were performed on government contracts are a great many of the fundamental and applied, non-strategic and suitable as a base to create innovative businesses. That is, if the prototypes were created under a state contract, the developer may be unable to commercialize them.

Given the current situation, the developer who created the IP in the walls of state institutions under a state contract or with the use of subsidies intended to create an innovative company and to get investment, should be aware of all legislative initiatives. Its mission - to provide all security documents to the technology make it possible legally to enter into technology revolution in private companies without the attendant risks of budget financing. All these factors need to clearly elucidate the negotiations with an investor who is obliged to obtain objective information on all subjects that have the right to development

Case law shows that it's difficult to protect intellectual property in Russia, but having knowledge of the legal technicalities of the process can ensure the protection of IP in the present circumstances. Experts recommend that rely on patents in many foreign countries (Russia is a member of the most important agreements in the field of intellectual property - the Paris Convention for the Protection of Industrial Property, the PCT, TRIPS, etc.).

At the present time it is better to focus on patenting not only in Russia and in foreign countries but, for example, through the patent cooperation treaty. Even if the sale occurs only in Russia, you should not forget about the Chinese competitors. Russian patent for firm throughout the company's life can be used only in case if the product is sold in Russia and the emergence of foreign competition is excluded. In the case of money lack to the Russian patent cooperation treaty sometimes it makes sense to tighten rules and manage know-how.

Patenting in Russia is worth several thousand dollars, the international 10-15 thousand dollars, but there are a number of programs and financial assistance to international patenting. Critical arguments "for" and "cons" of investment in innovative project is a state of intellectual property or premises for the creation of this, in case of an unregistered IP at the time of the negotiations. The problem of low quality of Russian IP due to poor training of many patent attorneys and the general inexperience in the practice of IP protection is also quite serious. For example, they may contain leaks through which similar solutions can be used to bypass existing security document. In the description of the patent may be lost a substantial part of technology. In this case, the chance of attracting investment is reduced, and talk about "low capitalization of IP."

Sometimes the investor, being experts in the proposed project may make suggestions that will improve the design. In this case, it acts as a co-author on the title of protection of IP. This practice increases the interest of the investor in the project.

When deciding on the form of intellectual property founder of the project should be remembered that it makes sense to keep some information confidential, in a mode of know-how. This trick is to be unobtrusive in appearance, but very important, without which the technology would lose its meaning.

Fully disclosed in the patent technology will help competitors in their development, avoid a patent or surpass the original. To be safe, the entrepreneur should also save the package for an IC, and companies with the investor to transfer an exclusive license. Many Russian

investors go for it. Even if the planned introduction of IP in the company, the competitor should leave it at your place until you receive the first investment income.

There is a situation where it makes sense to do a title of protection. This is the case when a temporary handicap completely determines the success (eg, production of software for the rapidly growing market segment). This is possible with very fast updates and product development as the process of copying technology takes time and inevitably falls short of copying the original developer. Such a strategy followed by famous Russian hi-tech - by ABBYY and SPIRIT, and it is perfectly acceptable in a rapidly developing industry. If the company's founders have chosen this strategy, it should be clearly stipulated and justified in the negotiations with the investor.

To better protect the technology as it develops it makes sense to do patent "umbrella" when you create not one but several related security documents into separate pieces of technology. Company Gillette, maker of razors, surrounded by its own model of sensor 22 each other patents covering all components of its technology from double, moving independently of each other blade design to handle. Patented, even packing a razor.

In the case of «Seed»-project or a start-up, the scale of the umbrella is certainly not so great, but at these stages of the technology well to try to protect several overlapping protective documents. For example, it is possible to provide protection:

- Raw materials and the operations performed at different stages of the process
- Industrial equipment
- End products

The business plan should lay the opportunity for growth in the number of patents the company, the cost of maintaining intellectual property rights (including overseas) and the appearance in the state of IP professionals.

With patent umbrellas linked competitive strategy, which is usually called a strategy of "bracketing". It consists in the fact that a stronger company expels rival

Management of IP creation process is very complex. If the company is actively engaged in R & D, must be carefully recorded and the results in laboratory journals, to introduce their non-disclosure control. Also, you need to build a system in which care of the company's key employees will not be able to create damage IC Company. For the protection of intellectual property rights in contracts and employment contracts should create items that all property rights to inventions made during the company belong to her, and items related to confidentiality (non-disclosure) official secrets. Thus, we can summarize that there are clearly defined procedures for the protection of intellectual property, which may help domestic competitors and investors to realize an innovative project with minimal losses. Russian legislation in this area quite acceptable from the point of view of Western experts and has been actively developing in the wake of the burst of interest in innovation. Management of the process of creating complex and multi-faceted IP, but allows you to secure the project and find new opportunities for its development within the patent law.

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## TECHNOLOGY AND GROWTH: LINEAR OF CYCLICAL DEVELOPMENT

### **Abstract**

A significant component of Economic Science has always been devoted to search for the causes that provoke cyclical movement of economic activity. Literature of economic fluctuations acknowledges different kinds of economic cycles that are explained through different theoretical approaches. Since their discovery, *long waves* raised the debate among theoreticians about their driving forces. Innovation theories were devoted in explaining whether periodic movement of economic activity could be caused by a similar movement of technological progress. On the other hand, standard growth literature considers steady state equilibriums with a constant growth rate. Following this perspective, economies tend to follow a steady growth evolution. A common element between growth theories and long wave theories is that they both display the role of technology as the main factor that influences the economic evolution in the long run. Yet, there is a crucial difference: neoclassical endogenous growth theory anticipates a log-linear evolution induced by technology progress while the long-wave literature meets the tradition of Kuhn's "scientific revolutions". The purpose of this paper is to present the relevant literature in order to boost interest and enhance discussion on the question: Could a combination of endogenous growth theory models and theoretical support of innovation theories lead to a documentation of economic activity's long waves?

**Keywords:** Long Waves, Growth, Technological Progress.

A significant component of Economic Science has always been devoted to search for the causes that provoke cyclical movement of economic activity. Fundamental questions are seeking for an answer: Which are the causes of economic crisis? How can we be driven away from depression? Why economic crises differ in durability? During searching for answers, researchers led to observation of different kinds of fluctuations in economic activity. Literature of economic fluctuations acknowledges four kinds of economic cycles that are explained through different theoretical approaches. The names of these fluctuations were denominated by the names of their discoverers: the Kitchin cycle (1923), the Juglar (1962) cycle, the Kuznets (1930) cycle and the Kondratieff (1935) cycle.

The Kitchin cycle refers to 3 and a half -4 years fluctuations that were initially depicted in series of bank clearings, interest rates and prices of Great Britain and United States. The driving force of this kind of fluctuations appears to be changes in the inventories investments by firms caused mainly due to lack of information, decision time lags, and thus supply-demand market mismatches that govern the capitalistic development. The Juglar cycle (1962) of 7-11 years is associated with fluctuations in investments to fixed assets and capital goods (equipment, machines). Finally, the third kind of fluctuations, the Kuznets cycles, were initially observed in 1930, and explained later by Kuznets in 1958 as fluctuations caused by

demographic changes in the population that influence the building-construction sector. These kinds of cycles called by Kuznets as “long swings” last approximately from 15 to 25 years. [Van Duijn (1983), Groot, B. d. (2006), Korotayev & Tsirel (2010)]

Since the 1980s, the Real Business Cycle theory accepts the explanations given to shorter fluctuations (1-11 years) of economic activity by previous schools of economic thought [Keynesian/neo-Keynesian, Neoclassical] and considers as main causes of these fluctuations the exogenous real (not in monetary variables) stochastic changes/shocks of aggregate supply and demand. Government policies, when they are not unannounced to the rational agents may end up affecting real economic variables. Moreover, information problems might cause shocks in productivity. On the other hand, Marxist theory considers these fluctuations as internally caused by the uneven, imbalanced and unstable capitalistic production. More specifically, in a Marxist perspective, a short-term crisis in the business cycle occurs due to dis-proportionality existing in capitalistic production. Using Sweezy’s (1942, p. 156) specification: “*a crisis results from capitalists’ inability to realize the full value of the commodities which they produce, we shall speak of a realization crisis*”. Additionally, Chaotic analysis considers short-term crisis as fluctuations of an erratic and unstable nature. Despite of the fundamental differences in their explanations, it is obvious that all the above schools of economic thought agree in one thing: the short-term fluctuations are stochastic.

Regardless of the familiar business cycles, in today’s literature there is strong evidence that the international history of capitalism is presented in sequence of continuing cyclical fluctuations meaning long lasting phases of expansions and contractions that last approximately 40 to 60 years. These fluctuations were named by the terms *long waves* or *long cycles* or *Kondratieff (1935) cycles*.

The long wave theory discussions initiated in the end of the 19th century with Jevons (1884), Parvus (1901), 1901 #41@93, Van Gelderen (1913), De Wolff (1924) and the following, statistically more advanced, analysis of Konratieff (1928). Different opinions continue to exist until today regarding the driving forces of the wave, the exogenous or endogenous character of these forces, the ascertainment of the actual existence of such fluctuations, as well as their significance for capitalistic development. As Van Duijn (1983, p. 18) pointed out “*the longer a cycle, the harder it is to prove its existence*”. Arguments among theoreticians about the driving forces of the wave and more importantly about the factors that drive economy from crisis to recovery are distinguished according to whether these factors concern, market expansions, imperialistic wars, money supply and technological revolutions.

On the other hand, standard growth literature considers steady state equilibriums with a constant growth rate. Following this perspective, economies tend to follow a steady growth evolution. The long-term development of economy converges to constant growth rate being mainly determined by the underlying rate ( $g$ ) of technological progress [Solow (1956), Swan (1956)]. Stochastic changes of exogenous factors have only short-lasting “level effects” but they do not influence the economy’s steady state. These changes may be considered as short-run deviations from trend (business cycles).

Moreover, in Solow’s theoretical model technological progress remains exogenous, unexplained and un-modeled. In Jones (1998, p. 33) words, “technology is like manna from heaven”. To be more specific, these models did not include the technological progress and thus labor productivity as a factor of production that depends on the decisions of economic agents (firms, countries etc.) Hence, not only growth of economies was defined exogenously but also the cross- countries differences could not be explained in terms of the specific theory. This gap in theory was covered by “endogenous growth theories”.

Romer (1986) presents clearly that the results of the previous models (convergence of wage rates and capital, labor ratios, blow out of the stochastic short-run disturbances of

production) were based on a single hypothesis: The diminishing returns of per capita capital in production of per capita output. This can be erased by assuming that the accumulation of knowledge that incorporates technological progress is a result of profit-maximizing agents' decision. Romer (1986, p. 1006) assumes that "*knowledge is a capital good with an increasing marginal product*". In 1990, Romer presents more clearly the reason that a new idea, thus an improvement in technology production, leads to increased output and growth. According to Romer "Ideas" and thus Technology progress are not public goods as assumed in old neoclassical growth theories. They are non-rivalrous. Anyone could use this new idea once it is developed. For example, an innovation in production can be used by more firms in the same sector increasing their gains since their cost in production remains unchanged. Moreover, if someone develops an innovative idea, this idea is not necessary to be developed again in order to be used in production. This characteristic of the "ideas" leads to increasing returns to scale in production and to imperfect competitive market structures in contrast with the previous neoclassical growth theory models. Agents should be operating in imperfect competitive market to ensure benefits from improved technology in production. Technological progress in Romer's model is produced through the R&D sector. The manner that technological progress evolves during time depends on the stock of knowledge, meaning the ideas already developed, and on the human capital devoted to R&D sector.

Jones (1995) observed that previous R&D-based models were inconsistent with the statistical evidence from industrialized countries. This was his motivation for enriching Romer's model. More specifically, the above models shared the result that per capita growth rate changes would be proportional to changes in resources devoted to R&D (scale effect). However, this was not the case in many advanced economies. Though the resources in R&D were increasing, their growth rate per capita was not increased proportionally. For Jones the reason was that evolution of technological progress did not only depend on the amount of people working in R&D or on the proportion of researchers. He introduced two contradictory effects of the existing stock of knowledge: on one hand, the more we know the higher would be the productivity of our researchers ("standing on shoulders" effect); while on the other, as our knowledge evolves, discovering new ideas becomes gradually harder ("fishing-out" effect). Can these two contradictory effects be considered as a first signal of a discontinuously evolution of knowledge in a manner of succession of turnovers?

There is no doubt that this was the beginning of growth theory considering that developed innovations influence the growth rate of economies. But does this influence occur in linear or a periodic cyclical manner? A common element between growth theories and long wave theories is that they both display the role of technology as the main factor that influences the economic evolution in the long run. Yet, there is a crucial difference: neoclassical endogenous growth theory anticipates a log-linear evolution induced by technology progress while the long-wave literature meets the tradition of Kuhn's "scientific revolutions".

An effort to explain whether a periodic movement of technological progress produces also a periodic movement of economic activity was made by innovation long wave theories [Schumpeter (1939), Mensch (1975), Van Duijn (1983), Kleinknecht (1987)]. Using mainly a micro-economic approach, these theories consider the fluctuations of economic activity to be developed by clusters of innovations.

In Schumpeter's "Business Cycles"(1939) the fluctuations of economic activity are explained through innovations as "new combinations" of production factors that lead to introduction of a new good or a new production method, to the opening of a new market or of new sources of raw materials, to a new form of organization or an entrepreneurial activity (ex. new industry). The action of carrying out an innovation was called "enterprise" and the man who carries it "entrepreneur". Schumpeter distinguishes the entrepreneur from the manager of

the firm. Hence, the entrepreneur has no risk at introducing an innovation. Apparently, a weak point in Schumpeter's theory was that he was not clear about the manner that innovations were driven. However, the fundamental point in his theory was the connection that Schumpeter made between technological progress and economic cycles: innovations appear in clusters. They provoke waves of imitations. Innovative activities that are initially developed by few entrepreneurs gradually are developed by followers and are being diffused. Why is this happening? Schumpeter's explanation was that the entrepreneurs are people with high skills that show the way to others. Once the innovation is developed, the way for others to follow is much easier. Thus, if an innovation is made in one sector or one branch of production, others will follow. The clustering of innovations drives economy away from equilibrium to a "prosperity" phase (upward movement) since it creates fast growing sectors in economy. But as the market is driven to saturation by imitators, monopoly profits diminish and economic development slows down. Then new entrepreneurs will appear and the cycle will start again. Innovations cause different kinds of cyclical fluctuations in economic activity according to Schumpeter and that is due to the fact that not all innovations have the same economic significance. Some of them have long-term consequences (ex electricity, railways) and others short-term effects. Thus, Schumpeter presented in one schema three kinds of cycles of different duration resulting by innovations of different significance: The Kitchin, the Juglar and the Kondratieff cycle. Schumpeter depicted three Kitchins in one Juglar cycle and six Juglars in a Kondratieff cycle.

Mensch (1975) presented a more comprehensive demonstration of Schumpeter's thinking by distinguishing different types of innovations: basic innovations, improvement innovations and pseudo-innovations. Only the first type can be responsible for the creation of new developed industries and thus, for long waves. Mensch presented that innovations are evolving in alternating S-shaped cycles (Metamorphosis model). Basic innovations engender new industries simultaneously and enforce economic activity. There is no imitation at this point. During the life circle of these industries, improvement innovations will occur but not intensively since the market has reached a saturation point and all expertise has already been spent to basic innovations. Afterwards, a stalemate in technology occurs where the pseudo-innovations are of minor importance. The accumulated technological knowledge is waiting to be revealed with the next basic innovations. Clustering appears in depression, where new technologies-basic innovations will appear due to the fact that investors are characterized by anxiety and desperation that drives them in establishing new radical innovations and developing new leading sectors. Thus, depression is caused due to lack of innovation during the stalemate phase of technology s-shaped evolution.

In that manner, Mensch inspired his successors to consider that technology progress might have a cyclical evolution. The set of basic innovations and their improvements is bounded. Somehow when this set gets exhausted, accumulation of knowledge will break out leading to a new set of basic innovations.

Minor steps have been made in modeling the cyclical evolution of technological progress. Jovanovic and Rob (1990) distinguished "extensive search" for new inventions and "intensive search" for implementation, refinement or imitation of the already developed inventions in order to endogenize the frequency of major discoveries and the extent of their refinement in the line of firm/industry level. They based their research on the discipline that when the expected payoffs of the extensive search will exceed those from intensive search, then only the first kind will be carried out. Their purpose was to find a link between the nature of discovery and imitation and length of cycles. They concluded that the higher the frequency of major discoveries, the higher the average growth rate in the long run.

Ola Olsson (2000) presents a model of a quasi-cyclical evolution of the “set of ideas”. However, the evolution of scientific opportunities in common language, the evolution of “scientific revolutions” is presented by “jumps” instead of cycles.

The above literature, combined with the frequency that “scientific revolutions” depicted through history, gives us evidence to believe that applied knowledge has an endogenously determined cyclical evolution. The combination of endogenous growth theory models with theoretical support presented in this paper might make possible to transform this evidence to documentation of economic activity’s long waves.

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### **ANALYSIS OF SHOW BUSINESS MANAGEMENT ACCORDING TO ITS SPHERES**

Nowadays show business is one of the most important economic branches in the international market. It stands out for its spectacularity of and the diversity of its genres.

The concept of show business has come from the English expression “show business” and is associated with organization and implementation of spectacular shows, singers’ and artists’ performances, and other similar activities<sup>1</sup>. Some theorists consider it as an art, while others as a business. Ultimately, it can also be said that it is both an art, and a business, as well as science. According to the definition of some theorists *show-business implements the organization and realization of the spectacular shows, singers’ and artists’ performances, and other similar activities*.

As each area of business, show business as well has necessity and peculiarities in its governance. Management in show business essentially differs from the material production management.

*Thus, the management of show business is a sphere of knowledge, which promotes the process of creation of esthetical values (material and spiritual) and the withdrawal of the creative work results of authors, directors, performers working in show-business to the market of cultural services<sup>2</sup>.*

According to the producer, I.Prigozhini, the above-mentioned definition reflects the current situation and development of show-business. Here two elements are clearly separated: the creation of spiritual values and the withdrawal of esthetical production to the market of cultural services.

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<sup>1</sup> Baronin V.K. *What to do in order not to become a star. Total metal tales. // Legioner. – 2002. - № 12. – P.15*

<sup>2</sup> Iosif Prigozhin “Politics: Peak of show business” Publishing House «Alkigamma», «ACT», 2001, p. 57

The main character in the organization and display of spectacular scenes is the producer. Producer is a solid financier and marketologist who knows clearly how and where to invest financial resources, in order to gain not only profit, but also fame, which will help him afterwards to carry out more stunning projects.

Production is closely related with the concept of management. ‘Producer’ concept itself in Armenia is rather different from that in other countries. In the West, producer is the person who creates music. In Russia producer is one who finds sponsors, investment funds for the promotion of the project, as well as one, who carries out the organization of creative, managerial, legal and economic events, processes and phenomena. In this sense show business in RA is somewhat similar to that of Russia, but the values of markets in two countries are incomparable.

Let us observe show-business organization and management issues in the music industry.

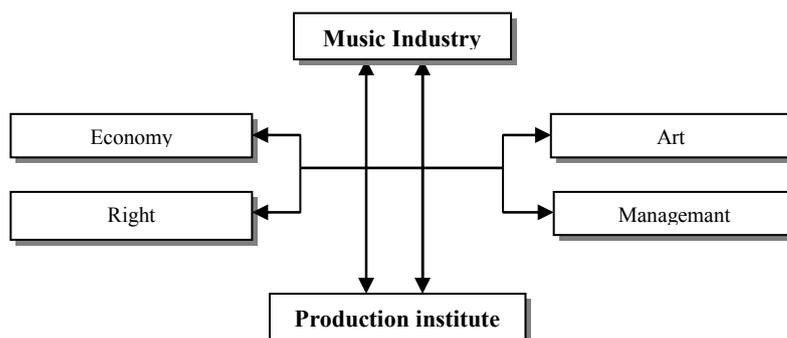
According to the founders of music industry, it is the most artistic and the most intuitive: it is difficult to present with formulas and rules.

Music has existed since ancient times. It has passed through different periods. Accordingly, we differentiate between ancient world music, earlier music, classical music, which in its turn has different periods of development: Middle Ages, Renaissance, Barocco, classicism, romanticism, 20-th century, contemporary classical music.

The transition of economy to the market conditions touched upon all the areas of economic and cultural activities. It did not circumvent the industry of music.

As in many spheres of culture, radical changes took place in the musical area, as well. The creation of the system of economic relations in the music should be noted. The interrelations between art and economy provide competitiveness and originality of musical projects, which receives the attention of the audience. Let us observe the sectors of show-business, which come together in the management framework, for which producer is the responsible person. (Diagram 1.1. Major components of social activity)<sup>1</sup>.

**Diagram 1.1. Major components of social activity**



As seen in the diagram 1.1., music industry includes such elements as economy, right, art and management. This interconnection is obvious. The organization of any new project is provided by the administrative relations, for which personal factors serve as a ground. At the same time the organization of any musical project begins with the selection of artists and other participants, who are responsible for different sectors of the process. Here a person with professional management skills is needed. And the management relations provide legal norms

<sup>1</sup> Korneeva S. *How to “make” a star* – SaintPetersburgh: Piter, 2004. p. 12

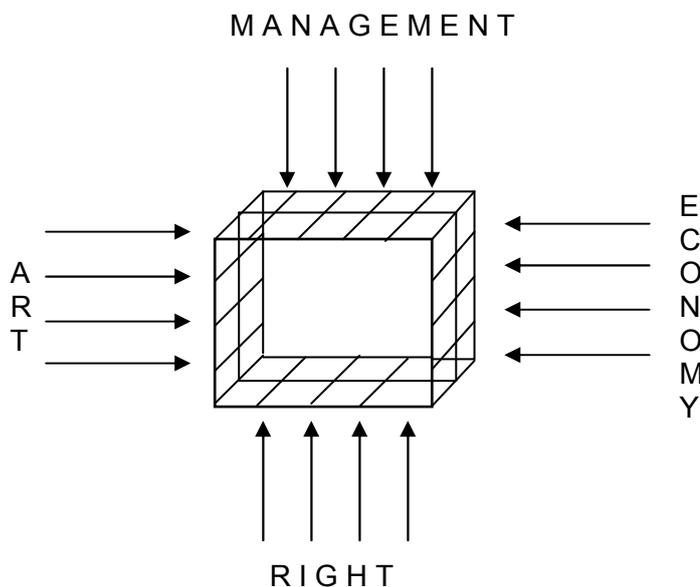
in the civilized level. Taking into account all the elements under study the whole show-business may be presented in the shape of a cube, the sides of which are art, economy, right and management (Diagram 1.2.)<sup>1</sup>.

Music business is one of the most profitable businesses in show-business. Here considerable income is brought from the following areas;

- Copyright
- Foundation of specialized shop, where one can buy equipment, musical instruments and equipments,
- Sale of lighting and acoustics system,
- Tours
- Sale of CDs
- Salaries received from printed materials and broadcasting.

Thus, any activity concerning the music business implies implementation of large-scale events, the result of which is huge income.

**Diagram 1.2. Components of show business**



**Managements of music business**

Production is the most important work in the musical show-business for the artist and the group. The variety of producing activity in music industry is related with strong circulation of the project, which includes not only the traditional methods, concerts, tours, but also specific methods, participation in high-level musical festivals, PR-organization, creation of promo-company in the Internet.

The project is created basing on one of the patterns for the realization of the project. These are as follows;

1. Original idea of the project
2. Vocal abilities of the singer
3. Mastery of composers

<sup>1</sup> Korneeva S. *How to "make" a star* – SaintPetersburgh: Piter, 2004. p. 13

Producer's task is to create a product which will have commercial potential. Producer should be inspiration for the entire staff, so as the projects could be carried out through the maximum contribution of the abilities. He carries out all the organizational work.

The Armenian stage has recently been filled with monotonous music. Numerous representatives of show-business consider it to be the demand of the society, while the society gets what it is given. The audience has preferred folk-dance (rabis) music, which Armenian singers mainly manage to perform well. Many stage songs are also popular, which means that when giving the qualified music, the response is always relevant. Therefore, we believe that it is necessary to pay serious attention to the quality of music: the further success in the music business and the durability of the creative life of the singer or composer is based on it.

The same problem can be found in the creation of the lyrics of the song. The song lyrics should correspond to certain conditions: the original text should be neither too complicated nor too simple; it should correspond to the music. The song is created in the result of use of these compounds: it can either become a hit or not.

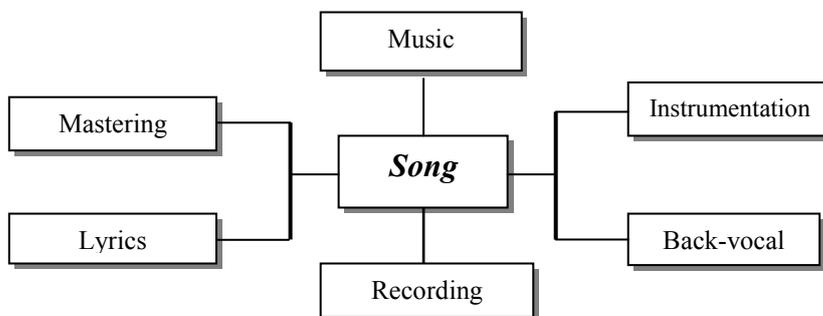
*Hit is a musical composition which enjoys great fame among public.*

Thus, the guarantee of the song to become a hit is the unique instrumentation and the psychologically constructed lyrics.

The average price per song can be presented as follows;

- Music – 120 000 AMD
- Lyrics- 100 000 AMD
- Instrumentation- 200 000 AMD
- Recording- 7 000 AMD
- Back-vocal- 60 000 AMD
- Mastering- 100 000 AMD
- Total- 587 000 AMD

**Diagram 1.3. Major components of song budget**



If we take into account the fact, that per album contains about 13 songs, the album debut will be 7 631 000<sup>1</sup>. This data are quite averaged.

Let us refer to the remuneration of the production staff. Here very few producers keep the contractual principle. The agreement is based on verbal speech. It is advantageous for both sides, because the salaries are not high and in the case of certain contradictions financial losses cannot be large.

There are a number of production centers in RA, the best of which can probably be considered the producing branch of 'Sharm' holding, 'Tata' production, etc.

Producer can work in any organization or with individual performer or group. In such cases, the remuneration is carried out in different ways. In the first case the remuneration is

<sup>1</sup> [http://www.prizma.am/main/lang\\_1](http://www.prizma.am/main/lang_1)

definitely fixed, which is paid to the producer by the organization. In the second case the appropriate amount of the certain percent of the profit belongs to the producer.

We can distinguish the following percentage rate of the producer's and artist's remuneration;

1. 90/10, when all the organizational and financial problems are solved by the producer and the singer is not popular yet and doesn't enjoy popularity.

2. 40/60, when the organizational and financial problems are solved by the producer, and the singer is very popular

3. 50/50, when organizational problems are solved by the producer, financial problems are solved by the producer and the singer equally, and the singer is widely known

4. 20/80, when the organizational problems are solved by the producer, and the financial problems by the singer, which is already popular.

The main income of the representatives of show-business in RA is provided through concerts and tours. Our singers get almost nothing from the sale of albums, it is merely a means to gain reputation. That is why the salary of composers and lyric writers is not a certain percent of the overall income, but it is a fixed price, which is determined by the arrangement between the author and the producer.

To sum up the above-mentioned it can be concluded that show-business management is a complicated and extensive process, which is gradually mastered by the Armenian representatives of music art.

## **SECTION 4.**

# **TENDENCIES OF SERVICE AND TECHNOLOGY MARKET DEVELOPMENT**

### **INTERNATIONAL TOURISM, PROSPECTS FOR DEVELOPMENT**

Nowadays, international tourism is the biggest and fastest developing industry in the world.

Tourism has been identified by more than half of the world's poorest countries as an effective mean that takes part in the global economy and reduces poverty. The issue includes statistical investigations and prospects of development of the international tourism for the future.

**Keywords:** International tourism, economy, results, prospects.

Rapid development of international tourism connections entailed the creation of numerous international organizations, which help to improve this sphere of international trade.

Tourism is becoming a major, if not the main, source of growth, employment, income and revenue for many of the world's developing countries. The sector is currently the first or second source of export earnings in 20 of the 48 Least Developed Countries (LDCs) and is demonstrating steady growth in at least 10 others.

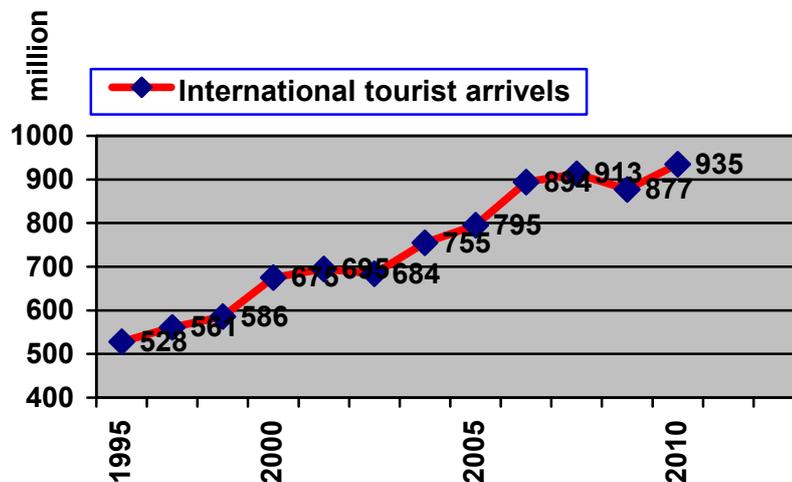


Figure 1. **2010: Multi-speed recovery of world tourist industry**

International tourism recovered strongly in 2010, from the blow it suffered due to the global financial crisis and economic recession. International tourist arrivals were up by almost 7% to 935 million, following the exceptional 4% decline in 2009. However, recovery came at different speeds and was primarily driven by emerging economies. Worldwide, the number of international tourist arrivals reached 935 million, up 58 million from 2009(877 million) and 22 million more than the pre-crisis peak level of 2008(913 million).

As such, tourism has become one of the main engines of socioeconomic progress for many countries and a development priority for a majority of the LDCs.

International tourism developed in the world is extremely uneven, which is primarily due to different levels of socio-economic development of countries and regions. International tourism received the greatest development in western European countries. The share of this

region accounts for over 70% of the global tourism market and about 60% of foreign exchange earnings. Approximately 20% are American, less than 10% - in Asia, Africa and Australia combined.

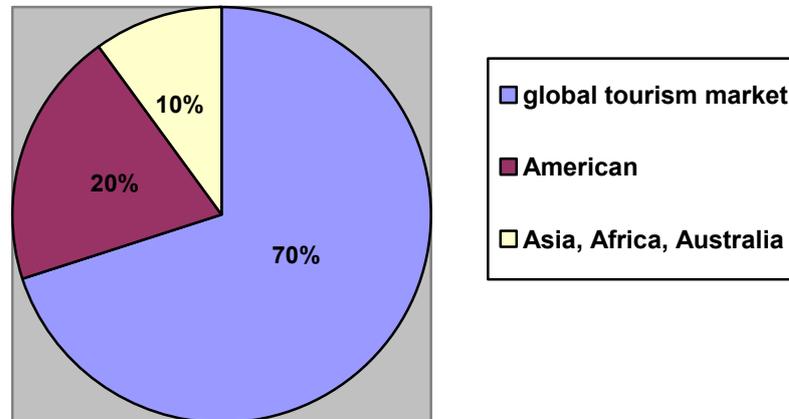


Figure 2. **Share of tourism in world economies**

Under the forecast of the WTO, in the XXI century tourist boom is expected. The number of travelers in the world will approach 1.6 billion by 2020.

International tourism demand held up well in 2010, despite persistent economic uncertainty in some major markets, the natural disasters suffered in some countries, political, and social unrest in others, the serious disruption of air travel following a volcanic eruption in Iceland and the problematic weather conditions in some parts of Europe and the USA in December.

2010 also saw the rise in importance of mega-events – sport, culture, and exhibitions - in terms of their extraordinary ability to attract visitors and position host countries as attractive tourism destinations. Notable examples include the Winter Olympics in Canada, the Shanghai Expo in China, the FIFA World Cup in South Africa, and the Commonwealth Games in India.

Confirming these trends, over 300 experts from around the globe who constitute the UNWTO Panel of Experts evaluated 2010's overall performance very positively and much above their expectations at the beginning of the year. The panel maintained this positive outlook for 2011.

Table 3. **Growth in tourism industry in 2010 and prospects for 2011**

	<b>2010</b>	<b>2011</b>
World	+ 6,7%	4% - 5%
Europe	+3,2%	2% - 4%
Asia and the Pacific	+12,6%	7% - 9%
Americas	+7,7%	4% - 6%
Africa	+ 6,4%	4% - 7%
Middle East	+13,9%	7% - 10%

Following a year of global recovery in 2010, the growth continued for the tourism sector in 2011 but at a slower pace. UNWTO forecasts international tourist arrivals to grow at between 4% to 5% in 2011, a rate slightly above the long-term average.

Nowadays, traveling is not just a pleasure, fun or luxury but it turns into integral part of modern life, associated with the satisfaction of the spiritual, intellectual and other needs, rehabilitation and development of physical powers of man, supporting the necessary level of its activity.

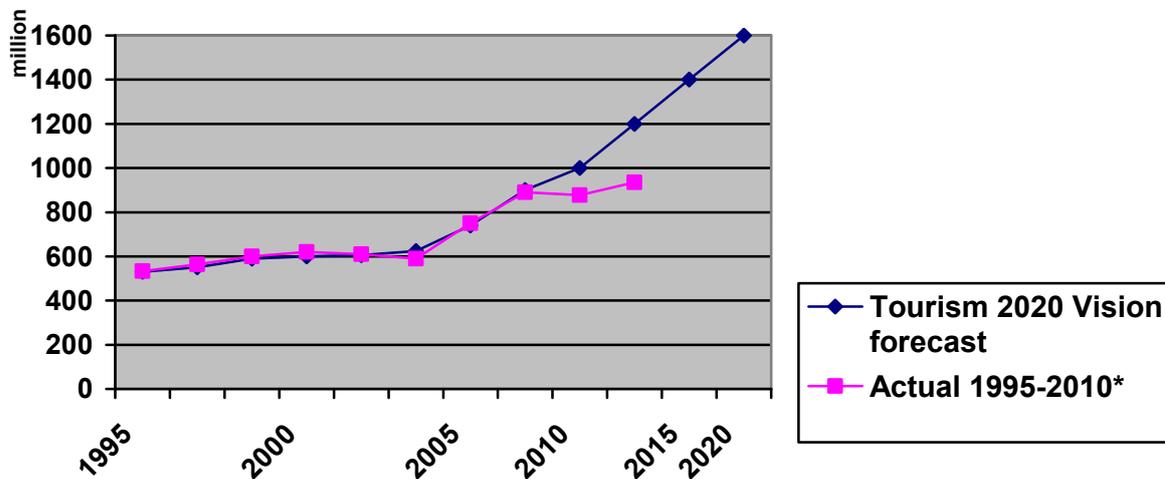


Figure 3. Actual trend in world tourism and 2020 vision forecast

Prospects for development of tourism largely depends on political stability in the world. Tourism can only develop in the peaceful conditions. Wars, depressions, recessions in the economy and civil disputes hinder from the development of tourism. Fear of tourists for their safety - a serious factor of choosing travel. The tourist should be sure of their safety during the trip. For example, facts of attack the sharks in Egypt in 2011 influence on tourist arrivals.

Also it is important to tell that in the XXI the most promising tourist destinations are the following:

1. Adventure tourism. There are fewer tourists unexplored regions in the world. The real romantics prefer the farthest point on the Earth, mountain tops and the depths of the sea. New tourist calls for the development of appropriate tourism product.
2. The most attractive point is the edge of the Earth - Antarctica. 10 thousand tourists have already visited the ice continent.
3. Cruises. This sector of tourism is developing phenomenally rapid. The popularity of "winter " cruises to Europe and the Mediterranean is growing, because modern airliners can afford to do year-round cruises in this very favorite cruise region.
4. Ecotourism. The main aim of ecotourism - environmental conservation. You can organize a theme study tours for lovers of ecotourism, as well as tours for vacationists at resorts, visiting national parks. A part of the income from ecotourism goes to fund conservation projects.
5. Cultural tourism. The largest flow of tourists traveling with the cognitive goals are observed in Europe, Asia and the Middle East.
6. Special interest tourism. This kind of tourism provides an increasing interest in a specific phenomenon, such as climate. The increase in the popularity of theme parks as places of recreation will be observed every year.

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## **REGIONAL DEVELOPMENT AND TOURIST INDUSTRY: CASE OF THE SLOVAK REPUBLIC**

### **Abstract**

Slovakia enjoys very good natural conditions and a geographical position favorable for tourism development. . According to statistical proceedings, the inbound tourism is growing, but the percentage of tourists, i.e. those foreign visitors of Slovakia, who stayed for at least one night, has been declining steadily. For up to 97 percent of the visitors, Slovakia is the country of transit, not of destination. Moreover, it is still falling behind the neighboring countries in tourism development. This economic activity accounts for about 6 percent of GDP, which is just about the world average, and it is safer to consider the lower limit of the probability distribution. A major problem with tourism relates to Slovak rural areas which often are neglected, showing high unemployment rate and badly developed infrastructure. To increase the sources of income for the inhabitants of the rural settlements, it is inevitable to create new vacancies and undertake measures so as to preserve the existing ones, and last but not least, to improve the infrastructure. One of the ways to achieve these goals is supporting the development of tourism in the rural areas. Slovakia enjoys almost optimal conditions for agrotourism due to its natural diversity and purity, the large number of cultural artifacts and vast human resources. Currently however, this kind of tourism is only developed in a small number of region municipalities and motivation and local funding are lacking. By creating new working opportunities, the tourism in the rural areas shall stabilize the numbers of local citizens, increase the living standards and thus help the region to grow and prosper.

**Key words:** tourism, Slovakia, regional development.

### **Regional development**

It is very difficult to define concept of regional development in all its complexity, according to some even impossible. When considering this issue we can build on fact that regional development, like any human activity, takes place at a certain time and space. By this it is formed. This formation is based on specific conditions and characteristics of this area, which differs from its surroundings. For such a defined space is generally well established concept of region (**Klamár, 2002**).

We can consider various perspectives regarding regional development:

We can look on economic development. It is connected with qualitative changes in the region:

- Improvement of environmental quality,
- better technical equipment in health care,
- effective education system and other services
- achieving better value parameters of development
- increasing the skill levels of workers
- and more...

Development and growth is for the region favorable and desired situation.

Growth rate of economic development in the region is mostly explained by two reasons:

- regions are at some point unequally equipped with growth factors,
- growth factors are used over time in different regions in different volumes

**(Belajová - Fáziková, 2005).**

Also there is a national development plan. It sets a target to increasing the competitiveness of lagging regions, and their performance in respect of permanent sustainability and reducing the gap between regions in EU member states **(MHSR, 2007).**

### **Tourism and regional development**

One of the possible ways to support the regional development is to take advantage of what can regions offer. Slovakia has a lot of potential for further development.

Some 40% of Slovakia is covered with forests. Slovakia's forests contain a wide biodiversity and animals. One of Slovakia's main tourist attractions are the Tatra Mountains, the highest part of the Carpathians. They feature many rare plant and animal species and offer numerous ski, hiking and mountaineering opportunities. Rivers and streams in the mountains of Slovakia are often used for rafting and other white-water based activities and sports. The use of rafts has a very long tradition and especially rafts on the spectacular Dunajec River are very popular among tourists. Slovakia contains numerous mineral springs and spas. Slovakia contains a lot of castles, most of which are in ruins. Slovakia also has rich folk traditions: songs, dances, folk art, folk costumes and folk and vernacular architecture.

We concluded that the potential of Slovak tourism development consists primarily in:

- Cultural and historical heritage
- Beautiful nature
- Mountain villages
- Big human potential
- Miner towns
- Huge variety of landscapes
- Sports opportunities

This potential is not used effectively enough. In spite of fact, that Slovakia has a lot to offer, there is not enough stress to development of tourism industry. This is pity, because tourism industry could be a good support for regional development.

As we can read:

Tourist industry has generally very positive impact on regions economically, ecologically, socially and culturally, that's why it should be supported by government **(Global ethical codex of tourist industry, 1997).**

Tourism has credit to related multiplier effect – economic growth, employment, sustainable development, social cohesion. It is a cross-dimensional branch, comprising several other branches – transportation, culture, construction industry, healthcare, agriculture etc **(MPSR, 2007).**

### **Rural tourism**

Rural tourism is a specific form of recreation. It can be characterized as tourism in rural areas using a variety of predisposition which this environment provides (**Cako a kol., 1993**).

The importance of rural tourism is a multifaceted, especially in rural disadvantaged, mountainous areas. It represents the possibility of creating new job opportunities for rural residents, the development of non-traditional business activities and restructuring of agriculture (**Ondrejka, 2004**).

50 % of Slovak regions have rural character and these regions are most disadvantaged. Therefore it is necessary to concentrate economic activity precisely in those areas. Support and tourism development can significantly help these regions to progress (**MPSR, 2007**).

### **Problems of rural tourism**

The rural tourism and agro tourism has become important issue in the last decade in Slovakia and has achieved some growth. In spite of this fact, there are more problems, which limit the further development of tourism in rural areas. We can outline more of them.

- quality and complexity of services,
- the level of co-operation of all stakeholders involved into tourism development on local and regional level,
- promotion of Slovakia as tourism destination abroad,
- entrepreneurial environment for SMEs,
- coordination activities of governmental institutions in the support of rural tourism in Slovakia and others (**Združenie na podporu rozvoja cestovného ruchu, 2008**).

Regional tourism can be developed by defining of good regional tourism policy. Regional tourism policy must contribute to reducing differences between the levels of development of individual self-governing regions, harmonious and balanced development of different regions in tourism, economic and social development, especially regarding the activation of insufficient use of the geographical and human potential.

To achieve this, Ministry of economy in Slovakia defines strategic development goals of tourist industry:

- To increase importance of tourist industry in national economy
- Competition grow of tourist industry in Slovakia in the European space
- Volume grow of residential tourism
- Enhancement of visitors structure (**MHSR, 2007**).

Slovakia has good conditions in Central Europe for summer and winter mountain tourism. There are numerous national parks, caves and historical buildings. Nature is well preserved and Slovakia has also cultural heritage, lively folk art, handicrafts and festivals. On the other side image of Slovakia as a tourist destination is at a very low level and it is still undiscovered by foreign tourists. For most of them is Slovakia just transit country or short stay destination. And we have insufficient structure and quality of mountain facilities and services. If Slovakia improves services, it will be more interesting for tourists. Government assistance is needed. But it is also necessary to awake more interest of the people and offer them educational opportunities in this direction.

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### **ACTUAL PROBLEMS AND TRENDS OF DEVELOPMENT OF INTERNATIONAL OUTSOURCING IN RUSSIA**

At the present time Russia progressively joins world economy. Meanwhile international outsourcing in Russia hasn't developed yet as much as in remaining countries, however a trend of expanse of outsourcing is the same as in the world.

In this article tendencies of international outsourcing development in Russia are analyzed. A careful attention is paid to the problems and prospects of Russian outsourcers in the world market. Here you can see a statistics on outsourcing market.

**Key words:** international outsourcing, tendencies of international outsourcing, problems and prospects of Russian outsourcers, statistics on outsourcing market.

In order to survive in competitive environment and raise investment attractiveness nowadays companies have to work out methods for growth of efficiency of their activity and cost reduction. Outsourcing has become an increasingly important issue for many organizations.

Outsourcing has transformed global business. Many tasks are peripheral to a firm's core business and can be done better and more cheaply by outside specialists. Over the past few decades companies have contracted out everything from mopping the floors to spotting the flaws in their internet security. Oxford Economics reckons that in Britain, one of the world's

most mature economies, 10% of workers toil away in “outsourced” jobs and companies spend \$200 billion a year on outsourcing. Even war is being outsourced: America employs more contract workers in Afghanistan than regular troops.

An outsourcing in whole and international outsourcing in particular is a specific business form in a national and in world environment respectively, which is supposed to draw foreign suppliers on commercial basis in a process of producing goods and services by force of handover them for fulfilling a part or all duties to increase international competitiveness thanks to use of counteragent’s competitive advantage.

Herewith, an international outsourcing expanding a company flexibility by an access to the resources of world economy (manpower, industrial and technological resources) gives company an opportunity to adapt quicker to the changes of competitive environment.[9, p.27-28].

There are a lot of classifications of outsourcing/international outsourcing. The widespread is a classification for object criteria, which makes possible to mark following kinds of outsourcing:

1. Manufacturing Process Outsourcing, it means that manufacturing processes or a part of tasks connected with it are given to be done to the third party, which can be located in this country or out of its bounds and it should have necessary skills and infrastructure for doing it.

2. Business Process Outsourcing (BPO) is the contracting of a specific business task, such as payroll, to a third-party service provider. Usually, BPO is implemented as a cost-saving measure for tasks that a company requires but does not depend upon to maintain their position in the marketplace. Very often it’s supposed to deal with an outsourcing of high-level processes, for example, financial, staff or marketing management. Until recently leaders of BPO market were companies, which are called “Great 5”: "PricewaterhouseCoopers", "Deloitte Touche Tohmatsu", "KPMG", "Andersen" and "Cap Gemini Ernst & Young".

3. Knowledge Process Outsourcing (KPO) is a form of outsourcing, in which knowledge-related and information-related work is carried out by workers in a different company or by a subsidiary of the same organization, which may be in the same country or in an offshore location to save cost. Unlike the outsourcing of manufacturing, this typically involves high-value work carried out by highly skilled staff when the company gives to an outsourcing partner development of professional skills, scientific research and working out of informational technologies.

At the present time Russia more and more integrates into the civilized world economy. Both a domestic and an international competition aggravates along with this process. Nevertheless outsourcing in Russia hasn’t developed so much as in the other countries. Those companies which provide outsourcing services as a rule didn’t isolate this business as a separated area. But gradually comes an understanding that outsourcing is an effective way of cost reduction, an access to the new technologies and an opportunity to concentrate on core activity and the environment for its successful introduction is being created nowadays. A use of outsourcing becomes an everyday business-practice for thousands of Russian companies. According to various polls and researches more then 80% of managers are going to use outsourcing in the near future.

The outsourcing pioneers in Russia were private guard enterprises which have allowed hundreds of companies to defend the business more qualitatively and more competently then several staff security officers. Some of them work successfully till now, turned into big diversified enterprises specializing in the area of body and property guarding and commercial safety.

Gradually the business became more civilized and advertising became increasingly important too. There was a lack of advertising experts and it was a breeding ground for starting

up of specialized advertising agencies, which were ready to handle with complicated projects. Afterwards PR and researching agencies appeared they did the entire spectrum of functions of relevant departments of their clients, practically taking their place.

Russian Internet sensation began in 1998, it led to emerge not only of thousands of web-sites but the huge market of their creation, support and development.

Rather stable economical situation in Russia encouraged appearance of new services in outsourcing market: IT, staff, accounting outsourcing. The first functions of IT outsourcing were office equipment maintenance and system administration, outsourcing of IT infrastructure, application development, packaged software implementation and IT staff outsourcing.

Nowadays due to a great influence of last financial and economical crisis on economy about 20 thousand of artificial persons in Russia declare their intention to work in IT market, but only 2 of them are outsourcers. Their most outstanding clients are The Bank of Russia, ministries, oil and gas and metallurgical sectors. Some stated sums of the contracts come to hundreds millions of dollars. However their realization is constantly disputable in consideration of macroeconomic and political situation and not always favorable world conjuncture.

Russian business market is difficult to imagine without global leading corporations, which offer outsourcing services. All of them working in Russia resort to help of Russian partners. It is rather complicated to estimate a real size of our IT outsourcing market for example, because of traditional closure and negotiations of contracts which can often be abroad. In any case we should mention that many Russian IT firms are not ready to be outsourcers for foreign clients on their own. But Russian programmers seem to be popular as an outsourcing resource. IBM, Intel, Microsoft, DELL, Intel, Motorola, KPMG and others regularly use their services. [3]

Last crisis has considerably changed a rating of outsourcer's demand: advertising industry suffers not good time now, a lot of companies give up even off-site PR-departments. But demand in financial and IT-specialists increased greatly. A list of outsourcing services grows every day and we can suppose that soon each firm will be able to use all advantages of it [10].

Table 1- The most popular outsourcing types in Russia in 2009

Outsourcing type	Points
Physical guarding	7.71
Sector of services	7.70
Transport and logistics	7.28
Personnel selection and training	6.64
IT infrastructure	6.51
Juridical support	6.49
Call-centers	5.67
Accounting	5.28
Business planning and optimization	5.14
Payroll	3.78

There are many examples of success of Russian companies as outsourcing services providers.

Since 1988, CompMechLab, located in St. Petersburg, Russia, has been partnering with about 20 global industrial companies to help solve a variety of technology and simulation challenges.

Ford's River Rouge Plant mostly consists of the parts which are made by sub-contractors. Their local steel mill is run by a Russian company, Severstal. "Inprom" company

from Taganrog is an outsourcer in area of manufacturing outsourcing, making metal provision and metalworking for clients not only from Russia but from near abroad countries too. Through an outsourcing agreement in 2005 “Donskoy tabak” began producing cigarettes for English tobacco corporation “Gallaher Group”, represented in Russia by the company “Ligget-Ducat”. “Arnest” company which owns trademark “Prelest” well known in Russian market of aerosol production, cooperates over a period of last years with Schwarzkopf&Henkel, producing for them deodorants and antiperspirants Fa. “Gloria Jeans” corporation in 2003-2004 had an agreement with American Levy Strauss for an output of jeans clothes of their brand. Besides it in due time “Gloria Jeans” produced jeans for Swedish H&M and US KS Trading. In 1993 “Progressteh” company after scientific and experimental research for “Boing” successfully cooperates with them. Currently specialists from engineering center of “Progessteh” make every possible calculating and constructing work for “Boing” airplanes of different modifications.

As an example of use of international outsourcing by Russian companies we can mark oil and gas giants which often use the services of famous foreign firms as Schlumberger and Halliburton for exploration and mining. A production of “Stroifarfor”, a producer of construction finishing materials, is being made by other Russian and Turkish providers. Russian chain of home appliances “Tehnosila” already some years sell the goods under their own brand (kettles, irons, vacuum cleaners and washing machines) which are produced by foreign plants. So TV-sets “Tehno” are produced by Turkish Vestel. The greatest Russian combine plant “Rostselmash” also successfully realizes outsourcing projects. At present time more then a half of details of new combines “Vector” and “Acros” have been done by producers from Germany, Turkey, China, Italy.[9]

Thus, manufacturing principles change. Russian companies use manufacturing outsourcing more often, see benefits in it and come to international outsourcing market. Though such examples are not numerous, but they are conciving.

The main trends of development of Russian outsourcing market are following:

1. 70 % of Russian companies use outsourcing services;
2. three Russian companies currently certified to CMM standards; 1,517 ISO 9000 certifications;
3. 100 companies employ 8,000 professionals;
4. the main outsourcing providers in Russia are "PricewaterhouseCoopers", "Ernst & Young" and “EDS”;
5. IT-outsourcing is the most spread, and its growth led to growth of telecommunication market;
6. markets of corporative meals, logistics services develop thanks to Business Process Outsourcing and staff-outsourcing;
7. outsourcing of marketing services broadens progressively (7% of medicine are sold by outsourcing company “Onix”);
8. development of car assembling process outsourcing (“Ford-Vsevolgsk”, “Doninvest”, “Avtotor” and others);
9. Research&Development services are given to foreign producers by Russian organizations (“Himrar”);
10. formation and development of new kinds of outsourcing, such as outstaffing, outplacement (employment assistance of dismissed workers) and staff leasing.

On the whole, Russian domestic outsourcing market situation meets the requirements of internal market. But there are some problems connected with global market penetration by Russian outsourcers:

- shortage of professional knowledge and special training of outsourcing professionals;
- a lack of information about outsourcing as a business tool of majority of top-managers even in big Russian companies;
- there are no outsourcing firms, which level coincides with demand of such clients as foreign companies and banks;
- non-transparency and, as a result, a distrust between outsourcing providers and their clients;
- a lack of outsourcing standards, it complicates a communication between providers and clients and holds market growth;
- public authorities underestimate a necessity of rapid development of home service market.

Russia's outsourcing strength is in the number of technically sophisticated engineers capable of doing cutting-edge research. However in comparison with Indian specialists our programmers turn out to be less trained for example in point of language for dealing with foreign orders. Programmers with adequate English-language capabilities are in short supply.

One more obstacle on the way of outsourcing development in Russia is a fact that Russian producers of software focus on domestic market generally, but outsourcing supposes top priority on export. Communicational culture is poorly developed, there is no accurate understanding of the free competition market system. It makes difficulties for advance of Russian service specialists in area of international outsourcing.

A widespread infringement of copyright and incorporeal right undoubtedly frighten off serious clients from Russian companies. A trust of potential foreign partners to Russia may be reinforced by joining to international agreements about copyright and incorporeal rights.

We should mention that Russian government didn't pay attention to development of outsourcing in our country up to 2005 when president Putin visited Bungalor, a center of this industry in India, and expressed a desire for working out Russian outsourcing policy by the Indian sample. Afterwards Russian government introduced a new strategy pointed at increase of attractiveness of Russia as an executor of outsourcing orders. In Conception of administrative reform in Russian Federation in 2006-2010 it was recommended to executive bodies an introduction of outsourcing system in their activity as one of most effective methods of optimization. Changings in legislation and financing of new special economic zones in St.Petersburg, Novosibirsk and Moscow region were approved. Each of this techno parks gets state financing about 80-100 million dollars. But it's difficult to say now if this work will be effective and how these institutes will promote outsourcing development.

Russia has several sufficient advantages over India, China and other participants of IT-outsourcing and export programming market. Among them are a high quality of their services and products, location, closure of Russian culture to western, infrastructure, expertise in large, complex systems requiring careful engineering and sophisticated algorithms, convenient time difference, low labor cost.

Off-shore outsourcing is the youngest area of IT industry in our country. Only 10 years passed from the moment when local off-shore companies decided to declare openly about their existence. Public authorities state about its promotion, mass media write about it, hope for the breakthrough of our country to the global market is connected with its development.

A formal reference point of current stage of Russian off-shoring area is establishment of "Russoft" association, which is an appreciable and acknowledged representative of export software creators' interests.

The main conclusion is that this area formed, found acceptance abroad and in Russia. Four years ago "Gartner Group" defined the level of government support for such companies as

low, but now our country is mentioned as a one of the most promising competitors on this market.

On the whole, we cannot pass over remarks of those experts who think that Russia should not pursue leadership in software outsourcing. Actually it will be very difficult to reach India in this direction. Maybe a perspective way is search for our own niche in outsourcing.

Summed up all trends, we can say that during the last global economic crisis a competition between the main economic centers of the world USA, Japan, Europe and China become stronger. Russia is looking for worthy place in global processes too, trying to overcome primary orientation of its economy. It can be done only with the use of modern management technologies as an international outsourcing. And perhaps an incentive for outsourcing development will be a recommendation for outsourcing practice in a Conception of long-term social-economic development of Russia till 2020.

With a significant R&D heritage, innovative ideas, one of the world's best educational systems and the largest pool of highly qualified engineers and researchers, Russia is an ideal destination for outsourcing of science-intensive computer-aided engineering and R&D projects. The country is regarded as a key outsourcing provider by major U.S. and European companies, running and expanding their innovative R&D centers in Russia.

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### **PERSONAL INSURANCE IN RUSSIA AND WAYS OF ITS DEVELOPMENT**

This article is about changes of character and insurance functions during the modern period in economy. It also describes why various kinds of personal insurance insufficiently develop, and what methods should be used to revive interest to the conclusion of contracts of personal insurance.

**Keywords:** personal insurance, risks, voluntary medical insurance, Russian Federation.

Character and insurance functions are constantly changing during the modern period of essential economical changes. Its value as an effective remedy of protection against social and property risks is increasing in the Russian Federation. Market relations promote qualitative improvements in the insurance system, the mechanism of regulation of insurance activity, in strengthening of social orientation in development of insurance business. For the necessary development the insurance relations system, it is necessary to create an effective system of insurance protection of Russian people.

Nowadays many new kinds of personal insurance come to exist. As a result the problem of financing the social protection of the population can be solved. These new kinds of insurance are also stabilizing economy. The insurance culture within the households can be considerably raised through obligatory and voluntary kinds of personal insurance. Therefore different kinds of medical insurance are being developed.

Risk is the key word of insurance. Any person faces different kinds of risk on a daily basis.

Amongst them the risk of death, and income loss, are, certainly, the most significant and essential ones. In the case of social risks occurrence, people lose the ability to work, as a result, they lose their daily income which makes their living.

Conditions of occurrence of social risks you can see factors on Fig.1.

The basic social risks have difficult structure: starting from a loss of earnings in case of disability, occupational diseases, accidents on the manufacture, death or unemployment and including loss a stable income in cases retirement. Amongst well recognized social risks are: disability; maternity leave; aging; unemployment; loss of the sponsor; a labor trauma; pregnancy and childbirth.



Fig. 1. Factors and conditions of occurrence of social risk

«The convention on the minimum norms of social security» №102, the accepted International Labour Organization in 1953, allocate the basic social risks:

- Industrial trauma
- Diseases
- Time and constant invalidity
- Maternity leave
- Aging
- Unemployment
- Absence of means of subsistence to a family

In all developed countries the most accessible and effective risk management method is personal insurance. Its primary goal is to compensate loss in the incomes that may be connected with loss of health or death of a member of a family. Personal insurance has been steadily developing for the decades in our country. However in the recent years, under the conditions of unstable economy, inflation, and considering the current tax system the share of personal insurance is going down (in 1997 it has made 34,6 %, in 2004 - 32,8 %, in 2006 – 28,6 %). But already in 2010 it began to come back and reached almost 30 %.

The Rate of increase of insurance payments across the Russian Federation for 2007-2009 is shown on Table 1.

Table 1 – Insurance premiums across Russia for 2007-2009

Branches and insurance kinds	2007	2008	Increase, %	2009	Increase, %
Life insurance	102 200	25 300	-75	15 984	-37
Personal insurance	52 900	64 000	21	76 950	20
Property insurance	153 100	185 600	21	227 912	23
Responsibility insurance	12 200	16 200	33	16 553	2
OSAGO	49 200	53 700	9	63 874	19
Obligatory medical insurance	97 200	140 700	45	203 534	45

Leaders of life insurance are shown in Table 2.

Table 2 – Leaders in Life insurance, 2007-2009

The company name	2007	2008	Increase 2008 to 2007, %	2009	Increase 2009 to 2008, %
Rosgosstrah	200 530	1 571 608	684	2 724 740	73
VSK	0	0	-	2 179 731	-
SG MSK	325 299	362 831	12	2 142 644	491
Ingosstrah	554 685	906 716	63	1 335 727	47
Uralsib	2 499	386	-57	527 323	136 512

It is necessary to point out that uniqueness of personal insurance is its ability to both protect property interests of the enterprises and citizens, and also solve many of macroeconomic problems. In the countries with a market economy personal insurance plays a role of one of strategic sectors of economy. Which results from personal insurance:

- Reduces the budget expenses, therefore makes it possible to increase the budget of other important government programs;
- Promotes social and economic stability of the society;
- Has an essential impact on the strengthening of a financial system of the state, for personal insurance is one of the most stable reliable internal sources of investments into economy;

It is necessary to notice that for years of transition to the market economy, the popularity and development of different kinds of personal insurance are rather low in Russia.

To my mind the reasons are the following:

- Insufficient level of incomes of the population;
- Negative history of personal insurance during the Post-Soviet period;
- The limited source of reliable financial investment tools;
- A lack of economic stimulus for participation of the population in long-term personal insurance;
- A low insurance culture of the population;

It is believed that in modern conditions it is possible to revive interest of insurers to sign contracts of personal insurance by means:

- Development and introduction of new insurance products considering requirements of the population;
- Make a guarantee for the long-term life insured, to become the stakeholders of company;
- Consolidation of medical insurance together in combined with provision of medical service in accordance with the program of Voluntary Medical Insurance;

It also seems to be effective to stimulate the activity of insurance companies in the following ways:

- Organization of the statistical and technical base that follows the purpose and of personal insurance;
- Involving of insurers in the investment process, based on combining their interests for the income from the investment together with the needs of the state;

- Other system of placing the means of insurance reserves, at the same time taking into account the features of different kinds of personal insurance. Thus providing reliability of investments, and at the same time, and at the same time keeping high profitability;
- Making it possible to place the reserves of personal into specific capital securities.

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## **THE DEVELOPMENT OF THE INSURANCE AND ITS PRESENT STATE IN THE REPUBLIC OF ARMENIA**

### **Historical Development**

#### **History**

19th c Some private insurers may have operated in Armenia when the country was part of the Russian Empire, but no record remains of their activities.

1996 The first law on insurance was passed by the National Assembly, which was implemented from early 1997.

2004 A revised insurance law and regulations were enacted.

2006 Supervision of the insurance market was removed from the Insurance Inspectorate and placed with the Central Bank of Armenia, which had previously been responsible for regulating bank activity only. Overall supervision of the insurance industry still remains with the Ministry of Finance.

2007 A further revised insurance law and regulations were enacted.

2008 The 2007 insurance law required the separate capitalisation of life and non-life companies by September 2008, but no life companies were created.

2010 Effective from 1 January, compulsory MTPL was introduced.

2011 The MTPL began to be used.

#### **Summary and Trends**

In 2009 market premiums, non-life, PA and health, were the equivalent of USD 22.3mn, being a nominal increase of 32.8% on 2008 volumes

From the country's declaration of independence in 1991 through to the passing of the first insurance law in 1996, there was no insurance legislation, and companies wishing to transact insurance had simply to be registered as commercial companies. In 2004 revised insurance legislation was issued, and this was again revised in a new law of 2007.

Minimum capital requirements have been increased in recent years. In January 2008 these were AMD 500mn (USD 1.63mn), and since January 2010 they have been AMD 1.5bn (USD 4.12mn). The 2007 law imposed the separate capitalisation of life and non-life companies, since when all composite insurers put their life business into run-off and no new life insurers have been licensed. The Armenian insurance market is now entirely non-life.

The Armenian market has grown slowly since 1991, and is still one of the smallest in the world. The largest single classes in 2009 were motor casco (18.4%), and property (20.7%).

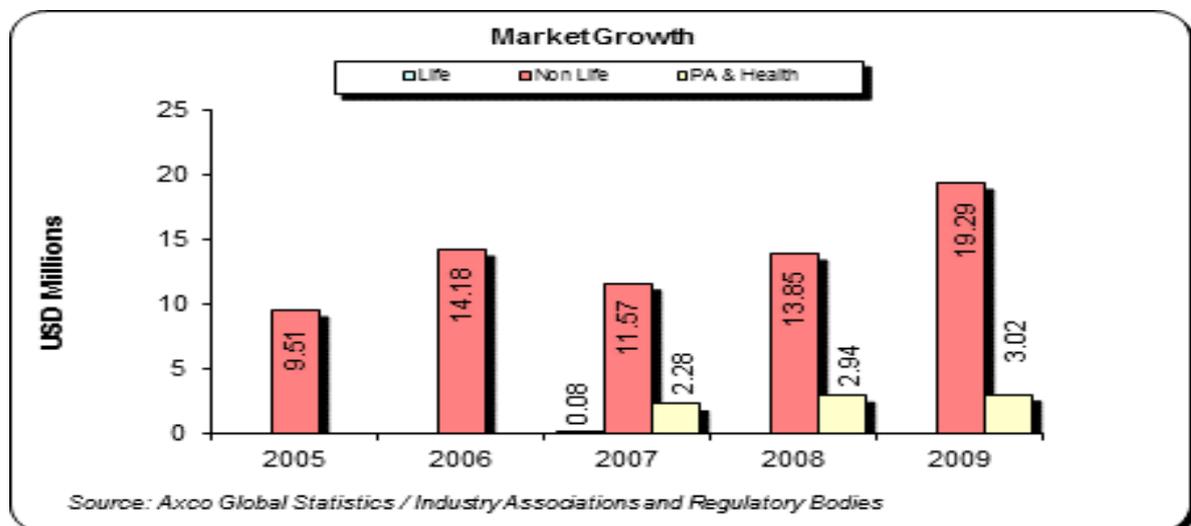
There is a small but growing market in personal insurances, but non life business is written and the introduction of compulsory funded pensions is suspended until January 2014. From 2011 there is a substantial increase in premium volumes, though, up to a two-fold increase, caused by the introduction of compulsory motor liability in late 2010. There was an energetic flurry of activity in the market when the law was formally signed by the president in October 2010, involving the creation of the agency networks selling the policies at one end of the scale to the printing of the policy forms at the other. It was estimated that by 1 January 2011, between 60% and 65% of all cars had been covered, and the appropriate windscreen stickers issued. During the first three weeks of January, companies were reporting very high levels of claims. Meanwhile, some companies will show modest losses on their 2010 results, given that much of the new MTPL premium booked in the last quarter of the year was used to develop the infrastructure for marketing the new policies. Motor liability, which accounted for about 2.5% of market premiums in 2009 on a voluntary basis, is expected to account for over 60% of the market in 2011, on a compulsory basis. The underlying trend, however, confirming that the market is relatively undeveloped, is that the non-life market is likely to remain small for the foreseeable future. The number of companies has been declining for several years: there were 26 companies in 2005 and only nine in January 2011.

### Market Size

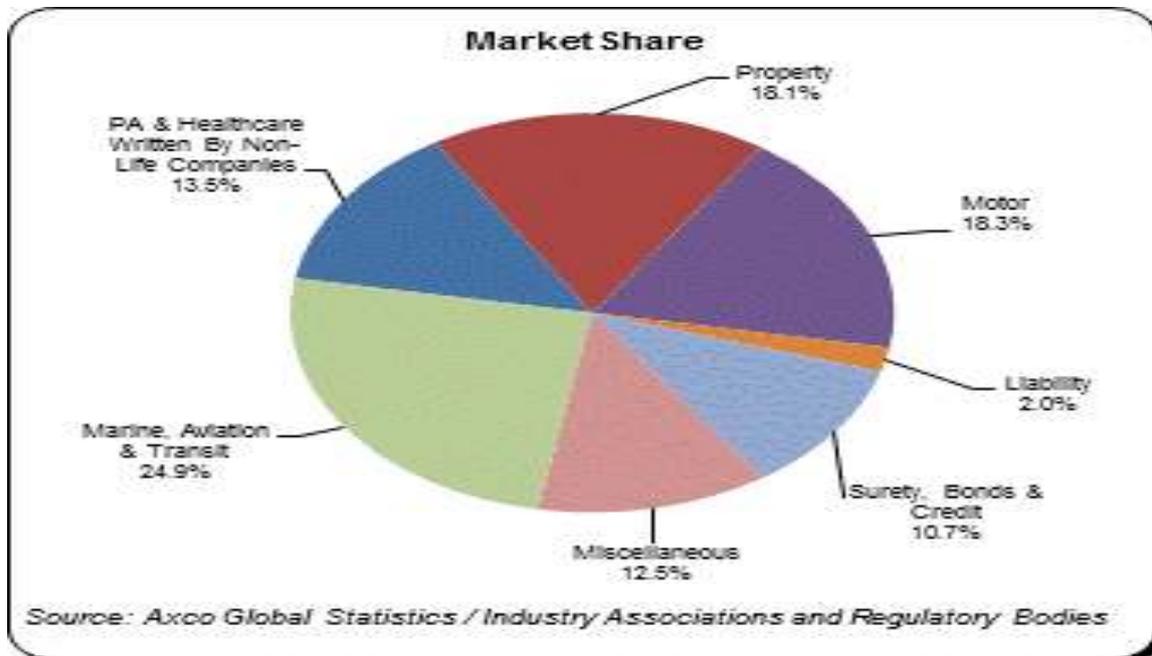
In 2009 Armenian market premiums were USD 19.29mn, non-life not including PA and health, placing it 160th in world insurance market rankings, between Tajikistan (159th) and Guyana (161st). Of the three Transcaucasian republics, Armenia was ranked last in 2009, as shown below:

Country	World ranking(2009)	Market premiums - non-life (USD mn)
Azerbaijan	102	168.39
Georgia	133	59.46
Armenia	160	19.29

The following graphic shows the development of market premium in the last five years. There has been no life income, as such, since 2008.



The following pie chart shows the relative division of income in 2009. It is significant that general third party liability, for example, is small, at 2.3% of total income. This proportion will be very much smaller in 2011, allowing for the large increase in income from compulsory MTPL.



### Market Penetration

Market premium as a percentage of GDP and expenditure on a per capita basis expressed in USD are shown below for the year 2009: comparisons are made with Azerbaijan, Georgia and Turkey.

Country	Non life		Personal accident and healthcare		Total	
	%	Per capital	%	Per capital	%	Per capital
Armenia	0.23	6.26	0.04	0.98	0.27	7.24
Azerbaijan	0.32	19.14	0.06	3.83	0.38	23.10
Georgia	0.55	13.96	1.40	35.35	2.00	50.65
Turkey	0.88	72.33	0.19	15.21	1.26	103.11

The low rates of the insurance area are conditioned by a number of obstacles: first of all the population has not yet created a culture of insurance and the majority of them did not perceive its necessity. Today many people believe that insurance is an additional unjustified expenditure. Of course this is conditioned by the country's social situation, low income level, as well as the not yet formed middle class, which is the main consumer of insurance services. And it is appropriate to cite here the following words of one masters of insurance: "The citizen must have a stable income so that he/she can make insurance payments. The one who cares only about bread doesn't need the insurance, and the other one who is rich, doesn't need it at all. Along with the above mentioned, people have mistrust in the financial institutions. I think that the investment of the MTPL is a real and good solution to this problem which will allow the access of the insurance in the psychology of people which subsequently lead to the general development of insurance. I also think that awareness of population will also promote:

- The production of the appropriate informative brochures and free delivery to population.
- The creation of the informative insurance program on the television.
- And the of other ma fulfillment of other marketing activities.

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### **COMMERCIALIZATION OF PROFESSIONAL SPORT**

**Key words:** sport business, sports management, sport finance, sport tourism, sponsorship

Sport today has developed into a major industry in the global marked place. Sport businesses build global brands and, increasingly, develop modes of international operation. The trade around the globe of goods, equipment as well as the construction of sports complexes, racecourses and arenas has developed into a multi-billion dollar business. Beyond the sports and political aspects mega events like the FIFA football world championships or the Olympic Games are also one of the largest international marketing events in the world, reaching billions of people in over 200 countries around the globe and generating millions of revenues in merchandizing and sponsorship.

Mainstream academic literature often suggests that sport should be studied in specialist niches on the grounds that it is "not generalisable." Indeed, sport does have a number of distinctive characteristics which may influence the way in which it internationalises and the extent of its globalization. Sports events have uncertain outcomes, evoke strongly emotional responses from customers which result often in an intense, sometimes unexpected, loyalty. The proliferation of information technology has made it possible to serve the needs of fans all over the world. They can consume an event real-time or recorded from virtually anywhere. Within this, the opportunities for the promotion of sport, and the benefits for sport and its partners, are significant. Surprisingly the current financial crises and even several recent doping scandals seemingly only had limited impact on the sports industry.

One of the most useful indicators of the state of play in sports sponsorship is The World Sponsorship Monitor (TWSM), produced by IFM Sports Marketing Surveys. It analyses sponsorship deals reported in the international media drawing on a large sample to provide an insight into brand behaviours. TWSM is not focused only on 'mega deals': any sponsorship contract with a value of \$75,000 or more is included making it possible to drill down and explore current trends among small to mid-sized brands too.

The total number of sponsorships reported in 2008 was 1,333 against 1,196 in 2007 indicating sponsorship was not too badly affected by the credit crunch, which really tightened its grip in late summer last year. Going into 2009, results from TWSM suggest that there was no significant decline in the volume of new sponsorships being reported. In the first quarter of

2009, compared to the same period the previous year, slightly fewer new deals were signed overall (300 compared to 302). However, the number of withdrawals by brands from sponsorship increased (42 this year compared to 24 last year) and it remains to be seen how renewals will be affected across the full 12 months. Given that many deals are signed over three or more years, it is likely that many will run unaffected through the economic downturn.

**Table 1 “Top 20 Sponsorship Deals by Reported Value in 2008”**

<b>Rank</b>	<b>Sponsor</b>	<b>Sponsorship</b>	<b>Value (\$m)</b>	<b>Duration (Years)</b>
1	Nike	French Football Federation (from 2011)	475	7
2	Nike	Internazionale	206	10
3	BT	London Olympics 2012 Tier One sponsor	160	5
4	Nortel	London Olympics 2012 Tier One sponsor	150	4
5	Adidas	AC Milan	123	10
6	Nike	Roger Federer	118	-
7	Adidas	Ajax	110	10
8	Adidas	Russian Football Union	100	-
9	BP	London Olympics 2012 Tier One sponsor	100	4
10	British Airways	London Olympics 2012 Tier One sponsor	98	5
11	Adidas	All Blacks	90	10
12	Consol Energy	Pittsburgh Penguins NHL stadium	84	21
13	Dekra	Deutscher Fufiball-Bund (DFB)	80	4
14	Deutsche Telekom	Deutscher Fufiball-Bund (DFB)	80	4
15	Miller	Dallas Cowboys	80	10
16	Rogers Communications	Buffalo Bills	77	5
17	Automobile Club of South Carolina	Auto Club Speedway of Southern California	75	10
18	Banco Itau	Brazilian Football Confederation	75	5
19	Budweiser	NHL sponsorship through Bud Lite	75	3
20	Olympus	US Open & US Open Series Official Camera	70	6

William Fenton, editor of TWSM, points out that “in 2008 the proportion of higher value sponsorships (valued at over \$10 million) over the total sample was actually higher (19

per cent in 2008 compared to 13 per cent in 2007). This is because brands are seeking out partnerships with the mega events, such as the Olympics, American football's NFL, Formula One and major football brands, which draw huge television audiences. This was borne out in 2008 by the number of sponsorships announced for the Beijing Olympics as well as the London Games in 2012.”

In early 2009, TWSM was predicting an increase in lower-value deals of a shorter duration and, as suggested by anecdotal evidence, the properties in between the premium events and the more common lower-value properties will be squeezed hard.

In terms of sponsoring industries, cars, banks and retailers are amongst the most exposed sectors in the current turndown and it is perhaps unsurprising that it is expected there will be some reduction of sponsorship activity by these sectors over 2009.

The 1,333 deals which are included in TWSM's 2008 Annual Review illustrate trends in sponsorship type, region, values and sponsoring industries. This year's review showed that sport continued to dominate the global sponsorship market accounting for 79 per cent of all sponsorship deals and 88 per cent of total value

Naming rights deals are relatively rare – accounting for just four per cent of all sponsorship deals signed – but they attract proportionally higher rights fees. In 2008, seven per cent of total committed investment went into naming rights. Naming rights boomed in 2006 and 2007 with notable deals such as Barclays' record breaking \$400 million naming deal for the new arena of the NBA basketball team New Jersey Nets. The biggest naming rights deal in terms of total investment, was signed by the Consol Energy company, which committed \$84 million over 21 years to be the naming rights sponsor of the stadium of NHL ice hockey team the Pittsburgh Penguins (the 12th-biggest of all sponsorship deals signed in 2008). In terms of annual committed fee, the two biggest venue deals are those signed by drinks company Anheuser-Busch and financial services firm MetLife for the new Meadowlands Stadium – the new home of the NFL teams the New York Jets and New York Giants. Under their deals, the two companies will pay a reported \$8 million per year each over five years.

Outside the US, the biggest naming rights deal was in Germany where Mercedes named Bundesliga club Stuttgart's 55,000 seat stadium the Mercedes-Benz Arena, in a deal worth \$31 million over 30 years. Also in Germany the Signal Iduna Group signed an early five-year extension to its contract with Borussia Dortmund to retain its sponsorship of the 'Signal Iduna Park', Germany's biggest football stadium.

Telecommunications continues to be important as fifth-biggest industry in terms of number of deals signed (72 in 2008 compared to 53 in 2007). BT, Nortel and Deutsche Telekom were the third, fourth and 10th biggest spending sponsors. For the first time the travel industry is in the top 10 sponsoring industries, following a number of deals between sports clubs and travel destinations or tourist boards. In total, there were 37 deals signed by the travel sector in 2008, up from 13 the previous year. The number of airlines deals also increased to 59, from 46.

Unsurprisingly, the most sponsored sport is football both in terms of the total number and the total value of reported deals. In 2008, there were 262 football sponsorship deals compared to 218 in the previous year. Five of the top 10 deals signed in 2008 were for football, together totaling over \$1 billion alone. Tennis became a hotter property for sponsors, moving into the top 10 in terms of number of deals signed. The sixth biggest deal of 2008 was Nike's \$118 million sponsorship agreement with Swiss tennis superstar Roger Federer. Motorsport fell out of the top 10 most sponsored sports in 2008. Formula One experienced fewer major headline deals in 2007, though notable exceptions were the Olympus \$30 million deal with the McLaren team and Reebok's \$20 million deal with 2008 Formula One Champion Lewis Hamilton.

The thousands of visitors arriving in Beijing clutching tickets for the 29th Olympic Games were sports tourists. Each segment differs significantly in its character and requirements and it is impossible to assess the impacts and benefits of a sports tourism strategy if it remains unclear which visitors, participants or spectators are contributing to those gains. In the current economic climate, demonstrating that new tourist dollars were only spent through a sporting event is the only way of justifying investment in a sports tourism strategy. Sports tourism spending is notoriously difficult to isolate; clearly delineating where this expenditure begins and ends makes its measurement far more reliable.

Humans are messy creatures and getting a complete picture of sports tourism is made more complicated by individual behaviors. On the one hand, this blurring of boundaries can create difficulties in making precise impact assessments; on the other, it creates opportunities for innovative destinations to increase the sum of their component parts.

In Melbourne, for example, the city's primary nostalgia sports tourism venue, the NSM, is able to draw on its spectator sector for both marketing and footfall. It works closely with the Victorian Major Events Company to tie in its temporary attractions with the city's hosting schedule. Elsewhere, Dubai's all-out, all-sector approach to tourism development means that sports tourism in the Emirate is not seen as a specialist sector but as a contributor in its own right to all the rest.

The examples of Melbourne and Dubai identify the three main types of visitor that can contribute to a sports tourism strategy, either singly or in combination:

- Spectator sports tourism,
- Participation sports tourism, and
- Nostalgia sports tourism

Alongside these should also be considered incidental tourism which may not have as intense a sporting focus as the other three, but clearly has a value in its own right. Impacts will vary hugely within individual sectors according to the sport, facility and location assessed, but in terms of the degree to which sport is at the center of the tourism experience a clear hierarchy can be seen.

Among participants, establishing why they are there is easy but within the group there is a clear distinction between recreational and competitive participation.

When looking at events, the definition of participation tourism takes in visitors who are there to support the competitors – the coaches, family and friends – or the functioning of the event – e.g. officials and media personnel.

When trying to understand the economic and other benefits of sports tourism, the one-size approach also fails to paint the full picture of impacts. Some sports tourists are easily recognized; others blend in with the crowd. The benefits of sports tourism to a destination or venue are equally diverse – not just in their relative ease of identification, but also in their scale, significance and duration.

Pinning down these benefits is the essential starting point for the development of any sports tourism strategy. Whilst the headlines announced by leading host cities promise rich rewards, measuring the benefits of individual events and destination development is complicated by a wide range of factors.

Direct expenditure is easier to identify around ticketed spectator events than in participation destinations where sports tourism may be just one aspect of a holiday. But in the spectator sector, the strategist is also faced with the task of identifying which portion of economic impact is truly additional expenditure and not simply spending displaced from either another time period or tourist group.

Set against these are the avoiders who either abandon or postpone plans to visit due to the event and resident runaways who take additional holiday or change their usual holiday plans to head out of town and avoid the event.

The behavior of these groups can influence economic impact before and after the event as well as during it, but do have distinct positive and negative effects.

Typically, the economic impact of spectator sports tourism is limited to the immediate event locale, even in the indirect effects of place. A study of Alpine destinations conducted by the University of Milan examined the impact of Turin's hosting of the 2006 Winter Olympics on inbound visitor flows to the city and surrounding region. It found that while both Turin and the designated 'Olympic Valleys' saw increases in tourist numbers of 25 and 16 per cent respectively between 2002 and 2005, visits to the other nine nearby Alpine tourism destinations surveyed remained flat.

While Glasgow expects the 2014 Commonwealth Games to pump £107 million into the Scottish economy, the event is also projected to cost £288 million to stage. The onus is therefore on events to create more indirect benefits either by contributing to a wider programme of regeneration or kick-starting the local economy into a cycle of dynamic growth.

The difficulty is that while economic impact assessment may be a science, with regard to many sports events it remains an imprecise one. Even among those who measure impact professionally there can be significant disparities in results, depending on what is included in the assessment.

While the Deloitte & Touche study of the 2006 Ryder Cup identified benefits of €143 million to the Irish economy, another by Anderson Economic Group and Amárach Consulting considered the gains to total €100 million less.

Perhaps one way of reconciling these differences can be found elsewhere within the business of sport. Sponsors of sports events are very familiar with assessing both immediate and long term benefits and have developed the vocabulary of brand equity to talk about value which accrues over long periods.

Companies build customer preference for a brand recognizing that purchasing decisions happen often over months or even years. Their sponsorships contribute to a potential customer's understanding of the brand which translates into a positive consideration of its products at the time of purchase.

A city's equivalent of brand equity is its appeal over the long term to international visitors. Regular tourism during a major sports event can actually decrease making the event difficult to justify in visitor numbers alone. However coverage of the events make it much more likely that tourists will come in the future. Looked at in this way, sports events can be part of a sustainable tourism strategy. In deciding which events to bid for, tourism strategists will need to consider which origin markets are likely to be the source of event spectators and future generations of tourists. Targeting events with large numbers of active participants and extensive media coverage in those markets is the most sure-fire way of turning a one-off event into a legacy of future visitors.

Whether they are coming to future events, making use of sporting facilities or visiting the sites where records have been set, sports tourism will keep on delivering however we define it.

Sport tourism and sponsorship are the most profitable sectors of professional sport. The problem is that the most part of income goes for sportsman but not for their teams and clubs nor for shareholders and owners. This 2 sectors fill up budget on 75-80% in developed countries so this are the main ways of growing.

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### **MODERN ECONOMIC ESPIONAGE**

This article describes modern economic espionage. It shows the issue of economic espionage, its peculiarities: the analysis of open sources, getting information in the course of conversations, participation in the economic life. The article tells about using modern information technologies, about computer espionage. Agent penetration into different organizations is wide spread. The industrial espionage and falsification of brand-name products are very important. The article also demonstrates basic methods of industrial espionage.

**Keywords:** modern economic espionage, information technologies, industrial espionage, intelligence services.

Worldwide a lot of states direct their intelligence service's efforts to study achievements of foreign enterprises, especially their patents, commercial, technological and industrial secrets. Special services connect to computers, telephones and faxes of the firms they are interested in, spies are adopted and agents are recruited. All that tells us that nowadays a lot of attention is paid to the problem of economic espionage and it has a political meaning.

Differences in economic and social progress of different states play a great role for the economic espionage. Interest of many national economies is directed to getting information about technological, industrial and economic innovations. That is the intelligence services do. The boundaries between the reconnaissance and a guided state, and obtaining information by private firms become increasingly blurred. That's why it is often difficult for enterprises to determine whose spy activity is directed against them.

#### **Aims and methods of the economic espionage**

The economic espionage is not looped on the only means of getting information. Everything is useful for it, for example, written documents, graphics, photos, electrical signals, models, product samples, prototypes, equipment, technical devices and verbal information.

Besides, the interests of intelligence are not limited in obtaining the finished product, but cover the ideas, research, design works, projects, production and marketing strategies, i.e., the entire cycle of design, development, manufacturing and sale of the product. But development and production are still in the center of espionage.

In 39% of cases of espionage against the enterprises customers were competitors, in 19% - clients, in 9% - suppliers and in 7% - intelligence service. Methods of obtaining information spread over the entire repertoire and intelligence personnel, including sending of the agents and scouts from the residencies, use of economical journalists, interns, receiving information through technical ways, etc. However, the economic espionage has some features:

The analysis of open sources:

- Systematic assessment of reports on the results of scientific research, research of graduation works, special literature, factory newspapers, reference books, technical, patent and license documentation, as well as advertising and information material;

- Use of banks and libraries data;

- Social contacts;

Getting information in the course of conversations:

- getting information from gullible interlocutors;

- During contacts which do not cause suspicion: at trade fairs, exhibitions, congresses, symposia, seminars and visits to enterprises,

- Because of carelessness in the trade talks, which are usually caused by pride and vanity of the interlocutor and his desire to show off success.

Participation in economic life:

- Buying companies and foundation of joint ventures, creation of cover-up firms;

- Receiving bids, purchase and analysis of the products;

- Use of service activities;

- Creation of a secret network of agents in their own factories.

### **Using modern information technologies: computer espionage**

The rapid increase of the proportion in using electronic and multimedia data exchange, production and research opens difficult controlled facilities and access for unwanted users. Economic spies are attracted by the opportunity to get ready "know-how" products by one click. Now the field of electronic data processing with its global networks is the most comprehensive source of information for economic spies, among which 80% are "inside criminals" (i.e., employees of the same companies which are spied).

### **Agent penetration into organizations**

Internal criminals present the greatest threat to the security of the company interests. These employees can give much more trustworthy information by their rightful opportunities of admission and internal expertise than misdirected "outside" agents of foreign intelligence. That is why security forces do everything to recruit highly skilled professionals for intelligence activities. Economic development, together with the weakening of loyalty to the employer, more often than before encourages employees to become spies for economic competitors or foreign intelligence agencies. All industrial monopolies have secret laboratories, where all parameters are compared to the levels of technical solutions, quality, performance and reliability of its products with similar products of their competitors. In these laboratories they disassemble every node and set of its own machines and similar products of competitors, to compare them objectively and establish the real value of a product. They take into account all the disadvantages or advantages of their own and other goods. They adopt and adapt the best

qualities from the competitors for their machines, mechanisms and structures, if this can be overcome patent legislation or if it is profitable to the firm.

### **The industrial espionage and falsification of brand-name products**

Private ownership on the invention is installed through patenting. From the economical point of view patenting similar to monopolization of profit, connected with using of the patented product.

Generally patent provides real benefits for seven years, that allows its owner to get considerable profit. But on the other hand, the appearance of a patent, which prohibits using the patent by the competitive, encourages them to accelerate the development of new techniques and technologies.

Moreover, many great inventions are often not patented, in order not to attract attention to them from competing/competitive companies. It often refers to technologies, technical processes, which are difficult to copy, as opposed to creating new products.

The way from invention to commercial usage requires considerable financial, labor and material expenses. Therefore, if there is no danger that a competitor does not implement the invention faster than a corporation, then the invention is not patented, but if there is a risk that the invention can be used by a competitor, it will be immediately patented and the competitor has to wait for 15-20 years while the time of monopoly right is finished. Existence of a patent is a powerful means to control the market, because its violation is punished by confiscation of illegally produced goods, compensation for losses and payment of large fines by the offender. Patents are primarily used for the protection of company products from counterfeits or imitations of qualitative goods.

For firms whose products are copied, counterfeiting has disastrous consequences: market sharply narrows, the profit reduces, counterfeits undermine the credibility of the firm, because fakes are cheap and have poor quality, so fakes are easily damaged making consumer's trust worse to the firm whose trade-mark was imitated.

### **Methods of industrial espionage**

Modern industrial espionage uses the latest achievements of science and technology. Different kinds of microscopic devices based on various electronic schemes are used very often.

Special technology allows intercepting any information transmitted orally, by telephone, fax, and computer. Window glass can serve as microphones: special devices restore a picture of conversation by glass shaking. Usage of electronic technology provides the ability to obtain necessary information about the status of competitors, their negotiations, etc.

With the development of computer technology and creation of different types of worldwide computer networks and various local networks, such as banking, there is a problem of protecting the information sources in these networks because any unauthorized intrusion into the banking network can lead to losing important information, to loss of privacy and as a result – using this information for any mercenary aims.

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