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About InterRegioNovation

InterRegioNovation is the International Association devoted to the transfer and exchange of knowledge and innovations at all regional levels (country, region, city, community etc.) between knowledge transfer professionals (business, research institutions, policy makers, government agencies, individuals, others) in all countries of the enlarged Europe, CIS countries and from other continents for stimulating and enhancing economic and social growth in the regions.

This is a policy and research association that brings together all knowledge transfer professionals who are interested in delivering efficient, flexible, innovative and cost-effective services across the private and public sectors. We work closely with business, research and educational institutions, government agencies, policy makers, NGOs, media, individuals and other stakeholders to promote the interests of their industries.

Our members understand the changing needs of the transfer and exchange of knowledge and innovations and through continuous professional development, marketing and networking opportunities offered in this association, we keep current with the latest knowledge trends and issues that challenge people in their work and life journey. We also offer expansive opportunities for partner connection through our networks.

Journal "Regional Innovations" is one of the Association's tools for innovators and everybody who is interested in any aspects of innovation development.

www.irn.center

Contacts:

E-mail: info@irn.center
Address: 16, rue de la Roche,
Crégy-lès-Meaux, 77124, France
Tel. : +33 6 48 18 86 95

About journal

On behalf of the Editorial Board, it gives us a great pleasure to welcome you to the second issue of 2016 of the Regional Innovations Journal.

The Regional Innovations publishes original research papers, policy analyses, review papers and book reviews in order to establish an effective channel of communication between business, research institutions, policy makers, government agencies, and individuals relative to the analysis of various aspects of knowledge and innovations transfer and exchange within regional dimensions.

This is an independent, peer-reviewed, Internet-based international journal devoted to publishing original research papers of highest quality, sharing ideas and discussing innovation sector within regional dimensions. Normally, four issues are prepared each year. The journal welcomes to submit research papers by exceptional innovators, leading universities, globally recognized business, government agencies, policy makers and political leaders.

We intend that our readers will be exposed to the most central and significant issues in innovations development. We wish to publish papers that exemplify the highest standards of clarity, and that promise to have significant impact on existing front-line debates or to lead to new ones. The journal explores key priorities of the knowledge and innovations transfer and exchange in terms of critical aspects of human life (economy, law, science, business, health, education, culture etc.). We therefore welcome submissions not only from established areas of research, but also from new and emerging fields and those which are less well represented in existing publications, e.g. engineering studies, biomedical research etc.

We also strive to ensure that being under expert evaluation, each submission will receive developmental and supportive comments to enhance the article. Our refereeing process will involve that each submission will be reviewed by one or more specialists in the relevant field. Articles will be added to the volumes and the journal audience will receive e-mails updates to encourage them to the new articles.

We are delighted with, and immensely grateful to the large numbers of colleagues, both members of the Associations InterRegioNovation and FranceXP (France), representatives from many universities in France, Ukraine, Latvia, UK, Azerbaijan, China and other institutions, who have supported the editorial process. And we are very proud of the expertise that they collectively bring, which we believe is unsurpassed by any contemporary innovative journal.

We are immensely grateful to our colleagues for their support and advice through the process of setting the journal up, and for the confidence they have placed in us in supporting this initiative at a time of economic uncertainty.

In the development of the Regional Innovations to date, we would like to enlist the support of a number of organisations who wish to promote this online journal to their experts. To ensure its sustainability, we would also like to invite other organisations, networks, conferences and meetings to associate themselves with the Regional Innovations. We therefore aim for the Regional Innovations to become the leading online forum to globally disseminate outstanding research papers on innovation sector in regional dimensions. Being an online periodical, the Regional Innovations is also a forum for exchange of imaginative ideas readers wish to share. Contributions of articles on innovations sector and your comments about this issue are very welcome.

To this end, if you lead, represent, or are a member of any such organisation, please contact us to offer your support and commit to promoting the Regional Innovations as a publication outlet for research undertaken by your experts.

We do hope you enjoy and benefit from the Regional Innovations! And many thanks for staying with us in 2016!

Jean-François Devemy
Publishing Director

Contents

NATALIIA KONSTANTIUK
PhD, Associate Professor, Ternopil Ivan Puluj National Technical University, Ukraine
konstantiuknataliia@gmail.com

ECONOMIC AND SOCIAL RETURNS FROM EDUCATIONAL INVESTMENTS FOR THE COUNTRY

Abstract

The main objective of this article is to examine the contribution of education to economic growth, welfare of the country and benefits for the society.

The expediency of investment in education, particularly higher education, is proved. The article was displayed the economic and social benefits of educational investment. The paper deals with the importance of qualitative development of education and creation on this basis new kind of capital – knowledge-based capital, which is a key for innovation and technology development and long-term growth.

Key words: *higher education, educational investment, economic growth, social benefits.*

Nowadays the world faces difficult problems, the results of economic woe being available for some years since the crises have began. As it is clear the economic situation and welfare of the society can not be improved taking advantage of traditional methods, using general types of economic resources. Some countries experienced it, but in spite of the global economic crisis they demonstrate economic growth. Thus, economic growth can be possible thanks to qualitavely new kind of capital - knowledge-based capital.

The basis of the knowledge-based capital (KBC) is a person, who is able to acquire knowledge and to apply it into practice. Education is of the foremost impact on the personality as the carrier of the knowledge-based capital. That is why the creation of knowledge-based capital is possible through the investment in education, the results of which are scientific investigations and innovations, which in total are in the heart of knowledge-based economy and the promoter of long term growth. The investment in education, investigations and innovations generates the capital, which is based on knowledge, which contributes to the efficiency and rivalry of nations. This thesis is confirmed by the expenditures for higher education, the most developed countries of the world spend a lot of financial resources for higher education and their expenditure for education can be treated as the strategic investments in national economy of their country. It shows the relationship between the cost of education and the size of their GDP.

Let's compare the educational expenditure of countries, which are in the first 10 top of national systems of higher education (latest annual ranking of national systems of higher education initiated by the University of Melbourne), Table 1.

As it is seen from Table 1, the results of analysis of the higher education in Ukraine are to some extent contradictory: if initial data is relative data (portion of expenditure on higher education as a percentage of GDP), the data in Ukraine is similar to that in the developed countries, but if the absolute values are compared, the expenditure for higher education is sufficiently less than in other countries.

Table 1

Expenditure for education in absolute values, 2013*

Number in the ranking of national higher education systems	Country	Expenditure for education as a percentage of GDP, %		Expenditure for education in absolute values, millions of USD		Expenses for education in absolute values, per 10 thousand of population, thousands of USD	
		All education	Higher education	All education	Higher education	All education	Higher education
1	USA	7,3	2,6	1094,3	389,8	34867	12420
2	Sweden	6,7	1,8	36,11	9,7	39665	10655
3	Canada	6,1	2,5	109, 96	43,43	32058	12662
4	Denmark	7,9	1,9	26,23	6,31	47317	11383
5	Finland	6,4	1,9	16,83	5,0	31978	9500
6	Switzerland	5,5	1,4	38,28	9,7	48382	12310
7	Netherlands	6,2	1,7	55,43	15,2	33206	9097
8	Great Britain	6,0	1,3	145,74	31,6	23116	5012
9	Australia	6,0	1,6	90,9	24,24	41289	11010
10	Singapore	3,07	1,1	8,4	3,01	15560	5557
….							
42	Ukrane	8,1	1,16	13,04	1,87	2862	410

*Compiled by the author basing on [8, 15].

If the expenditure for education per 10 000 of population is analyzed, the situation in Ukraine is not consolatory. Expenditure for all education in Ukraine is 2 million 862 thousand USD, 410 thousand USD for higher education in particular. For comparison, expenditure of Denmark, Australia, Canada, Sweden, USA for education per 10 000 of population is in 15-20 times higher. They are the countries to lead in the world in the economic and social development and their expenditure for education can be treated as the strategic investments in national economy of their country.

Investment in education, research and innovation generates the knowledge-based capital that makes a key contribution to the productivity and competitiveness of nations.

Evidence suggests that business investment in KBC contributes to growth and productivity. KBC can be the source of increasing returns to scale in production by allowing firms to make use of existing knowledge without re-incurring the costs of developing it. In addition, some of the knowledge created by assets, such as R&D, design and new business processes can spill over into other parts of the economy, spurring growth. Growth accounting studies for the European Union and the United States show that business investment in KBC is the source of 20% to 27% of average labour productivity growth.

Recently gathered data suggests that, at least in the early phase of the global economic crisis business investment in KBC either grew faster or did not decline to the extent as the investment in physical capital. This characteristics of aggregate investment in KBC may depend partially on the nature of the expenditures measured, primarily wages, which tend to be stickier than other forms of business expenditures.

Expenditure in higher education in OECD countries reached 1.63% of GDP in 2011 as compared to 1.30% in 2000. In Canada, the United States and Korea, this share rose above 2.5%, while it remained below 1.5% in most countries. From 2003 to 2013 the R&D intensity of the OECD area increased slightly from 2.1% to 2.4 of GDP. This aggregate represents the combined outcome of highly heterogeneous country paths in terms of intensity of R&D investment and investment in basic and applied research versus experimental development. Economies such as Korea, Estonia, Slovenia and Portugal experienced an increase in R&D intensity comparable to that of China's. Some of the fastest-growing economies in R&D intensity also displayed a high orientation towards experimental development.

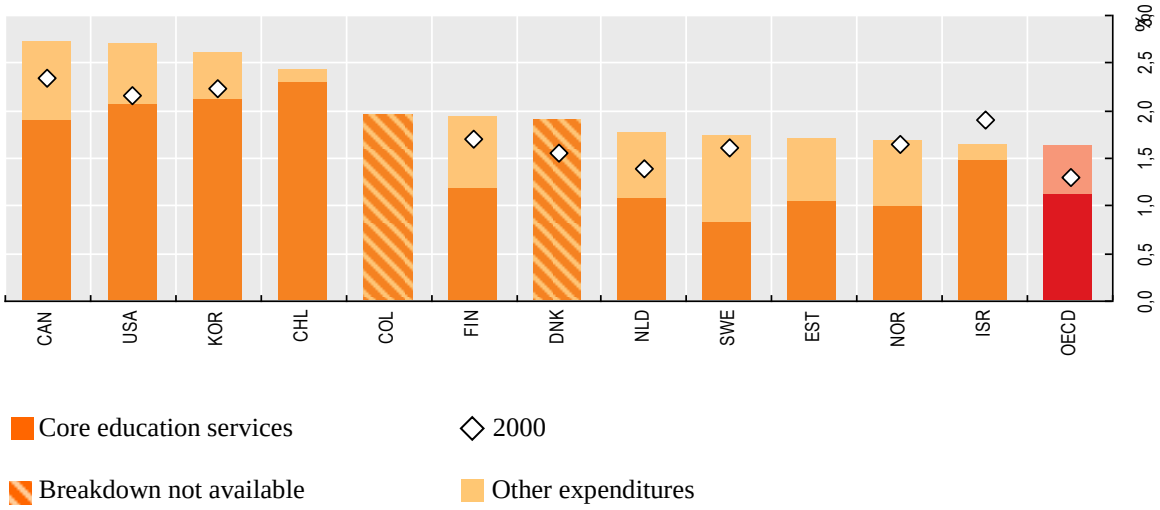

Figure 1. Spending on higher education, 2011 as a percentage of GDP [8].

Investments in the sphere of education have proved to be proper, because the reversible effect is seen. These are those countries, which are the leaders in the amount of GDP in the world. That is, the investments in education are justified for both the country and the individual, and the rates of profit are different for different countries, which are testified by the data on Table 2.

Table 2

Profit rate for a person with University degree*

Country	Profit rate, when a person took University degree after completion of the secondary school, %		Profit rate, when a person took University degree at the age of 40, %	
	for the state	for the person	for the state	for the person
Belgium	15,0	12,98	10,0	24,08
United Kingdom	14,9	18,21	7,4	13,16
Denmark	7,4	8,21	2,2	11,30
Korea	15,5	13,56	12,3	21,34
Norway	9,7	13,89	4,4	15,77
USA	13,6	13,73	7,8	11,33
Hungary	15,9	18,79	12,5	22,23
Finland	12,4	16,33	9,7	14,74
Switzerland	6,1	9,90	- 0,4	15,77
Sweden	6,9	8,57	2,7	9,33

*Compiled by the author basing on [8].

While analyzing the data from Table 2 it should be stressed, that the profit rate from the investments in education is high enough for both the country and the individual. In some cases it exceeds the average profit rate for the industrial enterprises. Such type of investments is reasonable in all aspects, as they always contribute to economic and social advantages.

Figure 2. Which degrees give the best financial returns? [14]

The economies of the rich world increasingly depend upon skilled workers, and college degrees are in high demand. In 1972 a university-educated man aged 25-34 could expect to earn 22% more than a peer without a degree, according to the Urban Institute, a think-tank. Today that premium has risen to 70%. But if university pays, its benefits are not spread evenly across all graduates. A new report from PayScale, a research firm, calculates the returns to higher education in American universities. Its authors compare the career earnings of college graduates with the present-day cost of a degree at their alma maters after taking account of financial aid. Top universities may be growing ever more selective, but the returns on a college degree depend far more on field of study than the choose of the university itself, the report says. Engineering and computer-science students earn most, achieving an impressive 20-year annualised return of 12% (the S&P 500 managed just 7.8%). Engineers were also least dependent on institutional prestige: graduates from less-selective schools experienced only a slight decrease in average returns. Business and economics degrees also pay well delivering a solid 8.7% average return. Courses in arts or the humanities may pay intellectual dividends but provide more mixed economic returns. Students concerned about their financial outlook should worry less about their school's rank and spend more time brushing up on maths.

Other scientists note that according to the calculation of European countries the correlation of the expenses for education and resulted economic effectiveness is 1:4, the labour efficiency of the professional with higher education exceeding in 10-11 times the expenses for his training [12].

While analyzing the works of foreign scientists relating to the problems of economic effectiveness of higher school, three main groups of them can be distinguished.

The first group aims to measure the correlation between the data of general level of the education development and those specifying the dynamics of economy as a whole. Such approach makes possible to judge about the extent of relation of education with the rate of economic growth in different countries.

For example, American scientist E. Kohn demonstrates strong correlation relation (k=0,96) between the national income per capita and expenses for education of one person in 17 different countries. The researches of the Holland Institute of Economics have calculated, that in 23 different countries according to their economic development, every 1,038 % increase in the structure of the labour power of workers with higher education and 0,65 % increase of workers with secondary education caused the increase by 1 % of the national income. Analyzing the relation between education and economic growth in 25 large countries of the world American expert in the field of economic history Easterling has interpreted the conclusion, that modern economic growth is caused usually by the potential knowledge of population and its motivation, the background of which is education [1].

The second group of investigations, the founder of which is T. Shultz, makes possible to find the extent of the education effect on the amount of the national income. Direct contribution of education in the economic growth, according to the Shultz method, equals the part of the national income spent for education in the running year multiplied by the rate of investment effectiveness in the human capital. According to T. Shultz the development of the system of education in the USA within the period from 1929 till 1957 has provided the increase of the national income by 21 % under outcomes rate 11% [3].

Taking advantage of the Shultz method the American economist R. Solow found, that owing to the investments in education the national income of the USA during 1957-1982 has increased by 13 % [1].

Sufficient difference of the third group of investigations initiated by E. Dennison is that education is treated as independent, individual factor of production. Economic importance of education itself from the point of view of this group of investigators lies in its effect on the improvement of the quality of the labour power. According to the educational structure of the labour power and salaries of people with different levels of education E. Dennison has found, that contribution of education in the increase of the national income of the USA within the periods from 1909 till 1929 was by 12 %, from 1929 till 1957 by 23 % [3].

Taking advantage of the Dennison method, calculations for different countries of the world have been carried out. During the period from 1970 till 1985 the contribution of education in the annual economic growth of Germany was 2 %, in Japan – 3,3, in Netherland – 5, in France – 6, in Italy – 7, in Great Britain – 12, in Argentina – 16,5 % [5].

Investigation of the education effectiveness from the point of view of its effect on the economic growth is of great practical importance, because of the fact, that, firstly, it determines the sources and factors of the economic growth, secondly, promotes the maximal distribution of resources between different spheres, thirdly, explains the distribution of incomes in the society, fourthly, affects the behavior of the educational services consumers as the investors of the education system.

Thus, the economic effectiveness of education is sufficient enough and demonstrates itself differently, depending on the level of its application. As for the individual person the effectiveness of education can be defined by the amount of salary or other incomes, which he gains owing to his education; as for the separate enterprise the effectiveness of education manifests itself in the raise of its incomes; as for the state – gaining the increase of the national income.

E. Becker investigated the economic effectiveness of education dealing with a individual person. He has found the income gained from higher education, taking advantage of the method, according to which from the eternal revenue of those, who graduated from colleges, he subtracted the eternal revenue of workers, who finished only secondary school. In the expenses for education E. Becker specified "lost income", that is, the income, which was not obtained by the students during their years of study, which, in fact, measures the value of students' time lost for creation of their human capital. Comparison of expenses for education and its advantages makes possible to calculate the profitableness of investments in a person. According to the Becker's calculations in the USA the profit from higher education is 10 – 15 % and it even exceeds the profit value of some companies [3].

Academician S. G. Strumilin has developed the method of calculation the economic effectiveness of expenses for education within the whole society. In his work on the human capital he proved the capital expenses of the state for schooling to be justified within the first 1,5 year. During the next 35 years the state interest rate is 73 % annually, none of the banks has such interest rate, and none of the companies pays such dividends for shares.

Education, especially higher education is a basis of science and research. Investment in education, research and development (R&D), and new information and communication technologies (ICTs) is a key for innovation and technology development and long-term growth. These knowledge-based assets complement one another and function as key elements of the infrastructure allowing today's knowledge-based economies to address contemporary challenges, including health and inequality.

In addition, Table 3 presents of the ranking of countries in size of GDP and the volume of their high-tech exports. As it is seen, the countries which invest education are not only the countries with the greatest GDP, they are leaders in the volume of the high-tech exports.

Table 3

Ranking of countries in size of GDP and the volume of their high-tech exports (2013) *

Ranking of countries in size of GDP according to the World Bank	Countries	Size of GDP (millions of USD)	Volume of high-tech exports (millions of USD)
1	USA	16 195 000	148 772
2	China	13 568 097	505 645
3	Japan	4 798 154	122 047
4	Germany	3 266 556	183 354
5	Brazil	2 454 652	8 121
6	UK	2 408 589	59 446
7	France	2 296 032	99 735
8	Italy	1 829 750	26 365
9	Russia	1 593 770	5 193
40	Singapore	344 700	128 239
54	Ukraine	341 026	1 441

*Compiled by the author basing on [15].

Proper funding and development of higher education results not only economic growth, but in the social effect too. Countries, which are in the first 10 top of national systems of higher education are also in the ranking of countries in the quality of living standards according to the UN data.

Table 4

Ranking of countries in quality of living standards*

Ranking of countries	Country
1	Norway
2	Australia
3	Iceland
4	Canada
5	Ireland
6	Netherlands
7	Sweden
8	France
9	Switzerland
10	Japan

*Compiled by the author basing on [11].

Besides, "to establish the proper system of education the change of social conditions is needed from one side, and from the other, in order to change the social conditions a corresponding system of education is needed" (K. Marx).

To interpret the dialectic interrelation between the level of education of the society and the main social-economic factors of the state development – life expectancy at birth, crimes recorded and average wages, let us calculate correlation coefficients according to the formula:

$$r = \frac{\overline{XY} - \overline{X} \cdot \overline{Y}}{\sigma_X \cdot \sigma_Y}, \qquad (1)$$

where $\overline{XY} = \frac{\sum mXY}{\sum m}$; $\overline{X} = \frac{\sum mX}{\sum m}$;

$\overline{Y} = \frac{\sum mY}{\sum m}$;

$$\sigma_x = \sqrt{\frac{\sum (X - \overline{X})^2}{n}}; \quad \sigma_y = \sqrt{\frac{\sum (Y - \overline{Y})^2}{n}},$$

where r – linear correlation coefficient;
n – number of units in the series;
m – frequency;
X – individual (personal) values of the factor determinator;
Y – individual (personal) values of the resultant determinator.

The value of the correlation coefficient varies within «-1» – «+1». If the correlation coefficient equals 1, the relationship is functional, if it equals zero (0) – the relationship is not available. The strength of the relationship is estimated according to the scheme:

1) r = 0,1 – 0,30, insufficient relationship;
2) r = 0,30 – 0,70, medium r relationship;
3) r = 0,70 – 0,99, sufficient r relationship.

The results of calculations are presented on Table 5. Primarily data from the World Bank were used as initial data for calculations.

Table 5

Correlation coefficient (R) *

Indicators	Life expectancy at birth, years	Average wages, US dollars	Crimes recorded by the police
Gross enrolment ratio. Tertiary, %	0,969302	0,957654	*
Number of students in tertiary education per 100000 inhabitants	*	*	-0,4474

*Compiled by the author

Basing on the analysis of equations of three regressive models built on the options of the Europe countries, Ukraine in particular, we may conclude, that there is a direct sufficient relationship between the Gross enrolment ratio in tertiary education and Life expectancy at birth and Average wages.

When Gross enrolment ratio in tertiary education increases, Life expectancy at birth and Average wages increase too. The values of determination coefficients (R^2 = 0,9395 and R^2 = 0,9171 relatively) testify, that the growth of Life expectancy at birth by 93,95 % is caused by the growth of Gross enrolment ratio in tertiary education. The growth of Average wages by 91,71% is caused by the growth of Gross enrolment ratio in tertiary education.

The relationship between Number of students in tertiary education per 100 000 inhabitants and Crimes recorded by the police is medium retroactive – the growth of Number of students in tertiary education causes the decrease of Crimes recorded by the police. Determination coefficient (R^2 =0,2002) shows the decrease of Crimes recorded by the police in 20,02% of cases.

Education may have a direct impact on health behaviors and outcomes in that through education, individuals can learn to choose healthier lifestyles and avoid behaviors that are detrimental to health. Education may also indirectly affect health since those with higher levels of education are more likely to earn more and be able to afford better health care and lifestyles.

Conclusion. Knowledge as the result of educational activity, is transformed into technologies and products of the science-based production, promotes the increase of labour efficiency, decreases the material and energy-consuming, raises the competitiveness of the social production, accelerate the rate of accumulation of the social profit, changing the motivation of the labour activity, thus being the factor of post-industrial economic growth. Intellectual capital is able to bring the highest profit for every unit of additional investment, providing not only the high profitableness of the production and reliable competitive advantages in the world markets, but creating the background of the strategic profit for innovative investments. Thus, the development of higher education is very important for future economic and social growth of each country.

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Prof DU HONG WEI
Professor of Philosophy, China
duhongwei1717@163.com

VIEWING THE INFLUENCE OF MICROSCOPIC BEHAVIORS OF MODERN SOCIETY ON CHINESE MACROECONOMY FROM CULTURAL PERSPECTIVE

从文化视角看现代社会微观行为对中国宏观经济的影响

杜宏伟

Abstract

The macroscopic behaviors of social groups are controlled by cultural concept and have great influence on macro-economic development. The group behaviors lacking legal restraint and ethnical awareness could form unstable social factors. Its negative effect will impede social progress. Modern international exchange and internet communication technology provide amplification mechanism for the influence of microscopic behaviors. Microscopic behaviors have multiple attribute, thus understanding microscopic behaviors of different groups from cultural perspective could facilitate the further understanding about China social reality and deepened understanding of the formulation and implementation of micro-economic policies. The establishment of the effective mechanism of converting microscopic behaviors to social values has significant reality and urgency.

Key words: *microscopic behaviors, macro-economy, socially disadvantaged groups, family interests, internet behaviors, international exchange, spiritual values.*

论文提要：

社会群体的微观行为受文化观念支配，对宏观经济发展有巨大影响力，缺少法律约束和道德自觉的群体行为能够形成社会不稳定因素， 它的负面作用会阻碍社会进程。
现代国际交流和互联网传播技术为微观行为的影响力提供了放大机制。微观行为具有多元属性，从文化观念角度了解不同群体的微观行
为有利于深入了解中国社会现实、加深理解宏观经济政策的制定和执行。建立微观行为转化为社会价值的有效机制具有重要的现实性和紧迫性。

关键词：*微观行为, 宏观经济, 社会弱势群体，家庭利益，互联网行为，国际交流，精神价值观，*

The relation between microscopic behaviors of disadvantaged groups and macro-economy.

We call the expression process of behaviors of social groups and individuals in micro-level as microscopic behaviors. Microscopic behaviors exist in different social groups. The microscopic behaviors of disadvantaged groups have closer relation with social reality.

Disadvantaged groups in Chinese society mainly include farmers, ordinary workers, unemployed groups, retirees, the disabled and needy families, accounting for about 65% in total population. They mainly engage in physical or semi-physical work and their economic incomes are far lower than average social income level. In the early stage of China's reform and opening up, disadvantage groups are main sources of cheap labor force. They make great contribution for city construction and are also the advantage of Chinese industry to attract foreign investment. However, in recent years, along with the improvement of technicalization and intelligentization of industrial production, ordinary workers in traditional industries become unemployed due to the inadaptation to modern occupational technical requirements. Before Chinese society entering to industrialization, most members of those disadvantaged groups are subsistence farmers. Their spiritual world still has farming cultural trace, which is emphasizing blood relationship, underestimating laws, advocating power and influence, and lacking sense of discipline and independent personality.

The great majority of people in disadvantaged groups cannot enjoy social welfare. They mainly rely on the hardworking of families and themselves to survive, thus they would give priority to protecting family interests when there is conflict between social benefits and family interests. In the society with extreme disparity between the rich and the poor, many rich people do not become rich by creating value for the society, thus disadvantaged groups have the psychology of the hatred against the rich generally. This kind of attitude is reflected in various social work they do for making a living and the fake and shoddy products processing and fake commodities trading process. They ignore social morality for economic interests. Social physiology believes the groups are more likely to make risk-taking behaviors than individuals, as the risk-taking responsibility of individuals will be taken by all people. Therefore, the radical thinking of disadvantaged groups can be easily converted to extreme actions. Disadvantaged groups are groups marginalized by mainstream society and their

弱势群体的微观行为与宏观经济的关系：

我们把社会组织和个人的行为在微观层面的表现过程称为微观行为。微观行为存在于不同的社会群体中，其中，弱势群体的微观行为与社会现实有更紧密的关系。

中国社会弱势群体主要包括农民、普通工人、失业群体、退休人员、残疾人和贫困家庭，大约占人口总数的65%左右。他们主要从事体力或半体力劳动，经济收入远远低于社会平均收入水平。在中国改革开放初期，弱势群体是廉价劳动力的主要来源，他们为城市建设贡献了巨大力量，也是中国 工业生产吸引外资的优势。但近年来随着工业生产的技术化、智能化的提升，传统工业中的普通工人因不适应现代职业技术的要求而失业。在中国社会进入工业化之前，这些弱势群体成员大部分是自给自足的农民。他们的精神世界仍然带有农耕文化的印痕：注重血缘关系、轻视法律、崇尚权势、缺乏纪律性和独立人格。

弱势群体中绝大多数人不是社会福利的享受，他们的生存主要靠家庭和自身的努力，因此，在社会利益与家庭利益对立时他们首先维护家庭利益。在贫富悬殊的社会，很多富人不是通过为社会创造价值而致富的，因此，弱势群体普遍带有仇富心理。这种心态体现在他们为谋生而从事的各种社会劳动中，体现在伪劣产品加工和假冒商品贸易过程中，为经济利益而不顾社会道德。社会心理学认为：群体比个体更容易作出冒险行为，因为个体的冒险责任会落到全体，所以，弱势群体中的偏激思想容易转化为极端行动。弱势群体是被主流社会边缘化的群体，他们的行为在客观上也具有无政府主义倾向。目前，中国各级政府不组织也不批准大型群众集会和

behaviors have anarchism tendency objectively. At present, governments at all levels in China neither organize nor approve any large mass meeting or parade or celebration activity.

游行庆典活动。

Due to the increase of unemployment rate, most people in disadvantaged groups seek a living by engaging in business deals. According to the definition of traditional economy, the business transaction is completed as both parties can get benefits. Otherwise, there would be no transaction. However, in the commodity transaction made by individual traders, at least one part is the victim or even both parties are victims and social benefits are harmed. For instance, in the common public transaction, the seller sell a commodity at a low price, which is a bad bargain comparing with market price, and the buyer gets an inferior product and doesn't get the use value of the product. The legal dispute and decline of public trust incurred thereof harm the whole society. However, why the transaction can be continued to be made? Main reason is the seller operates himself, the salary cost is saved and as the product is a fake product, there is no product design cost. Besides, the tax evasion and cheap land rent save operation cost for the seller, thus the seller can still get benefits even the product is sold at a very low price. The buyer emphasizes the low price of the commodity and thinks it is cheap. However, in the society with strict laws, the seller needs to pay high cost for this kind of behavior. As this kind of behavior is common, law enforcement departments seldom punish this kind of transaction behavior according to laws and buyers are made become illegal beneficiaries. Although this kind of operation mode becomes social harm, if their operation right is cancelled, the society cannot afford this huge group. In this way, disadvantaged groups become the negative asset of population resource, but their transaction behaviors mainly take place within the groups and seldom involve high consumption groups. As elite class will not go to cheap stores for shopping, disadvantaged groups are main victims of their own behaviors.

由于失业率上升，弱势群体中大部分人通过经商谋生。 按照传统经济学定义，商业交易的完成是因为双方都能获得利益，否则，交易不会发生。但个体商贩从事的商品交易至少有一方是受害者，甚至双方都受害并伤及社会利益。如：常见的大众交易中，卖方低价出售商品，与市场价格相比是赔本交易，而买方得到的是劣质产品，没有获得产品的使用价值。而由此产生的法律纠纷、公 信度下降让全社会受害。那为什么交易会继续呢?主要原因是卖方自己经营可以省去工资成本，因造假而没有产品设计成本，逃税和廉价场租使他们节省经营成本，因此，虽然出售的产品价格很低，但仍有利益。
而买方是因看重了商品的低廉价格，以为便宜。
但是，在法律严格的社会，卖方这种行为是要为此付出高额代价的。但由于这样的行为很普遍，执法部门对这种交易行为很少依法处罚，使卖方成为不合法的受益者。虽然这种经营模式成为社会公害,但如果取消他们的经营权，社会又养不起这个庞大的群体。这样一来，弱势群体成为人口资源的负资产。但他们的交易行为主要发生在群体之内，很少涉及高消费群体，精英阶层不会到廉价商店购物。弱势群体是自身行为的主要受害者.

The behavior motives and social functions of disadvantaged groups have pluralistic characteristic and need to be analyzed from multiple perspectives. Psychology holds the opinion that people's social behaviors have conversion feature, that is, it does not take direct object as the objective but to convert to other objectives, such as conversion attack, which is to avoid strong object and attack the object with small threat. For instance, the conflict with company boss is converted to the attack to employees, the pressure from family is converted to the hatred to society, some political bias is converted to ethnic

弱势群体的行为动机和社会功能具有多元化特点，需要从多种角度加以分析。心理学认为，人的社会行为具有转向性特点，即：不以直接对象为行为目标，而转向其它目标。如:转向性攻击，避开实力强的对象攻击威胁性较小的对象。如：与公司老板的冲突转化为对员工的攻击，来自家庭的压力转化为对社会的怨恨，某些政治偏见转化为民族冲突等等，一些社会暴力

conflict, etc. The victims of some social violent incidents are not the direct causes of the incidents.

事件的受害者并不是事件的直接原 因。

As disadvantaged groups are social products, the society need to take responsibility for their behaviors and pay for mass ignorance and poverty. The fertility worship in farming culture makes Chinese people, especially disadvantage groups, have strong desire to bear children, but the thought of preference of boys to girls bring about selective fertility issue. For instance, lots of families go to medical institutions to check the gender of fetus and even lots of baby girls are abandoned in rural area, which lead to serious gender imbalance in the society: male-female ratio in large Chinese city, such as Chongqing, is 140:100 and the average male-female ratio in China is 120:100. Currently, the male is 20,000,000 more than the female in the population under 20 years' old, and the male is nearly 40,000,000 more than the female in the population of the whole country. This kind of phenomenon will also affect the marriage, family and population structure in future society and form new social issues.

但毕竟弱势群体是社会的产物，社会要为他们的行为负责，为民众的愚昧和贫穷买单。. 农耕文化中的生殖崇拜使中国人尤其弱势群体有强烈的生儿育女的愿望。而重男轻女思想又带来选择性生育问题，即：很多家庭到医疗机构为未出生胎儿作性别检查，甚至在农村出现许多弃女婴事件。这造成社会男女比例严重失调：中国大城市如重庆地区男女比例为140：100. 全国平均在120：100。目前20岁以下人口中男性比女性多出2000万，全国男性人口比女性多出近4000万。这种现象又会影响到未来社会的婚姻、家庭和人口结构，形成新的社会问题。

Besides, the juvenile delinquency from poor families is also a serious social issue. In accordance with the data released by China's Supreme Court in recent years, most criminal juveniles come from poor families. Lack of education and stepping into the society too early is one of the reasons to make them become criminals. The losses incurred to the society by their crimes and the fund put into by judiciary authorities are sufficient for their life and education. Only speaking from economic cost perspective, the management of the causes for committing crimes is more important than punishing crimes. At present, there are 30 million teenagers who have reached legal admission age but are not in schools and have no job, among which, 1.15 million teenagers have "misbehaviors or serious misbehaviors". In case the society does not pay attention to their present situation, their future will certainly become social disaster.

此外， 来自贫困家庭的青少年犯罪也是严重的社会问题。据近年中国最高法院公布数据,犯罪青少年大部分来自贫困家庭。缺少教育和过早走入社会是他们成为罪犯的原因之一。他们的犯罪给社会造成的损失和司法机关的经费投入足够他们的生活和教育所需。仅从经济成本的角度说，治理产生犯罪的原因比惩治犯罪更重要。中国目前有3000万达到法定入学年龄但又不在学、无职业的青少年，其中"有不良或严重不良行为"的青少年115万人。如果社会不关注他们的现在，那他们的未来必然成为社会的灾难。

As expressed in *Declaration of the Rights of Man and the Citizen* "civilized society has the responsibility exceeding economic interests and ethnic differences to every member". U.S. President Roosevelt once said "one of the obligations of the country is to take care of those citizens who are hard to survive under adverse situation without the help of others—the government must provide aid to those unfortunate citizens". However, in Chinese society, the livelihood issues that are supposed to be undertaken by the government are mainly solved by the disadvantaged groups themselves. For instance, the aged population issue in rural areas. There are

正如<<人权宣言>> 所表明的：文明社会对每一个成员有超越经济利益和民族差别的责任。美国总统罗斯福也说过："国家的义务之一是要照顾那些在逆境下如无别人照顾即难以为生的公民—政府必须给这些不幸的公民予以援助"。但中国社会中这些本应由政府负担的民生问题主要由弱势群体自行解决的。如：农村老年问题。中国的老年人口接近2.12亿

nearly 212 million aged populations in China, but the government could not undertake all old people supporting problem, especially in rural areas, only 4.2% old people could get pensions and more than 40% old people still need to maintain the life by working. The thought of filial duty in traditional culture holds the opinion that looking after old people is the obligation that should be fulfilled by children or other family members and is supervised by morality and law. It makes the economy required for looking after old people become a family issue. The cultural activities carried out by communities in each city also enrich the spiritual life of old people and relieve the loneliness of old people.

人。但政府还不能负担全部养老问题。尤其农村，只有4.2%老人可以领到养老金，40%以上的老人仍要通过劳动维持生活。传统文化中的孝道思想认为：抚养老人是子女或其他家庭成员的应尽义务，并受到道德和法律的监督，这使养老所需的经济问题成为家庭问题。各城市社区开展的文化活动也丰富了老年人的精神生活，缓解了老年孤独问题。

The influence of microscopic behaviors in internet on Chinese economy.

Internet brings new living style and working pattern for Chinese people. The emergence of WeChat adds a new commercial mode. Micro business is a commercial mode with the fastest development and has low threshold, as only one mobile phone would be enough for joining in. At present, 600 million people in China have smart phones and 540 million people therein have WeChat and WeChat business is established with more than 200 countries. The WeChat public numbers of various brands in the whole country are more than 8 million, users using WeChat payment have exceeded 400 million and the number of people having consumption in WeChat has exceeded 80 million. In 2015, mobile shopping amount had exceeded USD 1.6 trillion and WeChat transaction volume had exceeded USD 25 billion.

互联网中的微观行为对中国经济的影响

互联网为中国人带来新的生活方式和工作形式。尤其微信的出现增加了新的商业模式。微商是发展最快的商业模式，微商门槛低，只要有一部手机就可以加入。目前中国有6亿人拥有智能手机，其中有5.4亿人有微信,同200多个国家建立微信业务。全国各种品牌的微信公众号有800多万个。微信支付用户超过4亿。在微信中消费的人超过8000万。2015年移动购物额超过1，6万亿美元，微信成交额超过250亿美元。

The internet makes Chinese mass have the right of speaking. Although they do not have the right to elect officials, they can force corrupt officials to be ousted by click rate. Meanwhile, internet also provides an important channel for mass consumers to supervise enterprise behaviors. Due to the rapid development of internet industry, computer virus, some hidden functions of smart phones, dispersion of terrible information by using internet, telecommunication fraud act and so on happen occasionally. According to the introduction of Legal Evening News, the losses incurred by telecommunication frauds in China in each year exceed USD 1.5 billion and most criminals operate outside of the country. In each year, there are millions of individual, group and national intelligence leakage events and hundreds of thousands of internet users are attacked by hackers. In order to maintain internet safety, lots of national financial budgets are consumed. Meanwhile, the economic disputes incurred during online transaction process, the invasion of personal privacy by big data

互联网让中国大众有了话语权，虽然他们没有选举官员的权力，但可以通过点击率迫使贪官落马。同时互联网也为大众消费者提供了监督企业行为的重要渠道。由于互 联网行业的快速发展，计算机病毒、智能手机的某些隐性功能、利用互联网散步恐怖信息、电信诈骗等行为时有发生。据法制晚报介绍，中国每年因电信诈骗损失超过15亿美元，作案者多在境外操作，每年有上百万次的个人、集体和国家情报泄密事件，有几十万互联网用户遭到黑客攻击。
为维护互联网安全安全也消耗了大量国家财政预算。 同时，网上交易过程中出现的经济纠纷、大数据运作对个人隐私的侵犯等问题还没有相关的法律界定。

operation and other problems have not yet been defined by relevant laws.

Modern virtual reality technology is entering to every professional field. This kind of imperceptible technical revolution makes industrial production become more intelligent and also makes China gradually lose population advantage and cheap labor force advantage. It makes the traditional mode of Chinese macro-economy have to accept the internet thinking and intelligent technology challenge.

现代虚拟现实技术正进入各个专业领域，这种潜移默化的技术革命让工业生产更加智能化，也让中国逐渐失去人口优势和廉价劳动力优势。使得中国宏观经济的传统模式不得不接受联网思维和智能技术的挑战。

It's worth noting that Taobao, Alibaba, Sina and other Chinese internet companies are mostly foreign holding companies. These companies have formed internet industrial monopoly and become large money drawing companies. Meanwhile, the internet sales carried out by them make large batch of physical stores and traditional commercial institutions close down. The shopping mode of direct delivery from manufacturers to users simplify lots of intermediate links and also make lots of due joy of life is lost in shopping process. In the shopping process, the participation of other industries increase urban life and people's existence value and has the significance exceeding product itself. Internet sale is the newborn of business operation, but is the social freak in philosophical significance. It will not be left unrestricted and uncurbed in the rational society. Just as believed by some magazine in U.K, the Jack Ma style's internet marketing is the failure of the society.

值得注意的是，淘宝、阿里巴巴、新浪等中国互联网公司大都是外国控股公司，这些公司已经构成互联网的行业垄断，并成为巨大的吸金猛兽。同时，他们推行的互联网销售使大批实体店和传统商业机构倒闭。从厂家直接快递到用户的购物方式简化了许多中间环节，也让购物过程失去了许多应有的生活乐趣：购物过程中其它行业 的参与增加了城市生活和人的存在价值，具有超越产品本身的意义。互联网销售是商业运营的新生儿，但却是哲学意义上的社会怪胎，在理性社会里是不会任其泛滥的。正如英国某家杂志认为：马云式的互联网营销是社会的失败。

However, the open mind of the internet and the democratic spirit of free public participation have social progress significance. For instance, the "Didi" taxi software appeared in recent years in China . They absorb lots of private cars to participate in the operation, which breaks the monopoly of taxi industry and introduces fair competition to traditional industry. The two-way selection between customers and taxi owners and the negative feedback mechanism create democracy and supervision integrated model. A kind of social mode that cannot be prompted in politics appears in the taxi industry in the whole country. It is an indistinguishable social revolution.

但互联网的开放思维和大众自由参与的民主精神有社会进步意义。如：中国近几年出现的"滴滴打车"出租车软件。他们吸收私家车参加运营，打破了出租车行业的垄断，把公平竞争引入到传统行业中。顾客和出租车主之间的双向选择和差评机制创立了民主与监督相结合的样板。一种在政治上不能推广的社会模式出现在全国出租车行业。这是一种不易觉察的社会革命。

Microscopic behaviors in international exchange and their macro-significance.

The international cooperation in economic and trade field makes British and American culture is widely transmitted in China and the younger generation becomes more and more Europeanized from artistic concept to lifestyle: from liking American movies and basketball to liking American politics and liking

国际交流中的微观行为和它们的宏观意义：

经济、贸易领域中的国际合作使英美文化在中国广泛传播，青年一代从艺术观念到生活方式越来越欧化：从喜欢美国电影、篮球到喜欢美国的政治，喜欢接受美国的

to accept American education till controlling their own social behaviors with American values. Lots of experts and scholars in China's economy, finance and technology field get their academic degrees from Europe and U.S. The elite class in China also keen to sending their children to study in Europe and U.S. Although China does not implement dual nationality system, the majority of celebrities in entertainment business hold the passports of European and U.S. countries. The elite class in China keeps more and more close relation with Europe and U.S. in cultural concept and ideology, which influences the behavioral pattern and spiritual value of mainstream society.

教育，直到用美国的价值观支配自己的社会行为。
中国经济、金融和科技领域中有大批专家学者是从欧美获得学位的。中国精英阶层也热衷送子女去欧美读书。虽然中国不执行双重国籍制，但大多数演艺圈名人持有欧美国家护照。中国的精英阶层在文化观念和意识形态上与欧美保持着越来越紧密的关系，并影响到主流社会的行为方式和精神价值观。

We don't know since when Chinese people have get used to celebrate Western holidays, such as Christmas, Easter, Valentine's Day, April Fool's Day and Thanksgiving Day. More couples select to get married in the church. Lots of advertising languages and social languages are filled with English vocabularies. Although China is the country with tea culture, young people take drinking coffee or red wine as a fashion. In Shanghai , there are only several hundreds of Chinese tea houses, but the western style coffee shops have exceeded 4000 and the annual coffee consumption grows as per 15% rate.

不知从何时开始，中国人已习惯过西方的节日了，如：圣诞节、复活节、情人节、愚人节、感恩节等，有更多的情侣选择到教堂结婚，英语词汇充斥各种广告用语和社交语言中。虽然中国是茶文化之乡，但青年人更以喝咖、喝红酒为时髦。在上海中式茶馆只有几百家，而西式咖啡馆已超过4000家，咖啡消费每年以15% 的速度增长。

If the prevalence of coffee only represents the change of consumption habit, the prevalence of Western art thinking and cultural concept is changing the world value of Chinese people from spiritual level. For instance, pop art, dadism, expressionism and abstractionism artistic ideological trends change the cultural concept and creation attitude of Chinese artists. From the 1980s, anti-classics, anti-tradition and anti-rationalism artistic movement started to rise. Irrationalism and cultural nihilism bring about aesthetic consciousness confusion, pseudo art and abnormal art spread unchecked, and modern artist groups with low intelligence are created through speculation and auction means. The retarded consciousness in modern art and childish attitude in language culture are made become fashion and the populace's aesthetics is led to the wrong path. This kind of cultural nihilism is reflected to other social behaviors, such as identical modern urban architecture style, excessive pursuit of luxury and absurd and lacking national features. Due to the improper design, some buildings are criticized by people in the country just after being completed, such as National Opera House spherical architecture in Beijing , CCTV giant underpants, etc.

如果咖啡的流行只代表消费习惯的改变，那西方艺术思维和文化观念的流行则在精神层面改变着中国人的世界观。如波普艺术、达达主义、表现主义和抽象主义艺术思潮改变了中国艺术家的文化观念和创作态度。从上世纪八十年代起兴起反古典、反传统、反理性的艺术运动。非理性主义和文化虚无主义带来审美意识混乱，伪艺术和变态艺术泛滥，通过炒作和拍卖手段造就了现代低智商的艺术家群体。使现代艺术中的弱智意识和语言文化中的幼稚心态成为时尚，把大众审美引入歧途。这种文 化虚无主义折射到其它社会行为中。如：现代城市建筑风格雷同，过度追求奢华和荒诞，缺少民族特色，有的建筑由于设计不当，刚建完就引起全国民众的批评，如;北京的国家歌剧院球形建筑，中央电视台内裤式大楼等等。

This kind of cultural awareness immaturity is also reflected in economic cooperation, such as the

这种文化意识的不成熟也体现在经济合作中。例如:中国从美国引进的转基因项

transgene program introduced from U.S. by China . As the transgenic crops prompted by American company have the performance of preventing insect pests and improving productivity, Chinese farmers plant in large area, including soybeans, rice, corns, papaya, etc. However, the safety of transgenic food is questioned by scientific community and cause social panic and indignation of the public. Whether transgene is safe or not, it is a fact that due to the large number of planting of transgenic crops, some traditional crops are being replaced. Chinese farmers must purchase seeds from American company to continue to plant. The key of the problem is if American company rejects to supply seeds someday, China will face food crisis and will be destroyed in the war of a seed. Although transgenic food brings threat to social safety, American company and scholars of relevant parties get benefits from it.

目。因美国公司推广的转基因作物有防虫害提高产量的性能，中国农民大面积种植，如：大豆、水稻、玉米、木瓜等。但转基因食品的安全问题遭到科学界质疑，引起社会恐慌和公众的愤慨。无论转基因是否安全，有一点已成事实:由于大量种植转基因作物，一些传统农作物正被替代。中国农民必须从美国公司购买种子才能继续种植。问题的关键是：如果有一天美国公司拒绝提供种子，那中国将面临粮食危机，会毁在一粒种子的战争中。尽管转基因食品给社会安全带来威胁，但美国公司和有关方学者却从中获得利益。

The microscopic behaviors in some diplomatic activities disclose important political views, for instance, the “non-necktie” meeting between some heads of states and the Defense Minister wearing no uniform. The statements and actions of diplomatic officials are often especially cryptic: in 2014, when U.S. Secretary of State Kerry visited Russia , he gave Lavrov a tomato and a potato, but in 2015, when Lavrov visited U.S. , he returned a basket of potatoes and a basket of tomatoes as gifts. We know that potato in U.S. represents big stick while tomato represents carrot. The meaning transmitted by Kerry is U.S. would insist on “carrot and stick” diplomatic policy and continue to implement economic sanction to Russia . The meaning transmitted by Russia is we have good harvest and are not afraid of sanction. Those microscopic behaviors with cold war meaning are hard to be understood without cultural background.

某些外交活动中的微观行为透露着重要的政治主张。如;某些国家首脑间的“不打领带”的会晤，不穿军装的国防部长。尤其外交官的言行常常是非常隐讳的：2014年美国国务卿克里访问俄罗斯时，送给拉夫罗夫一个西红柿和一个土豆，而2015年拉夫罗夫访问美国时回赠的礼物是一篮土豆和一篮西红柿。我们知道，美国的土豆代表大棒，西红柿代表胡萝卜。克里释放的意思是:美国将坚持‘胡萝卜加大棒’的外交政策，继续对俄罗斯实施经济制裁。而俄罗斯释放的态度是：我们的收成很好，不怕制裁。这些带有冷战意思的微观行为离开文化背景是难以理解的。

The restriction of microscopic behaviors in macro-mechanism on economic development.

宏观机制中的微观行为对经济发展的制约

The management science believes the decision making without executive force has no practical significance. The reality in Chinese society shows the implementation of macro-policies often fails due to the fault in microscopic link. Taking Chinese official circles and current situation of education as examples, some proper industrial policies could not be successfully implemented due to the inaction and corruption of administrative officials. In recent years, the action such as officials taking a large sum of money and flee the country also cause direct economic loss to the society. The internal fight for power in dominance hierarchies also make China lose many economic rising opportunities. For instance, the Anti-Rightist Campaign in the 1950s,

管理学认为：没有执行力的决策是没有实际意义的。中国社会事实表明，宏观政策的落实常因为微观环节的失误而失败。以中国官场和教育现状为例，一些合理的行业政策由于行政官员的不作为和腐败而不能顺利落实。
近些年官员携带巨款外逃等行为也给社会造成直接经济损失。而统治集团内部的权力之争，更让中国多次失去经济崛起的机会。如：上个世纪五十年代的反右斗争，六十年代至七十年代的文化大革命等政治

the Great Cultural Revolution from 1960s to 1970s and other political campaigns caused serious damage to the scientific, educational and economic construction in China , which had far exceeded the damage of the Great Purge of the Soviet Union to Russia and Ukraine.

运动，对中国科学、教育和经济建设的严重破坏远远超过苏联的肃反运动对俄罗斯和乌克兰的破坏。

Although Chinese government has been advocating developing education for decades and also increased education investment, but the fault in execution link of the grassroots makes the education situation goes from bad to worse. On the contrary, the huge fund investment provides corruption opportunity. For instance, the bonus system set up for encouraging contributive scholars prompts academic cheating and academic credentials fabrication atmosphere. Blindly advocating university industrialization on the premise of lacking scientific verification damages the due humanistic spirit of education. China is far behind the Western in the aspect of training top talents. Some experts believe economic development needs manufacturing industry. The way out for Chinese manufacturing industry includes two. The first is innovation and the second is refined production, which requires sufficient senior technicians and technical workers.

虽然中国政府几十年来一直在提倡发展教育，并加大了教育投入，但基层执行环节的失误让教育状况每况愈下。巨大的资金投入反而为腐败提供了机会。如：为鼓励有贡献的学者设立的奖金制反而促进了学术造假、学历造假的风气。在缺少科学论证的前提下盲目推行大学产业化，损害了教育应有的人文精神。在尖端人才的培养方面远远落后于西方。有专家认为：发展经济需要制造业。而中国制造业的出路一是创新，二是精致生产，而精致生产需要足够数量的高级技术师和技术工人。

Comparing with the number of colleges and universities, the proportion of vocational technician training schools in China is relatively lower, and the technical talents and technicians are far from meeting the demand of industrial development. At present, among enterprise employees in China , primary workers account for 40% and senior workers only account for 4%. However, in developed countries, senior technicians account for 30%. 60% middle school graduates in Germany select to study in vocational technical schools, but 90% Chinese parents want their children to go to universities. Except going to universities, almost no one among excellent middle school students wants to go to technician training schools to study. Now, China has 2845 colleges and universities and about 28 million students at schools while there is only 3000 technical schools with about 30 million students at schools. The proportion is near to 1:1. According to current industrial development demand in China , the proportion between undergraduates from technical schools and colleges and universities shall be more than 2:1. Now, Guangzhou , Shenzhen and other places cannot find technical workers and in lots of factories, farmers are replacing workers to work. Thus it can be seen that there is still a long way to go to realize modernization of Chinese manufacturing industry.

与高校数量相比中国职业技工学校比例偏低，技术人才和技工远远满足不了工业发展的需求。目前，在我国企业职工中初级工占40%，高级工仅占4%。而发达国家高级技工占30%。德国60%的中学毕业生选择去职业技术学校学习。
但中国90%的家长希望孩子考大学，优秀的中学生除了考大学，几乎没有人希望去技工学校学习。中国现有高校2845所，在校生2800万左右，而技校只有3000所，在校生3000万左右，接近1:1的比例。按照目前中国工业发展需求,技校毕业生与高校毕业生比例不应少于2:1。
现在广州、深圳等地已招收不到技术工人。很多工厂是农民在顶替工人劳动。由此可见，中国的制造业实现现代化路还很长。

If enhancement of education quality and improvement of school structure are the keys to solve insufficient talent problem, the training of professional spirit plays a more important role in deciding enterprise fates. We know the main way out for Chinese economy is manufacturing industry, but no complete national industrial system and mature capitalist group is formed in the history of China , not to speak of enterprise culture and professional spirit. In China , only more than ten enterprises have more than a century of history, but in U.S. , more than 1100 enterprises are more than a century old. In Germany, there are more than 2300 world famous enterprises now and most of them are old brands more than a century old. The key difference between Chinese entrepreneurs and European entrepreneurs is not factory construction but the entrepreneurship spirit and their economic philosophy.

如果说提升教育质量、改善学校结构是解决人才不足问题的关键。那职业精神的培养更决定着企业命运。我们知道中国经济的主要出路在制造业。但历史上中国没有形成完善的民族工业体系和成熟的资本家群体,更谈不到企业文化和职业精神。有百年以上历史的企业中国只有十几家。而美国百年以上企业超过1100家.德国现有世界知名企业超过2300家,其中大部分是百年以上的老品牌.中国企业家与欧洲企业家的关键区别不是工厂的建设,而是企业家的精神和他们的经济哲学。

European entrepreneurs put product performance and social responsibility in the first place while Chinese entrepreneurs always put profits in the first place and take enterprise operation as the means to get rich suddenly. This makes enterprises have two different fates: average life of large American enterprises is 40 years and small enterprises 8 years while average life of large Chinese enterprises is 7 years and small enterprises 2.5 years. In China , 1 million enterprises close down in each year, which has relation with overall market environment, but also has closer relation with their own enterprise culture and the company's behavior of violating social benefits, such as illegal fund-raising, arrears of salary of employees, commercial frauds and so on. Product quality, environmental pollution, unsafe production and tax evasion problems are more common. According to the introduction in *2015 Chinese Entrepreneurs Criminal Risk Report*, 921 entrepreneurs were being suspended of committing crimes and 793 cases were involved in China in 2015.

欧美的企业家把产品性能和社会责任放在第一位,而中国企业家总是把利润放在首位，把经营企业作为暴富的手段。这使企业拥有两种不同的命运:美国大型企业的平均寿命是40年,小型企业的平均寿命是8年.而中国大型企业的平均寿命是7年,小型企业的平均寿命是2,5年.
中国每年有100万家企业倒闭，这些公司的倒闭与市场大环境有关，更与公司自身的企业文化有关，与公司的违反社会利益的行为有关，如：非法集资、拖欠员工工资、商业诈骗等等。而产品质量、环境污染、不安全生产、偷税等问题就更普遍了。据《2015年中国企业家刑事风险报告》介绍，仅2015年中国就有921位企业家涉嫌犯罪，涉及案件793件

The large development outline of China 's economic development is formed by enterprise behaviors. The current situations of enterprises predict the future of macro-economy. Thus, the turning point of China 's economy is not monetary policy and market development but enterprise spirits and economic philosophy of entrepreneurs. The vicious competition incurred by the single pursuit of economic benefits is bringing Chinese small and medium-sized enterprises to the mass suicide path. Fortunately, there are also enterprises putting "product quality" and "serving the society" in the first place in China , such as Huawei Group, whose president is Ren Zhengfei. The prosperity of Chinese economy needs the mature enterprise like Huawei

中国经济发展的大轮廓是由企业行为组成的.企业的现状预示着宏观经济的未来.因此，中国经济的转折点不是货币政策和市场开发，而是企业精神、企业家的经济哲学。因单纯追求经济效益引起的恶性竞争正把中国中小企业带入集体自杀之路。幸好在中国也出现了以“产品质量”和“为社会服务”为首位的企业,如：华为集团，总裁叫任正非。中国经济的繁荣需要华为这样成熟的企业，需要任正非这样的企业家群体。

and the entrepreneur group like Ren Zhengfei.

Comparing with other social groups, privileged class has bigger influence in their behaviors, especially government heads, political elites and public figures. They have more social speaking right and influence. For instance, “No matter if it is a white cat or a black cat, a cat that can catch rats is a good cat”, the speech of Mr. Deng Xiaoping, influenced a generation of Chinese people and also intensified “money-oriented” and “profits-before-everything” social atmosphere objectively. Public figures and social elites shall have higher sense of social responsibility. However, more than 50% families of Chinese elite class and rich and powerful people migrate their children to foreign countries and invest the assets to foreign countries. In consumption habit aspect, the demand for luxuries and rare medicinal herbs by the upper class intensify the hunting and killing of rare animals by illegal organizations. The daily behaviors of each social member may include the factors determining fates of others and become the intermediate link of the process of commission of crimes, such as buying fake products, paying for freeing captive animals, forwarding false and terrible information, reselling weapons and so on. Suppression of criminal behaviors of human beings shall start from the beneficiaries of those behaviors and from the social groups in all classes.

同其它社会群体相比， 特权阶层的行为有更大的影响力。尤其政府首脑、政治精英和公众人物，他们有更多的社会话语权和影响力。如：邓小平“黑猫白猫抓到耗子就是好猫”的言论影响了一代中国人，在客观上也加剧了“一切向钱看”和“唯利是图”的社会风气。
公众人物和社会精英应该拥有更高的社会责任感。但中国精英阶层和富豪扪有50%以上的家庭把子女移民到国外，资产投资到国外。在消费习惯方面，上流社会的奢侈品需求、名贵药材需求加剧了非法组织对珍稀动物的猎杀。
每个社会成员的日常行为中可能包含了决定他人命运的因素，在无意间成为犯罪过程的中间环节。如：购买假冒产品、花钱买动物去放生、转发虚假恐怖信息、倒卖武器等等。制止人类的犯罪行为，应该从这些行为的获益者开始。从所有阶层的社会群体开始。

As far as current reality of China is concerned, the group behaviors of middle class have more important relation with social stability. The middle class in China mainly include wage-earners, white-collar workers and brainworkers, who received good education and have professional knowledge and relatively strong vocational abilities. Their salary level is higher than average salary of the society (currently, average monthly salary in Beijing is RMB 6900 Yuan, average monthly salary in Shanghai is RMB 7200 Yuan and average monthly salary of middle-level and above management personnel in Beijing is RMB 109760 Yuan). Most of them have more than RMB 10000 Yuan monthly salary. Middle class is the intermediate link between the rich class and poor group. They establish organic contractual relationship with the society through work contracts and are main executors of various social obligations and work regulations. Their work behaviors are basically consistent with overall social interests. They have closer dependency relationship with the society. Thus, the larger the proportion of middle class in total population is, the smaller the disparity between rich and poor problem is and the higher the social stability coefficient is.

就中国目前现实而言，中产阶级的群体行为与社会稳定有更重要的关系。 中国的中产阶级主要是工薪阶层、职场白领和脑力劳动者。受过良好教育，具有专业知识和较强的职业能力。他们的工资水平高于社会平均工资，（目前北京月平均工资为6900元，上海市月平均工资7200。北京中层及以上管理人员月平均工资为109760元），他们的月工资大部分在10000元以上。中产阶级是富人阶层和贫困群体的中间环节。他们通过职场合同与社会建立有机的契约关系。是各种社会义务和工作条约的主要执行者。他们的工作行为与社会总体利益是基本一致的。他们与社会有更紧密地依赖关系。因此，中产阶级占人口比例越大，贫富悬殊问题就越小，社会稳定系数就越大。

Conclusions:

1. Disadvantaged groups lack the humanistic care from the society, thus they lack grateful hearts and the sense of reverence for laws and social morality in their social behaviors. Just as Russell said “Chinese people lack humanitarianism impulse and just this kind of impulse makes us to use the 1% energy to make up for the damage caused by the other 99% energy”.

2. Individual microscopic behaviors have diversity. Its significance and value depend on the social role and social motivation of people. When an individual integrates into the group, its behavior significance will have more social value due to the rationality of the existence of the group.

3. Microscopic behaviors are not insufficient. They closely connect with human nature. Spiritual values influence the society and macro-economy through microscopic behaviors. The formulation of macro-economy shall take the influential factors in microscopic level into consideration.

4. Internet technology amplifies the social functions of microscopic behaviors and traditional economic mode faces challenge. In the information era that technical revolution could change human destiny, the formulation of economic policies shall have accurate evaluation of scientific productivity.

5. The cross-cultural background in international exchange makes microscopic behaviors have more diversified significance. Globalization make human beings relate more and more to each other. The development of macro-economy shall combine with the development trend of international situation.

6. In spiritual meaning aspect, people are also the hostages of cultural customs and ignorance thought and have Stockholm Complex in social identification and political selection. Lots of scholars and experts would rather use their own talents to the careers damaging human peace and the pursuit of parochial nationalism. Human beings need to be released from cultural ignorance and political bias.

7. In order to become strong, the society needs to start from its own weakness. As Albert Camus said “no life can be surpassed without self-defiance”. The hope of the society is it dares to overcome human weakness. The revelation of negative factors in social behaviors is just for human progress and for human beings to surpass themselves.

总结：

1．弱势群体缺少来自社会的人文关怀，因此他们的社会行为中缺少感恩的心，缺少对法律、社会道德的敬畏感。正如罗素所说：中国人缺少人道主义冲动，正是这冲动使我们用1%的精力将另外99%的精力造成的损害有所弥补。

2， 个体微观行为具有多元性，它的意义和价值取决于人的社会角色和社会动机。个人融入集体中,，他的行为意义会因为集体存在的合理性而更有社会价值。

3，微观行为并非微不足道,它与人性的本质紧密相连，精神价值观通过微观行为影响社会，影响宏观经济。制定宏观经济战略要考虑到微观层面的影响因素。

4，互联网技术放大了微观行为的社会作用，传统经济模式面临挑战。在技术革命可以改变人类命运的信息时代，经济政策的制定要有对科学生产力的准确评估。

5，国际交流中的跨文化背景让微观行为有更多元化的意义。全球化让人类越来越彼此相关。发展宏观经济要兼顾国际形势的发展趋势。

6，在精神意义上，人也是文化风俗和愚昧思想的人质，在社会认同和政治选择中也存在斯德哥尔摩情结：很多学者、专家甘愿把自己的才能用在损害人类和平的事业上，用在狭隘的民族主义追求中。人来需要从文化的愚昧和政治的偏见中解放出来。

7，社会的强大需要从自己的短板开始。正如阿尔贝.加缪所说：“不存在不通过自我蔑视就超越的生命”。社会的希望在于它敢于克服人性的弱点，揭示社会行为中的负面因素正是为了人类的进步，为了人类对自身的超越。

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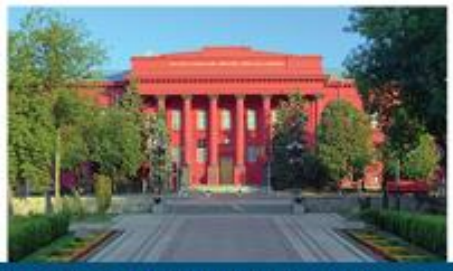
ANDRIY STAVYTSKYY
PhD in Economics, Associate Professor, HERE team member, National Taras Shevchenko University of Kyiv, Ukraine
a.stavytskyy@gmail.com



THE INSTITUTIONAL PROBLEMS OF IMPLEMENTING NEW HIGHER EDUCATION LAW IN UKRAINE

Abstract

In September 2014 in Ukraine a new Higher Education Act was activated, which significantly expanded the autonomy of the university and provided a real opportunity for unification of Ukrainian and European educational space. New rules of work should improve the quality of education, make domestic universities competitive worldwide. At the same time, the educational institutions face numerous problems of transition, which should be solved as soon as possible. Unfortunately, such transition can not be easy, because Ukrainian universities very often are not ready for providing reforms and taking a responsibility for their acts. Many scientists and administrative staff should change the mentality to guarantee successful and competitive development of their universities. The issues that require a coordinated approach for the majority of higher education universities are analysed within the investigation.

Key words: *higher education, university autonomy, quality, law, education process.*

1. Introduction

In 2014 Ukraine faced extremely rich changes in political, economic and scientific life. All conversions are at a break-neck pace, the processes require urgent solutions that could not be always optimal. Therefore, the implementation of them may lead to new problems. The consequence of the revolution, war period, occupied territories need individual approaches to any problem and it cannot be a general solution these times. However, in the medium term it is necessary to conduct a comprehensive analysis of decisions, investigate the level of implementation of previously adopted resolutions and laws to provide general improvement for the whole country.

In the middle of 2014 a new edition of the "Law on Higher Education" (2014) was passed, which promotes the autonomy of universities that means "higher education institution's accountability in decision-making regarding the development of academic freedom, the organization of the educational process, research, internal management" (Article 1, Clause 1). Practice shows that freedom can be used in different ways, and, therefore, cannot exclude the situation, where the state universities will develop in completely different directions.

2. Literature review

Governments played always an important role in managing higher education. History shows that the position of main authorities about principles of university functioning may change dramatically (Kooiman 2003). Especially big changes took place recent decades because of bigger globalization processes and increased competiveness in education area. Ususally, this process is characterized by providing bigger autonomy to universities (Enders and el. 2013).

G.Capano (2011) mentions four different national cases of significant changes in the nature of higher education. All such reforms are called by socio-economic needs, but solutions were not the same. For example, in England government decided to use its power to integrate new

educational rules in the system, forming a new market society for universities. The shift was so radical that is has been defined as a kind of 'semi-nationalization' of the policy sector (Dickinson 2001).Such reform was quite quick and strict, but they led to quite successful results. British universities are regarded as the most economically independent compared to universities in other countries. Germany and Italy cases do not demonstrate such radical changes, leaving a lot of traditional forms of university governance. Some proposed changes were not fully approved, creating a new hybrid type with great number of the old procedural traits. At the same time The Dutch case shows a full transition to the supervisory model, breaking procedural policy tools at the systemic level. We may mention that most European countries provided resolute reforms in higher education, but each country has own features based on domestic factors which strongly affect the calibration of the policy tools of the new governance mode (Lenschow et al. 2005).

The great delay in reforms in educational sphere led to the situation when universities found themselves in a temporary normative, social and cultural vacuum. The same evaluation of HEI in Poland in 1990s mentions Marek Kwiek (2012), who stresses on the problem of absence of clear national educational policy. Ukraine faced much bigger problems compared to Western European countries, because great depression in economy and very restricted possibilities of public and private finance to improve the situation.

3. A theoretical perspective

It was clear that Ukraine required resolve steps in changing educational sphere, therefore it was decided to accept a new Law on higher education instead of modernizing an old one. It should be noted that the preparation for the new law was very difficult and long. Different new editions of the law were proposed to adopt beginning from 2001. Unfortunately, most universities were engaged to expand capacities to invite contract students as much as possible. This strategy was supported by great lobby in several Ukrainian Parliaments, therefore it was almost impossible to provide necessary changes. The delay led to a great increase of number of HEIs, most of them functioned quite ineffectively and with low quality of education.

Ukrainian authorities and Ministry of Education realised the threat of low quality to higher education on the whole, they try to make several steps to change the framework of national education. Ukraine joined the European institute of National Higher Education Reform teams. Such team was used to stimulate adequate proposals for changing at least existing Law of Higher Education. With the assistance of HERE team Ministry of Education created several working groups.

The first one was engaged in creating English–Ukrainian Glossary of Bologna terms (2011), which summarizes the main 138 Bologna terms in one book providing the only one meaning for them. It should be noted that even now many Ukrainian scientists use a lot of terms with a false meaning, without understating the concept of Bologna process. The publication of the Glossary helped the main stakeholders to get discussions with identical terms. The edition was so necessary for stakeholders that it was published again in 2014.

The second working group was created for the development of National Qualification Framework (NQF). This document approved by Resolution of the Cabinet of Ministers of Ukraine (2011) was very important for providing unity for levels of education in Ukraine, it raised a hot discussion about necessary structure of Ukrainian education. NQF adoption stimulated the transition to the competence-based approach for description of all levels of education, and therefore, for all study programs.

The third group was created for providing expertise of the Draft Law on Higher Education. The life of this group was the longest compared with others. It took over 5 years to prepare a Law draft, which could be proposed to the Parliament.

Finally, after several years of work and a new Revolution a fresh Law was approved. Though because of necessity of immediate changes and some compromises several mistakes and controversies were arisen in this Law. It can't be stated that a new law was accepted under evolutionary changes, but revolutionary ones. It means, that many stakeholders, especially universities are not fully ready to implement such Law. Usually, they worked under instructions of the Ministry of Education, but now they need to use autonomy provided, taking the responsibility for all their acts. Of course, it creates a lot of problems and delays fulfilling a Law. This research attempts to display some threats of the implementation of the new Law on Higher Education in Ukraine and investigate the appropriate ways to improve the scientific and educational activities in the country.

As it was mentioned above many stakeholders had rather excessive expectations of the new Law and the speed of its implementation. Under acceptance of the Law one expected a transition period for one year, while a new normative base is prepared. Now it can be found that this

expectation was rather optimistic. V.Bahrushyn (2015) admits that many necessary documents have not appeared, others were controversial or contrary to existing law. Some drafts of such documents were stopped at the stage of public debate.

One of the major mistakes of the new law was a mismatch between the expansion of academic, financial and institutional autonomy of higher education institutions and the university rectors, who have become more powerful, but not the educational staff.

Under this conditions we must distinguish very big and developed universities and other HEIs. The first type of universities have long traditions of providing elaterium teaching, they have rather powerful brands, therefore they have rather large demand for their services. Each year they usually do not have problems in student's enrolment. In modern time they put ambitious goals to be presented in top places in different world and national rankings.

At the same time other type of universities were founded on the basis of secondary schools or colleges and exist no more than 20 years. Most of them were created only for achieving finance resources from students, usually they do not care about high standards in educational process. It can be explained by the fact that school graduates with high marks do not regard such universities as a primary goal, therefore the main part of students in these universities are persons with low studying possibilities. The graduates of such universities very often can't work under their speciality. The demographic shifts, low quality of education stimulated bankruptcy among such HEIs. Unfortunately, even survived ones continue to provide low quality requirements in the educational process.

In Ukraine the rate of people who continue studying after schools is the highest in Europe. Unfortunately, the low quality of education in some area eliminates possible positive effect; therefore government must pay great attention to quality of higher education.

Significant problems were found while forming the National Agency for Higher Education Quality Assurance. This Agency should solve all problems concerning quality of education. They include accreditation of universities, licensing of study programs, forming criteria for education process, etc. In the law it is proposed to form the Agency till September, 1, 2015. The process of forming was urgent because of the lack of responsibility of several stakeholders for persons. It occurred that the first squad of the National Agency for Higher Education Quality Assurance consists of some people, who have very human stain. The law requires more precise and detailed rules concerning the requirements for candidates and nomination procedures for their election. The protests of Ukrainian Cabinet of Ministers stopped the process, but one still expects choosing new members. It is doubtful that National Agency for Higher Education Quality Assurance could be able to work in the nearest future. At the same time according to the Law new study programs can't be licensed without National Agency for Higher Education Quality Assurance. It means that universities need to work with unlicensed programs at least one more year. But it's more important that they can't open new programs because of correct licensing.

The next issue is the creation of Methodological councils that must be designed and appointed by the National Agency for Higher Education Quality Assurance. Unfortunately, the financial and organizational problems could not provide such councils, therefore no one can establish new state standards for new specialities, requirements for necessary competences obtained for each profession. It delays significantly the development of new study programs with new approaches and requirements.

The Cabinet of Ministers accepted a new list of specialities in Ukraine (2015), which corresponds to International Standard Classification of Education and Training (2014). This list decreased the number of specialities in Ukraine almost in 3 times. At the same time the problem of correlating old specialities to the new ones is still open. According to the law universities obtain a right to create specializations instead of old specialities, but they still do not use it, trying to keep the old structure. Another objective is to optimize the numerical and qualitative composition of teaching staff. Introduction of a new list of specialities in Ukraine leads to necessity to significant reduction of departments in universities.

Previously, for each speciality existed a relevant department, which was responsible for graduates. After changing the list, most of departments will not form the curricula. In such circumstances there is a possible conflict between the selection of subjects for students and the size of workload for members of the department. Earlier, two these tasks were solved by the Head of the Department, who tried to find a compromise between the hired staff and necessary courses for students. According to new rules not less than 25% of student workload should fall on elective courses, which further complicates the problem of correct distribution of teaching staff. The possible conflict in this situation could become even tenser. To resolve this problem it is proposed to make changes to the law, which create a new position in universities that should be responsible for choosing a curricula, supporting students and provide invitation of

teachers for study programs. Such curriculum coordinators will choose the best teachers, including foreign ones, what can significantly increase the quality of educational process. At the same time, heads of departments should concentrate on scientific research, grants, training subordinates. This approach should increase the participation rate of Ukrainian teachers in the international research and educational projects, create stimulus to improve their lecturing and methodological levels. Of course, it can lead to changing the structure of departments and even faculties and universities. In Ukrainian case, the existence of over 800 poor universities has to be revised and this approach for fulfilling this task seems to be optimal.

4. Study and findings

One of the main goals of a new Law on Higher Education was to guarantee better quality of education. In this chapter we shall mention some main threats and disadvantages of the new law.

4.1. Quality assessment

One of the criteria for the evaluation of teachers and scholars is a citation index. Most foreign bibliometric database - WoS and Scopus, take into account articles and citations of the articles from journals included in these databases.

The Academy of Google (scholar.google.ru/citations) monitors Internet resources, so it gives a list of citations not only for articles, but also for books. In addition to analysing the number of publications and their citations one may use Wikipedia definition (2014) states that "Hirsch index for scholars and impact factor for the journals in which the article is printed. H-index or Hirsch index is the influential scholar index, based on the number of his articles and their citations. A scientist has index h if h of his/her Np papers have at least h citations each, and the other (Np − h) papers have no more than h citations each".

Impact Factor is a numerical indicator of the importance of the scientific journal. It is calculated on the basis of the three-year period as the ratio of the number of citations during a year of journal articles of two previous years to the total number of articles in this magazine. Obviously, this approach has a lot of shortcomings. Particularly, the quality of research, standard frequency of publications in various fields of science, etc. are not taken into account by its calculation.
Trying to assess the role of teachers and scholars for given parameters appears flawed for many reasons. First of all, the monopolization of calculating these parameters creates endless opportunities for corruption and getting some excess profits by publishers of magazines. Today in Ukraine so-called "advisory" firms that offer "services" with the publication of articles in journals with high impact factor have been created. Of course, we can say that in the medium term the situation can become more transparent, but today, these figures do not fully reflect the importance and quality of research.

Requirements for calculating these indicators lead to paradoxical effects. On one hand, one may observe a growing number of publications because everyone is trying to get some links to his articles. On the other hand, the quality of these publications and their difference from the previous results falls due to the fact that it is unprofitable for the researcher to obtain high-quality results. It is much more advantageous to make many "small steps", but each one to print as a separate article. The main goal of research should be to solve a scientific or practical problem. Typically, the process of investigation begins with a report at the conference or scientific discussion, publication in a thematic collection. However, these activities are not included in the calculation result of the scientist. This leads to the fact that instead of controversial theses quite prepared in terms of tangible results are published, many authors try to paraphrase the results of previous works.

Very often scientific breakthroughs provide new directions of the research. Usually, they are presented in publication abstracts, books, monographs, textbooks, because the widespread use can expect only the knowledge that is included in the learning process and entered the consciousness of the next generation of professionals. A. Orlov (2013) mentioned that such published articles couldn't have any critical value. It can also be added that scientific journals often reject very new works because of their unusual nature of representation.

Particular attention should be given to the fight against plagiarism. One must create a special state database research papers that will check for plagiarism not only dissertations, scientific works, but also graduate theses. Unfortunately, this job can't be transferred to universities, as due to the absence of the actual implementation of such systems, its development will be spread over decades. Thus, for a correct evaluation of the work of teachers and scholars the requirements for publication of scientific results should be reviewed.

Ministry of Education decided to use Scopus index as one of the factors, which determine how many state ordered places for students receive universities. There is no special

methodology developed yet for forming state order by automatic base, but this factor was introduced for the first time. As it was mentioned above the great stress on this parameter could bend the quality of the university.

The great development of different index technologies, necessity to be represented in world rankings demand bigger amount of publications. It leads to the situation when the teacher's activity is being assessed only in terms of number of published articles or organization issues. It means that the teaching quality goes by the wayside even in leading universities, which contradicts to student-cantered learning concept. It should be recognized that famous researchers are not always good teachers, the stress on amount of publication won't increase quality of learning and teaching.

4.2. University competiveness and financial autonomy

Increased autonomy of universities is another significant problem, at least in the short term. Under the new Law on Higher Education (2014) most universities give diplomas of graduation according to clause 6 of Art. 7 "document on higher education of state pattern can be issued only by accredited educational program. For non-accredited educational program universities produce and publish their own documents on higher education in the manner and according to the pattern defined by the academic council of higher education". In today's conditions, this means that autonomous universities are simply not interested to improve the quality of education. Instead, they are more interested in a number of contractors, to whom a minimum level of education can be given.

Unfortunately, the absence of real competition between universities gives no chance to solve this problem. However, our universities are not ready for such competition right now. The situation in the East of the country has shown that universities in Ukraine do not replace but only complement each other. If students in European education area can actually change the university, using credit accumulation system (ECTS), but this is not our reality. Thus, the actual outage universities in the East makes it impossible to attract students to other universities through incorrect system of university funding. Today this problem is being solved by additional regulations and explanations of the Ministry of Education and Science of Ukraine, but in the future it should be solved fundamentally.

As many hoped that a new law solved a problem of university financial autonomy, this issue is still open. University are too restricted to use their money and take loans. The only change of regulations may change the situation. Unfortunately, our state is not fully ready to such changes, therefore real improvement in this sphere can be observed only in future.

If Ukraine departs from special state order for universities and transfers to payment system for each real budget place, the universities will have no choice except fighting for every student. At the same time, if the government pays for a bachelor university budget place, it transfers money for 4 years that does not stimulate the transition of the student to another educational institution, at least for 1-2 semesters. This situation, unfortunately, significantly reduces opportunities for student mobility not only abroad, but for domestic mobility as well, without which the development of competitions between universities is impossible.

Obviously, the previous problem requires considerable refinement of the term "scholarship". Currently, scholarship – is a constant cash payment provided regularly to students of higher education institutions, as well as graduate students and doctoral candidates, subject to successful learning. There is enough danger in the definition.

Firstly, University pays scholarships from the state and/or local budgets. This means that while the scholarship of the student is "tied" to a particular college of university, it is unrealistic to transfer money to another region due to the jurisdiction reasons. Thus, the availability of scholarships is a barrier to the internal mobility of students.

Secondly, this system does not contribute to quality of education. Before the new law was adopted all students with GPA above 4.0 received grants. Obviously, this fact created a social tension and stimulated corruption. According to the new law grants will be obtained by not less than two-thirds of students regardless of the ratings. Unfortunately, in the law it is written "every course", not "every specialty". It will lead to a such situation, when simple specialities will receive scholarships almost for all students and for challenging it will be almost for none. In other words, there is a situation when the students will choose a speciality for admission not by preference or ability, but for ease of learning. At the same time, it must be admitted that some students do not need scholarships because of the financial position of their parents.

Therefore, we need to move from a system of scholarships through the university system to payments via public and private grants. Such a system can be organized in different ways. Firstly, the overall state agency may issue a

semester scholarships for studying or training support. Secondly, some students may receive government loans for education, which must be returned within 10-30 years after graduation. Thirdly, students can receive grants from private foundations and charities that will support students of certain branches. This system is primarily expand the possibilities of mobile learning, as the transfer of the funds from one institution to another is much easier than transferring the budget places. Another benefit of such system is the prospect of studying abroad.

In any case, the existence of this system would promote real competition between universities, reducing their number, and enhance enlargement and improvement of the education quality. At the same time, it is necessary to develop a mechanism of protection against unfair university activity. Now there is a paradoxical situation where universities do not exclude students, who fail exams, to save money from contractors or public resources. In some universities it is clear that the case of leaving of 4-5 students leads to cutting one teacher position. Obviously, such a regulatory framework is completely outdated and does not contribute to improving the quality of education. In addition, it should be noted that some articles of the law could not be covered by financial possibilities of the government. For example, according to article 72.1 government should order places for students that amounts at least 51% of all graduates from schools. Obviously, such poor economics (like Ukrainian) cannot allow to prepare the biggest ratio of high educated persons in Europe. Usually, European countries have ratio lower than 41% of high-educated people. It should be added that such level is achieved with all possible sources of financing the education, while Ukrainian law demand 51% of high-educated people only for state expenditures. Also, it might be interesting that such state order is very inefficient in term of work ability. For example, the majority of graduates have jobs not related to their speciality. Our country could not afford such waste of resources, therefore the approach to forming state order must be revisited.

One of the requirements of a new law is a provision four-years PhD study programs. Universities are ready to develop specific programs for new PhD students, but Ministry of Finances is not ready to cover additional costs for this structure. In fact, earlier the analogue of PhD studies took only three years, therefore a new system requires financial support of a student for one extra year. This fact illustrates a very difficult economic situation in the country and demands very optimal distribution of resources.

4.3. Problems of internationalisation

The common way to find additional resources for universities is to attract more contract students. As poor Ukrainian population cannot provide much more such persons, therefore the universities focused on foreign students. Unfortunately, many HEIs paid a lot of attention for payments for such students, but provided rather light requirements for their study. As our universities proposed to anybody to come they accepted even such students, who did not have a right for higher education at home. In many cases it was sufficient to live in Ukraine for about 4 years to graduate from not very famous universities. It led to the situation, when the value of diplomas reduced sufficiently. But in any case nowadays Ukrainian universities provide education for about 60,000 foreign students. This potential should be kept, but the stress must be refocused to the quality and increasing the brand of appropriate university.
The recent research in this area shows that the strategy of internalization becomes the key issue of the university development in Western Europe (EACEA, 2015). The focus shifts from obtained short-term profits to values and principles of university, and, therefore, to long-run profits. Obviously, the preparation of big amount of students without quality is the way without any perspective.

The problem of student's support form is highly related to the question of their assessment. Nowadays, many universities choose absolutely different grade scales for student's assessments, which are based on country's traditions and/or own preferences. In Ukraine there is only one officially valid 4-grade system, which includes only such grades as "excellent", "good", "satisfactory", "not-satisfactory". Of course, such system seems to be very poor and formal in case of transferring grades between universities. Due to this reason most of Ukrainian universities provided their own 100-scale grade, which is being used simultaneously with official grade system. At the same time, the conversion rate from 100-scale system to 4-grade differs too much even between Ukrainian universities. For example, the pass rate for the lowest satisfactory mark differs from 45 till 65 points, the level for excellent mark differs from 80 till 90 points. Of course, these distinctions provide difficulties in accepting and recognizing student's grades from other universities. In Ukrainian case the recognition usually takes place on the basis of official scale, but the problem is much complicated if one tries to recognize assessments from different countries. In table 1 some examples of different grade systems in different countries are presented.

Table 1

Grading scales in different countries

	Countries								
	Italy	**Belgium**	**Netherlands**	**Spain**	**Norway**	**UK**	**Germany**	**Ukraine (official)**	**Ukraine (most commonly used)**
Possible grades	18	10	6	5,00 - 5,49	E	40-44	5	2	0-59
	19	11	7	5,50 - 5,99	D	45-49	6	3	60-74
	20	12	8	6,00 - 6,49	C	50-54	7	4	75-89
	21	13	9	6,50 - 6,99	B	55-59	8	5	90-100
	22	14	10	7,00 - 7,49	A	60-64	9		
	23	15		7,50 - 7,99		65-69	10		
	24	16		8,00 - 8,49		70-74	11		
	25	17		8,50 - 8,99		75-79	12		
	26	18		9,00 - 9,49		80-84	13		
	27	19		9,50- 10,0		85-89	14		
	28	20				90-94	15		
	29					95-100			
	30								
	30 cum laude								

Source: Compiled by the author.

One can see that the approaches to evaluate students are quite different and therefore universities need to have a special tool for recognizing the grades from other HEIs. As different universities possess rather specific number of grades it's quite difficult to imagine a special table, which could transform data from one system to another. It should be a special interactive computer system that matches grades from different systems. Such system must be common for all universities and therefore contain aggregate information about principles of assessment in all HEI participants.

The main idea of such system is to estimate the distribution of all possible assessments and match them with appropriate distribution from another universities. All participants must collect all student's assessments for several years and provide an empirical cumulative distribution function. Such data have to be uploaded to the system and be renewed every academic year. After entering the grade from one university the system looks for the grade in the host university with the similar level of empirical cumulative distribution function and assigns this value automatically. The first approach for such system has been made by European grade conversion system (Egracons, 2015). Ukrainian universities have to provide a great job on studying distributions of grades to join such system.

4.4. Inefficiency in Ukrainian universities

Another extremely important and painful issue is the reducing workload of teachers from 900 to 600 academic hours per year. Under developing the law it was stated that such reduction should not lead to an increase in staff

units, and, therefore, it is necessary to carry out a range of measures to review the number of hours spent on various jobs, increase students' self-work and transfer of some classroom training to it. Unfortunately, taking into account Ukrainian realities, we should expect a significant reduction in hours allocated to supervising diploma and course work that may adversely affect their quality. However, for the improvement of education quality attention to such kinds of work must be in the limelight. Everything should be inspected for plagiarism, independent performance of diploma papers.

At the same time, many universities use hours inefficiently. In particular, many university curators of academic groups are awarded up to 70 hours for the performance of their duties. Usually, assistants, associate professors and professors are appointed to the position of academic curators. This distraction of teaching staff from their regular duties adversely affects the quality of the educational process.

Given the above, it may be effective:

1. A significant decrease the number of curators, who can manage multiple academic groups simultaneously;
2. The maximum release of highly-qualified scientific and pedagogic workers from the responsibilities of curators;
3. Creating department curators unit with specially selected trainers to be engaged in the professional duties and on of constant basis.

Another possible resource for universities is provision of electronic libraries. Nowadays teachers are obliged to write and publish handbooks, although they are not widely used by students. They prefer to use electronic Internet sources, though universities need to pay rather impressive sums of money to keep old-fashion libraries.

It is necessary to provide recognition of electronic and online handbooks, textbooks and other teaching materials. It is quite essential for international projects, where participants are restricted in finance very often. In addition, the online publication will dissimilate important information and research much quicker, increasing its quality and usability.

5. Discussion

The acceptance of the new law on higher education in Ukraine created the preconditions for the formation of Ukrainian educational space on new principles of operation. In this section we consider different approaches, which can be used by HEIs to improve the quality of teaching process and attract more students. Of course, each possible mechanism could be implemented with different rate of success, depending starting level of university, its development strategy and other factors. We would like just to discuss is such approaches be successful under the new Law in Ukraine.

National universities faced the pressing problem to provide educational services to a customer in a convenient format. For example, the vast majority of people with higher education does not need to attend lectures, but is interested in getting the information they need. In the developed countries this problem is solved by the introduction distance forms of learning, in which participants can choose only certain courses to learn. Considering the problem broadly, in the world today there is a large unmet demand for provision of educational services with specific topics at comfortable periods of time. It explains the great popularity MOOC (massive open online courses), modern distance education, webinars, etc. Many of the people know exactly what they want to get, what specific knowledge, skills, competencies they need, so they can show effective demand for related services. If the world trade organizations try to meet this demand, nowadays the Ukrainian companies and universities are considering this type of work only as an additional burden. Consequently, no systematic work at this issue is provided, some courses or webinars are local.

The main advantage of distance learning is meeting the request of the person and its capabilities. Usually, a student chooses some pace of learning, the number of subjects and place of study. Obviously, it is possible to study simultaneously at several universities, choosing, for example, one discipline at each. At the same time, the student's level of communication with teachers is increasing because he has various opportunities to get advice from completely different experts.

Employers also understand the advantages of distance learning and actively sponsor and distribute a variety of online courses. Nowadays, professional training has become especially popular. Such free online courses suggest everyone the opportunity to learn business principles, namely: students, working professionals without experience in business, wishing to return to work after a long absence and all those who seek to further educate themselves.

It is obvious that all stakeholders will face multiple challenges while creating online courses. First of all, one needs to create on courses with the corresponding copyright protection. These courses should be prepared

in a competitive level with high quality, taking into consideration the shortcomings of already developed courses. For example, the experience of introducing online courses abroad shows that the vast majority of students do not perceive video more than 6-9 minutes in a row. In particular, if the video lasted 12-15 minutes, the average time of viewing was only the first 4.4 minutes.

Secondly, the learning outcomes for these courses should be recognized at least partly by universities and employers. The existence of these features will transform the training for leading companies to distance form, increase the number of webinars and attract scientists to actual practice. Thirdly, the system of supporting and holding the courses must be worked out. Nowadays, most of the courses run only once a year, it is not enough for students. In addition, the experience of leading MOOC shows that the start of classes and their length play a significant role to a number of graduated people.

It is also clear that distance learning courses and programs will not completely replace traditional teaching. In particular, medicine, art science, language learning is unlikely to be studied in the medium term distantly. Similarly, in any curriculum there are courses that are worth to study with a teacher. However, most of the courses (especially for master level) can be easily and effectively transferred to a distant form. Today students actually require such form, as, for example, master student's real attendance of lectures and seminars is about 50%, it means that in fact about half of the students study courses distantly.

At the same time it should be noted negative factors, which can occur with widespread use of distance learning. For example, currently there is no strategy and tactics of implementation distance learning in the educational process, there are difficulties with technical support, copyright protection and so on. Lagging pace of the educational sphere in new information and innovative technologies, the shortage of highly qualified personnel, low wages can significantly slow down the process of introduction new technologies in Ukraine. High competition in foreign universities that offer distance learning in the public domain on the Internet, can lead to a loss of interest in universities in the development of new technologies. Widespread distance education will change the mentality of students, educators and employers, it can significantly change the attitude of society to traditional universities. Consequently, it is necessary to analyse the social impact of distance education for social life.

The problems of engaging students in research work while studying should also be analysed thoroughly since undergraduate education programs. Great changes in technologies, the increased speed of our life require absolutely new type of specialists, who can adopt various threats and therefore find solutions of the arisen problems. The fact is that some type of knowledge that universities can provide, become obsolete in 5-10 years. It means that the best idea to teach a student is not to give him a lot of knowledge, but give him a tool to provide a research and discover necessary information and conclusions. A new type of specialists must be a researcher despite the place of his job.

The autonomy obtained gives the possibility to universities to provide their own mechanisms of incorporating research work into curriculum. Many examples in the world show that this practice can be quite successful. For example, this process in the University of Glasgow is realized through the creation of so-called "Scottish deepen topics", which aim is to enhance the students' experience through self-development. These topics encourage students and teachers to disseminate progressive practice and together generate ideas and models for innovation in learning and teaching. Such approach affords the opportunity to make the curriculum, which will develop both vertical and horizontal linkages between disciplines, form students' comprehension of correlation between research and teaching processes.

The focus of study should be given to changing the role of the teacher: if the teacher is still regarded as a person with experience in scientific research, it is necessary that the teacher should conduct research involving students. At the same time there is a significant problem as about two-thirds of teachers in higher educational institutions in Sweden have no or have only little research experience, only about 5% of hours are delivered by well-known researchers.

M.Healey (2009) shows that the most effective way to stimulate students' research skills and curiosity is to expand the relationship between teaching and the discipline based on relevant research. It means that in most cases universities can achieve the introduction of new teaching methods through research and active curriculum that requires substantial revision of curricula.

In Maastricht University (Netherlands) about 20% of the best bachelor students were involved in research projects of the institution instead of two optional subjects. The university decided to move from learning based on the problem, to the study, based on research. Accordingly, instead of simulating the process of scientific research a real scientific investigation was conducted, a full long-term scientific research was applied instead of short cycles

of the study. In such a way instead of reproducing existing knowledge a new kind of knowledge was created. This led to the fact that students are no longer passive listeners during lectures, they become active participants. It goes without saying, for widespread adoption of such techniques not only students but also teachers must be ready, so this experience is recommended to use carefully. At the same time one can't but state the positive results obtained by the university: a significant increase of student publications, organization of international student conferences (with international reviews), increased the level of university research.

The problem of developing the strategy of transition to the new training methods based on the institutional approach should be also considered. One of the best practices was shown by Humboldt University (Berlin, Germany). The core of the transition is so-called Bologna laboratory, which was created specially to control the implementation of advanced techniques throughout the university. Taking into account the size of the institution, this laboratory has become the coordinator of the introduction of new techniques in structural divisions; it develops and implements new forms of learning. Not only a considerable size of the University, but also a significant decentralization of governance that excludes the same approach of "top-down", required the creation of such unit. Great difference between disciplines, lecturers made it difficult to find a certain agreement for the same principles in teaching. Moreover, most teachers are engaged primarily in research that reduces their free time to review and develop new teaching methods. One of the vice-presidents of the University guides the laboratory to eliminate many problems associated with the subordination of structural units, the introduction of pilot projects, etc.

It can be stressed that only substantial change in curricula might assist to achieve planned results, and therefore considerable effort should be made in this direction. It is necessary to retrain teachers who are to use advanced learning technology. It should be also noted that the introduction of a research-based education must run under the process of strengthening cooperation between universities in different countries to facilitate the expansion of inter-university research. Coming to a conclusion, it becomes clear that the transition to the new teaching methods won't be fast and it may stretch at least for the next 10-20 years.

6. Concluding remarks

Thus, the adoption of the new Law on Higher Education in Ukraine although presented revolutionary opportunities for changes in the industry, but it requires considerable effort to achieve these goals, a rapid transition to new forms of work. Most of the issues have to be resolved during the nearest future, but one may say that terms mentioned in the law will be violated in any case.
It can be explained by the fact that scientific society and stakeholders appeared not ready to such big changes and new modern requirements. In some cases the expectation about the new law were excessive, and therefore there is a sort of disappointment about current slow processes.

There are a lot of tasks that have to be solved. Among them one can admit forming and starting of National Agency for Quality Assurance, Methodological councils that develop state standards for all specialities. One may hope that such changes will lead to restructuring of university society in Ukraine, closing poor ones and aggregating middle ones. It should lead to an optimal number of HEIs in Ukraine in the nearest 5-10 years. This period the best universities have to used to establish own internal quality system, which would guarantee a stable improvement in educational process to be competitive with foreign HEIs.

This reduction of universities will increase the competency between them, it should lead to the increasing of education quality. It means that the best universities must develop and fulfil their strategies for guaranteeing quality education right now to win the competitive fight. The key elements of such strategy have to be the new methods of education based on research, development of different forms of education, including distant learning, significant increase of electronic publications and electronic resources for students, stimulating internationalization in all levels. It must be added that the factor of internationalization must be directed to providing not the quantity but quality parameters. Only this way can be correct for Ukrainian HEIs to participate in the world scientific society, leaving chances to become competitive in world level. A new law provides possibilities for such changes, but now universities have to study how to use their autonomy to meet worthily threats and problems.

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ARPINE DEROYAN
Master of Economics, University of International Business and Economics, International commercial law, China/Armenia
ronka-arpine@mail.ru

THE LEGAL OBSTRUCTIONS OF FDI FLOW FROM DIASPORA INTO ARMENIAN MARKET

Abstract

In the recent decades foreign direct investment is characterized as indispensable factor for current economic globalization. The impact on the globalization is explained by the fact that nowadays, the goods, technologies, services, as well as the capital diffused in a truly global market. The Foreign direct investment first of all profits the global economy; on the other hand FDI is a very useful factor for the economic development of a host country in the long run as it brings foreign equipment, capital, technology, knowledge as well as developed mechanism. However, the FDI is utmost essential for the Developing as well as emerging market countries which are in the transition period such as the Republic of Armenia.

Key words: *Foreign Direct Investment, Republic of Armenia, the Armenian Diaspora*.

General overview of the problem

The Republic of Armenia is a small country (30.000 km^2) with 3 million population.[1]

However, nowadays more than ten million Armenians are living abroad[2]. This number far exceeds the population of homeland Armenia. Over two million of Armenians live in Russia, another one million in the United States of America. The rest of them are located in Europe, the Middle East, and Latin America. The Armenian nationals abroad are officially called the Armenian Diaspora.

The Armenians living abroad economically and professionally are quite successful. Large number of Armenians are doing business and making investments in various spheres. They also constitute well-organized communities not only socially but also politically.[3]This is why the Diaspora is an important advantage for the Armenian nation, plays a major role and is considered as a great source of the economic development for Armenia.

In order to better understand the potential of the Armenian Diaspora, I would like to mention an important statistic which is based on theNational Statistical Service of Armenia, according to which, the aggregate annual family incomes of 1 million Armenians who live in California (Los- Angeles, the United States of America) is almost twice higher than the entire GDP of the Armenian economy[4].

The large amount of humanitarian aid programs and the enormous charitable contributions every year are delivering into Armenia by the Armenian Diaspora. However, that doesn't contribute to the long-term development of the country's economy. In short, the participation of Armenian Diaspora in the economic life of the country is much more reserved, than the massive help. Most of the Armenians living abroad who want to have their contribution into the development of Armenia still avoid making any foreign investment.

[1] World Development Indicators WDI-Online

[2] Estimated by Ministry of Foreign Affairs of RA (2013)

[3] Diaspora is a dispersion of people from their homeland and a community form by such people

[4] National Statistical Service of Armenia 3rd edition 2013

Transition to a Market Economy and the integration of Diaspora to Armenian Market

As we know, right after the creation of Soviet Union, Armenia became a member of it. The country had a central planning economy system where any foreign relations such as economic, business or even cultural were not allowed. Consequently, the relations and connections between Armenia and the Diaspora were absolutely closed. The seventy years of socialist structure of the country brought the absence of any kind of relations between Armenia and the Diaspora. *The same nation got mentally divided.*

However, after the Soviet Union was collapsed, the country got its independence in 1991 and had major changes in the structure of the country and its policy. With the Breakup of the old policy, the *rapid transition into market economy* was taken place and started to be widely accepted. With the market Economy the newly created Armenian Government carried out the "open door" policy.

With the Open Market policy Armenia adopted the Law "On Foreign Investments"- the current Armenian Foreign Direct Investments Regulatory regime. This was a huge step in liberalizing the FDI Field. By the latter the Government emphasized the highly significant role of foreign investments for the economic growth. According to the *"Open Door"* policy all kinds of Foreign Investments in the Republic of Armenia are highly encouraged. This is how the Government also is trying to create favorable business environment for foreign investors. This case is especially important for Armenian Investors from the Diaspora, as mostly, this is the Diaspora Armenians who want to have their contribution in the economic development of the country.

Unfortunately during the transition period into market economy there were several numbers of difficulties and factors have led Armenia to experience drastic reductions. The Economy of Armenia was almost destroyed after a shocking earthquake in 1988 which led to extreme energy shortages and lack of many consumer goods.

On the other hand Armenia was in war with Azerbaijan, over the disputed region Nagorno-Karabakh. Two out of four boarders of Armenia are not open. So unfortunately, as we can see the transition of the market took place in the collapsing infrastructure situation with a declining trade and foreign investment flows. There were fragile industrial and agricultural sources as well as limited natural resources.

During the market transition period, the Armenian government in a short period of time achieved several reforms, which was followed by an investment flow from the Diaspora into the domestic Market. According to the statistics, during the transition period the 39 percent of all the FDI in Armenia have been made by the Diaspora Armenians.

Nevertheless, during the years, this number decreased because of the fact that several foreign investors started to lose their interest in investing into Armenian market. Moreover, some of them lost their confidence towards the Armenian Legislation, the transparency of the governmental organs, as well as the Courts.

The aim of the study

So the main purpose of the current paper is to find out *what are the main legal obstacles that obstruct the foreign Direct Investment inflow into the Armenian market. How to transform the Diaspora's interests in Armenia, from purely humanitarian relief into the business initiatives and foreign direct investment development project.*

The reasons of this issue are various because the problems arise in different spheres such as, economical, political, cultural and of course in a *legal sphere.*

Most of the scholars and researchers in this sphere reveal these issues from purely economical or geographical aspects. From the legal prospective this issues has not examined profoundly. It is worthy to mention that the legal system of a country has major impact over the Foreign Direct Investments Inflow of the country. The well organized modern legal FDI legal system with the main international principles will significantly contribute to the FDI inflow to the country. On the other hand, a right FDI policy, FDI incentives as well as conclusion of BITs will also highly affect the FDI inflow. Unfortunately this issue from the legal point of view is not much discussed by Armenian scholars and experts as well.

The second inter-related goal of the paper is, based on the findings of legal lagoons, find the ways to put end to the above mentioned gaps as well as develop several recommendations and solutions, that will help to increase the number and the size of Business activities, in particularly direct investments into the Armenian market which in its place will contribute to the economical development of it.

The legal obstruction of FDI flow from Diaspora into domestic market

In order to better understand the concept and the nature of the legal issues I would like to divide them into two main parts:

- *Issues on the "Law on Foreign Investments"*
- *Issues concerning the Armenian legal system more particular the FDI policy lacks.*

A. Issues on the "Law on Foreign Investments"

The main Law governing FDI sphere is very old (more than 20 years). It was amended only once. The main provisions of the Law never got changed. However, as it was mention, internationally the foreign Investment Law is developing very rapidly in our days. Many international provisions and clauses are utmost important for the promotion and the regulation of this field. Below will be illustrated the main lacks in the Law that in my opinion need to be reformed.

➢ *Practical issues of the Absence of Non-Distinction of FDI and FPI*

The international practice divides the foreign investment into the following forms: Foreign Direct investment, foreign indirect investment (also known as portfolio investments *FPI).*

In the international regulatory legal frameworks, there is *no common legal the definition* of foreign investment. Various International organizations explain the same Foreign Investments in different ways. Most of the time it can be understood as a **transfer of tangible or intangible assets** from one country (which is also known as the source or home country) to another county (commonly referred as host country) by a non-resident entity for the purpose of their use in that country to generate wealth under the total or partial control of the owner of the assets."[5]Most importantly the aim of foreign investment has to be the *gaining of a profit.*

Without having a one common definition, however *the factors of control doesn't change* in any definition. So what do we understand by saying **control** over the assets?

Usually it is described the acquiring a significant degree of influence over the decision making of the direct investment entity.[6]This is the element that lets us to differentiate the Foreign Direct Investment from the Foreign Indirect Investments.

In the case of Foreign Direct Investment, there is a direct transfer of *physical* assets. The investor can choose to build a plant or any other hard machinery. An important characteristic of this clause is that the investor *has a long term and far reaching interest* towards the country and its economy. For this reason to sell the business has usually some complexities. However, as it was laid out the investor has total control over the assets or the investment.

While Foreign indirect investments most of the time the investments are made by the forms of s*tocks or bonds* (acquirement of the 10 percent of the share). Unlike the case of FDI here the investor is not able to construct a factory. It can be only the monetary transfer into the foreign company. Profits are fast and are made in shorter period of time. Without having significant level of control the investor is not able to sell the business or the shares in easier way.

However according to the first Article of the Law in Foreign Investment of the RA ***"Foreign investment"*** shall mean any type of property, including financial resources and intellectual values, which is being directly invested by a foreign investor in commercial and other activities implemented in the territory of the Republic of Armenia to gain profit (revenue) or to achieve any other beneficial result.

From this article we can clearly see that there is no distinction between the two forms of foreign investment. The Armenian national legal system applies to foreign_investment in general without distinguishing between *FDI* and *FPI.* This means that the *Law doesn't contain the legal definition of FDI at all.* This issue is true not only for Armenia but also for other national regulatory systems

What are the practicable issues that this broad definition brings?

When an investor from Diaspora wants to contribute into domestic market by making investments first of all they face the issue of the unclearness of what constitutes FDI and what is FPI. Before entering the market, the first thing the investor wants is to be *aware* clearly is what the qualification of his investment is! The motive of absence of the definition can be different. Mostly, it is done for the purposes of the entry or exit conditions. The other intention can be the discrimination, the different treatment of the foreign investors.

The market *entry issue* is the following one: The incorporation of the for the Foreign Direct Investment as well as Foreign Indirect Investment are done in different governmental organs, with different documentation requirements, within the different period of times. The same issue arises when an investor wants to *sell of the business*. As it was mentioned above in the case of Foreign Direct Investment, the Business selling process has a lot of requirements as well as complexities, however in the case of the FPI it is done in much easy way.

[5] See Somarajah M., *The International Law on Foreign Investment,* Cambridge University Press (New York), at *7* (2004).
[6] See Somarajah M., *The International Law on Foreign Investment,* Cambridge University Press (New York), at *7* (2004).

Another major issue concerns the *National Treatment issue.* This is very important to mention that in the case of the FDI the investors enjoy the National Treatment Clause; however, in the case of FPI this clause is not included. Because of the absence of the clear definition, it is very difficult for the investor to benefit from National Treatment Clause.

The last issue arises is the cases of *Dispute* between the foreign investor and the State. The foreign investors, who have made foreign Direct Investments, have the right to access the International Centre for Settlement of Investment Disputes (ICSID). However, if the investor is considered as the portfolio investor he will not be able directly to admit his case to Arbitration.

These complexities can make the investors not to enter to market at all or to lose the interest in Domestic Market.

The conclusion of the Article by the Legislator that clearly defines the Foreign Direct Investment more particularly stating what is level of control over the investment by specifying what is his influence level over the asset, will bring the trust and confidence for the investors.

B. Investment policy issues

When defining the State Policy towards investment the pure declaration of the open door policy towards the foreign investment is not enough. The state has to grant several guarantees, as well as the privileges in order to attract more and more foreign assets. By declaring the open door policy the Armenian Government included several amount of guarantees which are the proof of the reforms and had important role to attract investments.

However, there are still some lacks in the policy system such as: the issues concerning the *corruption* and *the transparency* of the system.

Corruption Issues

It is always stated that the transparent investment policy without a corruption is a very important factor to promote the foreign Investment. These matter have become a widely discussed by different scholars. It is considered as a major issue in the FDI field, especially for the developing countries in the transition period.

Unfortunately, we have to admit that Armenia is a country with a high level of corruption and bureaucracy. According to the USA State Department Report the Corruption remains a significant obstacle to U.S. investment in Armenia and a huge challenge that the Country faces.[7] In Armenia the tax processes for foreign Investments usually lack transparency.

The question arises why does the Republic of Armenia has such a high statistic of corruption. Instead of purely blaming the government or the officials, I would like to illustrate the deep reasons for this. In my point of view the issue has s sociological background. It goes back to Armenian traditions and culture. Armenia has old tradition where personal relations and connections are very important. To give a gift to official was much spread. Consequently taken into consideration these traditions, many scholars believe that the Armenian corruption issues will never get resolved or changed no matter what reforms or amendments can take place in legal, political, or economical spheres.

The Armenian Diaspora investors are mostly from the Developed countries where the Corruption has the minimum standards. Because of this issue most of the foreign Investors don't trust Armenian Court system without finding it as a reliable dispute resolution forum. This leads the foreign Investors to avoid investing in Armenia.

Transparency International statistical report states that Armenia ranks 105th among 176 countries.[8] As we can see the bribery remains a critical issue for Armenia.

The issues concerning the international and regional integration

After getting the independence Armenia started to integrate into several very powerful and influential international governmental Organizations that have a huge impact on the FDI field. They are the following:

- the International Monetary Fund (IMF),
- the Organization for Economic Cooperation and Development (OECD),
- the World Bank (WB),
- the United Nations Conference on Trade and Development (UNCTAD)
- The World Trade Organization (WTO) are considered as the most organizations

Armenia is also a signatory of the International Convention of Investment Disputes (ICSID), CIS Multilateral Convention on the Protection of Investor Rights. [9]

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[7] Investment Climate Statement Report Bureau of Economic and Business affaires

[8] Transparency International (TI) 2012 Corruption Perception Index (CPI) report

[9] Armenian Development Agency, "Investing in Armenia (http://www.businessarmenia.com/IPA_Information.asp?hdnGroupID =

Even though most of the organizations focus more on trade liberalization however, their influence on investment is also significant as the investment and the trade have a tight relationship.

Very few BITs concluded

Besides international organizations, bilateral investment treaties are also considered as source of the international investment law and also exercise a significant influence on *FDI* flow. During the recent year, the number of BITs concluded between different States grew enormously. A bilateral investment treaty (BIT) is an international agreement that establish binding legal terms and conditions regarding one state's treatment of investors from another State.[10]

Most of the BITs aim to reduce the legal ambiguities in the national legislation and include several legal protections, as well as guarantees for the investors. Before making any investment, first of all the investor is looking at the BIT concluded between home and host states to understand what are the his/ her main guarantees and protection by the host state. What will be the consequences in the case when the dispute arises?

The Armenian State is not active in concluding the BITs. Armenia signed the bilateral agreements "About Encouragement and Reciprocal Protection of Investments" with 40 countries: the U.S., Argentina, Austria, Belarus, Belgium, Bulgaria, Canada, China, Cyprus, Egypt, Finland, France, Georgia, Germany, Greece, India, Iran, Italy, Kyrgyzstan, Latvia, Lebanon, Lithuania, Luxembourg, Romania, Russia, Sweden, Switzerland, Syria, Ukraine, the United Kingdom and Vietnam. However, some of the BITs signed have not entered into force yet.[11]

Moreover, most of the BITs that were signed by Armenia are from 1994 to 2006. For instance the BIT between the Republic of Armenian and People's Republic of China was signed in June 1993 (22 years ago). It never got amended or reformed. It doesn't include several key provisions at all such as National Treatment provision.

Several BITs need to be amended and the State should start to negotiate New BITs especially with the country where Armenian Diaspora is located. The conclusion of the BITs will bring much confidence to the investors.

Free Trade Agreements (FTAs) as regional regulatory regime

During the recent year the of the regional trade agreements also known as *Free Trade Agreements (FTAs)* became very popular and wildly concluded between the States. The conclusion of the FTAs led to the remarkable rise of FDI and of course the Trade in different regions and promotion of it.

Armenia is a member of several Regional organizations which promote the trade, security as well as investment liberalization in the region. They are the followings: Council of Europe, European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB).

The RA is a member of the Commonwealth of Independent States. The CIS is a regional organisation which was formed after the breakup of the Soviet Union. All the participants are former USSR countries. It promotes the cooperation between the member countries concerning the trade, finance and investment.

The Republic of Armenia also became a Dialogue Partner of Shanghai Cooperation Organization (SCO) which is an intergovernmental organization founded in Shanghai in 2001 by the leaders of China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan.

The integration of Armenia into these organizations was a big step. These organizations include provisions relating to an investment which logically affects the pattern of *FDI*.

Why the conclusion of FTAs is utmost important, especially for Armenia? As it was mentioned above, the two out of four borders of Armenia are closed. This means, that there is not any level of Trade or Investments in any spheres with the two neighboring countries. To avoid the blockage the conclusion of FTAs will be a solution.

Lately China is initiating regional cooperation in different field, especially with the countries that are situated in the old Silk Road territories. in ancient times Armenia was Silk Road country. Armenian merchants were buying the silk from China and were selling it to Europe.

One of the leading projects of the One Belt One Road (new concept of the Silk Road) is Chinese Government's initiation to launch *Asian Infrastructure Investment Bank (AIIB).* Asian Infrastructure Investment bank is an international financial institution. Under its Articles of Agreement the main aim of the bank is to support the building and promotion of *infrastructures and investment in Asia-Pacific region.*

[10] AUGUST, Ray, *International Business Law*, Pearson, New Jersey, 2004, 244.
[11] the U.N. Conference on Trade and Development (UNCTAD),

To promote more regional integration and to encourage the investment flow into the country in my opinion it would be very strategically for Armenia to become a member of the Bank. Moreover Armenian neighboring countries already became member of the Bank and successfully cooperating in the Foreign Investment Field.

Very lately in January 2015, the Armenia became a member of Eurasian Economic Union. It is important to state that the membership in the economic and customs union brought new fields of Investments and opened new perspectives for Armenian companies. Russia, Belarus and Kazakhstan as well as Kirgizstan are also member countries of Eurasian Economic Union. The total Market of more than 170 million populations will be an essential drive for the development of FDI in Armenia. Moreover, the Armenia's former Prime Minister and Ambassador to the United States Tigran Sargsyan became the head of the Eurasian Economic Commission from February 1, 2016.

Conclusion

So, the declaration of the Open Door Policy is not enough for the State to convince the Diaspora businessmen who are making a lot of investments into other countries, to come also to Armenian Market. The Armenian legislation as well as the investment policy needs profound reforms.

The solution of the Legal gaps as well as economical barriers will let Armenia to promote more investments from different countries. It will give the investors more guarantees towards their investments and will create the confidence to Armenian Legislation. In some point, it will reduce the risks.

These reforms in all aspect will lead to creation more institutionalized and business orientated cooperation strategy between Armenia and Diaspora.

Armenia is not the first State that tries to use its Diaspora potentials. Other countries such as Israel, Mexico, and India already reached the economical cooperation with their Diasporas. The international practice shows that these countries succeeded to attract more Foreign Investments which led to far-reaching development of their economies.

Only in this way the Armenian State will be able to *transform the Diaspora's interests towards Armenia from purely humanitarian relief into the business initiatives and foreign direct investment implementation project. Because as it was already mentioned, only charitable contribution will not lead the far-reaching development of the country.*

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ANDRIY VOZNENKO
PhD student, Financial Management Academy, Kyiv, Ukraine
voznenko@minfin.gov.ua

PRESENT AND FUTURE OF BUDGETARY DECENTRALIZATION IN UKRAINE

Abstract

This article analyses the existing institutional support for budgetary decentralization in Ukraine. Dynamics budgetary and tax indicators of regional development are specified and necessary steps to implement reforms on decentralization at the institutional level are given. A detailed analysis of the financial security of reforms on decentralization, budgetary and tax changes. Recommendations for improving the state of local budgets in terms of transformational change are provided.

Keywords: *budgetary decentralization, decentralization, social and economic development of regions.*

Ukraine is in exceptional circumstances, having gone through profound political and economic crisis in the background and occupation of Crimean and war in the East. The existing system of local government does not meet the needs of society. The functioning of local governments in the majority of communities does not provide creating and maintaining good living environment, provision of quality and affordable administrative, social and other services. The communities are deprived of opportunities for full powers of land disposal.

The sharp issue of distribution of powers through the system of local self-government and executive bodies at various levels of administrative and territorial structure of the principle of subsidiarity remains unresolved. Local self-government wants to transfer powers primarily in the areas of education, health, social security, public order.

The article aims to develop recommendations for implementing reforms in fiscal decentralization.

In April 2014 the Government of Ukraine determined directions, mechanisms and terms of forming effective local governance and territorial organization of the power, which reflected in the Concept of Reforming Local Self-Government and Territorial Organization of the Power in Ukraine (hereinafter - the Concept), approved by the Cabinet of Ministers of Ukraine on 01.04.2014 No.333-p [1].

Implementation of the Concept aims, in particular, to stimulate economic development of territories, strengthen the legal, organizational and financial capacity of local communities, local self-government, proceed their activities with the principles and provisions of the European Charter of Local Self-Government ratified.

One way of solving the problems of local self-government reform is defined by the Concept as distribution of powers between the executive and local self-government on the basis of decentralization of the power.

In order to provide "step" implementation of this Concept the Cabinet of Ministers of Ukraine by Order No.591-p dated 18.06.2014 [2] approved a plan for its implementation, which included, in particular, development of conceptual proposals on the principles of decentralization and subsidiarity, ubiquity and capacity of local self-government; development of necessary laws and regulations of Ukraine.

Among the envisaged legislative changes in the said action plan the need to amend the Budget and Tax Codes of Ukraine was determined in terms of financial

decentralization, strengthening material and financial basis of local self-government.

Providing reforms of intergovernmental relations through the adoption of a new Budget Code of Ukraine was also determined by the Cabinet of Ministers of Ukraine and the Draft Budget Policy Guidelines 2015, approved by the Cabinet of Ministers of Ukraine on 16.04.2014 No.385-p [3] and registered in the Parliament of Ukraine under No.4749 on 22.04.2014 [4].

In 2014 the recommendations of the Organization for Economic Cooperation and Development (OECD) on the basis of the Territorial Review of Ukraine in the same year, point to the reform priority of the system of local self-government, decentralization of the power and taxation systems (subparagraph "c" of paragraph 7 *"Improvement of Public Administration and Governance" Annex 1 "COOPERATION EXPANDING BETWEEN PARTIES" to the Memorandum of Understanding between the Government of Ukraine and the Organization for Economic Cooperation and Development to deepen cooperation dated 07.10.2014)* [5].

In order to restore confidence in government and ***creating conditions for building a new system of government in line with European Standards the Parliament of Ukraine*** on September 16, 2014 ***adopted the Law of Ukraine No.1682-VII "About cleaning of power"*** [6], which determines legal and organizational basis of cleaning power (lustration) for protecting and promoting democratic values, the rule of law and human rights in Ukraine.

This law, in particular, introduces the procedure of appropriate inspection when deciding on the appointment of a person as a subject of inspection, to the post in government, and organization of verification procedures of persons who are subject to inspection for compliance with certain criteria specified by the law to address the possibility of further holding the respective position.

By virtue of practical implementation of adopted normative legal acts, ***including Resolution No.442 adopted by the Cabinet of Ministers of Ukraine*** on 10.09.2014 [7] ***on optimization of the system of executive power central bodies***, and also governance reforms conducted during 2014 by the Government of Ukraine, in the public sector the number of supervisory authorities, the list of regulatory functions were reduced and 25 thousand civil servants were phased out.

In order to provide support of the Parliament of Ukraine for the program document of the Cabinet of Ministers of Ukraine regarding implementation of a uniform development policy of Ukraine, which would be required by the Cabinet of Ministers of Ukraine, implementation of the strategic priorities of the state with the introduction of a clear mechanism of interaction between the executive power, the Government of Ukraine in 2014 drew up The Cabinet of Ministers of Ukraine Program.

This program was submitted in accordance with the Constitution of Ukraine, the Law of Ukraine "On the Cabinet of Ministers of Ukraine" ***pursuant to the Association Agreement between Ukraine, of the one part, and the European Union, the European Atomic Energy Community and their Member States, of the other part***, subject to the provisions of the Coalition Agreement, which is an integral part of this Program.

The Parliament of Ukraine promoted ***The Cabinet of Ministers of Ukraine Program*** submitted by the Government of Ukraine and ***approved by Resolution No.26-VIII dated December 11, 2014*** [8].

One of the main purposes of the said Program of the Cabinet of Ministers of Ukraine ***targets at decentralization and regional development, maximum transfer of functions to the local level*** by, in particular, adoption of amendments to the Budget and the Tax Codes of Ukraine regarding the transfer to local self-governments of additional budgetary authority and stable sources of revenue for its implementation and the Law of Ukraine About the State budget of Ukraine on 2015.

In the coming years the Program of the Cabinet of Ministers of Ukraine also outlines the new government policy which includes:

➢ deregulation and reduction of number of business and the state touch points, including:

- implementing regulatory model that provides the number and function of regulatory authorities ***according to the EU standards and the Association Agreement between Ukraine, of the one part, and the European Union, the European Atomic Energy Community and their Member States, of the other part****;*
- finishing reduction of number of regulatory bodies from 56 to 28, functions - from 1032 to 680, bringing the number of supervisory authorities and their functions in full compliance with European Standards;

➢ decentralization and regional development, maximum transfer of functions to the local level, in particular:

- development and promotion of the adoption of amendments to the Budget and the Tax Codes of Ukraine regarding the transfer to local self-governments of additional budget authority and

stable sources of revenue for its implementation and the Law of Ukraine On the State Budget of Ukraine 2015;
- opening on site of "transparent offices";

➢ reducing the number of state employees by 10 percent, a corresponding increase in wages;

➢ updating national staff through, in particular:
- enforcement of the Law of Ukraine "About cleaning of power";
- introduction of personal responsibility of civil servants;

➢ introduction of e-government.

In December 2014 ***The Cabinet of Ministers of Ukraine developed and submitted to the Parliament of Ukraine a package of reform laws***, which aims to achieve three goals: budgetary and fiscal decentralization; simplified taxation and legalization of economy; establishment of fair play field for all.

Among developed by the Cabinet of Ministers of Ukraine and submitted to the Parliament of Ukraine of the package of amendments to the current legislation complex interrelated changes to the Budget and Tax Codes of Ukraine and a Draft Law of Ukraine "About the State budget of Ukraine on 2015" are worth noticing.

Thus, in order to resolve budgetary relations associated with the introduction of a new model of financial security of local budgets and intergovernmental relations ***the Government of Ukraine developed, in particular, amendments to the Budget Code of Ukraine on the reform of intergovernmental relations***.

The need for the adoption of these amendments to the Budget Code of Ukraine was caused by the need for improving the budget legislation as part of the reform of local self-government and territorial organization of the power. At its core there is a significant decentralization of the power and empowerment of local communities, involving redistribution of tasks, responsibilities and resources at the national, regional and local levels, increasing financial independence of local budgets, strengthening the material and financial basis of local self-government.

During the preparation of the draft amendments to the Budget Code of Ukraine positive achievements of budget reforms in foreign countries, including Poland and Germany, providing financial resources for the social and cultural sphere, construction of transfer policies of intergovernmental relations and mechanisms of financial equalization were investigated and on their basis the new model of financial security of local budgets and intergovernmental relations was developed. These ***amendments to the Budget Code of Ukraine were adopted by the Parliament of Ukraine on December 28, 2014*** (The Law of Ukraine No.79-VIII) [9].

The adopted amendments to the Budget Code of Ukraine extends the rights of local self-government and especially, in particular, the independence of decision-making with the formation and use of budgetary funds. This will facilitate the development of new progressive relationship in the management of budgetary resources; determination of the legislation clear budgetary powers and responsibilities of two equal branches of government - the Government and local self-government; complex issues of local communities; motivation to increase the revenue base of local budgets.

When in the rank of the World Bank Doing Business 2015 Ukraine in terms of ease of doing business holds 96 position among 189 countries (in 2014 - 112 position), but in terms of "paying taxes" Ukraine holds 108 position, which in turn affects reduction of the investment attractiveness of Ukraine's economy, increasing the level of shadowing, reducing the competitiveness of Ukrainian goods and services in the world market, reduction of budgetary revenues etc., ***in order to*** improving the business environment in Ukraine while ***increasing performance of Ukraine in international rankings***, and improving economy resource efficiency, ***the Cabinet of Ministers of Ukraine developed and introduced in December 2014 to the Parliament of Ukraine the draft amendments to the Tax Code of Ukraine and some laws of Ukraine (on the tax reform)***.

The amendments to the Tax Code of Ukraine suggested by the Cabinet of Ministers of Ukraine were ***adopted by the Parliament of Ukraine by the Law of Ukraine No. 71-VIII on 28.12.2014*** [10] and include reducing the number of taxes and fees from 22 to 11.

Due to the amendments to the Budget and Tax Codes of Ukraine adopted by the Parliament of Ukraine sources of local budgets were expanded, this fact was taken into account in the Law of Ukraine No.80-VIII dated 28.12.2014 "About the State budget of Ukraine on 2015" [11], a draft of which was submitted by the Cabinet of Ministers of Ukraine to the Parliament of Ukraine (registered in the Parliament of Ukraine on 12.12.2014 under No.1000 and finalized on December 22, 2014) [12].

Thus fiscal decentralization initiated in 2014 significantly improved financial capacity of local budgets, financial resources of which in 2015 were

formed to reflect changes made to the Budget and Tax Codes of Ukraine and other legislative acts concerning local budgets and intergovernmental relations, the main provisions of the draft budget policy guidelines approved by the Cabinet of Ministers of Ukraine on April 16, 2014 under No.385-p [3], the tasks set by the Programme of the Cabinet of Ministers of Ukraine approved by the Supreme Council of Ukraine on December 11, 2014 under No.26-VIII [8] as well as the recommendations of the International Monetary Fund on the results of the technical advice of experts.

Analysis of the performance of local budgets showed that the implementation of the reform of intergovernmental relations in 2015 gave positive results.

So in 2015 ***the general fund*** of local budgets received ***UAH 99.8 billion*** (this is ***116.0%*** for annual allocations approved by local councils), ***increase*** of revenues to the general funds in the background of 2014 ***+ UAH 29.6 billion (or 42.1%)*** [13]**.**

High growth in tax revenues were provided mainly by growth in all regions of revenues from single tax and tax on personal income, payment for land. In particular, ***increase of revenues was provided by:***

- tax on personal income, according to which in 2015 UAH 53.6 billion were received, which was 123.1% against 2014 (i.e., increased by UAH 10.1 bln);
- payment for land under which in 2015 UAH 14.5 bln were received, which was 130.3% against 2014 (i.e., increased by UAH 3.4 bln).

Also the structure of local budget expenditures was changed. ***In particular, a share of expenditures for self-governing powers, indicating*** increased expenditure autonomy of local budgets and efficiency of budgetary funds at the local level. Thus, a share of expenditures for ***utilities*** increased from ***1.9%*** *to* ***4.5% (+ UAH 7.0 bln)***. A share of expenditure for ***transport road facilities*** from ***1.4%*** in 2014 to ***2.3%*** in 2015 ***(+ UAH 2.9 bln)***.

Another positive aspect of the intergovernmental relations reform is ***increase of investment resources*** of local budgets. The amount of ***capital expenditures*** in 2015 was ***UAH 32.2 billion*** *or* ***11.5%*** of expenditures on general and special funds of local budgets. This is ***by UAH 18.6 billion*** *or* ***136.8% more***, than in 2014.

Compared to previous years, this article is expenditures underwent significant changes. In ***2013-2014*** years a share of capital expenditures in the total expenditures of local budgets was ***just 6.4%.***

The general fund expenditures (excluding grants and reverse temporarily outside the control of public authorities of territories) of local budgets in 2015 were financed in the amount of UAH 233.6 billion, against 2014 it was more than UAH 54.1 bln or 30.1%.

Along with the need to make major amendments to the Budget and Tax Codes of Ukraine decentralization also required amendments to other legal acts, and development of new ones, that would solve the issues in the way of practical steps to implement the local government reform. Thus, pursuant to the relevant order of the Cabinet of Ministers of Ukraine dated 15.03.2014 the Ministry of Regional Development, Construction and Utilities of Ukraine in March 2014 the Working Group on reforming local self-government and territorial organization of the power was wormed and included members of the public experts and international programs of technical assistance to Ukraine.

The Working Group developed particular drafts:

- the Law of Ukraine "About the collaboration of territorial communities" (registered by the Parliament of Ukraine under No.4756 on 23.04.2014 [14]), which defines organizational and legal bases of cooperation of communities, principles, forms, modalities of such cooperation, its state support, financing and control;

- the Law of Ukraine "About the voluntarily association of territorial communities" (registered by the Parliament of Ukraine under No.0915 on 27.11.2014 [15]), which defines ***identifies key legal, economic, social, environmental, human and organizational principles of state regional policy as part of the internal policy of Ukraine*** and establishes the procedure for territorial communities of villages, towns, cities and state support for joint local communities; legal conditions and opportunities for:
  - consolidation by voluntary association of local communities, which is an important factor in strengthening the guarantees of local self-government, increasing its role in resolving local issues;
  - formation of viable local communities, whose main task is to improve the needs of citizens, prompt and quality provision of basic social and administrative services for them, improving the sustainability of territories, more efficient use of public funds and other resources;
  - creating conditions for improving the system of local self-government in the respective territorial basis.

In discussing these drafts heads of regional councils and heads of national associations of local self-government participated.

Development of these two drafts were caused by the need to create a legal basis for cooperation of local self-government resources to address common problems of life of communities at the local level, more efficient provision of services to the local population, creation of joint municipal infrastructure objects for several local communities, and formation of capable, self-sufficient local communities which would have had relevant materials, financial resources, territory and social infrastructure necessary for the effective performance of their local self-government tasks and functions, and to improve quality of administrative, social, public services to residents of communities.

These draft laws "About the collaboration of territorial communities", "About the voluntarily association of territorial communities" were adopted by the Parliament of Ukraine on 17.06.2014 under No.1508-VII [16] and No.157-VIII on 05.02.2015 [17] respectively.

It should be noted that according to the Law of Ukraine "About the voluntarily association of territorial communities" [17] the state in particular has:

- information and educational, organizational, methodological and financial support to voluntary association of local communities;

- financial support to voluntary association of local communities of villages, towns and cities by providing unified local community funds in the form of subsidies for the formation of appropriate infrastructure according to the social and economic development plan of this local community, if its borders fully meet the limits set by the perspective plan of the communities of territories of the Autonomous Republic of Crimea.

To determine the mechanism and conditions capable of forming local communities and the procedure of development and approval of the long-term plan of forming communities of territory of the Autonomous Republic of Crimea, regions pursuant to Article 11 of the Law of Ukraine "About the voluntarily association of territorial communities" [17] by Resolution of the Cabinet of Ministers of Ukraine dated 08.04.2015 No.214 [18] the Appropriate Techniques of capable communities was formed.

Along with development of the above two draft laws (4756 [14] and 0915 [15]) the Government of Ukraine developed and submitted to the Parliament of Ukraine the Draft Law of Ukraine "About principles of public regional policy" (registered by the Parliament of Ukraine under number 0908 on 27.11.2014 [19]), which aimed to create conditions for dynamic, balanced development of Ukraine and its regions, ensuring their social and economic cohesion, raising living standards, adherence to state-guaranteed social standards for every citizen regardless of their place of residence.

As stated in the explanatory note to the draft law under registration number 0908 [19] determining the scope of regional development led to the need to develop a separate draft law on foundations of state regional policy provided by the Agenda of Association Ukraine - EU, the revised version of which was approved on June 24, 2013 at the sixteenth meeting of the Cooperation Council Ukraine - EU (Luxembourg) [20].

To discuss the draft under registration number 0908 [19] central and local executive authorities, local self-governments and national associations, academic institutions, civil society organizations and European experts were involved.

The said Law of Ukraine "About principles of public regional policy" was adopted by the Parliament of Ukraine on February 5, 2015 under No.156-VIII [21].

Also the Cabinet's of Ministers of Ukraine Resolution No.385 dated 06.08.2014 [22] was approved by the State Regional Development Strategy for the period by 2020 (hereinafter - the Strategy), which was designed with the changes that occurred in developing regions of the country in recent years, and determined the objectives of state regional policy and the main task of the central and local executive authorities and local self-governments to achieve these goals and provided state regional policy coordination with other government policies aimed at territorial development.

The Financial Strategy can be realized through:

- the State Regional Development Fund allocated to implementation of measures to implement the Strategy and regional development strategies, implementation of state programs for regional development, public cross-border cooperation, regional development agreements and programs to overcome depression of some territories;
- funds of industry (interindustry) state programs and budget programs of central authorities allocated for development of the relevant areas in regions;
- subventions and other transfers from the state budget to local budgets;
- local budgets funds;
- the EU funds for technical assistance, and other international donors, international financial institutions;
- funds of investors, enterprises.

Since 2013 the European Union implemented the program "Support to Implementation of Regional Development Policy in Ukraine" (project budget exceeds 20 mln euros), which was separately noted in the text of the Strategy.

On October 25, 2015 pursuant to the Law of Ukraine "On Voluntary Association of Local Communities", the first elections to the 159 incorporated municipalities were held. On this basis the process of formation of new local self-governments in these united local communities was initiated.

In order to ensure the settlement for features of formation of budget revenues and expenditure of united local communities and prediction of the relevant provisions in the Budget Code of Ukraine, which regulate the procedure of drafting budgets of united local communities and determine the mechanisms for monitoring compliance with the budget legislation of intergovernmental relations in bodies of newly formed local self-government communities the Parliament of Ukraine on November 26, 2015 adopted the Law of Ukraine No.837-VIII "About making alteration in the Budgetary code of Ukraine in relation to the features of forming and implementation of budgets of the incorporated territorial communities" [23].

The mechanism of subventions from the state budget to local budgets for the formation of joint infrastructure of communities provided by the State Budget of Ukraine for the year, is by the Procedure, terms and conditions of the provision of subventions approved by the Cabinet of Ministers of Ukraine on 16.03.2016 under number 200 [24].

The Law of Ukraine dated 25.12.2015 under No.928-VIII "About the State budget of Ukraine on 2016" [25] envisaged expenditures for formation of joint infrastructure of communities in the amount of UAH 1.0 bln under the budget program "Subvention From the State Budget to Local Budgets for the Formation of Joint Infrastructure of Communities" (KPKVK 2761130), chief manager of which - the Ministry of Regional Development, Construction and Utilities of Ukraine (national costs).

Distribution in 2016 of subvention funds from the state budget to local budgets for the formation of joint infrastructure of communities was approved by Resolution of the Cabinet of Ministers of Ukraine on 16.03.2016 under number 200 [24].

Also, the Law of Ukraine "About the State budget of Ukraine on 2016" [25] provides UAH 2.0 bln under the budget program "Stabilization Grant" (KPKVK 3511110, chief administrator - the Ministry of Finance of Ukraine (national cost)) - to cover the actual disparities in local budgets as a result of the introduction of a new model of relations with the state budget.

According to Procedure, terms and conditions the provision of stabilization grants approved by the Cabinet of Ministers of Ukraine on 16.09.2015 under number 727 [26], the main criteria of distribution among local self-governments is an index of specific local fiscal budget: budget of regional significance, district, regional budget or budget of united local community.

Thus, stabilization subvention is provided from the state budget to local budgets to improve their financial security in connection with the reform of intergovernmental relations.

Regarding capital expenditures, in order to provide support for social and economic development of regions, the Law of Ukraine "About the State budget of Ukraine on 2016" [25] provides:

1. Under the budget program "State Regional Development Fund" (KPKVK 2761070, chief administrator - the Ministry of Regional Development, Construction and Utilities of Ukraine (national cost)) - UAH 3.0 bln, use of which is approved by the Cabinet of Ministers Ukraine on 18.03.2015 under number 196 [27]. Pursuant to the Procedure of preparation, assessment and selection of investment programs and regional development projects that can be implemented by the state regional development fund, the formation of the list of investment projects is carried out by relevant state administrations and the Ministry of Regional Development, Construction and Utilities of Ukraine.

2. Under the budget program "Subvention From the State Budget to Local Budgets for the Implementation of Measures for Social and Economic Development of Certain Territories" (KPKVK 3511210, chief administrator - the Ministry of Finance of Ukraine (national cost)) - UAH 1.94 billion, the procedure and terms and conditions of the provision of which is approved by the Cabinet of Ministers of Ukraine on 06.02.2012 under number 106 [28].

According to Article 30 of the Law of Ukraine "About the State budget of Ukraine on 2016" [25] distribution of subventions from the state budget to local budgets for the implementation of measures for social and economic development of some territories among local budgets is made by the Cabinet of Ministers of Ukraine in coordination with the Parliament's of Ukraine Budget Committee.

In accordance with the specified Procedure, terms and conditions of the subvention from the state budget to local budgets for implementation of measures for social and economic development of certain territories corresponding list of projects and activities form and maintain local state administrations and executive bodies of local self-government.

In addition to the Law of Ukraine "About the State budget of Ukraine on 2016" [25] funds in the amount of UAH 485.0 mln are provided under the budget program "Support to National and Regional Investment Projects" (KPKVK 1,211,110, the main manager of funds - the Ministry of Economic Development).

Under Article 31 of the Law of Ukraine "About the State budget of Ukraine on 2016" [25] allocation of the state budget funds to support state and regional investment projects between the main spending units will be held by the Cabinet of Ministers of Ukraine in coordination with the Parliament's of Ukraine Budget Committee.

The procedure for selection of national and regional investment projects, the realization of which is supported from the state budget by the Ministry of Economic Development and Trade of Ukraine and is approved by the Cabinet of Ministers of Ukraine. At present the relevant Draft Procedure for selection of national and regional investment projects is coordinated with central authorities.

It should be noted that the Cabinet of Ministers of Ukraine on December 2015 submitted to the Parliament of Ukraine (registration number 3688 dated 22.12.2015 [29]) the amendments to the Tex Code of Ukraine***, which was adopted*** by the Parliament of Ukraine on 24.12.2015 under No.909-VIII ("About making alteration in the Internal revenue code of Ukraine and some legislative acts of Ukraine in relation to providing of balanced of budgetary receivabless in 2016") [30].

Implementation of the law is to ***promote the growth of revenues, in particular,*** *by* ***using flat rate*** *(18%)* ***of personal income tax****, instead of 15% and 20%,* ***withdrawal of single social contribution****,* withheld from employee salaries at a rate of 3.6%, resulting in increased tax base for personal income.

As part of tax reform ***conditions for strengthening financial capacity*** of local budgets***. Revenues*** *of local budgets are forecasted to* ***increase*** *by* ***44%*** *or* ***UAH 46 bln, including through amendments to tax legislation*** *[31]****. Resource of local budgets*** *for the year 2016* ***increases*** *compared to 2015* ***by UAH 47.2*** *bln, or by* ***16.6 %****, and amounts to UAH* ***330.7*** *bln.*

It should be noted that currently amendments to the Constitution of Ukraine are processed concerning decentralization and therefore, since the bulk of the drafts that have to be developed under the Action Plan to implement the Concept of the reform of local self-government and territorial organization of the power in Ukraine is dependent on amending the Constitution, and their adoption is still postponed.

Conclusions

With the successful implementation of reform the following results are planned:

- increase of the resource base of local budgets;
- improving the structure of local budget expenditures;
- increasing the share of development expenditures;
- raising the level of financial independence of local budgets;
- implementation of the new transfer policy;
- expansion of local budgets that have relations with the state budget.

Given the above, it is recommended in the medium term to develop a package of laws on decentralization, arising from amendments to the Constitution:

- "About the Principles to Address Issues of Administrative and Territorial Structure of Ukraine";
- "About local self-government in Ukraine" (new version);
- "About prefects";
- Finalize and adopt the Law of Ukraine "About making alteration to some legislative acts of Ukraine in relation to expansion of plenary powers of organs of local self-government from a management and strengthening of state control the landed resources after the use and guard of earth" (registration number 4355 dated 31.03.2016 [32]).

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Dr FUAD SHAHVALIYEV
Independent Expert on Economics and Finance, Azerbaijan
shakh@hotmail.com

AGRICULTURAL AND RURAL DEVELOPMENT POLICY IN AZERBAIJAN

Abstract

One of main goals for Azerbaijan today is to remove dependence of economy on oil and assure expansion of economic development to rural areas. Being the third biggest sphere in Azerbaijani economy after oil and construction agriculture possesses biggest share in employment. Agriculture is a strategic sector for Azerbaijan and a key component of the country's non-oil economy and plays an important role in food security and in improving the socio-economical situation in rural regions.

Keywords: *rural development, agriculture, regional development, economic growth, donors.*

Economic situation in Azerbaijan

Azerbaijan, since 1995, has started to implement market oriented reform policies for transition from planned economy to free market economy. At initial times of independency, it was evidently necessary for Azerbaijan to start reforms to transform political and socio-economic systems for the purposes of the formation of an independent national economy system that would be based on the democratic state system as well as free market relations. The transition to the new political-economic order has not been smooth and a partial reforms model was a principle threat by the enforcement of institutional development [4].

With a solid rise in income and a reduction in poverty, Azerbaijan weathered the recent global economic crisis much better than many other countries. While it withstood the crisis relatively well, the situation showed Azerbaijan's need for a diversified economy, market-based policies and better social services. While some of this improvement was driven by high growth rates, a strong increase in wages, and the introduction of a well-targeted social benefit system, much of it resulted from a jump in oil and gas revenues.

Better infrastructure is critical in Azerbaijan [1]. Its geographical position makes it an important link between the Black and Caspian Seas and between Russia and Iran. Achieving Azerbaijan's potential as a transit economy is essential for the stimulation of economic growth, non-oil economic development, and safety and for the reduction of poverty.

Azerbaijan's economic policies aim to achieve sustainable economic development, a diversified economy with a vibrant non-oil sector, global integration, and balanced development throughout the country. However, oil and gas remain important to the economy. Hydrocarbons account for about 50% of GDP and over 93% of exports. The next largest sectors have typically been construction and transport, storage, and communications. Agriculture constitutes 5.3% of GDP despite employing 38% of the labor force. The reliance on hydrocarbons places the country at risk of volatility and raises concerns about long-term growth sustainability and stability, as evidenced by the recent slowdown in oil production. Surging oil revenues have enabled ambitious public investment programs along with increased wages and social transfers, which helped reduce poverty levels rapidly. The annual

increases in budget expenditures have been made possible by substantial transfers from the State Oil Fund [1] of the Republic of Azerbaijan, which constituted about 58% of total state budget revenue in 2014. Oil revenues have also enabled Azerbaijan to maintain a relatively low external debt level, with foreign debt equivalent to 8.0% of GDP. Growth rates over the medium term will be more modest compared with the high rates associated with the mid-2000s.

Economic growth [3] accelerated to 5.7 % in the first half of 2015, driven by high public investment and the brisk performance of the agriculture and non-oil manufacturing sectors. Oil GDP grew by 0.6 % in this period due to a significant increase in oil refining, and growth of the non-oil sector accelerated to 9.2 % compared to 7.7 % in the first half of 2014. The agriculture and non-oil manufacturing sectors (including food processing, chemicals, and production of construction materials) recorded a 12 % growth in the first half of 2015. Non-tradable sectors such as wholesale and retail trade expanded significantly, while construction and transportation grew more slowly than one year ago. The non-oil sector grew to 60 % of GDP compared to 51 % in the first half of 2014. Growth is projected to average 2.4 % per year over 2015 [6].

Oil production will continue to decline, and the Government's capital expenditures will be constrained by lower oil revenues. Public investment is projected to decline to 10.3 % of GDP on average during 2015, reducing non-oil GDP growth to less than 4 % a year. In contrast, investment in the oil and gas sector will significantly increase in 2016 and 2017, due to the construction of major gas pipelines.

Table 1

Main macroeconomic indicators, 2014

Indicators	Amount in USD
GDP	64,191,025,641
GDP of non-oil sector	30,980,384,615
Total volume of industrial production (works & services)	44,288,974,359
Total volume of non-oil industry production	7,310,000,000
Total volume of agricultural, forestry and fishery production	5,803,076,923
Foreign trade turnover	33,151,410,000
Export	24,643,310,000
Import	8,508,100,000
Income of state budget	14,921,666,667
State budget expenses	14,598,974,359
State budget surplus	322,692,307
Household Income	39,273,717,949
Income per capita	4,337

Source: [2]

The regional development in Azerbaijan is an important component of sustainable socio-economic development carried out successfully in the country.

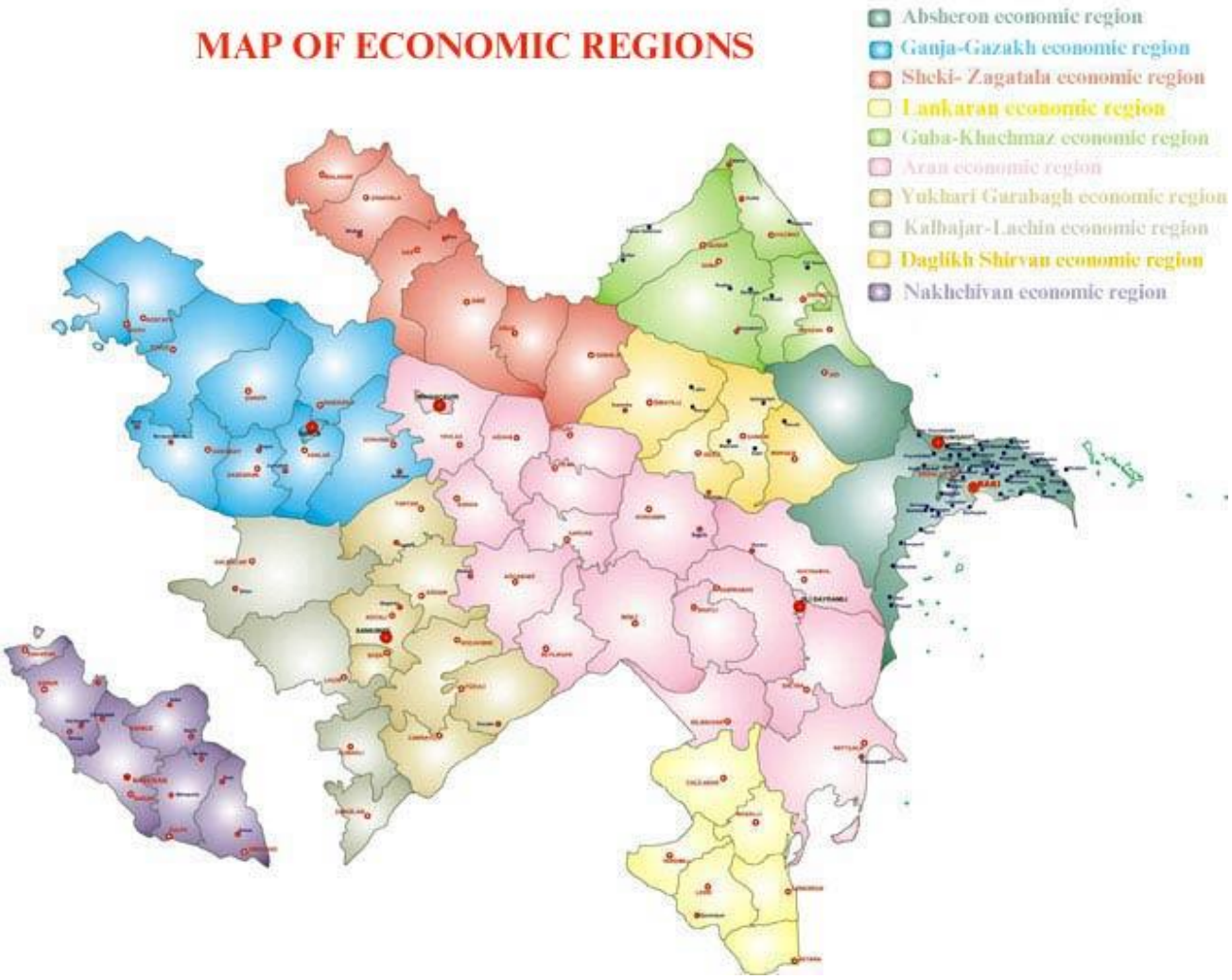
Experience in development of regions showed that the most effective and innovative method for regional development in Azerbaijan is a program-targeting method. The premise in the formation and implementation of regional development program requires advance provided a set of management approaches and organizational actions. This approach allows to analyze and present state of the regional economy, at the same time the structure of the regional economy, in collaboration with the national economic interest of the country. However, achievement of long-term strategic objectives requires a systematic approach. To achieve long-term strategic goals of the country required a systematic approach to determine the significance and role of the regions in the development strategy, the principles of formation of structure of regional economies, to identify common patterns and take into account the specific characteristics of particular regions.

Approved by the Decree of the President of the Republic of Azerbaijan on February 27, 2014 "State Program on Socio-Economic Development of the Republic of Azerbaijan in 2014-2018" [7] plays an important role not only in the solving of problems in the regions, but in the

development of the national economy in a new direction. The implementation of the State Programme is important for the development of the country economy, and plays a key role in ensuring macroeconomic stability, expansion of the entrepreneurship in the regions, establishment of new enterprises and creation of new jobs, implementation of large infrastructure projects, improvement of the communal services, and eventually, further improvement of social wellbeing and poverty reduction.

Azerbaijan is administratively divided into 10 economic regions:

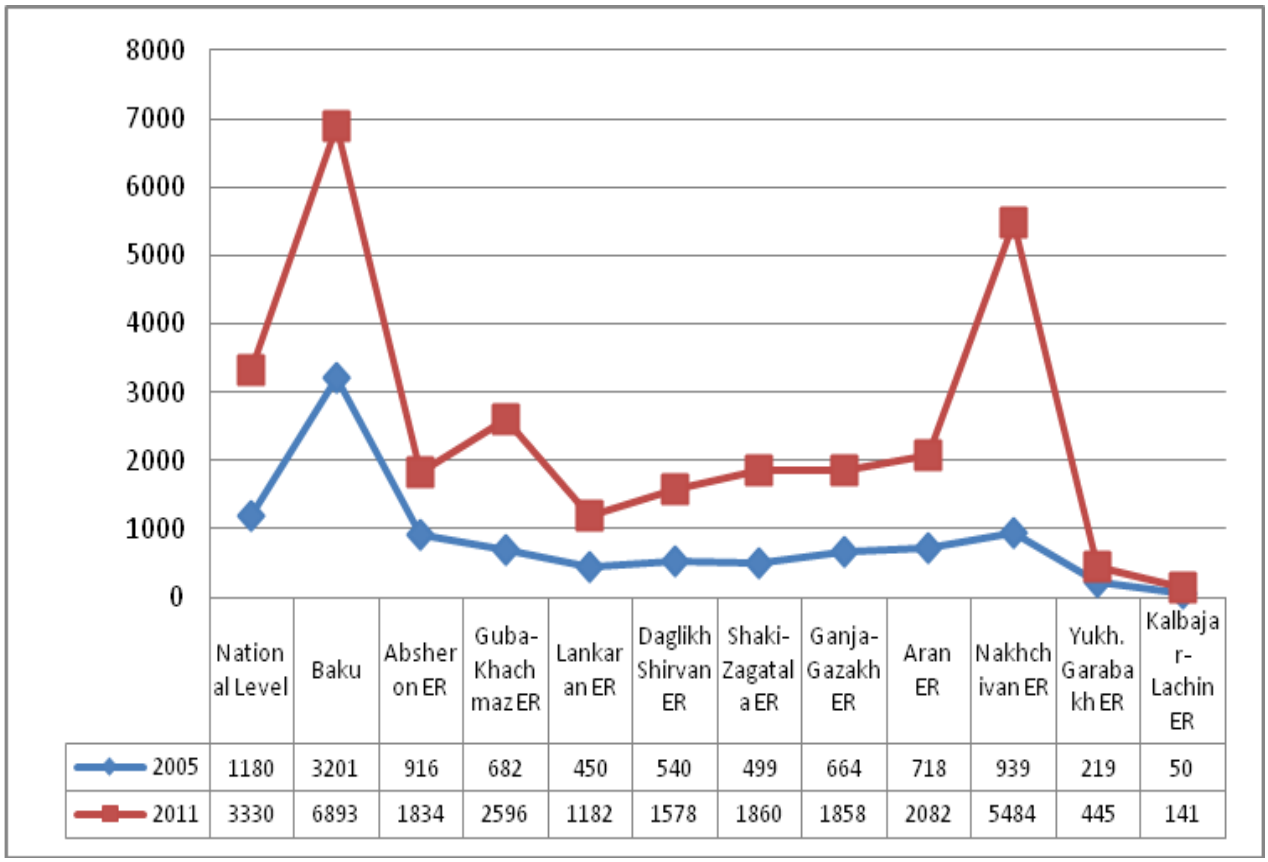
- 9 regions (subdivided into 59 districts and 11 cities):
- and 1 autonomous republic (Nakhchivan – subdivided into 7 districts and 1 city).



Picture 1. Map of economic regions
Source: [8]

Economic regions must simultaneously meet a number of requirements of the international economy and the national economy. If we consider the economic situation of the regions of Azerbaijan, the level of development all of them can be divided into: developed regions, which include the Absheron, Aran, Ganja-Gazakh economic region; developing it - Nakhichevan and Guba-Khachmaz economic regions; partly developed regions, mostly Lenkoran, Sheki-Zakatala and Shirvan economic regions; and depressed regions - Yuxari Karabakh and Kalbajar-Lachin economic regions.

Significant differences between Baku city and the Economic Regions (ERs) exist in GDP per capita. Between 2009 and 2013, a significant increase (over 2 times) in GDP per capita has been observed in the Nakhchivan, Absheron and Shaki-Zagatala ERs. This was caused by the huge capital investments made in these ERs by the Government. The lowest regional GDP per capita was recorded in Lankaran ER, this excludes the occupied Yukhari Karabakh ER. The breakdown of GDP by sectors shows that agriculture is a leading activity in all ERs, except Nakhchivan and Absheron, where industry is a leading sector. However, in comparison with 2009, the share of agriculture in GDP has relatively decreased in 2013. This is related to the rapid development of the construction and service (tourism, trade) sectors in regions during recent years.



	National Level	Baku	Absheron ER	Guba-Khachmaz ER	Lankaran ER	Daglikh Shirvan ER	Shaki-Zagatala ER	Ganja-Gazakh ER	Aran ER	Nakhchivan ER	Yukh. Garabakh ER	Kalbajar-Lachin ER
2005	1180	3201	916	682	450	540	499	664	718	939	219	50
2011	3330	6893	1834	2596	1182	1578	1860	1858	2082	5484	445	141

Picture 2. Dynamics of Gross product production P.C (in AZN)
Source: [6]

The main information about the regions in showed below in the table.

Table 2

Background information about the Regions in Azerbaijan

Name of Region	Administrative districts of the ER	Area	Population	Centre of the region	Main sectors of the economy
Absheron ER	Sumgait city, Absheron district and Khizi districts	3.29 thsd. km2	529.1 thsd.	Sumgait	Industry and service
Guba-Khachmaz ER	Shabran, Khachmaz, Guba, Gusar and Siyazan regions	6.96 thsd. km2	505.4 thsd.	Guba	Agriculture, Tourism
Lankaran ER	Astara, Jalilabad, Lerik, Masalli, Yardimli, Lankaran regions	6.07 thsd. km^2	855.7 thsd.	Lankaran	Agriculture, Manufacturing, Tourism including folk art
Daglig (Mountainous) Shirvan ER	Agsu, Ismayilli, Gobustan and Shamakhy regions	6.06 thsd. km^2	292.0 thsd.	Shamaki	Agriculture, Manufacturing, tourism including folk art
Shaki-Zagatala ER	Balakan, Gakh, Gabala, Oguz, Zagatala, Shaki regions	8.96 thsd. km^2	581.7 thsd.	Shaki	Agriculture, Industry, Tourism including folk art
Ganja-Gazakh ER	Agstafa, Dashkasan, Gadabay, Geranboy, Goygol, Gazakh, Samukh, Shamkir, Tovuz regions, Ganja city and Naftalan town	12.48 thsd. km^2	1,205.2 thsd.	Ganja	Agriculture, Industry, tourism including folk art
Aran ER	Agdash, Agjabadi, Barda, Beylagan, Bilasuvar, Geychay, Hajigabul, Imishli, Kurdamir, Neftchala,	21.43 thsd. km^2	1,863.5 thsd.	Yevlakh	Agriculture and Industry

Source: [8]

Relevant central and local bodies of the executive power are responsible for the implementation of the State Programme. The coordinator of its implementation is the Ministry of Industry and Energy of the Republic of Azerbaijan. The implementation of the activities planned for each year in the State Programme shall be included in the State Investment Programme drafted for the respective year.

State Programmes on regional development, which is identified as a priority in the socio-economic development of the country and plays key role for ensuring of regional balance through effective utilization of oil and gas revenues, have contributed to the stepping up business activity of the people, further expansion of entrepreneurship in regions, implementation of infrastructure projects, creation of new enterprises and facilities to produce competitive and export-oriented goods in compliance with international requirements, and have improved considerably qualitative indicators characterizing the citizens wellbeing.

The main objective of the "State Programme on Socio-Economic Development of Regions of the Republic of Azerbaijan for 2014-2018" shall be continuation of activities aimed at development of the non-oil sector, diversification of economy, rapid development of regions, in particular, further improvement of infrastructure and social services related to rural development. During the 2014-2018, the Programme proposes to implement a large-scale development of the agricultural sector, industrial, social and market infrastructure. As a result, a lot of tasks will be achieved: sustainable energy, gas, heat, water supply of regions; implementation of projects for the construction, reconstruction and development of roads and other infrastructure; improvement of the ecological situation in the regions; reconstruction and development of international standards of such objects of social and cultural infrastructure, education, health, culture, sports, tourism; opening of new, but mostly permanent jobs; development of small and medium enterprises in the non-oil sector and the establishment of new businesses, and as a result all the further improvement of living standards, not only of specific regions and across the country.

Agriculture and rural sector

Agriculture is one of the traditional economic activities in Azerbaijan. Historically, vine-growing, silk-worm breeding and fruit-growing activities have been widely applied in the country. As most part of the country is mountainous areas, cattle-breeding activities have any important role in income-generating activities of local populations.

Agriculture is strategic sector for Azerbaijan and a key component of the countries non-oil economy. While the agriculture sector accounts for only 7% of GDP it is a key employer, providing income and employment for about 40% of the total workforce (employed and self employed). Agricultural sector plays an important role in food security and in improving the socio-economical situation in rural regions.

Regards the structure of agricultural lands[9], 1.714.959 ha are cultivated lands, 161.081 ha are perennial crops, 109.709 ha are hayfields, 259.037 ha yare yards, 2.538.318 ha are pastures, and other 1.039.893 ha are forest and 2.820.509 ha are other lands.

Irrigated lands constitute 1/3 part (1433 thousand ha) of total agricultural lands, but 90-95% of agricultural production is provided by these lands. Approximately 30% of irrigation (556 thousand ha) is provided by mechanical means. The total length of irrigation channels is 51,755 km from which 2,184 km are main channels, 8,014 km are channels between farms and 41,577 km channels inside farms.

Total agricultural production in the country was 5801.5 million USD in 2011, from which 2999.7 million USD from crop production and 2801.8 from cattle-breeding activities.

Over half of total income from animal husbandry comes from cattle-breeding, which mainly occurs in the Kura-Araz Lowland and in foothill regions. Cattle, sheep, and goats encompass the majority of animal husbandry. Sheep breeding for meat and wool is most prominent in mountainous regions, and poultry farming is becoming increasingly profitable due to its production of meat, eggs, and down.

In 2010, total agricultural export was 400.4 million dollars from which 166.2 million from crop production, 18.2 million from livestock products and 215.7 million from agro-processing goods [4].

Agriculture still faces difficulties though; in many regions, precipitation is both inadequate and inconsistently distributed. Due to the river network, water resources are unevenly distributed across Azerbaijan. Total water resources of Azerbaijan are about 39 km^3, of which about 29.3 km^3 are surface waters and 8.8 km^3 are groundwater. Insufficient precipitation and uneven distribution over the year are problems for agriculture. As a result, roughly 33% of agricultural land is irrigated and it is this land that accounts for more than 80% of Azerbaijan's total agricultural output.

Flooding affects 300 km^2, and every other year washes out up to 1 million m^3 of soil and causes significant damage. Mining operations and other human impacts lead to another 30,000 ha of land to be unusable for cultivation. In 2010, cereal production fell 33% from 2009 and was 14% below the average annual production between 2005 and 2009, with much of this drop attributed to flooding disaster [1].

Soil degradation occurs on a large portion of land suitable for agriculture due to erosion, salinity, bogging and chemical pollution In Azerbaijan, 96% of human-induced degradation is due to agricultural activities. Erosion affects 3.7 million ha within Azerbaijan, 0.7 million ha of which are intended for agriculture. Erosion is naturally caused from wind, water, gullies and irrigation, but also through lack of proper land management, poor cultivation practices, over grazing, reduction of forests and vegetation, and other human factors [5].

Salinity affects 1.2 million ha, 600,000 of which are irrigated lands. These lands can no longer be cultivated because of poor drainage, lack of appropriate water impoundments, and/or inundation of the coastal zone.

Government policy for the agriculture and rural development sectors

The government is providing measures for development of rural areas in 3 aspects: development of socio-economic infrastructure of the regions, provision of reforms in the main economic sector of the region, mainly agriculture, and implementation of different programmes / projects to support business environment. As agriculture is playing an important role in the regional economy and it is the main source of income for the rural population, initial reforms have been launched in this sector.

Agricultural reforms gave for countries agriculture, once a prosperous sector, and a chance of revival. Generally, reforms have been provided in 2 phases: first and second. First reforms in the countries' agrarian sector were embarked in 1996. Land reform and privatisation of state property has served as a basis of reforms in agrarian industry.

Regarding second phase of agricultural reforms, government has launched several programs and approved decrees such as "State Program on development of small and medium size entrepreneurship in 2003-2005", decree on "Measures on improvement of management in agrarian sector" and decree on "Additional measures on extending leasing in agrarian sector" considering establishment of "Agro-leasing Joint Stock Company". Government also has provided allocation of funds equalling to 100 million USD per year to support wheat producers each year [1].

The key documents setting out the Government policies for the country, agriculture, rural and agro-industry development include:

(i) the State Programme on Socio-Economic Development of the Regions of Azerbaijan for 2009-2013 that sets out the re-establishment of agrarian processing enterprises, establishment of new manufacturing firms, increase of profitable use of natural resources, establishment and development of the necessary infrastructure for regional development;

(ii) the State Programme on Poverty Reduction and Sustainable Development for 2008-2015;

(iii) the State Programme on Ensuring Reliable Population in food provision" for 2008-2015.

It should be mentioned that Government agencies play key roles in development initiatives. The Cabinet of Ministers, National Assembly, different Ministries and agencies are playing the main role in the planning and preparation of State Development Programs. Different international development agencies as World Bank, IMF, IFAD are supporting the government either in preparation strategies, programs and projects or during implementation, stage by stage, providing technical and financial assistance.

The agricultural sector is a key component of Azerbaijan's non-oil economy, with great potential for competing on internal and external markets, and has significant potential for boosting export revenues for the country. While the sector only accounts for 7 % of GDP, it is still a key source of jobs and is a priority in the context of food security. The sector also has a strong multiplier effect, stimulating growth and diversification in the non-farm rural economy. Although agriculture accounts for only 6 % of GDP, it is a key employer, providing employment for about 39 % of the workforce and generating two-fifths of household income in rural areas. After experiencing a major decline during the transition period, the sector began to recover in 1998 and currently presents significant business and trade opportunities [4].

Table 3

Main sub-sectors of agriculture in Azerbaijan

	Plant-growing	Cattle breeding
Country	**x**	
Baku	**x**	
Absheron ER		**x**
Guba-Khachmaz ER	**x**	
Lankaran ER	**x**	
Daglikh Shirvan ER		**x**
Shaki-Zagatala ER	**x**	
Ganja-Gazakh ER	**x**	
Aran ER		**x**
Nakhchivan ER	**x**	
Yukhari Garabakh ER	**x**	

Source: [2].

The Government has launched a number of state programs to address some of the challenges in the agriculture sector.

A recent Presidential Decree outlines some key reforms to be undertaken in the near future, and a new agricultural strategy (2015–2020)[3] is being prepared.

The country's irrigation subsector development strategy was outlined in the State Program on Amelioration and Irrigation and through a Presidential Decree on developing the water and irrigation sector.

Located strategically on the legendary Great Silk Route, Azerbaijan recognizes the importance of developing an efficient and affordable network of roads and infrastructure facilities capable of meeting the needs of its rapidly growing economy. The length and coverage of Azerbaijan's road network provide the basic capacity for interregional road transport and connectivity to neighboring countries. However, a significant share of the total network, including about 80 % of local roads, requires expensive rehabilitation and upgrading. Modernization of the railway infrastructure and rolling stock is being carried out under the State Program on the Development of the Railway System in Azerbaijan.

One of the Government's key priorities is to reform the solid waste management sector. A dramatic improvement of the sector took place in Baku following the rehabilitation of the Balakhani landfill and improvements to the collection system. The Government is currently preparing its national Solid Waste Strategy and has undertaken a review of the legal framework governing the sector. Recent efforts include the rehabilitation of oil-polluted lakes in the greater Baku area.

In 2012, the Government endorsed a new vision document "Azerbaijan 2020: The Vision into the Future" which lays the foundation for a transition from a traditional economy to a knowledge-based economy, including the emergence of knowledge-intensive products. The vision entails Azerbaijan becoming internationally competitive, economically and politically developed, and having GDP per capita more than double to $13,000 by 2020[3]. It also envisages economic diversification and expanded opportunities for citizens through non-oil sector development. The inclusive growth agenda consists of high social welfare; sustainable economic growth; broad opportunities and decent jobs for all; reduced regional inequalities; and remote villages having access to communication, health, education, and financial services.

The government is providing measures for development of rural areas in 3 aspects: development of socio-economic infrastructure of the regions, provision of reforms in the main economic sector of the region, mainly agriculture, and implementation of different programmes / projects to support business environment.

As agriculture is playing an important role in the regional economy and it is the main source of income for the rural population, initial reforms have been launched in this sector. Agricultural reforms gave for countries agriculture, once a prosperous sector, and a chance of revival. Generally, reforms have been provided in 2 phases: first and second. First reforms in the countries' agrarian sector were embarked in 1996. Land reform and privatisation of state property has served as a basis of reforms in agrarian industry.

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The key documents setting out the Government policies for the country, agriculture, rural and agro-industry development include:

- the State Programme on Socio-Economic Development of Regions of the Republic of Azerbaijan for 2014-2018 (and the previous State Programme for 2009-2013)[1] that sets out the re-establishment of agrarian processing enterprises, establishment of new manufacturing firms, increase of profitable use of natural resources, establishment and development of the necessary infrastructure for regional development;

- the State Programme on Poverty Reduction and Sustainable Development for 2008-2015;

- the State Programme on Ensuring Reliable Population in food provision for 2008-2015.

It should be mentioned that Government agencies play key roles in development initiatives. The Cabinet of Ministers, National Assembly, different Ministries and agencies are playing the main role in the planning and preparation of State Development Programs. Different international development agencies as World Bank, IMF, IFAD are supporting the government either in preparation strategies, programs and projects or during implementation, stage by stage, providing technical and financial assistance [5].

Sectors specific SWOT analysis

At the present time the economy of Azerbaijan is developing thanks to political stability and significant oil revenues. The main developing sector is the oil industry and other related industries. Besides, other non-oil sectors including industry, transportation, communication and tourism are also in a development stage enjoying flows of both government and private investment. However, this is not observed in rural areas of the country, where the main economic sector is agriculture and related industry.

Despite of huge investments in rural areas under different State programmes, there are still remaining constraints in agricultural and rural development that could be listed as following:

- *Insufficient development of infrastructure, both social and economic in remote rural areas (insufficient quality of roads, water supply, disfunctional irrigation and drainage systems);*

- *Underdeveloped agricultural markets and disorganized market chain;*

- *Insufficient business environment in rural areas making rural areas less attractive for big investments by private sector;*

- *Not enough developed public services, including extension services, and institutional capacity (lack of or inefficiency of public services such as agricultural extension services, precise research and market information services reduces the ability to take advantage of market opportunities);*

- *Undeveloped agro industry (mainly domestic value-added agro-processing) and weak access to markets;*

- *Insufficient level of skills and knowledge on modern technology of private entrepreneurs and farmers;*

- *Not enough support for local markets (in terms of promotions for local producers) in competition with relatively cheaper imported agricultural products.*

Although the list of existing constraints in agricultural and rural development is large, there are also significant opportunities including:

- *Rural development is a priority issue for the government (amount of investments in rural infrastructure and economy increases year-by-year);*

- *There significant State programmes functioning aiming to achieve agricultural and rural development;*

- *There is already established mechanism of provision with acceptable financial means (credits) for local producers through State Fund for Support to Entrepreneurship and State Agency on Agricultural Credits;*

- *The main sectors of rural economy, such as agriculture and tourism, have great potential for development;*

- *Different international organizations are interested in agricultural and rural development issues and provide significant support to the government in the preparation of strategies, program and projects in rural areas.*

Relevant International Aid Efforts in Region

After gaining political stability and slight grow in country economy government of Azerbaijan has started to provide structural reforms and development projects. Since 2000, regional development has taken top place in priority list of urgent interventions. Close cooperation with different international funds as IMF, World Bank, IFAD, FAO [3], Asian Development Bank and other international donors was launched to involve substantial investments to rural development projects. Substantial Government funds started to be used for development program and projects since 2004, as well.

The Regional Development Budget Support Programme (referred to as RDSP SBS, under AAP 2011) targeted the development of rural areas (with total cost of 20 mln EUR allocation via budget support less 0,5 mln EUR for TA via project mode) by establishing business incubators, accessible small loan programmes, and developing the capacity of government ministries dealing with regional development, including improving statistical data.

The further EU's future support in this area (AAP 2015) can therefore build on and complement the results achieved (and to be achieved) in the implementation of on-going (and planned) programmes under the NIP 2011-2013, such as the Pilot Regional Development Project (PRDP) and the Rural Development Budget Support Programme (AAP 2011) mentioned above.

The World Bank's Agricultural Competitiveness Improvement Project [2], US$53 million, started at the end of 2014. The overall objective is to facilitate the access of agricultural producers to markets by strengthening sanitary and phytosanitary services, enhancing selected value chains and providing financial services to agribusiness enterprises.

Rural and agricultural market development are core areas of intervention under the Swiss Cooperation Strategy for the South Caucasus 2013-2016, which aims at reducing economic disparities and supporting the economic and political transition process of the countries in the region. Switzerland implements and plans to increase support for agricultural development, in particular through 3 main interventions: 1. SDC funded Facilitating Access to Animal Resources and Markets (FARMS), 2. SECO Funded Azerbaijan Investment Climate Project (AZIC II), and 3. SECO funded Feasibility Study on Credit Guarantee Schemes for agricultural lending and Agri-Finance.

USAID [10] has made significant investment in the agricultural and agribusiness sector to ensure this critical segment of society receives the appropriate inputs, technology, information and training to be competitive in world markets and be provided with sustainable job opportunities. For instance, under Agricultural Business Assistance and Development Project Business Development Resource Centers have been opened in each of nine economic regions of Azerbaijan. The Centers serve as the focal point for micro and small enterprise development by assisting members to establish market linkages, offer training and technical assistance, link rural business to markets and other economic opportunities, and provide grants to community organizations for viable income generating activities.

One of the most important projects supported by USAID was “Supporting Azerbaijan’s accession to the World Trade Organization through diversifying its exports” project. By helping Azerbaijan accede to the World Trade Organization (WTO) and supporting business climate reform, the Azerbaijan Trade and Investment Reform Support Program helped encourage economic growth through increased trade & investment in the non-oil sector.

Co-funded together with the Government of Azerbaijan, USAID's project "Socio-Economic Development Activity in Azerbaijan" (SEDA) aims at contributing to the

advancement of the socio-economic development at the regional level in Azerbaijan by providing support for community-driven socio-economic projects and strengthening stakeholder participation in setting priorities for socio-economic strategies and programs in the regions.

Conclusions

As for summary of analyzes provided in this article related to agricultural and rural development policy, institutional structure and capacity, bottlenecks and opportunities, both on country, bilateral and multi-lateral context, the followings could be mentioned:

- *Agricultural and rural development is one of the priority issues for the government of Azerbaijan and it is supported by a number of long-term development programmes;*
- *Government of Azerbaijan successfully cooperates with international organizations dealing with agricultural and rural development issues;*
- *Azerbaijan is interested in participation in ENPARD initiative, including initiatives in bilateral and multi-lateral*

The following could be mentioned as recommendations at country level for Azerbaijan:

- *Enhancing public services (agricultural research, education, extension services) and institutional capacity for efficient policy making, programme management and planning of targeted public investment and funding;*
- *Improve business environment (including agricultural insurance system) and promote formation of producers (farmers) units (associations);*
- *Increase capacity of private stakeholders in the field of quality and standards (HACCP, ISO) in higher value markets*

A durable reduction in rural poverty and inequalities requires the expansion of non-farm employment opportunities in rural areas. However, prospects for growth in both farm and non-farm employment are limited by shortcomings in rural investment climates, particularly in the form of inferior communication networks, poor physical infrastructure, underdeveloped financial services, and weak market linkages.

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About authors

NATALIIA KONSTANTIUK

PhD, Associate Professor, Ternopil Ivan Puluj National Technical University, Ukraine
konstantiuknataliia@gmail.com

Nataliia KONSTANTIUK is an Associate Professor, Ternopil Ivan Puluj National Technical University, Ukraine.

Scientific interests: higher education, investments, human capital, competitiveness, sustainable development.

DU HONG WEI

Professor of Philosophy, China
duhongwei1717@163.com

Du HONG WEI is a Professor of Philosophy, China. He has graduated Chinese and Ukrainian universities and continues working as a Professor of philosophy, Chinese language, business development. He works on development of the experts' network between China, France and Ukraine on cultural and economic exchanges.

Scientific interests: cultural exchanges, business communications, economic development, international cooperation, linguistic philosophy.

ANDRIY STAVYTSKYY

PhD in Economics, Associate Professor, HERE team member, National Taras Shevchenko University of Kyiv, Ukraine
a.stavytskyy@gmail.com

Andriy STAVYTSKYY is an Associate Professor and HERE team member, National Taras Shevchenko University of Kyiv, Ukraine.

Scientific interests: econometrics, modelling, time series, informational systems, economic security, education reforms.

ARPINE DEROYAN

Master of Economics, University of International Business and Economics, International commercial law, China/Armenia
ronka-arpine@mail.ru

Arpine DEROYAN is a student at the University of International Business and Economics, Beijing, China/Armenia.

Scientific interests: legal systems, banking system, public international law, FDI, Armenian market, Chienese economic and cultural development.

ANDRIY VOZNENKO

PhD student, Financial Management Academy, Kyiv, Ukraine
voznenko@minfin.gov.ua

Andriy VOZNENKO is a Head of Finance Industry Division at the Finance Industry Department, Ministry of Finance of Ukraine.
He is a PhD student at the Financial Management Academy, Kyiv, Ukraine.

Scientific interests: regional development, State financing of industry, State investment programs.

FUAD SHAHVALIYEV

PhD, Independent Expert on Economics and Finance, Azerbaijan
shakh@hotmail.com

Fuad SHAHVALIYEV is a Doctor of Economics. He works in financial, economic and energy sectors in Azerbaijan and other CIS countries.
The Member of Financial-Banking Council of CIS countries and the former member of the Council of CIS Capital Market Regulators.

Scientific interests: Management, macroeconomic analysis, development of financial, economic and energy sectors, regional development, budgeting and monitoring systems in Azerbaijan and other CIS countries.

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"Strategic Management: Institutions, Innovation and Internationalization. Moving from the Crisis to Sustainability"

16-17 November 2016

The aim of the conference is to set a platform for the discussion and exchange of views on important trends and development of strategic management among academicians, strategists, and practitioners from different countries. The global challenges nowadays provoke a rough breach in strategic management, asking questions and involving major transformations. How can business most effectively address the challenges brought by institutional dynamics? What innovation models are particularly effective in modern societies? What are the unique challenges of internationalization? How should local and multinational companies approach corporate social responsibility and sustainable development? How can we contextualize such challenges and advance our theoretical development? Organizations around the world are contemplating alternative approaches to strategic management, considering the National, regional and global implications. Through this Conference, the participants are provided an opportunity to present their valuable scientific contributions and to establish an international network among those who volunteer to communicate and study together in the field of strategic management. The Conference carries forward spreading knowledge and awareness about strategic management in different countries. This two days strategic management conference will offer participants the unique opportunity to hear how institutions prepare for and respond to crises, and share views, experiences and the latest strategic management thinking with like-minded professionals from business, government and academia.

Conference participants: scientists, PhD students, experts, business, NGOs are invited to take part in the conference. The Conference is recommended for those who want to be part of the development and discussion of the latest strategic management thinking.

The conference will provide an excellent opportunity to disseminate, share and discuss the impact of university-university, university-business and business-business interactions.

Main conference topics for discussion:

- Governance and institutionalization;
- Strategic human resource management;
- Financial management;
- Organizational learning;
- Strategic intelligence;
- Knowledge management;
- Marketing strategies;
- Strategic networking;
- Strategic projects and programs;
- Innovations and culture exchange;
- Regional organisations and local and National initiatives.

Conference publication: the conference materials will be collected and published in a special volume of the Regional Innovations Journal.

The conference is organized by the InterRegioNovation Association and supported by the International Business Institute (Paris, France), the International Forum of the Territories (France), FRANCeXP Association (France), Association

"Baltic InterRegional Development hub" (Latvia), Department of Economic Cybernetics, Taras Shevchenko National University of Kyiv (Ukraine), Department of Economic Theory, Ternopil National Economic University (Ukraine), Eastern-European Institute for Cross-Border Studies (Kharkiv, Ukraine).
The conference fee is 20 euro.

Please submit the application with your thesis (2500 words maximum) before **November 07, 2016** to the Conference Committee at **info@irn.center**
Application form should include the names of authors, position, institution, post address, phone, e-mail.
The conference language is English but theses will be accepted in English and French.
The Organizing Committee is entitled to selecting papers to be presented at the conference.

Contact information:
InterRegioNovation Association
16, rue de la roche, Crégy-lès-Meaux, 77124, France
Tel. : +33 6 48 18 86 95
info@irn.center

Contacts:

E-mail: info@interregionovation.eu
Address: 16, rue de la Roche,
Crégy-lès-Meaux, 77124, France
Tel. : +33 648 188 695

www.interregionovation.eu