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Főszerkesztő:

Prof. Dr. Gulyás László – Szegedi Tudományegyetem

Szerkesztő:

Dr. habil. Keczer Gabriella – Szegedi Tudományegyetem

SZERKESZTŐ BIZOTTSÁG:

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Felelős kiadó:

Egyesület Közép-Európa Kutatására
6727 Szeged Lőwy Sándor utca 37.
Elnök: Prof. Dr. Gulyás László habil. PhD, PhD
e-mail: laszlo.gulyas65@gmail.com

Technikai szerkesztő:

Kádas Gabriella

Nyomda:

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ECONOMIC DIVERSIFICATION ISSUES IN OIL-EXPORTING COUNTRIES. CASE OF THE REPUBLIC OF KAZAKHSTAN

GAZDASÁGI DIVERZIFIKÁCIÓS KÉRDÉSEK OLAJ-EXPORTÁLÓ ORSZÁGOKBAN. A KAZAH KÖZTÁRSASÁG

ERJAN AKHMEDOV PhD student

Faculty of Economic Science, Doctoral (PhD) School for Management
and Organizational Science, Kaposvar University

Abstract

This paper addresses diversification efforts of several major oil exporting countries including the Republic of Kazakhstan and attempts to analyse what are the reasons preventing economic diversification in oil-exporting countries in general and in Kazakhstan in particular. Nowadays, it is widely accepted that commodity-based economic models and policies make countries vulnerable to commodity price fluctuations and result in weaker growth in the longer term. However, practical implementation of economic diversification measures in different countries brought to light a lot of problems, which need to be addressed and solved properly. In fact most of government economic diversification problems in most of oil exporting counties failed. The author of this document does not share wide-spread optimism about economic diversification measures in the existing economic model of Kazakhstan. He is of the view that before undertaking any further step towards economic diversification, it is important to understand the reasons, which resulted in the failures of all previous economic diversification programs. Otherwise, new economic diversification measures can become just another dissipation of limited financial resources. This paper is an attempt to address this important topic.

The paper finishes with a set of measures, which can be recommended to the Kazakh government to make the Kazakh economy more sustainable to future impacts of resource price fluctuations.

Keywords: economic diversification, oil exporting countries, Kazakhstan

1. Introduction and research question

The review of the current situation with diversification efforts in different resource-dependent countries shows their little success. In the periods of high oil prices, diversification does not seem urgent and important, so difficult structural reforms are often postponed. When oil prices go down it usually appears that time and financial resources required have been wasted. It is interesting that though the need to diversify economies away from dependence on natural resources is widely acknowledged, these countries keep making the same mistake for decades. This is especially true when their oil production horizon is still long.

So, diversification usually follows a difficult path. Examples given in this document serve good illustrations to this statement. The reasons for failures of economic diversification policies are deep-rooted and should be properly studied. To achieve this goal, this paper attempts to look at economic diversification efforts in oil-exporting countries in general and in Kazakhstan in particular.

The paper suggests that economic diversification should not be considered as the one and only solution. So, the research question is whether having so many examples of economic diversification failures there is a need to consider economic diversification as a single solution for overcoming consequences of oil price fluctuations and achieving long-term economic sustainability.

The paper finishes with a set of measures, which can be recommended to the Kazakh government to make the Kazakh economy more sustainable to future impacts of resource price fluctuations.

2. Literature review

Studying what have been done in this area by other authors, we see that there are plenty of examples giving additional confirmations to the fact that in spite of numerous appeals, economic diversification efforts in different countries usually fail.

For example, the famous writer and politician Pietri (1936) appealed for diversifying the Venezuelan economy using oil revenues in his famous article “To Sow the Oil” published back in 1936.

Hvidt (2013: 16. p.) notes that “over the last five decades, the GCC¹ states have taken a number of important steps on the route to diversifying their economies away from dependence on oil and gas... Data shows, however, that the countries remain in a position where the oil sector continues to dominate the economy, and that few of the industries and services established would survive in a post-oil era... Viewed in this manner, the diversification strategy has largely failed.”

This opinion is shared widely. Adelaja (2016) notes that “For more than a decade, Russia has been attempting to diversify, innovate and modernize its economy, but its efforts thus far have failed to come to fruition.”

“Nigeria’s over dependency on oil has contributed to the poor management of human capital/resources which has led to the migration of many talented citizens of the country to other countries in search of better life. Furthermore, the data show that the neglect of agriculture has, in addition, led to the constant depreciation in GDP of the country” points out Uzonwanne (Uzonwanne, 2015).

Bhaskaran (2007: 1. p.) admits that “Brunei Darussalam has explicitly stated economic diversification as a major policy objective at least since the Third National Development Plan (covering 1975-1979) although references to the need for economic diversification go back as far as the Second National Development Plan (1962-1966). As part of the planning and conceptualization process for the various efforts at diversification, many studies have been commissioned, all of which have been well formulated with specific projects and recommendations. Yet... these efforts do not seem to have produced the desired results...”

Tombe & Mansell (2016: 1.p.) also address this important topic “But does diversification even matter? Economists, for centuries, have found gains from specializing in areas where we have a comparative advantage. Subsidizing certain selected industries therefore risks causing economic damage by distorting activity and displacing workers and investment from more valuable uses. Policy-makers should therefore focus on neutral policies: create a favorable investment climate, facilitate adjustment and re-training, encourage savings (including by government), and so on.”

¹ GCC - Gulf Cooperation Council. Its member states are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

3. Methods used

The research was conducted on the basis of a literature review, analysis of economic data and meetings with government employees and businessmen. Empirical and comparative approaches were employed in this document to analyze the reasons limiting success of diversification efforts in different countries and what lessons to be learned by the government of Kazakhstan in order to achieve real economic diversification. Data sources include: OPEC, World Bank, BP Statistical Review of World Energy, UNCTAD, UAE Embassy to the USA, Bruegel.org.

4. Experience of economic diversification efforts in selected oil-exporting countries

Diversification efforts in oil-exporting countries considered on the basis of the list of major oil producers.

Table 1: 15 countries that exported the highest dollar value worth of crude oil in 2016

No	Country	Oil Export, US\$ bn	% of total crude oil exports	Fuel exports (% of merchandise exports), 2015	Concentration Index*	Diversification Index**
1	2	3	4	5	6	7
1.	Saudi Arabia	133.3	17	78.4	0.529	0.757
2.	Russia	86.2	11	63	0.316	0.644
3.	Iraq	52.2	6.6	99.97	0.972	0.914
4.	United Arab Emirates	51.2	6.5	42.5 (2014)	0.243	0.485
5.	Canada	50.2	6.4	21.32	0.140	0.377
6.	Nigeria	38	4.8	91 (2014)	0.717	0.830
7.	Kuwait	34.1	4.3	89	0.598	0.787
8.	Angola	32.6	4.1	95	0.934	0.895
9.	Venezuela	27.8	3.5	97.69 (2013)	0.748	0.847
10.	Kazakhstan	26.2	3.3	68	0.658	0.793
11.	Norway	25.7	3.3	57.7	0.334	0.637
12.	Iran	20.5	2.6	70.48 (2011)	0.455	0.735
13.	Mexico	18.8	2.4	6.08	0.122	0.414
14.	Oman	17.4	2.2	62	0.447	0.716
15.	United Kingdom	16	2	7.66	0.112	0.342

* Concentration index, also named Herfindahl-Hirschmann Index (Product HHI), is a measure of the degree of product concentration. An index value closer to 1 indicates a country's exports or imports are highly concentrated on a few products. On the contrary, values closer to 0 reflect exports or imports more homogeneously distributed among a series of products.

** Diversification index is computed by measuring the absolute deviation of the trade structure of a country from world structure. The diversification index takes values between 0 and 1. A value closer to 1 indicates greater divergence from the world pattern. This index is a modified Finger-Kreinin measure of similarity in trade.

The countries listed above can be divided into the following main groups. Kazakhstan is considered separately further below. Examples are provided to illustrate each group's performance.

Sources: OPEC, World Bank, BP Statistical Review of World Energy, UNCTAD²

² <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=120>

Group 1.: Countries heavily dependent on oil production with weakly diversified economies

This group includes such countries as Saudi Arabia, Kuwait, Oman and Abu-Dhabi emirate of the United Arab Emirates.

Nota bene: At first glance it looks obvious not to consider Abu-Dhabi and Dubai separately as they are parts of the same country – the United Arab Emirates. However, the two emirates have very contrasting roles in the international system. As per the information of the UAE Trade and Commercial Office “Abu Dhabi holds 94% of the UAE's oil reserves, or about 92.2 billion barrels.”³ So, as Davidson advises (2007: 38. p.) “the emirate (Abu-Dhabi) attempts to channel a large proportion of its surplus oil wealth into building a substantial buffer of overseas interest payments that can be called upon to stabilize the domestic economy should there be future oil price slumps or other such periods of austerity.” In contrast, as advised by the same author “By the mid-1990s Dubai’s non-oil sectors were already contributing 82 percent of the emirate’s GDP, but most remarkably (as the real estate and tourism strategies began to kick in) since then the non-oil share of GDP has increased to over 94 percent.”

Oil remains and in the foreseeable future will remain the basis of their economies, but these countries put some efforts into diversification. The results, however, are still very far from desired. Hvidt (2013) wrote that “Data shows, however, that the countries remain in a position where the oil sector continues to dominate the economy, and that few of the industries and services established would survive in a post-oil era. So the GCC⁴ states continue to be in the situation where they sell their hydrocarbons on the world market and use the proceeds to import almost all of their living requirements and large parts of their labour force. Viewed in this manner, the diversification strategy has largely failed.” The same author also advised that “Kuwait has done little to diversify its economy over the years.” Albassam (2015: 116-117.p.) points out that “The Saudi government has issued 10 development plans since 1970, each covering five years, and economic diversification is a main objective of all these plans.” He then points out “that, after more than 40 years of development plans aiming to diversify the Saudi economy, oil is still the main engine driving the economy”. Describing economic diversification efforts in Oman Asra Mubeen et al (2017: 11.p.) also conclude that “In spite of all these efforts, diversification of the economy remains in its nascent stage and the economic dependence on oil has not come down amidst low oil prices. Diversification in Oman has not achieved its expected results”.

It is worth pointing out that “...Abu Dhabi alone commands nearly 7 per cent of the world’s proven oil resources. As such Abu Dhabi is by far the wealthiest emirate, and sponsors development in the other emirates through its contributions to the budget of the Federation and through large off-budget payments to the other rulers...” (Hvidt, 2013).

³ As per the information of the UAE Embassy to the USA “Abu Dhabi holds 94% of the UAE's oil reserves, or about 92.2 billion barrels.” <http://www.uaetrade-usa.org/index.php?page=economic-sectors-in-uae&cmsid=48>

⁴ Gulf Cooperation Council (GCC) states include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Group 2.: Countries excluded from consideration

This group includes two different sub-groups:

Subgroup 2 A: Countries with already developed diversified economies.

This group includes Canada, Norway, the United Kingdom and with certain reservations Mexico. Due to the obvious reason, the author excluded these countries from consideration. One can consider Norway as not fitting this group. However, it is included because of its overall economic performance.

Subgroup 2 B: Countries excluded because of extremely difficult economic and political situation.

The author intentionally omitted Iraq as its economy was severely affected by recent wars and internal clashes and riots. Venezuela was also excluded as the country "where oil still remains the country's main and almost only export product – is going through likely the worst economic crisis in its modern history, partly triggered by a sharp drop in world oil prices preceded by over a decade of market-unfriendly policies" (Bahar, 2016). Smaller oil-exporting countries have been omitted for the sake of brevity.

Group 3.: Countries with very limited progress in economic diversification.

This group includes Nigeria and Angola, which show quite similar performance in economic diversification.

Countries of this group perform poorly in terms of diversification. In spite of widely declared need to diversify the economy, the countries continue to depend heavily on petroleum revenues. Onodugo et al (2015) point out that in 2015 petroleum export was more than 92% of Nigeria's export revenue and created more than 80% of the government's budget. Angola performs similarly. Golub & Prasad (2016: 3.p.) note that "Angola's economy revolves around oil and to a lesser extent diamonds, making it the second most concentrated in the world. Until the recent decline, oil and gas accounted for about 45% of GDP, 96-98 % of exports and 75% of government revenue... Diamonds provide another 5% of GDP and 1-2% of exports. Manufacturing and agriculture account for only about 5%-7% of GDP each, despite the fact that some 70% of the population is employed in agriculture."

The need to diversify national economies of this Group with a view to widen the sources of revenue and decrease dependency on the crude-oil sector has been reiterated by international financial organizations several times. Urgent and well-designed measures are required to improve the situation.

Group 4: Countries with relatively diversified economies implementing major diversification programs.

This group combines very different countries (Russia, Dubai emirate of the UAE and Iran), which put a lot of efforts in diversifying their economies.

In spite of numerous failures, this group is of the most interest for the purpose of this article as these countries manage to achieve at least partial progress in economic diversification. Because of this reason the group is considered in more details.

It is worth pointing out that two countries of this group namely Russia and Iran have relatively diversified economies and are to great extent independent of imports. However, their exports are not very diversified and this shows the missing competitive power of their economies. Also these two countries possess quite sizeable populations with Russia having more than 144 million citizens and Iran more than 80 million forming sizeable internal markets.

Appeals to diversify the Russian economy have been heard since the 90ths, but the country continues to rely largely on a commodity-based growth model. Numerous efforts to diversify the Russian economy and government's heavy investments in the promotion of high-tech industries produced very limited results. As stated by EBRD (2012: 11. p.) "despite significant state-led efforts since the mid-2000s, the Russian economy has not diversified". Moreover, the share of fuel exports in merchandise exports was constantly growing from 1998 to 2013. The decline of this share after 2013 can be attributed to the sharp decline in oil prices as physical volumes of fuel exports have been growing.

In 2014 the Russian government introduced import-substitution schemes to counteract the effects of Western sanctions. It is not clear yet whether these measures will yield substantial results. However, one example is already visible - weaker ruble and low energy prices assisted in the country's move towards retaking leadership in the world wheat trade. The U.S. Department of Agriculture forecasts Russia to become the biggest wheat exporter in 2016-17. Though sounding impressively, this has not helped much in reducing the share of fuel exports because of the initial large difference in export revenues.

Since the UAE was formed in 1971, the diversification of the economy away from petroleum has been a clearly stated government policy. According to the World Bank data (column 5), in 2014 the share of fuel exports in merchandise exports was equal to 42.5%. This figure is more typical for countries with diversified economies and the UAE is praised as having the most diversified economy in the GCC. However, this is mostly true for Dubai. Other emirates continue depending on oil revenues. In this regard, it is worth pointing out that Dubai's economy was severely affected by the world economic crisis, which began in 2008. In 2009 Dubai, which is often considered as a model of successful diversification, was on the brink of default and was saved by Abu Dhabi, which provided a generous financial support. Davidson (2007: 43.p.) also informed that "Abu Dhabi seeks to bolster its very different neighbour. One such link is Abu Dhabi's daily donation of 100,000 barrels of oil to Dubai. At current prices, this 'gift' represents more than \$650 million a year. Similar generosity was shown in the winter of 2001 and through much of 2002 when Abu Dhabi purportedly bailed out the Jumeirah International Hotel chain when its Dubai-based hotels (including the landmark seven star Burj al-Arab) were suffering close to zero occupancy rates following the September 2001 attacks." This means that Dubai's economic model is less sustainable even in comparison with most of the other less diversified countries.

World Bank's data on the share of fuel exports for the UAE (column 5) are fragmentary. However, even though one can see that this share decreased from 65.345% in 2007 to 42.496% in 2014, WTO (2016: 67.p.) is of the view that "the UAE remains highly dependent on oil, which represents approximately 75% of total government revenues".

The performance of Dubai's economy in 2008-2009 gave a warning alert that economic diversification, whose ultimate goal is to make economies sustainable to oil price fluctuations does not necessarily provide the desired results. Because of the unsustainability of the Dubai model of economic diversification and the high dependence of other emirates on oil revenues, the author abstains from including the UAE to the group of well-developed diversified economies.

Sanctions imposed on Iran for its nuclear enrichment program decreased its oil exports substantially, but may have helped the country to cope with the commodities slump by forcing it to diversify its economy. Clawson (2013) notes that "For years, Iran's leaders called for reduced reliance on oil but did little to meet that goal. Western sanctions have seemingly spurred them to action..."

The World Bank states that “The slump in oil prices has hurt the Iranian economy but by less than other oil producers in the region. The reason is that compared to other oil producers, the Iranian economy is more diversified and therefore less dependent on oil revenues. Oil accounts for about 30 % of government revenues.”⁵ This opinion is shared by Aasim Husain, Deputy Director of Middle East and Central Asia at the International Monetary Fund “Many of Iran’s neighbors are even more dependent on oil ... It is much more diversified than others in the region” (Barnato, 2016).

Another imposition of sanctions on Iran by the Trump administration in February 2017 can again negatively affect the country’s economic performance, but economic diversification remains to be a good mitigation measure.

Thus, keeping the political environment aside, Iran can be considered as a successful example of diversification.

Summarizing the above, it is possible to conclude that economic diversification efforts in most of oil exporting countries produced very limited (if any) results. Existing examples of successful diversification are either not sustainable like Dubai or fueled by mainly political reasons.

5. Economic diversification efforts in the Republic of Kazakhstan

Non-extractive industries in Kazakhstan⁶ are not only small, but have been shrinking over the last years. For instance, according to the information of the National Bank of Kazakhstan (2016: 24.p.) “the share of oil and gas industry in total GDP increased from 10.9% in 2001 to 25.2% in 2012, making the oil and gas industry one of the main drivers of GDP growth, and one that plays a vital role in Kazakhstan’s GDP structure.” The same source mentions that “soaring prices of oil, minerals, and other commodities have helped lifted GDP of Kazakhstan since 2000.” By the beginning of 2016 this share decreased again to about 20% of GDP, but this happened because of the decrease of world prices on these commodities.

Similarly, according to the World Bank’s data, the share of fuel exports in merchandise exports grew from 66.552% in 2007 to 76.627 in 2014 (except a small decline in 2012). In 2015 this share went down to 68.018%, but this again happened because of the decrease of world prices on these commodities.

Concentration and diversification indexes of Kazakhstan given in Table 1 above also typical of a non-diversified country: 0.658 and 0.793 respectively.

The situation is further complicated by the fact that price cycles of Kazakhstan’s main export commodities are very similar.

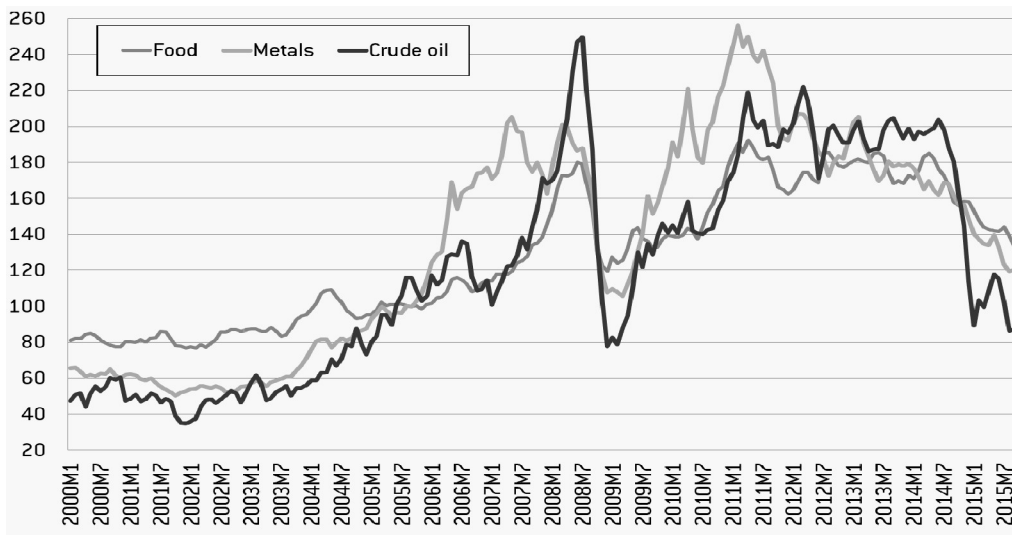
This means basically the following:

- Attempts to diversify away from oil into other major Kazakhstan’s export commodities like metals and grain cannot yield desired results;
- Kazakhstan should look for other areas for its diversification efforts. This is developed further below;
- In any case, over-reliance on extractive industries provokes macroeconomic cyclical economic instability.

⁵ World Bank’s publication on Iran’s Economic Outlook - July 2016 “How is Iran Reacting to Low Oil Prices?” <http://www.worldbank.org/en/country/iran/publication/economic-brief-july-2016>

⁶ In addition to the oil and gas production, there is a well-developed mining industry in Kazakhstan.

Figure 1: Commodity price indices, 2000-2015 (2005 = 100)



Source: <http://bruegel.org/>

Practically all the previous efforts of the Kazakh government to diversify the economy failed. A summary of the Kazakh government diversification efforts is given below.

In Kazakhstan the government has developed and is implementing the following:

1) The state infrastructure development program “Nurly Zhol” for 2015–2019. The goal of this program is the development of infrastructure to ensure long-term economic growth in Kazakhstan as well as the implementation of anti-crisis measures to support specific sectors of the economy in a situation of deterioration in the external markets. The key objectives of the program are the development of transport and logistics, industrial, tourism, energy, housing and communal services and education infrastructure development, improving the competitiveness of SMEs and agribusiness entities, support to domestic mechanical engineering, export promotion, ensuring product quality through the development of laboratory bases, etc. In short, this program is aimed at the comprehensive economic recovery of the country.

2) The Nationwide Anti-Crisis Plan of Measures and Anti-Crisis Action Plan of the Government and the National (Central) Bank to Ensure Economic and Social Stability in 2016-2018 (this is one document). It consists of 2 main parts: economic reforms to create a new structure of the Kazakh economy and prompt actions to stimulate growth and lending to the economy. This is the rolling plan, which will be adjusted in subsequent years.

3) The State Program of Industrial-Innovative Development of the Republic of Kazakhstan for 2015-2019. The State Program of Industrial-Innovative Development of Kazakhstan for 2015-2019 was developed in accordance with the long-term priorities of the “Kazakhstan-2050” Strategy and in order to implement the key objectives of “Accelerating economic diversification” section of the Strategic Development Plan of the Republic of Kazakhstan till 2020. The program is a logical continuation of the State Program for Accelerated Industrial-Innovative Development of Kazakhstan for 2010 - 2014 and takes into account the experience of its implementation. The program is a part of the Industrial Policy of Kazakhstan and is focused on the development of the manufacturing industry with a concentration of efforts and resources on a limited number of sectors, regional specialization using the cluster approach, and effective sector regulation.

The number of anti-crisis documents adopted by the Government is not limited to the ones mentioned above. In fact, the Government has been declaring the diversification of national economy as its first priority for many years. It was adopting and implementing numerous economic diversification programs and plans. For instance, the national Strategy of Industrial-Innovative Development of Kazakhstan for 2003-2015 (not to mention other documents) was adopted back in 2003. It was said that this Strategy will pave a way for economic diversification.

However, the result from implementation of all these documents is far from desired. As mentioned earlier, the share of oil and gas industry in total Kazakh GDP increased from 10.9% in 2001 to 25.2% in 2012. Thus, during the period of high oil prices, Kazakhstan's raw material orientation of the economy did not decrease. *A contrario*, its dependence on extractive industries in general and the oil industry in particular intensified.

Another big question is the efficiency of investments in economic diversification. No data on return of such investments in Kazakhstan could be found.

The current oil crisis calls for a need to look at the situation from another angle and understand why all previous efforts to diversify the economy failed.

6. Possible reasons for economic diversification failures in Kazakhstan

Having looked at what happened to diversification efforts in different countries, we can now try to understand what the reasons behind failures of so many diversification efforts are.

The main, but not the only reason for shrinking non-extractive industries is that they are usually less profitable. We should acknowledge that extractive and especially the oil industry will remain more profitable in the foreseeable future.

Diversification on the surface appears to be an appealing business strategy. Economic literature is full of explanations why economic diversification is so important. It is usually stated that diversification is required to mitigate the effects of resource price fluctuations and symptoms of Dutch disease. Numerous efforts have been made to communicate to the governments of resource-dependent countries the need to diversify their economies. However, the results of diversification efforts in most of these countries remain to be very limited and are often dictated by non-economic reasons.

Based on literature review and meetings with Kazakh government employees and businessmen, the following main reasons of economic diversification failures have been identified:

- Lower profitability of non-extractive industries in Kazakhstan. The reasons of lower profitability include strong competition from Chinese and Russian producers, insufficient size of the local market, insufficient number of qualified technical personnel and able professional managers, etc.

They are even more profitable in Kazakhstan where geological investigations, which usually constitute a lion's share of these companies' expenses, were mostly done during the Soviet period.

- Insufficient readiness for the change among government employees of different levels. This is caused by the fact that diversification is a very long term issue, which limits the readiness for change and for having economic and social disadvantages in the short time.
- Lack of enabling environment. There is no determination on the government's side to implement structural reforms, without which diversification is not possible. The

country needs to go away from the current model of state capitalism. However, this move is intentionally restrained. The government is trying to substitute reforms by financial injections.

- External economic shocks, namely the economic crisis in Russia (the economic crisis in Russia depreciated the Russian rouble over international currencies and made Russian goods much more competitive).
- Inappropriate government interventions into the banking sector, which resulted in the serious banking crisis.
- Economic diversification is impossible without political reforms and decentralization of power.
- Being a small country in terms of its population – just 17 million, Kazakhstan has a very small internal market. The market size is a serious obstacle for the development of non-extractive industries.
- Insufficient attractiveness of non-extractive industries for foreign investments, which have been so far mostly limited to communication, pharmaceutical and food sectors.
- Insufficient number of qualified technical personnel and able professional managers.
- Local producers face harsh competition from Chinese ones. It is obvious that in most cases Kazakh producers cannot compete.
- Political uncertainty both internal and external is another serious concern for local and foreign businessmen and banks forcing them to abstain from long-term investments and often prefer to withdraw funds abroad.
- Government investment programs are largely poorly prepared and unsuccessful.

As mentioned by Adillov (2016) “The ultimate goal of the first phase of the program (State Program for Accelerated Industrial-Innovative Development of Kazakhstan for 2010 – 2014) is to ensure diversification of the economy, the reduction of volumes, the increase in budget revenues, supplying the domestic market with quality domestic products,” – pointed out Kazakh parliament member Gulzhana Karagusova and stated: “Unfortunately, we must admit that for five years, none of these problems have been solved.” The amount spent on the program exceeded US\$28.5 billion.

Pavlova (2014) mentions that “in Norway every US\$10 spent on diversification provides just US\$5 of return”. Obviously in less developed countries the return would be even smaller. Employee of the Kazakh Ministry for Investments and Development pointed out that the Ministry has undertaken an internal assessment of diversification programs by a profitability index. Its results are confidential, but the employee suggested that the results of Norway’s economic diversification efforts were much better.

Measures recommended for the Government of Kazakhstan

- A thorough audit of existing legislation, regulations, practices of government agencies and law enforcement that affect business activities with the aim to reduce legal and regulatory barriers to business.
- Based on this audit, structural reforms similar to those implemented in Georgia after the “Rose Revolution” of 2003 to be implemented. The ultimate goal of these reforms must become the creation of business enabling environment in the country. Reforms should include decreasing tax burden on small and medium businesses, eliminating most of licensing requirements, substantial decrease of different government inspections and obligatory reporting.

- Keeping in mind that since the 2008 financial crisis public finances deteriorated seriously, private businesses have to become a major driver of economic diversification. This is to be acknowledged and declared a national priority.
- Promotion of greater regional and international economic and trade integration. Further promotion of export of Kazakh goods through government-supported export credit guarantee schemes.
- Liberalization of the country's financial sector through lifting legal and regulatory barriers for foreign financial institutions with the aim to enhance access to credit, especially for small and medium enterprises.
- Serious efforts to attract foreign investors to be undertaken. However, it should be acknowledged that most likely these efforts will yield results in medium and long term.
- A thorough audit of projects implemented under different government economic diversification programs. Preparation of further diversification programs to be strictly based on the lessons learned from this audit.
- The government needs to be more careful in its spending limiting the number of possible areas for investments. Currently, the government is implementing several investment programs to support private sector projects in different sectors. Instead of dissipation of limited financial resources, it is suggested to select areas where Kazakh products and/or services can be competitive. At the moment, transportation services, agriculture, food and pharmaceutical industries look more attractive.
- Enhancing vertical diversification in existing sectors by focusing on moving into higher value-added products in extractive industries.
- If a number of attractive domestic projects is limited, the country can diversify into attractive foreign projects.
- Implementation of different workforce education and vocational training programs, orienting education and vocational training towards skills needed by the private sector.

Transferring the National Fund of Kazakhstan under the management of Norwegian Government Pension Fund Global.

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SHIFT FROM RESEARCH AND DEVELOPMENT TO MARKETING, A CHALLENGE FOR PHARMACEUTICAL COMPANIES

A KUTATÁS-FEJLESZTÉSTŐL A MARKETINGIG – KIHÍVÁSOK A GYÓGYSZERGYÁRTÁSBAN

DINARA ALIYEVA PhD-student Faculty of Economic Science
Kaposvar University, Hungary

Abstract

This article aims to analyse the spending trends of global pharmaceutical companies for Marketing, Sales and for Research and Development. Evaluating the spending structure of pharmaceutical companies, one has to realise that they are spending more and more on Marketing and Sales than for Research and Development. We are analysing the regulation differences among countries with a special attention to Hungary and Kazakhstan. In Hungary the pharmaceutical market is well developed. The spending structure is changing slowly, the local company is still focusing more on Research and Development than on promotion and advertising. The pharmaceutical businesses of Kazakhstan are still in infancy but from the very beginning the marketing expenditure overwhelms the Research and Development expenses.

Keywords: Research and Development, new drugs, original drugs, generic drugs, marketing, sales, advertising, promotion of drugs, pharmaceutical industry, pharmaceutical market.

1. Introduction

The article analyses the expenditure on Research and Development by the industry sectors for the period 2005-2015. Also we consider the spending of the top 10 major companies in the world focused on Research and Development for ten years. In this paper we analyse the Marketing and sales expenditures of the global pharmaceutical companies for the period for 2000-2015 years. The accurate statistics are often missing so we have to estimate the expenditure on Marketing and Sales as well as on Research and Development.

We tried to focus on those companies in Hungary and in Kazakhstan where the appropriate data were available. In our detailed study we looked at a more detailed analysis only of the Hungarian and Kazakhstan pharmaceutical industries. Of course, we have also looked at some of the most important players in the world's pharmaceutical industry as well.

Also we cannot generalise the results, which are based on two companies, one representing Hungary, this is Richter Gedeon, which is still an independent Hungarian company and still has original drugs, where the patent is their own, and the other one is a Kazakhstan pharmaceutical company Chempharm, which focuses on the production of generic drugs. Also this is bias from the stand point of the comparison but we cannot find a pharmaceutical company in Kazakhstan which has its original drugs for sale. Beside the market statistics, we are considering the regulation differences among the countries with special attention to Hungary and Kazakhstan.

Currently pharmaceutical companies are spending proportionally less on Research and Development year by year. The development of new drugs is a costly and time consuming process. The research activity of creating new drugs requires millions of dollars and the licensing process may take some decades. The shortest time frame is at least 10-15 years.

«Big Pharma says this occurs because of the astronomical costs of developing a new drug. The truth is that United States law allows drug companies to set the prices for drugs and protects them from free-market competition. Other countries set a limit on what companies can charge based on the benefit of the drug. The true cost of developing a drug is shrouded in mystery with many unverifiable figures reported by Big Pharma. Advertising instead of research: For each dollar spent on «Basic research» Big Pharma spends \$19 on promotions and advertising in medical journals, internet, television, radio and in other instruments to attract the attention of consumers» (Llamas M, 2016).

«There are some challenges and «threats» within the industry. The first question is the sustainability of growth, but not less important the ever-increasing cost to bring new drugs to the market and the profitability loss because of the increasing marketing and Research and Development costs. The prices of the drugs vary in Europe and in different regions of the World. The uptake of new drugs to the market is slowing down and the patent expiration issues are harder than used to be in the past» (Rod M., 2007).

2. Literature review

Literature mainly deals with the question of the research intensity of the pharmaceutical industry. Researchers generally agree that the pharmaceutical industry is one of the most knowledge demanding industries. Austin made a good comparison with other industries to show the research intensity of the pharmaceutical sector: «The pharmaceutical industry is one of the most industries dependent on intensive research in the United States. According to the Congressional Budget Office «The pharmaceutical companies invest as much as five times more in Research and Development relative to their sales than the average United States manufacturing company. In the United States common rate of Research and Development for a pharmaceutical company is about 17% of it is sales that is far higher than other industries» (Austin D, 2006).

There is also a consensus among scholars that the profitability of companies is largely determined by research and marketing costs. Evans and Drummond and others summarize it well in their papers:

«In pharmaceutical industry Research and Development plays a key role on developing of new drugs, which has a tremendous effect on companies' profitability according to patent. On the other hand, drug and health service constitute a large volume of advertising in the world. It is reason is that there is asymmetric information between the customer and seller» (Evans R, 1995). «Two factors affecting companies' profitability are costs related: one is Research and Development and the other is marketing cost» (Drummond M, 1992).

«Although the pharmaceutical industry emphasizes how much money it devotes to discovering new drugs, little of that money actually goes into basic research. Data from companies, the United States National Science Foundation, and government reports indicate that companies have been spending only 1.3% of revenues on basic research to discover new molecules, net of taxpayer subsidies» (Lexchin, 2005).

The authors generally agree that marketing costs are growing rapidly in the industry: «Marketing budgets in the pharmaceutical industry are huge by comparison to most other industries, but they are often predominantly spent on the marketing channel, delivering the

product to the customer. These characteristics seem to indicate that the simple linear model of innovation still captures the overall approach to innovation in the pharmaceutical industry» (Trott P., 2002).

In contrast the authors disagree on the causes of the rapid increase in marketing costs. Most authors (Stremersch) argue that this is the «speciality» of this industry and stresses the difficulties of delivering information on medicines to consumers. Stremersch speaks about «specialized marketing knowledge»: «The pharmaceutical industry spends a notably large percentage of its revenues on marketing. United States pharmaceutical companies spend on average more on marketing, compared to their average Research and Development expenditure. The pharmaceutical industry requires specialized marketing knowledge. The market faces unique challenges in facets such as new product development, life cycle management and marketing management» (Stremersch S, 2008).

Some other authors like Manchanda P. focus more on the «unic challenges» of the industry: «Pharmaceutical companies are characterized by a large number of new drugs launches. For instance around 41 completely new drug molecules were launched each year on average (IMS Health). However, the industry faces many unique challenges in developing and commercializing innovations. Most notably the industry faces high risk (on average one success from 10.000 original compounds), high cost (typically greater than \$800 million for each successful drug), a long development cycle (12 years on average) with a limited product life (effective patent protection is only 8–10 years)» (Manchanda P, 2005).

The others focus more on the personnel costs related to the doctor-visitor system: «In the pharmaceutical industry there has been a traditional triad relationship among doctors, patients and pharmacists. As medical professionals are the ones who directly treat patients for their ailments, their recommendations are highly regarded. In addition, medical doctors play an important role in decision-making process in planning pharmaceuticals that are carried in the formulary of their individual/group private practices and/or hospitals. Consequently pharmaceutical companies in general invest a handsome amount of resources in personal selling and other related marketing activities for promoting pharmaceuticals to the medical practitioners» (Liu S, 2004).

The majority of the authors (Smith, Lakdawalla, Rosenthal, Rubin) focus on the positive effect of marketing. Smith speaks about the «promotion of hope and promise». «Marketing has two main objectives: first, it should maintain present customers of it are products and services and second, it should attract new customers toward the products and services. Scientific and experimental advances of marketing in recent years resulted in it is action scope expansion and increase the success rate of this science and therefore have converted it» beyond advertisement and promotion of hope and promise» (Smith M, 2014).

The others speak about the general aim of advertisement: «to persuade consumers that the advertised product is better».

«Today the pharmaceutical world realizes that it should spend a significant amount from its investment for drug marketing in order to increase drug prescription level as well as enhance the customer satisfaction level. For instance 10 leading pharmaceutical companies in the world annually spend 34% of their sales on updating drug prescription by physicians and internal marketing» (Lakdawalla D, 2013).

«The literatures of the effect of advertising on prescribing practices have shown that such advertising increases class wide sales, helps to avert under use of medicines to treat chronic conditions and leads to some overuse of prescription drugs» (Rosenthal M, 2003).

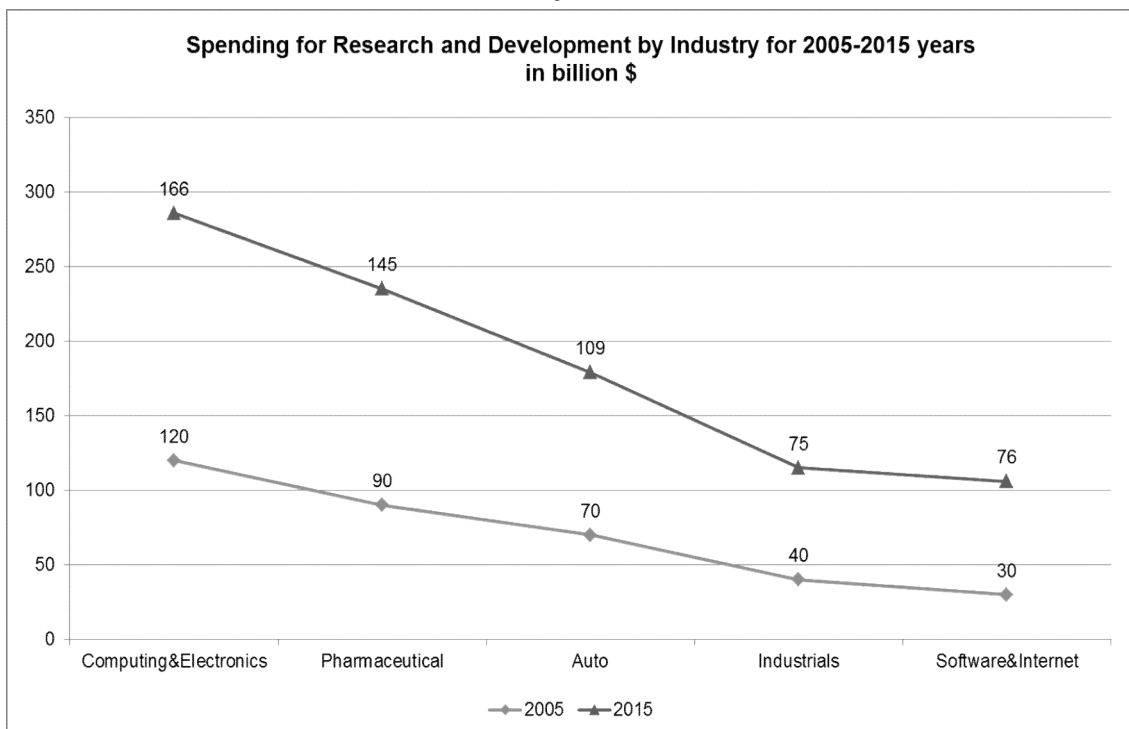
«However supporters of pharmaceutical promotions claim that marketing expenditures give innovative pharmaceutical manufacturers a fair chance to recover high Research and

Development expenditures. Moreover marketing may serve as a communication channel to educate physicians and expose consumers to information that may improve their health outcomes and medical options» (Rubin P, 2003).

3. The Expenditure on Research and Development by Industry for 2005-2015 years

Understanding the role of Research and Development in the pharmaceutical industry we have to compare it with other industries. We see in Figure 1 that \$120 billion was spent in 2005 on Computing and Electronics, which increased to \$166 billion in 2015. Then the Pharmaceutical industry spent \$144 billion on Research and Development in 2015, which was \$90 billion in 2005 that shows an increase. Auto industry spent in 2015 less than \$109 billion and in 2005 it was \$70 billion. In 2015 Industrials spent \$75 billion, so an increase can be seen, which was in 2005 less than \$40 billion. Also on Software and Internet \$76 billion was spent in 2015 and in 2005 it was \$30 billion. In the last ten years there are changes but the pharmaceutical industry is still the second most research concentrated industry in the world after Computing and Electronics (See Figure 1 and Table 1).

Figure 1.: The Expenditure on Research and Development by Industry for 2005-2015 years in billion \$



Source: Strategy & pwc 2015 Global Innovation 1000, 2005-2015

Figure 1 and Table 1 shows the expenditure on Research and Development in the Industry for 2005-2015 years.











Table 1.: The Expenditure on Research and Development by Industry for 2005-2015 years in billion \$

Sectors	2005 in billion \$	2015 in billion \$
Computing and Electronics	120	166
Pharmaceutical	90	145
Automotive	70	109
Industrials	40	75
Software and Internet	30	76

Source: Strategy & pwc 2015 Global Innovation 1000, 2005-2015

As we see here in Table 2 among the most Research and Development oriented companies from the top 10 five companies are pharmaceutical. In 2005 pharmaceutical company Sanofi was the first with \$9.3 billion Research and Development expenditure. In 2015 automotive company Volkswagen took the lead with a significant increase in expenditure of \$15.3 billion on Research and Development compared to 2005. Then the computing and electronic company Samsung comes with expenditure of \$14.1 billion on Research and Development, which is much more than in 2005. Software and Internet Company Microsoft spent \$11.4 billion on Research and Development (See Table 2).

Table 2.: Top 10 companies oriented on Research and Development for 2005-2015 years in billion \$

No	Companies	Countries	Sectors	Research and Development 2005 in billion \$	Research and Development 2015 in billion \$
1.		Germany	Automotive	4.7	15.3
2.		South Korea	Computing and electronics	4.3	14.1
3.		USA	Software & Internet	7.8	11.4
4.		Switzerland	Pharmaceutical	4.1	10.8
5.		Switzerland	Pharmaceutical	4.2	9.1
6.		USA	Pharmaceutical	7.7	8.4
7.		Germany	Automotive	7.0	7.6
8.		USA	Automotive	6.5	7.4
9.		France	Pharmaceutical	9.3	6.4
10.		UK	Pharmaceutical	5.2	5.7

Source: Strategy & pwc, The Global Innovation 1000: Top 20 Research and Development Spenders 2005-2015

Table 2 shows the Top 10 companies oriented on Research and Development for 2005-2015 years.

Pharmaceutical company Roche spent \$10.8 billion on Research and Development, which significantly increased in comparison with 2005. The next pharmaceutical company Novartis spent \$9.1 billion on Research and Development. The pharmaceutical company Pfizer is not conceded and spent \$8.4 billion. Automotive companies Daimler and General Motors spent almost the same \$7.6 billion and \$7.4 billion on Research and Development. Pharmaceutical company Sanofi spent \$6.4 billion on Research and Development less than in 2005. The pharmaceutical company GSK almost did not change its expenditure on Research and Development of \$5.7 billion compared to 2005. But these are only slight changes and the pharmaceutical industries still keep their position among the most innovative companies (See Table 2).

3.1. The shift in expenditure of global pharmaceutical companies

The role of Marketing, Sales and Research and Development expenditure is the most influencing one in the pharmaceutical industry. The other expenditures are stable, so we decided to study how much pharmaceutical companies spend for Marketing, sales and for Research and Development. In such circumstances, testing the relationship between Research and Development expenditure and advertising costs with the profitability of the pharmaceutical market can be interesting (Acosta A, 2014).

Figure 2 and Table 3 consider the largest share of expenditure on Marketing, sales and on Research and Development of pharmaceutical companies. The pharmaceutical company GSK in 2000 spent \$16.0 billion on marketing and sales and \$3.8 billion was spent on Research and Development. Also in 2015 GSK spent \$9.2 billion for Marketing and sales, lower than in 2000, but higher than for the Research and Development \$5.7 billion. The pharmaceutical company Pfizer in 2015 spent \$14.8 billion on Marketing and sales, rather more than for Research and Development \$8.4 billion. In 2000 on Marketing and Sales \$11.4 billion was spent and on Research and Development as little as \$4.4 billion (See Figure 2 and Table 3).

Figure 2 and Table 3 show the expenditure of the Top-5 global pharmaceutical companies on Marketing, Sales and Research and development in 2000-2015 years

The next pharmaceutical company Novartis in 2015 spent \$11.7 billion on Marketing and Sales compared to Research and Development of \$9.1 billion. In 2000 it spent \$10.9 billion on Marketing and Sales more than for Research and Development spends \$4.6 billion. The only one pharmaceutical company Roche in 2015 spent \$10.8 billion on Research and Development, almost the same on Marketing and Sales, \$9.1 billion. In 2000 Roche spent more on Marketing and Sales, \$9.0 billion, but the same as in 2015 and on Research and Development \$4.1 billion, which is comparably less. The pharmaceutical company Sanofi in 2015 spent \$9.8 billion on Marketing and sales, more than on Research and Development, which was \$6.4 billion. In 2000 Sanofi's expenditure was significantly reduced on Marketing and Sales \$2.3 billion and on Research and Development \$1.1 billion (Figure 2 and Table 3).

Figure 2.: The Expenditure of Top 5 global pharmaceutical companies for Marketing, Sales and for Research and Development in 2000-2015 years in billion \$



Source: Pfizer, Annual report, 2000; Pfizer, Annual report, 2015; Novartis, Annual report, 2000; Novartis, Annual report, 2015; Sanofi, Annual report, 2000; Sanofi, Annual report, 2015; Roche, Annual report, 2000; Roche, Annual report, 2015; GlaxoSmithKline, Annual report, 2000; GlaxoSmithKline, Annual report, 2015

Table 3.: The Expenditure of the Top 5 global pharmaceutical companies on Marketing, Sales and on Research and Development in 2000-2015 years in billion \$

№	Company	Marketing and Sales 2000 in billion \$	Research and Development 2000 in billion \$	Marketing and Sales 2015 in billion \$	Research and Development 2015 in billion \$
1.	Pfizer	11.4	4.4	14.8	8.4
2.	Novartis	10.9	4.6	11.7	9.1
3.	Sanofi	2.3	1.1	9.8	6.4
4.	Roche	9.0	4.1	9.1	10.8
5.	GSK	16.0	3.8	9.2	5.7

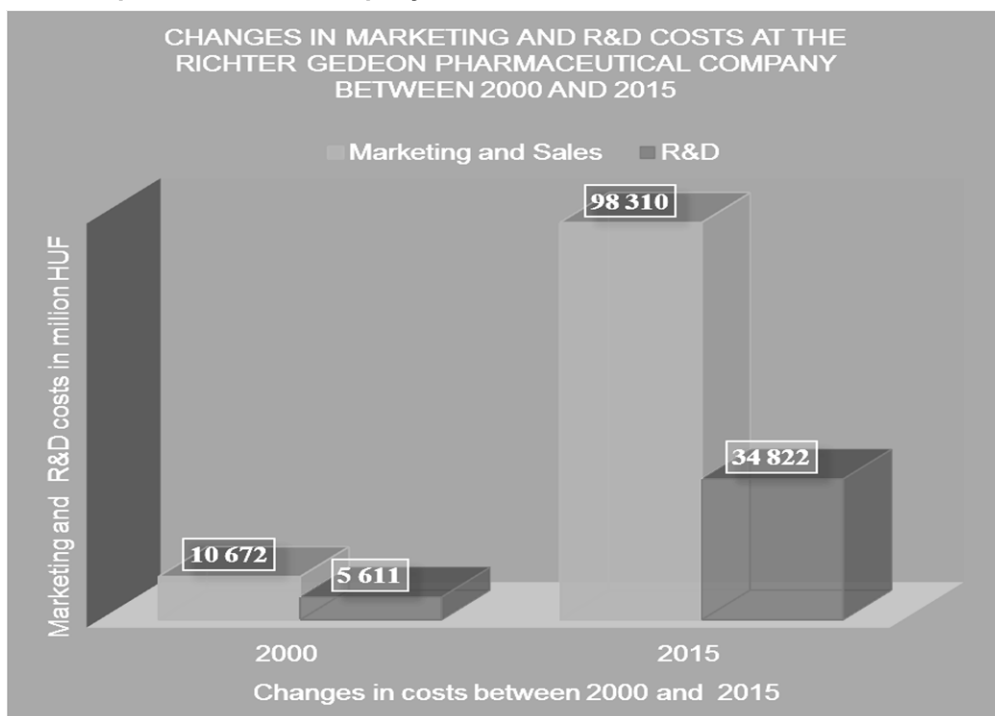
Source: Pfizer, Annual report, 2000; Pfizer, Annual report, 2015; Novartis, Annual report, 2000; Novartis, Annual report, 2015; Sanofi, Annual report, 2000; Sanofi, Annual report, 2015; Roche, Annual report, 2000; Roche, Annual report, 2015; GlaxoSmithKline, Annual report, 2000; GlaxoSmithKline, Annual report, 2015

3.2. The Expenditure on Marketing, Sales and on Research and Development of pharmaceutical products in Hungary

In the Hungarian pharmaceutical market 77% of medicines were sold in pharmacies and only 23% in hospitals in 2015. In 2015 the Hungarian pharmaceutical industry invested \$310 344 million in Research and Development. This industry employs more than 15 000 employees. In Diagram 3 we see that the most identical Hungarian pharmaceutical company Richter Gedeon spent 98 310 million HUF on Marketing and

Sales in 2015 and on Research and Development 34 822 million HUF. In 2000 Richter Gedeon 10 672 million HUF was spent on Marketing and Sales and 5 611 million HUF on Research and Development (See Diagram 3) (Richter, G, Annual Report, 2000-2015).

Diagram 3.: Changes in Marketing and Research and Development costs at Richter Gedeon pharmaceutical company between 2000 and 2015 in million HUF



Source: Richter, G, Annual Report, 2000-2015

Diagram 3 and Table 4 show the changes in the Marketing and Research and Development costs at Richter Gedeon pharmaceutical company between 2000 and 2015.

As you can see in Diagram 3 and in table 4, in 2015 Richter Gedeon spent on the marketing nine times, and on Research and Development six times more than in year 2000, which means the expenditure on marketing grew much faster than the expenditure on research and development which is in harmony with the world trends (See Diagram 3 and Table 4).

Table 4.: Changes in Marketing and Research and Development costs at Richter Gedeon pharmaceutical company between 2000 and 2015 in million HUF

Richter Gedeon company	2000 in million HUF	2015 in million HUF	Growth 2000-2015 in%
Marketing and Sales	10 672	98 310	927
Research and Development	5 611	34 822	620
Marketing/Research and Development Cost ratio	1.9	2.8	-

Source: Richter, G, Annual Report, 2000-2015

Among the independent Hungarian pharmaceutical companies Richter Gedeon is a leader in investment in research, their share in the total turnover is almost 10%, which in absolute terms puts the company in the 1st place concerning the level of expenditure on

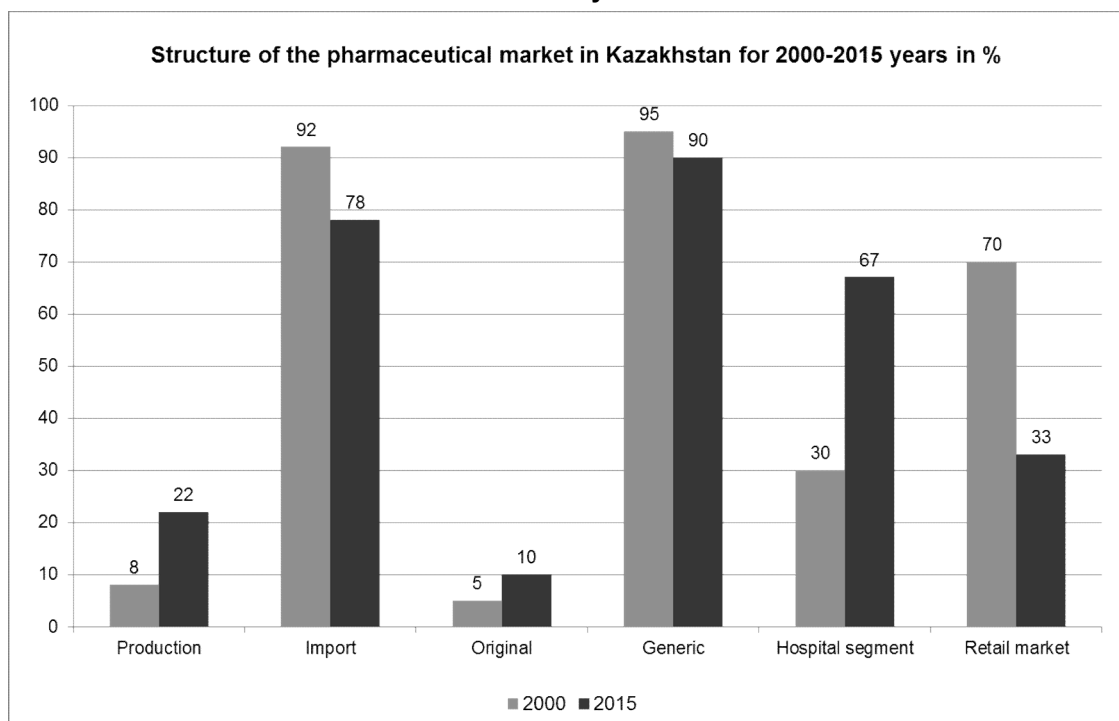
Research and development in the country and in Central and Eastern Europe as well (Report Hungary Pharmaceuticals&Healthcare).

The pharmaceutical companies spend €4.0 million on advertisements in medical journals in Hungary. The total amount spent by pharmaceutical companies on product advertisements in the 115 Hungarian printed medical journals came to almost 1.2 billion HUF (€4 million), Comfit, a media monitoring company, which specializes in medical journals, revealed it to Central Europe Pharma News. The same companies spend 478.7 million HUF (€1.6 million) on advertising the companies themselves (not their products). Richter Gedeon led the field in terms of advertising expenditure, with a figure of 90.4 million HUF (€303.000). In the second place there were Egis and Woerwag Pharma (Central Europe Pharma News Issue , 2013).

3.3. The Expenditure on generic drugs and on Marketing of pharmaceutical products in Kazakhstan

The pharmaceutical market of Kazakhstan was estimated at \$1.7 billion in 2015, the market is divided into retail pharmacy sales and government procurement. In Diagram 4 we can see the structure of the pharmaceutical market in Kazakhstan from 2000 to 2015 as imports remain between 78% and 92%. Out of these domestic production of pharmaceutical products occupies only 22%. The main parts of the product portfolios of domestic manufacturers are low-profit generic drugs (share in the total market volume is 90%) and the market of the original drugs is 10%, which allows pharmaceutical manufacturers to allocate their profits on Research and Development of new original drugs (See Diagram 4 and Table 5).

Diagram 4.: Structure of the pharmaceutical market in Kazakhstan for 2000-2015 years in %



Source: Consulting Agency “Vi-ORTIS”; Single Distributor, SK-Pharmacy

Diagram 4 and Table 5 show the structure of the pharmaceutical market in Kazakhstan for 2000-2015 years.

In 2015 retail pharmaceutical market occupied 33% of the total Kazakhstan market, hospital segment 67%. The retail segment is widely represented by well-known drugs. The rating of the most growing and large market includes vitamins, remedies for cold diseases, for the treatment of the gastrointestinal tract, as well as antibiotics and painkillers.

The hospital sector of procurement of medicines has been more oriented on purchase from domestic manufacturers of pharmaceutical products since 2010, thus the state supports domestic manufacturers of pharmaceutical products for the development of the pharmaceutical industry in Kazakhstan. For the period from 2010 to 2015 the share of pharmaceutical products purchased through the Single Distributor increased on average, 3 times from 35.8 to 107.5 billion KZ tenge (See Diagram 4 and Table 5) (Single Distributor, SK-Pharmacy).

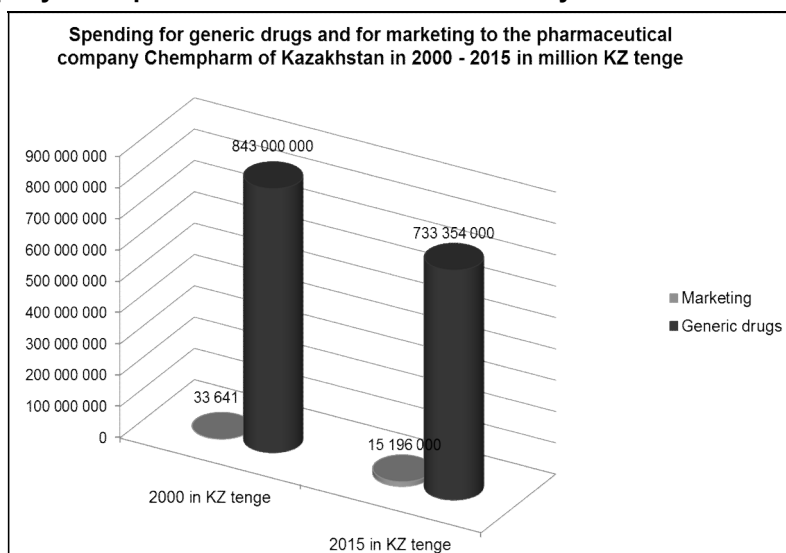
Table 5.: Structure of the pharmaceutical market in Kazakhstan for 2000-2015 years in %

Kazakhstan	2000 in%	2015 in%
Production	8	22
Import	92	78
Original	5	10
Generic	95	90
Hospital segment	30	44
Retail market	70	56

Source: Consulting Agency “Vi-ORTIS”; Single Distributor, SK-Pharmacy

The biggest Kazakhstan pharmaceutical company Chempharm specialized in generic drugs spends much less on marketing than on production of generic drugs. Graph 5 shows how the pharmaceutical company Chempharm spends a very small share of its income of 15.1 million KZ tenge on marketing. The production of generic drugs in 2015 produced 733.3 million KZ tenge, which means that even a large company produces generic drugs. However, in 2000 it produced more than 843 million tenge (See Diagram 5 and Table 6).

Diagram 5.: The Expenditure on generic drugs and on marketing of the pharmaceutical company Chempharm of Kazakhstan in 2000-2015 years in million KZ tenge



Source: Chempharm, Annual report, 2000-2015

Diagram 5 and Table 6 show the expenditure on generic drugs and on Marketing of the pharmaceutical company Chempharm of Kazakhstan in 2000-2015 years.

Table 6.: The expenditure on generic drugs and on marketing of the pharmaceutical company Chempharm of Kazakhstan in 2000-2015 years in million KZ tenge

Chempharm company	2000 in million KZ tenge	2015 in million KZ tenge
Generic drugs	843 000 000	733 354 000
Marketing	33 641	15 196 000

Source: Chempharm, Annual report, 2000-2015

Foreign pharmaceutical companies in Kazakhstan spend about 10-15% of annual turnover on marketing programs to introduce doctors their products, including sponsoring a conference and publication. In the over-the-counter segment where direct advertising of medicines for consumers is allowed, foreign manufacturers also managed to increase their market share. Foreign pharmaceuticals increased their market share thanks to advertising, despite the fact that domestic medicines were cheaper but they were not properly advertised. In Kazakhstan imported branded generics and innovative drugs are very popular among physicians and pharmacy staff often recommend patients who they cured.

3.4. The regulation of advertising and promotion of pharmaceutical products in the United States, Europe, Hungary and Kazakhstan

In Table 7 we consider how each country regulates the advertising of pharmaceutical products. In the United States marketing and distribution of pharmaceuticals is heavily regulated by the federal Prescription Drug Marketing Act. In general, pharmaceutical companies adhere to FDA regulatory guidelines that require all DTC ads and information to be accurate in order to provide substantive evidence of any statements that have been made, to strike a balance between the risks and benefits of the product being promoted and to maintain consistency with the labeling approved by the FDA (U.S. Food and Drug Administration, FDA). Europeans still have quite limited exposure to pharmaceutical advertisements for prescription drugs. The EU is of particular attraction to pharmaceutical companies, however, as it accounts for a full one-third of global drug sales. In Europe, the advertising is regulated by the International Federation of the Pharmaceutical Industry Manufacturers and Associations (Eagle L., 2002) (See Table 7).

Here are the details about the regulation of advertising and promotion of pharmaceutical products in Hungary and Kazakhstan. In Hungary the sales promotion sent to doctors and advertisements in publications shall be regulated by law. Professional/scientific audit and punishment for false and biased promotional materials the National Institute of pharmacy and Nutrition (OGYEI) has the liability (Lengyel G., 2007).

Advertising in Kazakhstan drugs shall be conducted in accordance with the order of the Ministry of health of the Republic of Kazakhstan. In Kazakhstan advertising of drugs is regulated by the Law of the Republic of Kazakhstan «On Advertising» and National center for expertise of drugs (National center for expertise of drugs, Dari.kz) (See Table 7).

Table 7.: The regulation of advertising and promotion of pharmaceutical products in the United States, Europe, Hungary and Kazakhstan

Countries	Regulation	Laws
United States	In the United States marketing and distribution of pharmaceuticals is heavily regulated by the federal Prescription Drug Marketing Act. In general pharmaceutical companies adhere to FDA regulatory guidelines which call for all DTC advertising and information to be accurate, to provide substantial evidence for any claims that are made, to provide a balance between the risks and benefits of the promoted drug, and to maintain consistency with labeling approved by the FDA (U.S. Food and Drug Administration, FDA).	U.S. Food and Drug Administration
Europe	Europeans still have quite limited exposure to pharmaceutical advertisements for prescription drugs. The EU is of particular attraction to pharmaceutical companies, however, as it accounts for a full one-third of global drug sales (Eagle L., 2002).	International Federation of Pharmaceutical Manufacturers and Associations (IFPMA).
Hungary	In Hungary the sales promotion sent to doctors and advertisements in publications shall be regulated by law. Professional/scientific audit and punishment for false and biased promotional materials, the National Institute of pharmacy and Nutrition (OGYEI) has the liability. Other non-scientific part of the promotion is governed by the advertising law and the Code of ethics of the pharmaceutical industry of all pharmaceutical companies in Hungary (Lengyel G, 2007).	National Institute of pharmacy and Nutrition (OGYEI).
Kazakhstan	Advertising in Kazakhstan drugs shall be conducted in accordance with the order of the Ministry of health of the Republic of Kazakhstan. In Kazakhstan advertising of drugs is regulated by the Law of the Republic of Kazakhstan «On Advertising» and also National center for expertise of drugs (National center for expertise of drugs, Dari.kz).	Law of the Republic of Kazakhstan «On Advertising» and also National center for expertise of drugs.

Table 7 shows the regulation of advertising and promotion of pharmaceutical products in the United States, Europe, Hungary and Kazakhstan.

4. Conclusion

The article analyses the expenditure on Research and Development by the industry sectors for the period 2005-2015. We have considered the costs of ten leading companies in the world focusing on Research and Development for 10 years. In this article we have studied the expenditure on Research and Development and on Marketing, sales of global pharmaceutical companies for the period 2000-2015. The top 5 global pharmaceutical companies spend more on marketing and sales than on R&D, and since 2000 the gap has been permanently increasing. The R&D expenditure used to be above 40 % and in 2015 it was less than 30 % in three from five cases.

We have estimated the expenditure of a Hungarian company, this is Richter Gedeon, which is still an independent Hungarian company and still has original medicines where the patent belongs to them and also the Kazakhstan company Chempharm, which focuses on the production of generic drugs. It is also a bias in terms of comparison, but we could not find a pharmaceutical company in Kazakhstan that has its own original drugs for sale. In addition to market statistics, we have considered the differences in regulation between countries with special attention to Hungary and Kazakhstan.

This trend exists in Hungary and in Kazakhstan as well. The Hungarian companies promote their products in journals and through radio and television heavily.

We compared the regulation of advertising and promotion of pharmaceutical products in the United States, Europe, and in Hungary and Kazakhstan.

We recommend the Governments and the International institutions to implement means which drive the pharmaceutical companies back to research. The governments should set limits for the advertisement in this field. They have to promote the open and the crowdsourcing innovations to make this kind of public good affordable for the poor as well.

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REGIONAL FINANCIAL INSTITUTIONS: AN EVIDENCE FROM THE ARAB WORLD

FAEYZH BARHOOM

Kaposvár University, Faculty of Economic Science

Abstract

Regional financial institutions have played a major role in furthering the sustainable development(SD) process in the Arab countries, supporting development programs, support reforms aiming at macroeconomic stability. The main aim of this paper is to clarify the role of these institutions in the formulation and implementation of SD plans in the Arab region, to highlight the Arab monetary fund's contribution to development and providing reforms that promote inclusive and sustainable economic growth and support the promotion of financial inclusion. To do so, there has been the adoption of an analytical descriptive method in research based on the analysis of the data annual reports. The author found that these institutions only achieved a part of their objectives as well as, their performance was modest at best, due to their complexity and there was a duplication of functions, as well as to, political and structural economic problems. It is Required to reconsider many of the existing institutions and policies to be consistent with the developments and needs of the contemporary Arab economy, it is needed to shift to more effective policies, and focused on what is being accomplished.

Keywords: Regional finance, Arab regional financial institutions, Arab monetary fund, Development funds.

1. Introduction

Regional financial institutions (RFIs) were established due to strong political motivations which led to their creation in the 1950s and 1960s, as well as to the correction market failures in the collapse of the 1930s. The models of RFIs are diverse and different from one another (Volz, 2016).The oldest and best-developed model in RFIs is multilateral development banks and related multilateral financial institutions(MFI).and the model of the European Investment Bank (EIB) used by the European Union (EU). These models were established as the result of cold war politics, while the development of the regional bond markets model in East Asia was the result of decolonization (Ocampo J. A., 2006),or they were established for the idea of solidarity in establishing the Arab development funds (ADFs) (Corm, 2006). Western Europe (WE)provides the best example of RFIs in the post-war period as well as in the U.S, through the Marshall Plan, helping macroeconomic coordination and cooperation that eventually led to the current monetary union in the EU (Ocampo J. A., 1999).

Several RFIs were created on the regional level in the 1960s to support the regional integration processes and thus provide services for the small and medium countries of the region in Africa, Latin America and the Caribbean, West Asia and the Arab world. But the period following the 1997 Asian crisis RFIs were given greater attention (Ocampo J. A., 1999) that helped to stabilise macroeconomic policies, all of which increased both regional stability and economic growth (Ocampo J. A., 1999; Volz, 2016; Zhang, Li, Li,

2015; Muthoga & al, 2013), which can play specific and localized roles which are not always covered adequately by global institutions imposing conditionality (Sagasti & Prada, 2006), support national integration, regional development and help compensate for regional disparities (Clifton & al, 2013), import-substitution and export diversification, act as a counter-cyclical offset to fluctuations in private capital market financing of middle-income countries (Fuente & Thöne, 2016), improve access to external finance, access to capital with lower costs, help developing countries to overcome critical limitations in credit provision and regional infrastructure (Fuente & Thöne, 2016), reduce the exposure of vulnerable economies to the international financial markets (Griffith-Jones & Hertova, 2008; UN, 2012; Fuente & Thöne, 2016). Also they can serve as regional buffers, as the post-war WE experience indicates. Regional reserve funds can also play a useful role in the developing world (Ocampo J. A., 1999), debt issued by these institutions tends to obtain better risk ratings than sovereign debt issued by the individual country members of these institutions (Woods 2008; Ocampo J. A., 2006; Sagasti & Prada, 2006), in Latin America, an interesting experience in this regard is that of the Andean Development Bank (Ocampo J. A., 1999); plays a role giving a dominant or exclusive voice to these countries (UN, 2012; Ocampo J. A., 2006).

The most elaborate system of MFI that are strictly developing-country-owned is that of the Arab and Islamic world (Ocampo J. A., 2006; Corm, 2006). The Arab nations were among the pioneers in establishing several RFIs, with the aim to help low income countries (AFESD, 2011). These institutions were established as the result of the regional solidarity generated by the Arab-Israeli war of 1967 on one side and in the sudden increase in resources of Arab oil-exporting countries in the 1970s on the other side (Corm, 2006). It has played a major role in furthering the sustainable development (SD) process in the Arab countries supplying necessary technical, organizational and financial assistance. Now adays, these institutions have experienced several strategic challenges due to the rapid changes of the economic and commercial systems, in particular the current conditions in the region as a whole, as well as the increase of the effect of these economies by global economic and financial developments (Arikat, Saymeh, 2014), the continuing credit crunch, high unemployment rates particularly among the young population, the need to maintain strong financial and economic stability and accelerate the pace of inclusive growth in Arab nations and secure stable funding sources, in addition to this, adopt a more flexible policy in responding to the needs of Arab nations in the reconstruction phase after the hurricane wars that ravaged the region. Although the important and vital role is given played by ARFIs generally and in the foundation of the Arab Monetary Fund (AMF), as a single regional monetary institution owned by all Arab countries and source of financing for the development in the Arab World in confronting the negative effects issued by the rapid change taking place in the global economy, as well, it has a pivotal role as a platform for meetings and consultations among economic, financial and monetary policy makers to enhance cooperation and financial and economic integration among the Arab countries (AMF, 2015).

There is a lack of academic studies on the role of the AMF in financing Arab countries, especially in English language. In light, the main aim of this paper is to start to fill the knowledge gap about it by clarifying the role of ARFIs in the formulation and implementation of SD plans in the Arab region, highlighting the AMF's contribution to financing of the development supporting reforms that promote inclusive and sustainable economic growth, giving promotion to financial inclusion, and analyzing the nature of loans and indicating the pivotal role of the fund as a platform for meeting and consultation

among policy-makers in the member states. To do so, there has been the adoption of analytical descriptive method in research based on the data analysis of available annual reports on website of the fund <http://www.amf.org.ae/en>.

2. Arab Regional Financial Institutions (ARFIs)

Several ARFIs operate as Development Funds (DFs) and agencies established in 1960s and 1970s. Besides purely economic factors, the idea of Arab and Islamic solidarity also plays a very important role in establishing the DFs throughout the region (EDGD, 2012), operates as mechanisms for transferring resources from the oil-rich countries of the region to poorer regional members and other developing countries, particularly in the Islamic world and Africa. These DFs offer long and short-term loans, other forms of financing, grants, and technical assistance (Sabri, 1997), to foster economic and social development in the beneficiary countries (EDGD, 2012).

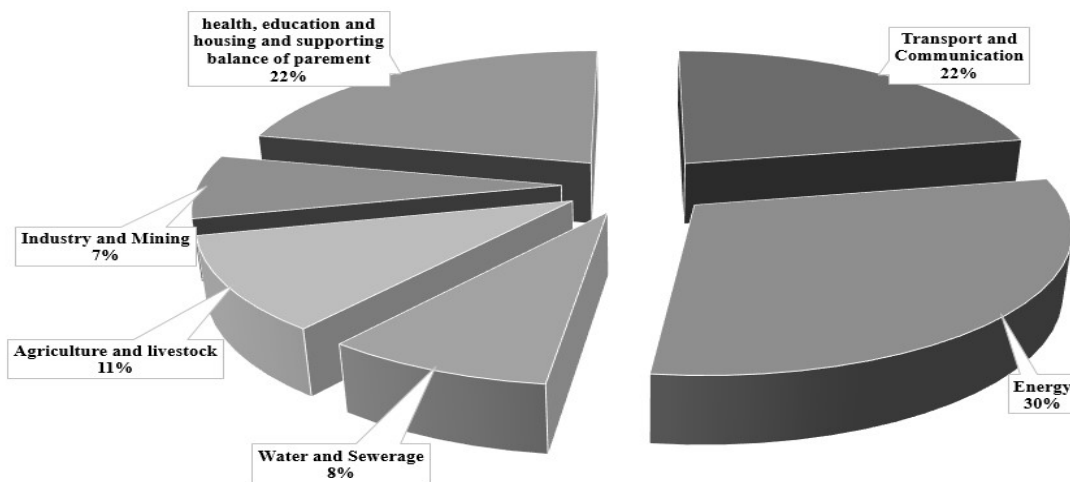
In the early 1980s bilateral and multilateral DFs were encouraged to finance activities related to trade facilitation and liberalization (EDGD, 2012). Furthermore, as the financial and economic crisis unfolded, ARFIs increased their attention and activities especially to infrastructure sectors such as transportation, energy, and water (AFESD, 2011; Rouis, 2010), as well as they responded to the critical developmental and humanitarian challenges that the region faced, and increased in the paid-up capital during the last years. ARFIs established the Coordination Group (CG) in 1975 to coordinate policies and procedures and co-finance projects—financing through which these institutions collaborated among themselves and with other development partners and regional ones to support projects that foster regional economic integration, particularly in roads, energy and hydropower infrastructure (Rouis, 2010); (DESA, 2005); (EDGD, 2012), the enhancement of Arab food security, support to small and medium enterprises, financing of Arab trade, establishment of an Arab development portal, and support to Arab and regional institutions (AFESD, 2016; Rouis, 2010). CG consists of nine institutions, three of which are national institutions including the Kuwait Fund for Arab Development, the Saudi Fund for Development, the Abu Dhabi Fund for Development. And the six regional organizations are the Islamic Development Bank established in 1974, which is the largest of these multilateral institutions in terms of cumulative commitments, which also has the largest interregional coverage of its lending operations, it has focused increasingly on social spending (Corm, 2006). It is followed by the Arab Fund for Economic and Social Development (AFESD) established in the same year, which undertakes the mobilization of the coordination group, which acts as an umbrella organization for coordinating Gulf aid to the key multilateral and bilateral aid institutions (Ennis & Momani, 2012), it aims to offer the facilitation of economic and social development, as well as, advance regional integration among the Arab states where, it provides lending operations infrastructure projects. and provides modest grants for technical assistance, food aid, research, and emergency humanitarian relief (Rouis, 2010; AFESD, 2011).

Also, ARFIs have expanded their reach in terms of recipients, going beyond Arab and predominantly Muslim countries to include poor countries in sub-Saharan Africa and Asia. They established the OPEC Fund in 1976 by with the member states of the Organization of the Petroleum Exporting Countries (OPEC), which aims to reinforce financial cooperation between OPEC member countries and other developing countries worldwide with the aim of eradicating poverty especially in the South–South solidarity

(Shushan & Marcoux, 2011); (Zimmerman & Smith, 2011). In 1973, was established the Arab Bank for Economic Development in Africa (BADEA), similar to OFID, having special focus on channeling aid to non-Arab African states, its assistance mostly takes the form of concessional loans for development projects, balance of payment support, and trade financing. The Arab Gulf Program for United Nations Development Organizations (AGFUND), which was created in 1981, supports SD efforts of every type, targeting the neediest groups in all developing countries. Support beneficiaries are NGOs, which receive their funding through projects arranged with UN specialized institutions (Corm, 2006), as well as the AMF (Rouis, 2010), it is a regional financial Arab organization founded in 1976. by the Arab central banks in all Arab countries being members of AMF. It supports the efforts of its member countries in different ways, including supporting economic reforms, financing intraregional trade (see more details in the next section).

Financial assistance commitments of the nine major ARFIs reached a cumulative total of US\$ (155) billion (in 2007 prices) over the period (1962–2008). Though Arab financing is predominantly in the form of concessionary credit, some institutions provide grants to finance capacity building, project preparation, and technical advice such as AMF. ARFIs also provide consolidated support to UN specialized agencies, Red Crescent Societies, and non-governmental organizations (NGOs) for humanitarian assistance (Rouis, 2010). The total official development finance extended to the Arab countries from all sources, excluding Arab institutional aid, was about US\$(12.1) billion, as a share of total GDP for major shareholders countries was about(0.86%) in 2015 . Figure (1) shows the sectoral distribution of cumulative total development aid provided by Arab and regional development funds for 2015, which suggests a continued focus on support to infrastructure projects, particularly energy projects of different types where energy and transportation alone represent(52%) of all the resources, agriculture and livestock(11%), water and sanitation account(8%)and the less share for Industry social sectors such as health, education and housing and supporting balance of payment(22%),which would still have ample room for growth, and the Mining sector is(7%) (EDGD, 2012; Ali, Hamad, A., & Al-Naqi, 2016). Total development assistance for these projects in 2015 accounted for about US\$ (10.9) billion (Ali, Hamad, A., & Al-Naqi, 2016; AMF, 2016).

Figure 1.: Sectoral distribution of cumulative total development aid provided by Arab and regional development funds (2015)



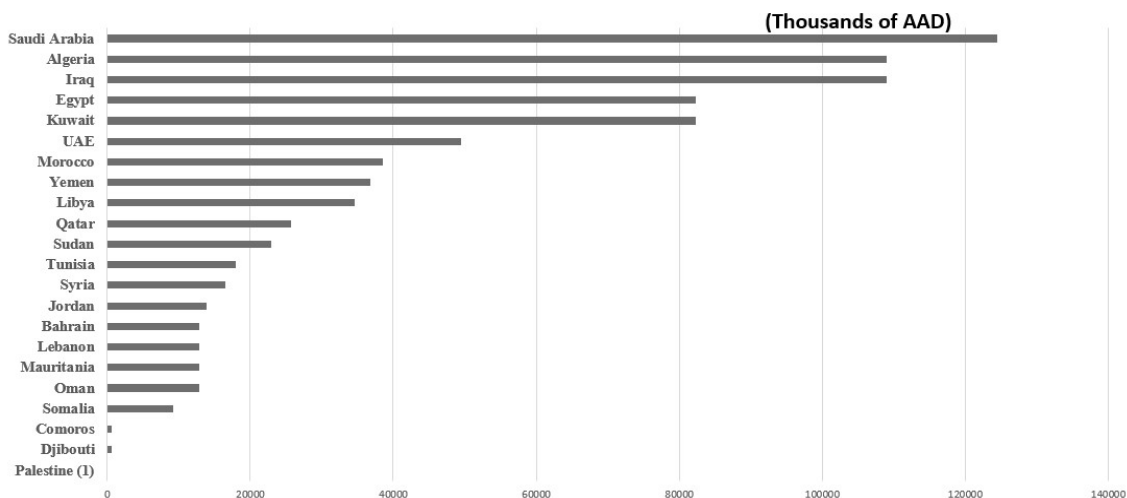
Source: The joint Arab economic report 2016, AMF.

Although more and more resources are made through these regional and multilateral institutions, but, their performance has been modest at best and their larger budgets have not been more effective, due to its complexity in a heterogeneous Arab community, and there is a duplication of functions as well as, political and structural economic problems, such as, the dependence on the highly volatile oil receipts of donor countries that has varied widely over the past years, especially in the recent period due to the significant drop in oil prices, and the concentration of domestic investment in the real estate and energy-related sectors and inadequate investment climate. The reduction of this dependence and increase of their capacity to fund new kinds of activities and reforms are needed for more sustainable growth, ARFIs should begin to use national and regional financial markets, knowing that some of them have been successful to introduce a legal mechanism to allow the institutions to tap financial markets (Corm, 2006; Ocampo J. A., 2006), addition it is requires to reconsider many of the existing institutions and policies to be consistent with the developments and needs of the contemporary Arab economy and taking into account the conditions of global competition.

3. Arab Monetary Fund (AMF)

AMF began operations in 1978, its annual operations are like IMF operations. However, the conditions are much less strict than those of the IMF and are tailored to each beneficiary's specific economic status (Corm, 2006). The fund's capital is denominated in Arab accounting dinars (AAD), equivalent to three special drawing rights (SDRs). The paid-up share capital reached AAD(825,641) thousand at the end of 2016 (AMF, 2017). Figure (2) shows that the oil-rich countries of the region participated in the largest share in Paid-Up Capital .

Figure 2.: Paid-Up Capital by country at 31 December 2016



(1) Payment of Palestine's share was deferred by the Board of Governors' Resolution No. (7) of 1978.

Source: Annual report 2016 , AMF

It supports the efforts of its member countries to achieve economic reforms, enhancing financial inclusion, contributing to capacity building and development (AMF, 2015).

AMF aims to support reforms that promote inclusive and sustainable economic growth, either through further engagement in relevant technical assistance consultations as it a

platform for consultation amongst policy makers, lay the monetary foundations of Arab economic integration and accelerate the process of economic development in the member countries (AMF, 2003). Or through financial assistance (the Fund's lending activity), it offers a range of loans and facilities with the aim of improving the efficiency of resource employment and supporting economies in the Arab countries (AMF, 2003). The Fund's loans and facilities are twofold:

The first category addresses the support of macroeconomic reforms in member countries. This type of facility has been initiated since the inception of the Fund's lending activity in 1978. Through this category, AMF offers loans and facilities aimed at supporting reforms in other sectors of the economy: the first one is the Structural Adjustment Facility (SAF) which was introduced in 1998. This facility focusses on supporting reforms by borrowing member states in the financial and banking and government finance sectors (AMF, 2016). A member country is required to have started structural reforms and has made reasonable progress towards macroeconomic stability. A borrowing member country may have access to this facility up to (175%) of the member's paid subscription in convertible currencies for each sector, the number of the SAF loans on borrowing member states was (34) facilities to (11) member states for a total value of AAD (624,127) thousands since its establishment.

The second one is the Trade Reform Facility (TRF), which was established in 2007, which aims at assisting to meet financial costs associated with the implementation of trade reforms, thus encouraging them to adopt necessary reforms to facilitate their access to finance on international markets to consolidate growth and create productive job opportunities. A borrowing member country may have access to this facility on the same condition similar to SAF condition, the number of the TRF on borrowing member states was (11) facilities to (7) member states for a total value of AAD (64,730) thousand.

The third one is the Oil Facility (OF), which was introduced as a temporary lending mechanism to provide support to a member affected by a rise in the value of oil and gas imports and support for appropriate reforms that strengthens their resilience to external shocks. To benefit from this facility, a borrowing member country have to agree with the fund on a reform program, the number of the OF on borrowing member states has been (3) facility to (3) member states for a total value of AAD (32,489) thousands since the end 2016.

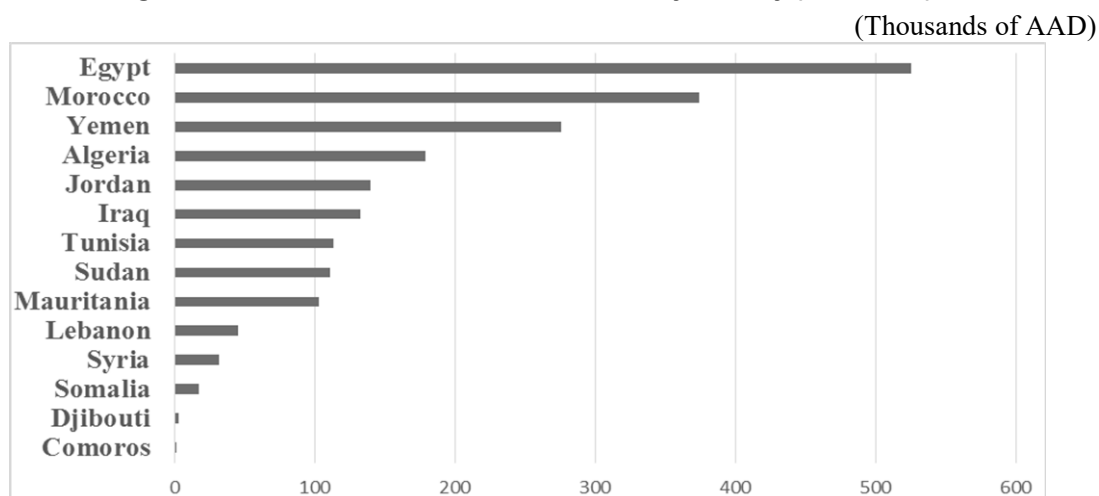
The fourth one is the Short-Term Liquidity Facility (STLF) is a lending mechanism that is meant to assist member states that face temporary liquidity shortage due to unfavourable developments in global financial markets. The facility is extended promptly and without any prior agreement on a reform program with the eligible borrowing member country. And the last one is SME's Conducive Environment Support Facility, in 2016, the fund introduced a new lending facility to provide support to members in supporting a conducive environment for SME's growth. Given the significant role these enterprises play a role in driving economic growth and creating jobs, this facility is extended with a maximum limit of (100%) of the members paid up subscription in convertible currencies. The total number of loans extended by the fund to its member countries since the caption of the lending activity in 1978, has been (177) loans to (14) member states for a total value of AAD (2.1) billion at the end of 2016 (AMF, 2017). Table(1), and Figure (3) show that Egypt was the largest share recipient of loans from AMF between 1978 and 2016, it represents (25.60%) of the total loans extended throughout this period, while the share of Comoros was low (0.06%).

Table 1.: Loans extended to member states by country (1978-2016).

Comoros	Djibouti	Somalia	Syria	Lebanon	Mauritania	Sudan	Tunisia	Iraq	Jordan	Algeria	Yemen	Morocco	Egypt
0.06%	0.12%	0.84%	1.55%	2.20%	5.00%	5.40%	5.53%	6.47%	6.80%	8.73%	13.46%	18.25%	25.60%

Source: Annual report 2016, AMF.

Figure 3.: Loans extended to member states by country (1978-2016).



Source: Annual report 2016, AMF

The AMF follows a systematic, and strategic plan on crisis management in the case Arab economies face a crisis to help them manage their spillovers and help them get back to sustainable development track. In addition, the fund manages funding a program (ATFP) to stimulate inter-Arab trade, which was established in 1989, contributed by forty-four shareholders, including Arab banking and financial institutions, as well as Arab Central Banks with the aim of promoting domestic Arab trade. The balance of drawings against contracted lines of credit amounted to AAD (177,312) thousand at the end of 2016, ATFP approved to finance USD (13.26) billion Since its establishment at the end of 2016. (AMF, 2017). The Program has completed the construction of its Inter-Arab Trade Information Network (IATIN) consisting of (33) focal points spread over virtually all the Arab countries.

The second category of facilities aims at addressing the overall balance of payment deficit of the member states, including correcting disequilibria in the balance of payments, removal of restrictions on current payments. It includes four types of loans:

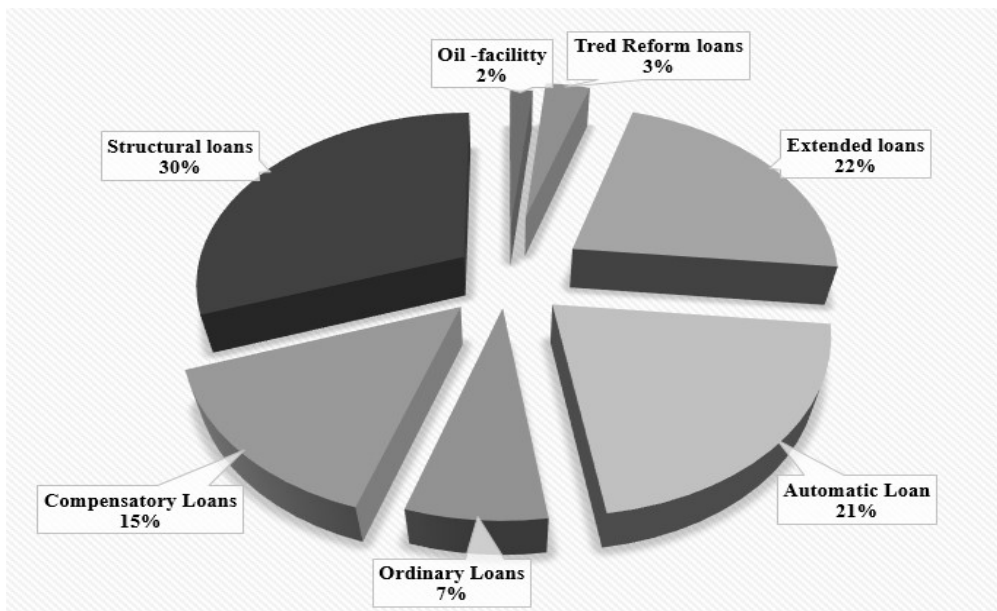
The Automatic Loan is extended to assist in financing the overall deficit in the balance of payments in an amount not exceeding (75%) of the member country's subscription in the fund's capital paid in convertible currencies, it is not conditional on the implementation of an economic reform program. The total number of Automatic loans extended by the fund to its member countries since the caption of the lending activity in 1978, amounted to (64) loans to (13) member states for a total value of AAD (431,250) thousand till the end of 2016.

The Ordinary Loan is extended to an eligible member country when its financing needs exceed (75%) of its paid subscription in convertible currencies. The policies and actions included in such a program would aim at restoring the fiscal equilibrium with a view to reduce the balance of payments deficit. The number of The Ordinary Loan on borrowing member states was (14) loans, to (8) member states ,equivalent of (146,751) thousand of

AAD within the period of the agreement. The Extended Loan is provided to an eligible member country with a chronic deficit in its balance of payments resulting from structural imbalances in its economy. The member country is required to agree with the fund on an economic reform program covering a period of not less than two years. the number of the extended loan on borrowing member states was (29) loans to (10) member states for a total value of AAD (450,331) thousand by the end of 2016 .

The Compensatory Loan is extended to assist a member country experiencing an unanticipated balance of payments deficit resulting from a shortfall in export receipts of goods and services and/or a sharp increase in the value of agricultural imports due to a poor harvest. This loan’s limit is equivalent to 100 percent of the member’s paid subscription in convertible currencies. The borrowing country must be experiencing a transitory fall in exports or a transitory increase in agricultural imports. The total number of the compensatory loans on borrowing Member States was (22) loans to (8) member states for a total value of AAD (301,835) thousands at the end of 2016 .We can see in Figure (4), that traditional loans extended by the Fund (automatic, ordinary, compensatory and extended loans) were at the top of facilities granted by the Fund since the beginning of its lending activities during the period from 1978 to 2016. They represent (65%) of the total loans extended throughout this period. The structural adjustment facilities extended for both financial and banking and public finance sectors came second with (30%). Trade structural facility accounted for (3%), followed by oil facility at (2%) (AMF, Annual Report 2016, 2017).

Figure 4.: Destination of types of loans as share of total loans (1978-2016).



Source: Annual Report of the respective AMF (2016)

The investment portfolio of AMF consists of investing its own funds as well as deposits received from member states approximately USD (11.54) billion at the end of 2016. in addition to it, the balances of ATFP portfolios were US\$ (404) million. By the end of 2016, the total investment portfolio had an allocation of (28%) to bank deposits, and (69%) to bonds and securities and(3%)to multi-strategy and property investment funds.

The Fund has been entrusted (authorized) by the Secretariat of the Council of Arab Central Banks and Monetary Agencies Governors since 1980, also, it has been entrusted with the role of the Technical Secretariat of the Council of Arab Finance Ministers since the establishment of the Council and the start of its annual meetings in 2010. To support the promotion of financial inclusion in the Arab countries, the Fund established in 2013 a regional Financial Inclusion Task Force, which is made up of representatives from Central Banks in AMF members' countries to develop financial inclusion strategies ,to improve financial inclusion at domestic and regional levels and apply international best practices or adapt them to the specificities of the Arab world in addition to the promotion of financial inclusion measurement and indicators also ,the AMF has developed a comprehensive initiative to promote financial inclusion in Arab countries with the aim to improve financial inclusion indicators especially the financing of SMEs ,the scope of the initiative covers a wide range of relevant financial inclusion policy domains, like developing bond markets in local currencies, Arab capital market development, developing the financial sector infrastructure, it also includes strengthening the surveillance legislation and promoting macro-prudential supervision policies, in addition to developing the information and indices for measuring the performance of the financial sector and capital markets. The AMF is providing technical advice Initiatives in cooperation with regional and international financial institutions to improve the Arab financial market infrastructure aiming at promoting access to finance and financial services, and thus ultimately advance financial inclusion objectives. The most important of these initiatives are the Arab Credit Reporting Initiative, Arab Secured Transactions Initiative, Arab Debt Market Initiative, and Arab Payment Initiative. In order to raise awareness of the importance of financial inclusion among all stakeholders in the Arab countries, AMF has identified The Arab Financial Inclusion day as the 27th of April to ensure access to a full range of quality, cost-effective and appropriate financial services to unbanked (AMF, 2017).

The Fund's provides training services through its Economic Policy Institute (EPI) to improve skills and build capacity in areas pertaining to structural and economic reforms, macroeconomic policy design and implementation, and issues related to economic diversification in cooperation with other regional and international institutions and relevant bodies. In this context, (10293) trainees participated in (297) training courses and (30) workshops and (4) seminars organized by the fund during the period (1981–2016) (AMF, 2017). In addition, the Fund issues a lot of research, bulletins, economic reports and existing statistics. The Arab Monetary Fund, like any Arab regional financing institution, faces the same challenges mentioned in the introduction. Therefore, it has developed a strategy (2015-2020), to achieve a number of priority goals, which are linked to the SD Goals 2030, focused on three fundamental pillars: strengthening the chances of sustainable inclusive growth, enhancing cooperation and financial and economic integration among Arab countries, and establishing the basis for efficient and properly governed financial and economic institutions in the Member States. (AMF, 2015).But, AMF achieved only part of its objectives, it has the need to strengthen its institutional capacity, increase operating efficiency and technical expertise to enhance the fund's responsiveness to the varying needs, and relevant to the investment and reserve management. And increased attention of member states should be paid for economic and financial integration to meet the challenges of inclusive growth, needs to shift to more effective policies of loans and facilities, and focus on what is being accomplished. In addition to maintaining the development of Fund's technical assistant programs and services and strengthen the role of the Economic Policy Institute as a center for capacity building and knowledge enhancement.

4. Conclusion

Although there have been more and more resources made available through these regional and multilateral institutions in the Arab World, they only achieved a part of their objectives as well as, their performance has been modest at best and their larger budgets have not been more effective, due to its complexity and there is a duplication of functions, as well as, there are political and structural economic problems, such as, the dependence on the highly volatile oil receipts of donor countries, the concentration of domestic investment in the real estate and energy-related sectors and inadequate investment climate. So there is a need to increase their capacity to fund new kinds of activities and reforms needed for more sustainable growth, in addition to this, it requires reconsidering many of the existing institutions and policies, to be consistent with the developments and needs of the contemporary Arab economy, there is a need to shift to more effective policies of loans and facilities, and focus on what is being accomplished, operating efficiency should be increased and more attention of the member states for economic and financial integration to meet the challenges of inclusive growth.

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THE EUROPEAN UNION'S EASTERN EXPANSION REGARDING GEORGIA

AZ EURÓPAI UNIÓ KELETI BŐVÍTÉSE GRÚZIA SZEMPONTJÁBÓL

DAVIT BELKANIA

Doctoral School of Management and Organizational Sciences,
Faculty of Economic Science, Kaposvár University

Abstract

This paper evaluates the economic aspects of the EU's eastern expansion and the political factor that drives the European Union to accelerate the enlargement process. The paper will cover the modern geopolitical dilemma of the EU, Russia and the Caucasus region regarding Georgia: Georgia at the crossroads between Europe and Russia and their political-economic game for gaining trust; the EU's political-economic interests will be analyzed in three different dimensions: Energy diversification, new Silk Road and ensuring eastern border security from terrorism.

This work gives a broad, panoramic view of the EU's geopolitical game through which developing countries like Georgia are going to suffer due to accelerated political events.

1. Introduction

The geographical location of the Caucasus makes this region important for several reasons. First, it is the bridge, buffer between two giant markets, Europe and Asia. Second, the geolocation of Azerbaijan gives it a direct access to energy resources of the Caspian Sea. The Caucasus region borders the middle east, which is generally identified as a dangerous geographical area with active terrorist organizations. In this sense, instability in the Caucasus region can lead to the EU's eastern border threat. The importance and the role of the Caucasus region in the modern geopolitical situation are quite clear. For these reasons, it is vital for the European Union to gain trust from the member countries of the Caucasus region. The problem arises when it comes to Russia and its completely opposite policy in the region. Despite the above-mentioned reasons, the concept of the EU's eastern expansion is dominated by the idea that the EU as a Nobel peace prize holder has a responsibility to neutralize the tension in the region and help those countries to reach economic prosperity, otherwise it opposes its general principles: peace, competitive economy, democracy, human rights and supremacy of law; moreover, it is believed that when an economically small region integrates into an economically large region, both gain but the small region gains much more. Moreover, when a low-wage/low-productivity region and a high-wage/ high-productivity region integrates, most of the large region's gains come from cheaper imports of labor intense goods such as clothes and shoes. This suggests that the aggregate economic gains to the EU incumbents are likely to be small and may cause problems (Richard E. Baldwin 1995: 476).

The process of EU expansion dates back to 70^{ies} of the 20th century. The purpose of the expansion was varying from time to time as the conceptual idea of the European Union

itself, but the main message through all this period was stuck to human rights, peace, democracy and supremacy of law. Today's political events regarding the EU's expansion is part of the same "chain". The problem of this issue has sort of a dual nature: It is beneficial for both parts of "the big political game" and at the same time it can be destructive. The objective of this study is to find the alternative factors that play the role of the main engine for the EU's eastern expansion, and the domination of urgency by these harming new members of the union to accelerate the process. By this paper and its constructive analysis, I will show the broader picture of this geopolitical dilemma and what the true purpose of this expansion is, simultaneously unleashing "side effects" of this process for countries like Georgia. The research methodology used in this paper is dictated by the type of the article. This work represents a narrative review article, the categorization of which by the objective is issue investigation, review. Selected data/studies are analyzed based on the concepts and existing theories. Results are based on a qualitative analysis method rather than a quantitative level, identifying patterns and trends in the chosen phenomena in this way. The article relies mainly on previously published literature and data.

2. The EU's interests in the Caucasus region

The European Union's interest towards the Caucasus region is more than just oil resource potential and can be analyzed in three different dimensions:

- Energy diversification
- New Silk Road
- Eastern border security from terrorism

Energy diversification. It is not a new story that the European Union is trying to get away from the "Russian claw" in the sense of being the main energy supplier. Project "Europe 2020" is the proof of the EU's rising interest in energy diversification; the project reflects Europe's long-term goals for energy production/supply strategy. According to the project, in a long run, the main source of energy will be renewable energy (Fredrik Erixon 2010). Since renewable energy is related to specific problems like production in solid amounts and its sustainable maintenance, the EU's energy strategy for short-term goals is oriented on energy diversification through regional expansion for trusted suppliers; as an example we can mention the EU's eastern expansion that will let Europe have more access to oil resources from the Caspian Sea.

The modern geopolitical chessboard that lies in the Caucasus region with the main players like Russia, the EU, Turkey, and the USA, is more than intense nowadays. All the above-mentioned players are trying to get trust/control over the region.

There are three main countries in the Caucasus region: Azerbaijan, Armenia, and Georgia. Azerbaijan is the richest country in the region, especially for its natural resources. For this reason, the EU is trying to have a strong partnership, or at least ability to influence on the foreign affairs of Azerbaijan regarding the regional (Caucasus) political/economic situation. In this case, Georgia can have a leading position in this "game of interests" for the EU.

The European Union's interests in the Caucasus region do not match of Russia's, which has completely different plans in this geopolitical game. Nowadays, the EU is highly dependent on Russian gas; It is a fact that 32 to 35% of gas supply is provided by

Russia; it makes Russia the biggest energy supplier for the EU. In case of the successful implementation of the EU's energy diversification plan, Russia will lose a significant oil export market. Europe's strategic energy plan does not consider oil access opportunity just from the Caspian Sea, it refers to a coverage of middle east oil market as well, which is possible through the following route: Georgia-Azerbaijan-Turkmenistan. Official negotiation between Europe and Turkmenistan has already been taking place for a few years but without any important changes (Katja Yafimava 2015).

The European Union's long-term energy diversification plan through the already implemented and future projects looks like the following: 1996 agreement between Kazakhstan and Azerbaijan ensures oil transit from Kazakhstan to international oil market through Azerbaijan and Georgia. The Baku-Supsa pipeline got the status of oil transit corridor in 1999. The Baku-Tbilisi-Ceyhan and Shah-Deniz pipelines are one of the most important projects in the Caucasus region. They ensure oil flow from the Caspian Sea to the Mediterranean Sea and from Azerbaijan to Turkey through Georgia. The Nabucco pipeline project considers Georgia as an oil transit corridor, Georgia as a buffer country through which oil will be transported from Turkey to Austria.

New Silk-Road. The EU's eastern expansion strategic plan includes the construction of a new Silk-Road. The idea of rebuilding this historical route has been in progress since 1990. A new Silk-Road will be implemented through the TRACECA project according to which the Caucasus region will be transformed into a massive modern transcontinental trade route through intensive investment in infrastructure. The European Union's next step after announcing TRACECA was launching the project INOGATE. The mission of the project is the following: Ensuring energy security, converging energy markets of participant countries according to EU's energy market principles, developing sustainable energy supply, attracting investments for developing regional energy projects.

Project TRACECA is the most important strategic move for the European Union. The implementation of this project will lead to an open access towards the rich market of Asia and with the help of project INOGATE Europe can finally diversify its energy supply. The implementation of those projects is highly dependent on the peaceful and stable environment of the Caucasus region.

Eastern border security from terrorism. With the implementation of the above mentioned strategic goals the Caucasus region will become sort of a bridge between Asia and Europe. As I have already mentioned, the stable political and economic environment of the Caucasus region is of a great interest for the EU; but the problem is that the Caucasus region through its history of development was the place of birth for ethnic conflicts, the crossroads of interests and chaos that makes alert for the EU's eastern border. Instability in the region and uncertainty of the future in terms of peace is causing a progressive migration problem for the EU member countries. Migration, in this case, is used with an extended meaning that refers to an inflow of terrorist organizations. Because of its location the Caucasus region represents a dangerous place in sense of terrorism and a black market for weapons (Nika Chitadze 2013). Taking into consideration this fact the EU made an official announcement that it would be unacceptable from their side to let Georgia experience political/economic failure because it would raise an alert in the whole region. In general, the EU as a Nobel peace prize holder cannot let it happen as it opposes its general principles: peace, competitive economy, democracy, human rights and supremacy of law. According to the above-mentioned, the EU's biggest hope to have control over the Caucasus region is lying in Georgia's pro-western political success.

The European Union is facing several political challenges regarding its eastern expansion. The vital role in handling these challenges is up to the political stability in Georgia as the main player in this region. Instability and dual nature of foreign affairs in Georgia can be the main drawback of the EU's success in the region. Economic problems of Georgia are somehow secondary in the daily agenda of the EU. It is concerned more to short-term objectives that are related to the political environment. International relations policy that was strongly pro-western oriented in Georgia, experienced a radical shift after government change in 2012. The new government tried to set new agreements with Russia that had been neglected previously. Playing on both sides forced the EU to take quick actions that resulted in Association agreement with Georgia. It seems that every action taken by the government of Georgia in favor of Russia is beneficial for the European integration process of Georgia because of the EU's harsh willingness to hold the pro-western orientation in the region (Leila Alieva 2006). Benefits from the accelerated process of the European integration is partly acceptable but mostly it is going to be reflected in a long run economic perspective. The transition process that the economy of Georgia is facing is long and dynamic, so by accelerating it due to political factors can cause the failure of the system.

Another biggest problem for the EU in Georgia is the orthodox church that is quite radical in this country. In general, orthodox church does not deny or judge Georgia's pro-western orientation but there is still a misconception about European culture and some aspects of European human rights that several NGOs and highly ranked church authorities see as the main threat to Georgian culture and traditions (Kornely Kakachia 2014). This situation creates a strong background for Russia to implement its anti-western politics in Georgia. Starting from the 19th century Russia tries to have control over the Black Sea, the Dardanelles and the Bosphorus gulf. The reason behind this intention is not hard to detect: The above mentioned geographical area represents a weak part of Russia's border security; the Crimean war in 1854-56 can be an example of it, where Russia was defeated. Despite the primary importance of the Black Sea, that is about transit geopolitical location, it has a strategic role in the sense of military defense; the existence of several military bases can be a proof of the strategic importance of the Black sea. Clash of the geopolitical interests takes place when Russia tries to have strong military bases throughout the Black sea and the European Union, at the same time, it tries to implement the eastern expansion.

3. Implications of the European integration process on Georgia

The relationship between the EU and Georgia is at a turning point after association agreement signed in 2014. The successful implementation of the European integration process will result in a wide range of perspectives in different dimensions, including social, economic as well as political aspects. The main possible benefits from EU membership can be categorized in the following way:

- Eurozone
- Single market
- Visa-free policy

Eurozone, or simply euro area is a monetary union of 19 of the 28 European Union member states which have adopted the euro as their common currency and sole legal tender. The ECB, which is governed by a president and a board of the heads of national

central banks, sets the monetary policy of the zone. The principal task of the ECB is to keep inflation under control. Though there is no common representation, governance or fiscal policy for the currency union, some co-operation does take place through the Eurogroup, which makes political decisions regarding the eurozone and the euro. The Eurogroup is composed of the finance ministers of eurozone states, but in emergencies, national leaders also form the Eurogroup.¹

The concept of common currency eliminates monetary competition between countries and ensures smooth convergence of monetary policies of member states. Since common currency creates a great possibility for price transparency and flexible exchange rate, it can be characterized as a driver for the implementation of strong single market policy within the region. Common currency makes the single market to be efficient in terms of exchange rate fluctuations and transaction costs. The euro has significantly contributed to the integration of the economies across the monetary union, where foreign trade has expanded more rapidly than trade between euro area member states and other EU countries.

The adoption of the euro has many disadvantages as well: the fiduciary character of this currency, the creation of a supranational monopoly of the European Central Bank, an excessive centralization of decision-making in the European Union, the suppression of freedom of choice of the Europeans citizens in monetary affairs. Therefore, the euro rather serves the interests of political centralization of Europe, than the desire to stimulate trade and the free movement of goods, capital, and labor (Gabriel Mursa 2014).

The concept of a *single market*. The single market is a sort of trade union where major trade barriers are eliminated by ensuring free movement of goods and services between the member states in this way. The single market is strongly believed to be able to stimulate competition, improve quality and volume of trade, as well as a price reduction.

According to the concept of the single market, removing trade barriers enhances overall trade balance of any country by creating various ways of export market diversification opportunities, free flow of production technologies.

There is no doubt that EU membership will benefit to Georgia by creating diversified areas of economic activities. The problem arises when it comes to competitiveness. Georgia has great potential to produce agricultural products but since there is a low level of technological development, local businesses suffer from high production costs (EU Sanitary and Phytosanitary standards make it even harder). There is no comparison between Georgia and EU member countries regarding cost-effective production. This scenario every time ends with increased import and negative trade balance. EU membership has a dual nature, first, Georgia will get open access to the European market and vice versa, the EU member states will export in Georgia; due to the low level of technological modernization that hinders Georgian small and medium-size businesses to produce price competitive products, the whole European integration process for Georgia will result in increased negative trade balance. Imported products are significantly cheaper than local products causing huge price diversity and giving a privilege to imported products killing local business markets by this. Another important aspect of this issue is that opening the borders stimulates FDI inflow in food and beverages industry where local businesses that mostly consist of small/medium sized companies, are going to “die” due to foreign large size organizations opening franchises in Georgia. Because of this tendency in

¹ <https://en.wikipedia.org/wiki/Eurozone>

the modern economy, it is hard to compete in Agriculture industry, and Georgia is not an exception - approximately 2/3 of local farms are facing a problem with competitiveness (Besik Bauchadze 2006). The reason is an absence of agricultural modernization. This condition causes a list of economic problems for developing countries like Georgia: poverty in rural areas, inefficient use of national scarce resources and first and foremost suffering of the country's export potential to compete in the global market. In general, Georgia does not have a wide range of choices regarding export, throughout the economic development of this country, the main export source was a copper, hazelnuts, motor cars, ferry-alloys, and wine.

Visa-free policy. The European Union is granting its citizens to travel without a visa. Visa-free policy has the following advantages: Travelling, cross-border education, job opportunities abroad. When it comes to Georgia, the situation is changing quickly because opportunities that you can get from EU citizenship is used in a wrong way by the Georgian society. It is a fact that Europe is the host of the world's highly ranked universities. Having European education and especially European work experience is prestigious in Georgia. In this case, open borders with Europe enables Georgia to acquire highly qualified working force that will boost public and private sector operations, but, due to the unstable economic development, low salary and lack of job opportunities, visa liberalization stimulates emigration that causes the loss of human resource/active working force, also known as brain drain (Smita Dubey 2015).

4. The European integration of Georgia and the accelerated political process

The integration process of Georgia that dates back to 1995, is in its last stage to finalize Georgia's "European dream". A retrospective of this process is as follows: the first step took place in 1995 when the EU recognized the independence of Georgia. The process continued within the framework of project INOGATE in 1996; in 2006 Georgia – EU relations went to another level in 2004 by signing European Neighbourhood Policy (ENP) and cooperating within Eastern partnership from 2009 as one dimension of the ENP project; in 2014 an Association Agreement was signed between the EU and Georgia which entered into force in 2016; in 2017, March 28 the visa liberalization dialogue was successfully finished and Georgia transferred to the EU's third country list and was exempted from visa requirement. The European integration of Georgia at the first glance looks quite smooth, but there are several political aspects that drive this whole process to turn from its original concept. Firstly, they are the European Union's personal interests and profitability from the Caucasus region/Georgia that drive this process and the current geopolitical game between the EU and Russia; secondly, it is about the urgency of rapprochement due to a tense political situation in Georgia since the government change in 2012 (Cristina Morari 2013). The leader of a newly elected political party was Bidzina Ivanishvili who had strong business and political ties with the Russian government. The idea is that after 2012 the Georgian government changed its international political vector from radical western to neutral with the intention to cut the tension with Russia. To implement this plan, the newly elected government started "political repression" towards the previous radical western ruling political party, but till now they have not found them guilty. For this reason, the Georgian government received criticism from EU, USA, NATO officials who warned the newly elected political power to respect judicial branch by letting it to seek for justice, and recognize supremacy of law as a fundamental concept

of western-oriented country.² Despite the warnings that Georgia received from all its main international partners, the government did not stop its illegal actions, in fact, the prime minister in his official speech mentioned that the global media was silly and the EU and other international partners did not have a clue what was happening in Georgia³. Simultaneously, the Georgian government was making official announcements that they would re-establish diplomatic relations with Russia, but fortunately, Georgian society had enough experience from our “big brother” and did not accept the government’s choice. During these political events, the EU was representing Georgia as a model country for EU accession. According to corruption perceptions index, Georgia was the first in Eastern Europe and Central Asia, and 50th in the global rank, at the same time a new government was accusing the previous government with a system of corruption and new government members were put on trial because of corruption/bribery and nepotism by their own political party. A similar situation was in the agricultural sector, the EU within the framework of Common Agricultural Policy was making exemplary reports by pointing out Georgia’s progress in the sector, whereas international organizations and research centers' results after analyzing the Georgian agricultural sector were showing the opposite: Low level of technological modernization, bad infrastructure, unstable supply chain, low competitive production and investment deficit (Aleqsandre Bluashvili 2015). The culmination of the above mentioned chaotic situation was the Association Agreement with the European Union as a trustworthy candidate for EU membership.

5. Conclusion

The European Union's eastern expansion lies beyond regional responsibility that the EU is claiming by itself; Economic and political benefits that the European Union will get from this process is higher than the “charity nature” of the EU’s claim: It is our responsibility to help to reach political stability and sustainable economic development for our neighbor partner countries”. From this perspective, a stake is bigger for Georgia due to its current economic development and accelerated European integration process that is caused by Russia’s aggressive and completely different geopolitical plan in the Caucasus region. Despite current success in the European integration process, due to various reasons mentioned above, the choice that the Georgian society made (western oriented) is rather from political aspect and urgent than long-term economic benefit and the consequences of this process can be harsh and distractive in terms of economics.

² Statement by President Barroso following his meeting with the President of Georgia, Mikheil Saakashvili http://europa.eu/rapid/press-release_SPEECH-13-870_en.htm

³ <http://www.tabula.ge/ge/story/63092-amerikeli-senatorebi-saqartveloshi-movlenebisganvitareba-ukiduresad-gvashfotebs>

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REGIONALISM AND THE EUROPEAN CHARTER OF REGIONS

REGIONALIZMUS ÉS AZ EURÓPAI REGIONÁLIS CHARTA

Dr. CSILLA DÖMÖK PhD senior lecturer
University of Pécs, Faculty of Arts

Abstract

The concept of region is many-sided and diverse (Esterbauer, 1989) The same word is used for a variety of arrangements in a variety of political areas. Region is a sub-unit, the territorial segment of a unit. The territory denoted by the word can only be defined exactly as a function of the whole of which it is part. In reference to the global community of states, a region may comprise several states. In this sense it refers to a smaller area of inter-state relations; in international law operating through regional organisations a region may be interpreted as a division within the community of states (Cf. Charter of the United Nations, 1991). In reference to a state, region is an administrative unit within the state. Within the “Europe of the regions”, regions are territorial units which, on the one hand, exist within a member state, and, on the other hand, extend beyond local areas (Hrbek, 1988).

1. Characters of regions

Regional arrangements defined on the basis of certain common characteristics have to be discriminated from “political-democratic” regions as they have a rather different legal and functional nature (Hrbek, 1988). At the same time, the function and special role played by the region in a specific case are accompanied by an additional meaning characterised by its size and borders. Thus, in broad terms, we can distinguish between district regions, development regions and administrative regions on the one hand, and political-democratic regions on the other hand (Hrbek, 1988).

Mainly for the purposes of community regional policy, regions have long been considered the territorial units of territorial regulation, planning and development. The concept of development region served as a point of reference and framework of territorial utilisation for economic planning and development (Franz-Ludwig Knemeyer, 1992). From the perspective of European arrangements, however, autonomy and independence (which is the subject matter of political regionalism) are much more important aspects (Guy Héraud, 1989). In this function the concept of region has a specific “eigenvalue” which goes beyond simple administrative and regulatory decentralisation.

The concepts of political region and political regionalism are related to the autonomy efforts of regional organisations. Such regions as autonomous territorial bodies have legal entity status. As opposed to administrative, district and development regions, these regions have own powers and capacities to arrange their living space independently and autonomously with regard to the given socio-cultural and regional characteristics (Knemeyer, 1992). Political-democratic regions, in this sense, differ in quality from district and administrative regions (Knemeyer, 1990). The value and importance of district, development and administrative regions and of political-democratic regions

substantially depend on the degree of autonomy and the actual ability to exercise independent powers. Thus, there are different types of political-democratic regions in the Europe of the regions as well (Gulyás, 2004; Gulyás 2005).

Considering that regions were initially interpreted broadly as geographical areas which wanted to achieve a distinguished political position due to their unique ethnical composition, or that, from the perspective of the European Economic Area, regions were regarded as various entities forming the basis of the distribution of funds, we find that amid the chaos of explanations and definitions the most general and practical definition we can use is that of the European Parliament. This definition defines region in a general sense, based on geographic and/or ethnic, linguistic, cultural or religious characteristics and/or a shared history and/or the economic structure or common economic/cultural interests.

These criteria are standardised as a definition by Article 1 of the Community Charter for Regionalisation annexed to the European Parliament's resolution on regional policy and the role of the regions (European Charter of Regions, ECR). The Charter defines the word region as "a territory which constitutes, from a geographical point of view, a clear-cut entity or a similar grouping of territories where there is continuity and whose population possesses certain shared features and wishes to safeguard the resulting specific identity and to develop it with the object of stimulating cultural, social and economic progress." Looking at the definition we cannot help but think that Europe is made up of a bunch of unknown people. Perhaps such a vague definition was the only political way to determine the minimum of shared characteristics while leaving sufficient room for development. The European dilemma of reconciling many different traditions along a single principle becomes clear here. It is difficult to track whether a political compromise can really go that far as expressed in the European Charter of Regions and it cannot be a goal to find the least common denominator in a scientific examination either.

The European Charter of Regions makes it clear that regions are subnational entities confirmed by the units "in different states" [ECR Art 1(1)] or by the units in their "sovereign territory" (ECR Art 2) through a declaration, but it makes no reference to whether these intra-state entities have or may have the quality of an independent state. So, there is no specific definition for subnational regions. This is why the debate in Germany over the regional level could be programmed.

The German states as bodies directly subordinate to the federal government level have a minimum level of power and lay claim to the regional status. In reality, however, it follows from the European Charter of Regions as a whole and the commitment to regional policy that regions are understood as territorial units which should be arranged inside the nation-state level but outside the communal level. Article 1(3) of the ECR mentions provinces as possible national names. According to Article 12(3) of the ECR, powers should be assigned to regions subject to respect for the powers of local authorities and in line with the principles of the European Charter of Local Self-Government. Article 14(2) of the ECR foresees the delegation of regional powers to communal bodies (local authorities). Recital 19 and 29 of the resolution make a distinction between regional and local authorities. Finally, according to the European Charter of Regions, the territorial division [according to ECR Art. 4(2)], the right to exercise the related powers (cf. Recital 31(c) of the resolution), including legislative powers (cf. ECR Art. 7(2)11 and (2)12), and the democratically organised institutions (ECR Art. 6 and 7) can be considered as points of reference for summarising the states of Germany as regions. Consequently, the European Charter of Regions envisages a three-tier hierarchy (Community, state, region)

where German states would correspond to the level of regions (Erichsen, 1991), while in other member states the regional level would be represented by local self-governments or other municipalities.

This outcome, however, is not convincing for the opposing approach. There are no objections against a clear distinction between regional and local areas [cf. Recitals 19(b-c) and 29]. So, this leaves room for communal bodies to monopolise the concept of region in areas outside the local sphere. Recital 18 considers the NUTS II administrative level (regional level) the most suitable level for a regional policy based on administration and planning. This is not the level of German states (as they are assigned to NUTS I level) but that of regional districts.

Having legislative powers or the existence of statehood are non-constitutive from the perspective of the concept of region (Knemeyer 1990). By the way, the states of Germany, which have independent statehood while forming part of the federated state, do not fully fit in with the concept of region of the European Charter of Regions (Adalbert Leininger, 1989). The Charter distinguishes between states and regions and places them next to each other [ECR Art. 12(2), Art. 16(1), Recital 31]. If we assign the German states to the state level in this sense, the monopolisation of the regional level by the federal states looks dubious. Due to their state law status, administrative powers and functional significance in the federated state, the federal states of Germany go beyond the concept of regions within the meaning of the European Charter of Regions. Comparing the federal states with regions in other states which can only fulfil the regional function in a communal arrangement, federal states not qualifying as city states appear particularly unsuitable for fitting into a balanced system of regions covering Europe (Seele, 1991). Furthermore, federal states are not closed and developing units but party artificial arrangements (despite the emerging provincial consciousness) without shared natural elements which make up the whole territory.

The debate draws attention to the fact that not even the European Charter of Regions managed to clarify the concept of region and provide a clear and concise definition. Still, the Charter influences European regionalisation to a certain extent, even if not in an exact way.

Regionalism used to be considered the principle of dividedness, but today it is increasingly viewed as the principle of uniting independent sub-units into a large community.

Western European regional movements were discussed, analysed and classified by Dirk Gerdes in his work titled "Aufstand der Provinz, Regionalismus in Westeuropa" (Frankfurt 1980). Such movements entail both explosive separatism and the possibility of European amalgamation while guaranteeing a certain level of independence. In terms of their political scope and problems, Western European regional movements can be classified as autonomy-oriented, federalist and separatist movements. From this wide scope, "Bavarian" federalism (interpreted by Gerdes from the perspective of social movements having institutional representation) will continue to be interesting for Catalan, Galician and Andalusian regionalists. Similarly, this classification does not only provide great latitude but also shows a resistance against the Europe of the regions within the meaning of the regional conferences starting out from Bavaria.

It is enough to look at only the most recent periods of the 200-year history of European regionalism which promoted European integration while preserving diversity. The aim is not the creation of a centralised type of unity but rather to preserve diversity through partnership.

The Council of Europe and the Conference of Local and Regional Authorities interpreted diversity as a political goal differently than the European Community which has a rather centralistic approach despite the support of certain areas. The goal was to

enforce regional interests against the central powers and thus against the EC. This way, in the past 20 years regionalism has become significant in the form of political regionalism, along with the efforts of regional institutions to reach autonomy. This was evidently started by the Bordeaux Declaration (Esterbauer, 1979) which added a new (political-democratic) dimension to the debate on regionalism. Based on the Conference of Local and Regional Authorities, the Declaration puts the emphasis on regional structures and the necessity for the regional autonomy and decentralisation of public administration, defines the concept of region, and highlights the importance of democratic participation as a big step toward a political union. A new chapter has started in the history of regionalism. Today regionalism is understood as the response to a levelling integration process.

To promote their ability to represent interests and effectively intervene in policy-making, the regions established the Contact Office of European Regional Bodies (BLORE) seated in Strasbourg. Parallel to this, the Congress of Regional and Local Authorities (CPLRE) was also established. Reference is made here to the international congress held in Linz on 5–6 November 1981 by the Special Commission of Communal and Regional Affairs of the Council of Europe (Zehetner, 1982). The Council of the Regions of Europe (CRE) was found in 1985. It was renamed in 1987 at the Assembly of European Regions (AER) (Knemeyer, 1990). As of 1 August 1988, an advisory committee of regional and local bodies was created within the Commission. Finally, pursuant to Article 198(a)ff of the Treaty establishing the European Community, the Maastricht Treaty envisaged an advisory committee comprising the representatives of regional and local authorities (Hoppe/Schulz, 1994).

It can be considered a major success in the efforts toward regionalisation that in its resolution adopted on 22 April 1982 the European Parliament call on regional and local authorities to participate more actively in the socio-economic development of their regions.

Still, it took until 1988 for the European Parliament to formally approve the resolution on community regional policy and the role of the regions and the Community Charter for Regionalisation based on six reports issued by the regional policy and administration committee on the Community's regional policy and the role of the regions.

Although community regional policy had been treated as a tool for development and economic integrity within the community for a long time, the European Charter of Regions, and in particular the European Parliament's resolution on community regional policy understands it as a turning point in the approach to regions. The strengthening of the Community institutions must be accompanied by the decentralization of certain tasks – not only of an administrative nature but also in relation to joint decision-making and joint management – to regional authorities which represent the will of the people (Recital 21).

The resolution, and the Charter attached to it, transforms the concept of region into a building block of the Community by using the concept of economic and development region which therefore will receive a political dimension. As an essential aspect of this transformation, it is a demand coming from the top level (a community organisation) that regions should regionalise themselves within the Community (ECR Art. 2). The Charter envisages this in line with its ideas about the organisational powers within the state, while it recognises regions as legal personalities [ECR Art. 3(3)] and delegates self-administration and (with certain restrictions) legislative powers to them (ECR Art. 11). In addition to the legal personality, self-administration and legislative powers, regions need own instruments to complete their independence, and finally, as expressly stipulated in Article 15 of the Charter, the status and competences of the regions should be guaranteed.

2. Conclusion

Considering the wide scope of the possible organisational forms of the Europe of the regions, ranging from the decentralised administrative units created through the necessity of regional policy and totally ignoring geographical and cultural cooperation to the efforts of achieving the real federation of the community through regionalisation as an instrument, we are left with no other option than to follow the concept which includes political-democratic components drafted in the Charter. Without first creating and reinforcing the democratic basis, which is rightly and increasingly often demanded, there is no need for further debate on creating the European Union.

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THE ROLE OF HUMAN RESOURCE DEVELOPMENT ON ORGANIZATIONAL EFFECTIVENESS CONSIDERING THE MEDIATING ROLE OF INTERNAL MARKETING

AZ EMBERI ERŐFORRÁS MENEDZSMENT SZEREPE A SZERVEZETI HATÉKONYSÁGBAN A BELSŐ MARKETING MEDIÁTOR SZEREPÉNEK TÜKRÉBEN

MOHANAD ALI KAREEM PhD student

Kaposvár University, Faculty of Economic Science, Doctoral School of
Management and Organizational Sciences

Dr. CECÍLIA MEZEI

Kaposvár University, Faculty of Economic Science

Abstract

This paper attempts to demonstrate the important linkage between human resource development (HRD) and internal marketing (IM) to achieve the organizational effectiveness (OE), and it aims to highlight the effect of human resource development strategies on organizational effectiveness with the mediating role of internal marketing practices. We explore the effects of human resource developments, internal customer satisfaction and commitment and organizational effectiveness. This paper is conceptual and the approach adopted is analytical. Extant research and concepts have been used to develop propositions and to discuss both research and managerial implications, and as a result, first of all, the present paper reviews the relevant literature about IM, HRM and the link between IM and HRD. The study has found that internal marketing strongly supports the relationship between HRD and organizational effectiveness and the satisfaction of internal customers influences customer satisfaction and loyalty before affecting the profitability and growth of the company. Based on research findings, insightfully this study suggested leveraging human resource development to enhance organizational performance.

Keywords: Human resource development, Internal marketing, Organizational effectiveness

1. Introduction

The successful organizations begin their marketing activity strategy from the inside, which is called internal marketing. In addition to external marketing activities, internal marketing does not refer to the reverse of the concept of international marketing and does not refer to the sale of products for workers in the organization as well. So it is a targeted efforts to add value to employees and enhance their loyalty to the organization, which makes the organization able to achieve its objectives. The concept of internal marketing was based around viewing jobs as if they were “internal products” offered to employees. Moreover, the logic of IM states that employees are the internal costumers of their organizations who had needs to be satisfied; and those needs were closely connected to their jobs.

Internal marketing represents one of the modern marketing concepts that are related to human resource directly, which provides appropriate work environment for the employees that enhance them to achieve superior marketing performance, the success of internal marketing is a reflection of the success of external marketing.

Human resource development strategies are a set of systematic and planned activities designed by an organization to provide its members individually and as a group the necessary skills, knowledge, and capabilities to meet current and future job demands in order to enable them to provide better services and create good relations with customers and customer satisfaction.

Avoudia and Kaur (2012) state that Marketing and Human Resource management departments should be aligned and integrated with each other. In other words, it is necessary, to have a market-oriented HR manager in order to make an impact on the success of an organization. HR managers should apply the same strategies that marketing managers use to promote products and services outside the organization. Therefore, the tools that are widely used in the external environment (e.g., market research, segmentation and targeting) could be employed internally to motivate the employees.

This paper attempts to demonstrate the important linkage between IM and HRM; which provides further insight for managers of organizations to contribute to the superior performance of organizations.

2. Literature review and theoretical framework

Human resource development:

Until recently it was rarely realized that a firm's human resources and human capital are sources of competitive advantage. Competitiveness cannot be achieved without managing performance and at the same time developing the skills and the competence of employees. Performance management potentially makes the most significant contribution to individual and organizational learning and helps to raise organizational efficiency and promote growth (Adhikari, 2010).

The world of employment has changed dramatically, technology is impacting practices, experiences and societies are becoming more global and multicultural. With the rise of globalization, employability is becoming one of the main goals for business enterprises. Today's employers require employees to have soft or non-technical skills in addition to technical skills (Mansour & Jason, 2016). So, the HRD function is different from personnel/HRM functions. Rao (Rao, 2007) outlines the following roles of an HRD manager:

- Developing the enabling capabilities in individuals and the system.
- Integrating the development of the people with organizational development.
- Maximizing the learning opportunities of individuals in organizations through various mechanisms, autonomy and responsibility.
- Decentralization, delegation and shared responsibility.
- Balancing change and adaptation.
- Building feedback and reinforcement mechanisms, etc.

Hence, we define HRD for the purpose of this study as a systematic process of developing strategic human resources (which include talent development, training/development, organization development, performance development and career

development) in order to enable the organization to achieve its strategic objectives including Quality, Productivity, Customers satisfaction, Employees satisfaction and Innovation.

Human Resource Development Components:

Although everyone does not agree on the definitive boundaries of HRD within HR, most HRD scholars agree on the following as the three central components of HRD: organization development, career development and training and development (Chalofsky, 1989; Jacobs, 2001; Gupta, Wang, Hutchins, 2009; Tomé, 2011; Sahoo, 2016).

Organization Development:

Swanson and Holton (2001) suggest that there are many different views of OD, since the contexts of the needs for system change vary greatly across different organizations. They state that OD is essentially a method of defining and solving problems related to the organization, and they introduce two popular models that are seen in many OD process models: action research and organization development for performance system (ODPS) (Cummings & Worley, 2005). On the other hand, ODPS involves the implementation of a process of planned, systematic change to develop human expertise for improving individual, group, process, and organization performance: (a) analyze and contract, (b) diagnose and generate feedback, (c) plan, design, and develop, (d) implement, and (e) evaluate and institutionalize (Lynham, 2000). We can define organization development as a systematic process of implementing organizational- wide change and development interventions in order to enable the organization to achieve its strategic objectives.

Training and Development:

Training and development is one of the important HRD functions in a constantly changing global economic environment, in which every individual in an organization has an opportunity to develop competences accordingly. Training is described as the extensiveness of formalized programs to develop knowledge, skills and abilities while the development is Development– Preparing for future responsibilities, while increasing the capacity to perform at a current job (Evans and Davis, 2005). Jacobs and Washington (2003) use another term for TD: they explain, “employee development refers to an integrated set of planned programs, provided over a period of time, to help assure that all individuals have the competence necessary to perform to their fullest potential in support of the organization’s goals”. We can say training and development is a systematic process of providing training and development of employees in order to enable the organization to achieve its strategic objectives.

Career Development:

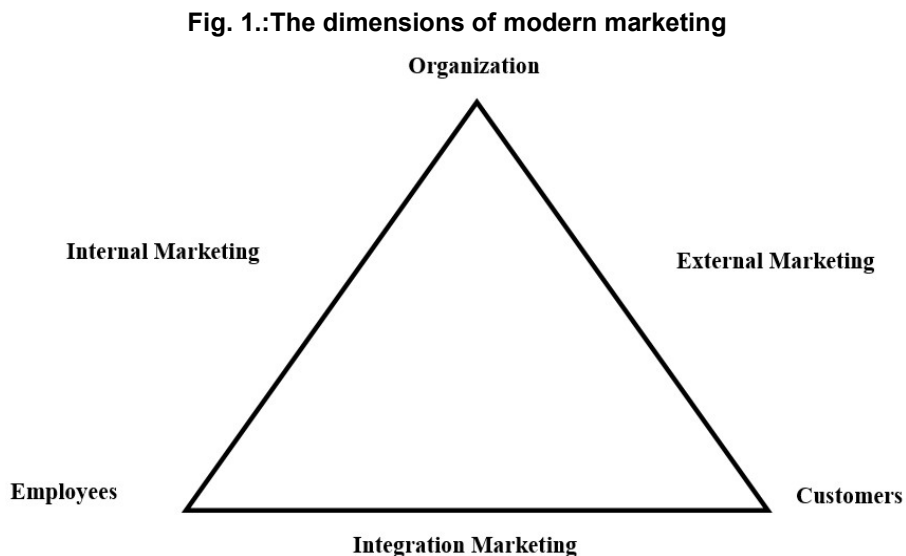
Chalofsky (1989) states that career development services have emerged as part of HRD functions, beginning in the early seventies. In this era, firms sent recruiting counsellors to schools in order to provide career guidance and counselling students. At the same time, they provided their employees with advice on how to pursue their career goals within the organization. Career development involves the person’s creation of a career pattern, decision-making style, integration of life roles, value expression, and life-role self-concepts (Niles and Bowlsbey, 2002). Career development interventions assist in building a partnership between the organization and its employees, enriching their knowledge, skills and abilities by improving individual competences, allows simultaneous

enhancement OE (Gilley et al., 2002). We define career development as an ongoing process by which individuals progress through a series of changes until they achieve their personal level of maximum achievement.

Internal marketing:

The notion of Internal Marketing appeared in 1970's; it has been founded to solve the problems that occur due to the lack of delivering services in high quality (Panigyrakis & Theodoridis 2009). According to Berry and Parasuraman (Berry and Parasuraman, 1988), Internal Marketing is the process of handling staff as internal customers and projects as internal products that satisfy the needs and desires of the customers and adhere to the company's goals. On the other hand, Jaworskki and Kohli (Jaworski and Kohli, 1993) support that Internal Marketing is the process of promoting the company and its products to the employees. In other words, companies in the service industries must develop programmes that will be addressed to the internal market (their employees) as well as the external market (customers) (Lovelock, 1991; Tansuhaj et al, 1987; Gummesson, 1994; Gronroos, 1990a). The internal marketing figures out from Relationship Marketing, where the main goal of internal marketing is to build a base of customers and retain them and get them to the point of loyalty.

Kotler and Armstrong (2006) showed the internal marketing is training and motivating of employees to find a clever marketer working in external marketing, make employees unable to provide excellent services through encouraging them to work as a team to serve customers. Al Jadi (Al-Jadi, 2006) sees that internal marketing is a purposeful effort to provide employees with a clear understanding of the goals and tasks that the organization would like to achieve with training, motivation and reward according to the level of the achievement of the objectives.



The above-mentioned approaches emphasize the importance of applying marketing techniques on the company's employees. In particular (Marshall & Baker, 1998) four "Ps" are fine-tuned, so they apply to the internal market. The concept of Product refers to the type of tasks offered to the internal customers (employees); Price refers to the opportunity cost of the employees performing tasks that they deem as boring; Place refers to the

degree of easiness or difficulty in relation to employees' commuting to and from their work place and finally; Promotion refers to internal communications which enable the company's management to update employees about the company's vision for the future. The aim of Internal Marketing on a strategic level is the creation of an appropriate environment that will support the employees' interest in external customer satisfaction. In addition, Internal Marketing regularly focuses on internal communication between management and staff (Gronroos, 1990).

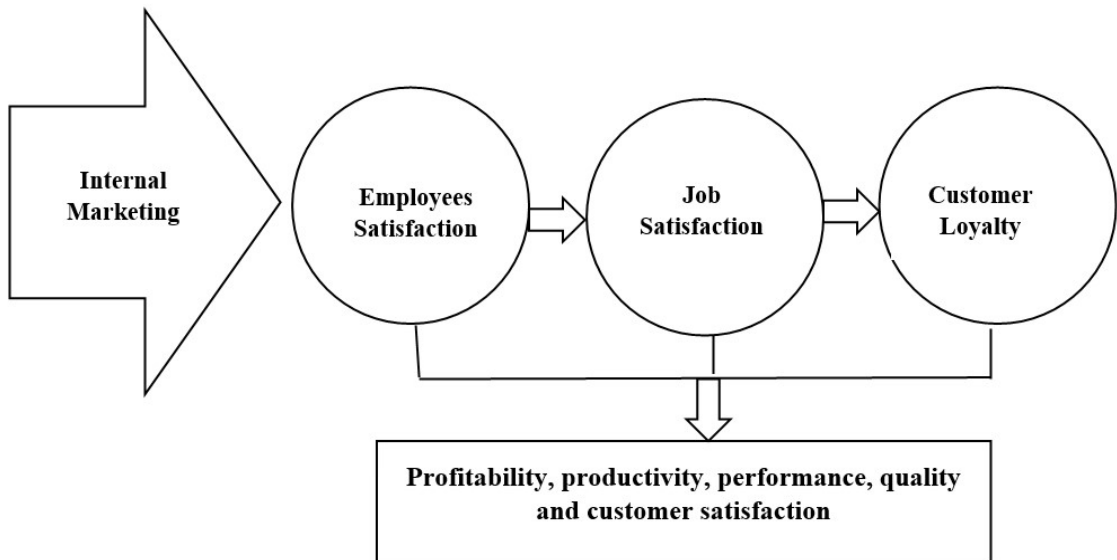
Internal marketing objectives:

Although there is no consensus on the definition of IM, there is a general agreement among the IM scholars on the existence of internal customers and the objectives pursued by the use of the IM (IM elements). According to Tansuhaj et al. (1988) and Ahmed et al. (2003), there is a set of objectives that the IM should seek to develop, which are as follows:

1. Increase the effort that the employee is willing to do for the organizations.
2. Increase employee commitment with the organizations.
3. Increase employee involvement with the organizations.
4. Increase employee motivation.
5. Increased job satisfaction.

Thus, organizations use internal marketing activities to improve employees' effort, commitment, involvement and job satisfaction. Also, these employees' outcomes are positively correlated to individual superior performance. Additionally, employees' superior performance contributes to the organizational superior performance and will influence the external customers' perceptions of service quality. Although the IM focuses on organizations' employees as internal customers and attempts to meet their needs, the main goal of internal marketing is to enhance quality services for external customers to have a loyal base of satisfied clients, which contributes to increasing revenues, decreasing costs and building market share and etc. Considering the literature above, the following model briefly illustrates the main goal of IM.

Fig. 2.: Objectives of internal marketing



Internal marketing-mix:

(Lovelock & Wright, 2002; Keller, 2006) determined the Internal marketing -mix in the following way:

1. Product: The function of internal marketing is a product which announces employees to select the best candidate to achieve the job successfully while the tasks, roles and responsibilities represent some product specifications.

2. Price: The Price is the cost needed by employees to acquire new skills and knowledge in order to meet job requirements that enable them to achieve strategic organizational objectives.

3. Promotion: Represents the communications with the organization, share information and exchange views, and through that communication systems are designed to link between management and employees on the one hand and between the internal customer and external customer on the other hand.

4. Place: Represents the place where the internal customers meet the offered product, the place where the workers perform their job and the degree of easiness or difficulty in relation to the employees' commuting to and from their workplace.

Dimensions of Internal Marketing:

Foreman and Money (1995) suggested three components of internal marketing that are rewards (rewarding and fairly compensating employees), (Paliaga & Strunje, 2011). Ng et al. (Ng et al, 2016) pointed out different components from where the company starts the internal marketing with (a) recruitment (b) training (c) motivation (d) communication (e) company vision/goals (f) co-optation reward. For this study, we can determine the Dimensions of Internal Marketing in three Dimensions (a) Empowerment (b) Employee training and development (c) Motivation.

Empowerment:

Naval (Nawal, 2013) sees the employees' Empowerment to participate in top management, making strategic and operational decisions, formulating policies and solving problems, job development and delegation of sufficient power and freedom that is reflecting positively on the performance of the organization. Bruce (Bruce, 2009) indicates that employees' empowerment in decision-making positions and the encouragement of their participation contributes to a rapid response to any changes in the environment and thus contributes to increased job satisfaction. There should be a healthy and good relationship between the internal customers and the management of the organization and there should be emphasis on the delivery of the best products and services and needs of satisfaction of the employee. There should be proper management style and system for the internal training and coaching of the employees that must help and support the nourishment of an internal environment of business (Ullah, Ahmad, 2017).

Employee training and development:

According to many studies, training and development is one of the basic elements of internal marketing and has an effective role in the satisfaction of employees and in the increase of their productivity (Kameswari, Raiyalakshmi, 2012), (Ahmed, Alborie, 2012). There are many studies on internal marketing which state that there is a strong need to develop the satisfaction of employees and that employers should consider jobs as internal products, their aim should be to develop a loyal, most skillful and qualified personnel

(Zampetakis and Moustakis, 2007). There should be a proper management style and system for the internal training and coaching of the employees that must help and support the nourishment of an internal environment of business (Roberts-Lombard, 2010).

Motivation:

Mahdi (Mahdi, 1994) defines the motivation as the factors that drive the workers of the organization to work with all their capabilities to achieve their targeted goals and objectives (Yauas and Babakus, 2009; Ahmad and Rafiq, 2002) indicated that motivation is one of the basic and important elements of internal marketing in industrial and service organizations. The organization encourages that their internal customers (employees) must be satisfied through lucrative rewards who in return satisfy the external customer and fulfil their needs and wants (Haghighikhah et al 2016). Awwad and Agti (2011) stated in their study of banking that if the reward is fair then it creates emotionally stronger and more loyal internal customers for the organization. Internal marketing has strong linkage with the firm's performance so in order to get satisfaction from the customers, first of all we have to train, educate and motivate our internal customers, in return they can fulfil the goals of the organization (Ullah, Ahmad, 2017).

Human Resource Development, Organizational Effectiveness and Internal Marketing

By reviewing the literature of HRD and IM it can be inferred that there is a noteworthy overlap between these two concepts. According to Glassman and McAfee (1992), (Dunne and Barnes, 2000), and (Varey, 2001), considering human resources as internal customers, it would be best served through the contributions of both the marketing and human resources functions as they reflect the common roots of each discipline within a psychological theory. The important role of internal marketing is to breed effective human resources, which implies that IM and HRM are closely related to each other (Avoudia & Kaur, 2012). Moreover, internal marketing strongly supports the relationship between HRD and organizational effectiveness (Schneider and Bowen, 1985). It is because organizational effectiveness factors such as productivity, employee's engagement and service quality are closely related to the intention and ability of internal customers (i.e., employees) to achieve specific objectives. According to Zeithaml, Parasuraman and Berry (Zeithaml, Parasuraman and Berry, 1990), the levels of internal customers' satisfaction and commitment towards the organization, which is highly representative of employee willingness, are aspects worthy of in-depth investigation.

Iacovone (2012) found in his research survey of some companies like Cisco Systems, Elica, Microsoft, Coca Cola, Cefriel, W. L. Gore that these companies were characterized for the best IM practices, the survey shows that the responsibility of Internal Marketing activities does not belong to the human resource department, but to the Marketing Department. Where competition requires, focusing on strategic and distinctive competences, referring to the best human resources of the organization are essential. So, IM approach is something both strictly correlated with culture (and not necessarily with business size) and essential for business strategy. Chuang, Liu and Chen (2015) found that the satisfaction of internal customers influences customer satisfaction and loyalty before affecting the profitability and growth of the company. Aeeni, Ahmadi and Shafei (2013) found in their study that a positive impact of internal marketing on organizational citizenship behavior has been confirmed as expected and according to the results of their research the organizations can increase organizational citizenship behavior among their employees through the improvement of internal marketing activities and the enhancement

of their performance by this. Ullah, Ahmad (2017) found in their study that the impact of internal marketing on organizational performance is not direct. It is however through organizational culture. Internal marketing can lead to a better and enhanced organizational culture that would ultimately lead to enhanced organizational performance. Tsai and Tang (2008) said that if organizations wanted to improve their performance then it was their foremost responsibility to treat their employees as internal customers, this would give empowerment and courage to the employees to provide their best service to the external customers.

3. A Proposed Conceptual Model

The proposed model would help further explore how HRD practices effect on organizational effectiveness by mediating internal marketing initiatives that can help foster an organizational effectiveness and leads to an improvement in organizational performance. This model will help improve the dimensions of human resource development practices by suggesting new ways of human and service development through culture improvement, thus enhancing the performance.

In the theoretical framework, the relationship is proved from the literature. This study adds to the existing literature on the relationship of HRD to firm performance through mediation of internal marketing.

4. Discussion & Conclusion

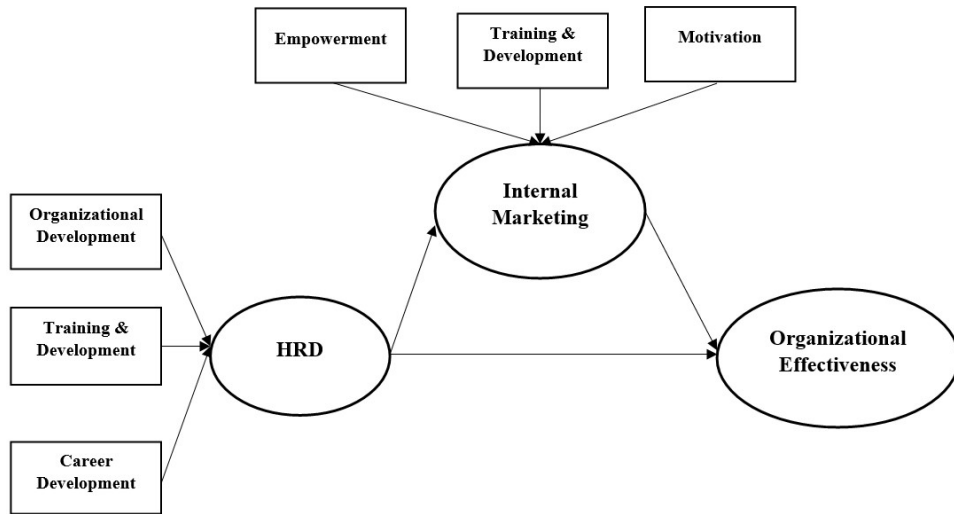
In today's fast and competitive world, the motivation of employees and uplift their positive behavior and catering their needs have become a major challenge for organizations. So, the main purpose of the current paper is to clarify the linkage between HRD and IM in today's organizations. In today's competitive environment, organizations must meet the needs of their external costumers to reach their goals which are efficiency, effectiveness, productivity and market share.

On the basis of the review of literature, this study has proposed a conceptual framework which aims to provide insights to managers to enhance positive employee attitudes and behavior through internal marketing and help explore how HRD practices effect on organizational effectiveness by mediating internal marketing initiatives that can help foster an organizational effectiveness and leads to improvement in organizational performance. This model will help improve the dimensions of human resource development practices by suggesting new ways of human and service development through culture improvement, thus enhancing the performance. In the theoretical framework, the relationship between HRD and internal marketing is proved from the literature. Although a lot of research has been done to find out the impact of internal marketing activities, there still exist a lot of research gaps that need to be addressed. One important point is to look into the mechanism of internal marketing which is to improve the performance of the organization through organizational effectiveness.

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Fig. 3.: A Proposed Conceptual Model



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THE ROLE OF INDIAN GOVERNMENT POLICIES IN THE DEVELOPMENT OF RURAL ECOTOURISM DESTINATIONS

AZ INDIAI KORMÁNYZATI POLITIKA SZEREPE A RURÁLIS ÖKOTURISZTIKAI FEJLESZTÉSEKBEN

Harshavardhan Reddy Kummitha PhD student

Abstract

Travel and tourism are major source of foreign exchange in India. The potential employment opportunities in this sector have improved over time. This paper focuses on ecotourism and rural development in India, how ecotourism can help rural communities to sustain their livelihood in India and what the governmental policies are towards this rural ecotourism development. It can have both positive and negative impacts on rural as well as urban communities. The Government of India published the development of ecotourism in its new Ecotourism policies and guidelines.

Keywords: ecotourism, rural development, employment opportunities

1. Introduction

Eco tourism means any form of natural attraction, like flora and fauna to attract visitors to rural places thereby the local community benefiting economically and socially as well as enabling interaction between the tourists and the locals for a more enriching tourism experience and can be termed as rural ecotourism. Ecotourism in India is essentially an activity which takes place in the countryside. It is multi-faceted and a lot of them get benefits different sectors of tourism like farm/agricultural tourism, cultural tourism, nature tourism, adventure tourism, Ecotourism and wildlife tourism growth potential can be a control of natural resource as a strategy for Rural Development. The development of Rural Tourism is useful for a country like India, where almost 74% of the population resides in its 7 million villages (Mellor, 1968). Ecotourism has the potential to enhance wilderness protection and wildlife conservation, while providing nature-compatible livelihoods and greater incomes for many people living around natural ecosystems. This can help to contribute directly to the protection of wildlife or forest areas, while making the local community stakeholders and owners in the process. Throughout the world the trends of industrialization and development have had an urban centric approach. Alongside, the stresses of urban lifestyles have led to a “counter-urbanization” syndrome. This has growing interest towards the rural areas. Village tourism as the primary tourism product should be promoted to spread tourism and its socio-economic benefits to rural and new geographic regions. Key geographic regions would be identified for the development and promotion of eco-tourism.

2. Tourism in India

The role of tourism industry is increasing the process of globalization. The major consideration of government is concentrated towards tourism industry economic development and growth (Sam Aram, and Mirzaee, 2009). It can help to boost the income of the residents and create employment opportunities and possibilities of protecting the natural resources, create the awareness between the host and the guest society. The development of Rural Tourism is useful for a country like India, where almost all the population lives in its 7 million villages.

The Guest is equivalent to god in Indian culture. “Atithi devo Bhavah” is a slogan of Indian tourism industry. India is a land of diversities of cultural and traditional activities that is why millions of tourists from around the globe visit India. Tourism does not only mean growth in Indian economy but also generates employment. The Indian Ministry of Tourism controls tourism industry and stakeholders, creates all the rules and regulation and laws related to the development of the industry, administration and promotion of tourism in India. The ‘National Tourism Development Policy’ 2015 was adopted when the government realized that Tourism was an important industry for economic development. In the same year it provided direct and indirect employment opportunities and launched an international marketing campaign to promote Indian tourism industry for a global audience.

3. Ecotourism in India

Mostly Ecotourism and community-based tourism are responsible branches of tourism which consider the protection and development of opportunities for the continuation of their life purpose of lasting ecology and respond to the environment’s present needs (Campbell, Lisa M, 2009). Ecotourism provides cultural, social, economic and environmental benefits to rural communities (Scheyvens,1999; Campbell, Lisa, 2009). It raises funds required for nature conservation and generates employment opportunities (Goodwin, 1996). Ecotourism gives opportunity to some small-scale entrepreneurial facilities, such as restaurants, lodges and local handicraft recreational activity businesses, home stays (Che, 2006). The revenue generated by local people from entrance fees in protected areas and rents of the souvenir shops (Goodwin, 1996) can fund local conservation trusts that compensate farmers for crop and clearing and can be a development opportunity of the destination.

Ecotourism in India is very rich and very committed to the characteristics of the area in which tourist activity takes place (Petric, 2013). This activity is compulsory to insist on a complex definition of rural ecotourism. Rural ecotourism could be defined as environmental based tourism which should take place in rural areas, but this simplification could be problematic in the area of making clear arrangements between urban hotels or resorts situated in rural areas (e.g. golf hotel, spa resort or tourist villa) and genuinely rural experience on a tourist farm or in a rural hotel (IMRD 2014). “Rural ecotourism is a term used when rural environmental is a key component of the product of tourism products” (UNWTO, 2004). This concept presupposes the contact with tourists and specific rural experience. Besides, the opportunity to actively participate in certain agritourism activities and other activities, traditions, local cuisine and lifestyle of residents should be offered, as long as possible. This approach towards attracting tourists could provide a completely new experience which is almost impossible to achieve in the destination of mass tourism activities.

According to the literature review and an Indian national survey of rural tourism destinations, it is possible to pick out a few specified tourist destinations and fancy them with the help of NGOs to develop the tourist offers in rural destinations. Tourist offer is extremely well developed and represented by many micro and small entrepreneurs (Hall, Mitchell and Roberts, 2005). Family owned businesses are based on limited resources for further development for the destination development, this kind of enterprises usually remain small and, in the wider context of employment, it leads especially to women empowerment (Moric, 2013). Modern society rural lifestyle is the main attraction, and most of the urbanized people would like to experience the rural life style, so government policy's for the protection of this intangible element of rural cultural heritage is highly recommended (Moric, 2013). In governmental policies, the rural area is conserved with authentic rural life is an essential resource for rural ecotourism products and services. Rural areas are of poor production, in smaller quantities and maintain the traditional way of life, which represents a significant platform for creating innovative tourist products, attractive to tourists from industrialized and suburban areas that have lost the key features of recognition as a rural area (Hall, Mitchell and Roberts, 2005).

4. Rural Tourism and Ecotourism Guidelines for Rural Development

Rural tourism is a form of tourism activities that showcase the rural areas including rural life, art, cultural, traditional flora and fauna and heritage of rural locations and provide employment opportunities to local people (Roberts, L. & Hall, D. 2001). The strategies which have undertaken the development of rural tourism as a mass tourism market, are going to mean valuable development to rural economies can be expressed not only in financial terms but also as employment contribution to the well-being of local people, encouragement towards the adoption of new environmental conservation and new working practices. Indian rural tourism is relatively new, the potential for rural tourism is a major focus in economic development and reeducation (Rathore, N, 2012). According to Honey (Honey, M., 2008) ecotourism provides the following benefits to local people and rural tourism development:

- Sustainable use of natural resources.
- Developing and maintaining the diversification of the natural, cultural and historical development of the country side.
- Agritourism plays a key role to attract more tourists to the countryside. The planning and development must be attractive to tourists.
- Sustaining the local organizations in socio-economic development of the community, as well as in the protection of nature, historical and cultural values.
- The contribution of local communities to the tourism sector by sustaining and motivating groups for the development and promotion of local tourism and the protection of the environment, historical and cultural assets.
- The development of agritourism must have a key role to attract tourists and the economic source of local communities must be supported by professional training, continuously high-performance of workshops among the locals.
- Marketing and promoting the rural touristic resources.
- Monitoring negative tourism activities and actions plans to protect and conserve the natural environment, as well as rural tourism resources.

5. Indian government Strategies for the Promotion of Ecotourism Development

Tourism growth is economically and potentially can be increased in rural places in India. Rural tourism development is a strategy for Rural Development. The development of rural areas is a strong motivation for Rural Tourism, which is helpful for a country like India. Across the globe trends of globalization and industrialization development have an urban centric approach towards the rural areas. Moreover, the expenditure of urban lifestyles has led to urban cultural expansion (Singh & Dr JS, 2015). This has grown motivations towards the rural areas. The trend of urbanization has led to falling income levels due to the financial crisis of the country, fewer job opportunities in the total areas leading to an urbanization syndrome in the rural areas (Rathore, N., 2012). Rural ecotourism is one of the few activities which can provide a solution to this economic problem in rural areas. On the other hand, there are other influences which are shifting the trends towards rural areas, like increasing levels of awareness among local communities, interest to visit the historical heritage and culture, which improve the accessibility of the destination and environmental awareness. In developed countries it is a trend among tourists to visit the rural areas for getting relaxed resulting from their usual lifestyle, because in a modern lifestyle the tourism in village settings means to experience and live a relaxed and healthy lifestyle. This concept has taken the shape of a formal kind of Rural Tourism in India.

This scheme provided will promote rural tourism as a main source of financial benefits to local communities and it has socio-economic benefits to rural places and its new geographic regions. Major geographic areas will be identified for development and promotion of Rural Tourism, according to Kutay aytuğ & Mahshid mikaeili (2017). The implementation of the region would be done through a convergence committee appointed by the district collectors. Activities involved like improving the environment sustainability, hygiene, infrastructure, local people empowerment, etc. will be eligible for assistance. Apart from providing financial assistance the focus would be to tap the resources available under different schemes of the department of rural development, state government and other concerned departments of the government. of India.

These principles should be envisaged both for governmental organizations and tourism and service providers of such ecotourist products. These ideas presented are accompanied by a more and more accentuated tendency of the civilized world of living in good terms with the environment, spending more time in nature, being closer to all what is clean.

Munt asks (Munt, I. 1994): Who are the eco tourists and what do they expect?

- They are between the age of 30 and 59.
- They are highly educated people who know well the natural resources.
- They must have above average income.

Eco tourists are usually imagine rural tourist places as ones having high quality services, professional local guides, and there must be small group tours for groups maximum (15 people), having enlightenment educational awareness programs, good and high-quality local traditional food prepared from local ingredients, quiet areas far away from traffic, quality accommodation, not necessarily luxury hotels, but clean and proper; environment conservation. (Mostly ecotourist like to know that the money which they spent goes back into environment protection.)

6. Key Government Policies towards the Development of Ecotourism

It is important to involve all stakeholders in the implementation of ecotourism policies. Synergy and collaboration among the Central Government, State Governments, hospitality sector, State Forest Departments, Protected Area managements, and local communities and civil society institutions are vital for ensuring the successful implementation of the guidelines (Sekhar, N. U., 2003).

- Create an awareness among the local communities of rural tourism development, where there is an opportunity to provide income generated activities in their areas.
- Rural tourism is mainly encouraged by either central or state government funded projects, but these initiatives have to be designed, planned, implemented and managed and the development should be done by the rural people themselves, so they have to be community-based tourism and community controlled activities.
- Various educational departments have special projects and awareness programs for the implementation of rural tourism.
- Rural tourism should be a local community activity rather than development activities in the rural areas.
- Village Tourism Committee under the leadership of Village panchayat should be aware that all the communities will get proper economic employment at the destination.
- The Village Tourism Committee members should have sub-committees, each sub-committee is assigned with specific portfolio aimed at promoting Local food and hospitality and tourism must have; Culture: customs, rituals, traditions, performing and folk art; Architecture; and Traditional/indigenous goods and material.
- Policy related to communication and cleanliness of the local people and skill, management of tourism waste, management of the accounting of the development of indigenous publicity materials.
- Construction of village museums and parks that showcase the rural life through photographs, exhibits, artefacts, flora and fauna models all prepared originally.
- Development of marketing models and promotion of rural tourism.
- Governments provide services to the rural areas under the scheme of sanitation.
- The natural, cultural, human environmental and capital resources must be used in destination development.
- The infrastructure must be ecofriendly.
- The tourist can have allowed to visit the places all the year round, which is a better opportunity to get income generated activities for local people.
- Homestay people get some awareness of the tourists.
- Quality and service provided by homestay people should be authenticated.
- The villagers should provide more leisure opportunities to the tourists, for example nature walks, trekking, climbing-mountains/trees, exploring biodiversity in natural parks.
- Rural tourism must occur far away from the urban areas, so it should have good accessibility for the tourists to reach the destination.

7. Positive and Negative Impacts of Ecotourism

Tourism industry in India has several positive and negative impacts on the economy and society. (Lee, W. H. & Moscardo, G., 2005). The impacts are highlighted below

7.1. Positive Impacts

- Creates an interest and awareness among the tourists about India's indigenous flora and fauna. It acts as a forum to educate and encourage conservation efforts and economic support for local communities.
- Boosting the economic development in areas surrounding reserves through sustainable development of environment
- Increase the revenue for local communities, which is helpful for better economic conditions.
- Preservation of local cultural assets
- Creation of employment opportunities for local people
- Encourage participation of local communities in the protection and conservation of the local areas where they live

7.2. Negative Impacts

The fundamental economic benefits that derive from ecotourism have resulted in excessive commercialization that has resulted in the obvious violation of rules, guidelines that have been put in force for the protection and conservation of the environment and the rights of the people.

- Ecotourism's main purpose is only the basic conservation of flora and fauna that is sufficient to attract tourists. It does more harm than good. The tourists arrive in and ride around the parks in vehicles which pollute the environment and scare the animals. The incessant flow of tourists disturbs the animals. Also, tourists leave behind garbage such as plastic bottles etc. which lead to environmental degradation.
- In mass tourism there is increasing demand for ecotourism, land around parks and sanctuaries is being cleared through deforestation, displacement of people etc. to accommodate hotels, resorts etc.
- Mismanagement of governmental strategies of ecotourism sites causes more harm than any little good that ecotourism brought about.
- Ecotourism takes away a lot of natural resources from local communities, and in return provides them with low-paying employment positions in the resorts etc. that are established. No viable long-lasting employment opportunities.

8. Suggestions for the Improvement of Rural Tourism in India

The main attractions of Indian tourism are historical monuments, cultural aspects of India, wildlife scenery, forests and beaches. Some touristic spots are famous among the tourists for ecotourism development in all over the country. Again, some sites have potentiality, but they attract fewer visitors. The substantial number of governmental organizations, tour operators and guides are necessary for ecotourism to attract the global tourism market, the major activities of the Indian Government for ecotourism development are discussed below.

Strategies

To promote the ecotourism sector, the government has insisted on facilities for the global and regional strategic alliances among the local state governments, tourist organizations and the local destination communities. This partnership has improved the quality of tour service and fostered greater collaboration with other countries, tour operators and travel services, transport service providers and local tourist destinations. The local governments in India promote and analyze the differentiated strategies for unique and distinctive travel patterns and needs for promoting ecotourism destinations. The government should motivate the local people to participate in the development.

Improving Ecotourism Products

The government is continuously promoting and developing ecotourism destinations. Currently, there are about 80 national parks and 441 sanctuaries in India, which work for the protection and conservation of wildlife resource in India as guided by the National Ecotourism Plan during the period of 2013-2016. The government has given greater importance to ecotourism through the preservation and conservation of natural attractions such as wildlife sanctuaries, national parks, highlands and coral islands. The government should encourage the local communities to establish ecotourism projects in natural areas owned by governmental properties.

Improving Accessibility

The Indian government is continuously expanding and upgrading infrastructure and communication facilities to make them accessible for the countywide, which supports the improvement of the tourism sector. Air, rail, road and sea transportation infrastructure facilities have been improved to facilitate the development of tourism industry.

Employment and Training

Indian ecotourism policies have influenced the local originations to increase the employment opportunities in the ecotourism sector. The Indian Government has improved the quality of tourist services by advising the training through workshops and coordination of the National Tourism Human Resource Development Council (NTHRDC) and National ecotourism councils. Tourist guides have been encouraged to gain knowledge about ecotourist destinations and more languages.

Marketing Promotion

The Ministry of Tourism has the specific agenda to promote ecotourism in the country in a responsible and sustainable manner, and on the basis of this mandate the promotion of ecotourism assumes larger importance.

Sustainable Tourism Development

A more environmental approach towards tourism planning and implementation has been undertaken to ensure sustainable tourism development in Indian tourism industry. Governmental policies have been directed strictly to the preservation and enhancement of existing natural assets so as to minimize environmental damage. The government gives importance to minimize negative impacts of ecotourism so as to preserve the environment.

Investment

To promote ecotourism destinations, the public and private sector have encouraged developments of innovative tourism products and services. For this purpose, the provision of incentives has been considered for the development of special interest products in ecotourism. The government insisted the PPT partnership to get awareness invest in the tourism sector.

Research and Planning

The government is conducting a research and impact to summarize the ecotourism related programs and projects. Tourism Satellite Account (TSA) has been fully updated in this concern. The TSA mechanism is supporting subsequent policy making and readjustment of strategies and programs for the tourism industry.

Safety and Security

India has increased efforts to ensure the country as a safe and pleasant place to visit. The police authorities have strengthened to increase security for tourists. The country has capitalized its' political stability and diverse racial harmony to foster the country's image as a tourist-friendly destination. Government initiatives have been introduced for ecotourism developments.

Guidelines

Ecotourism guidelines for sustainable ecotourism development by the Ministry of Tourism have been drawn up in the National Ecotourism Plan. These guidelines are giving proper instructions how to develop ecotourism in the specific areas in countryside.

Market Segmentation

The government has already set up new market strategies for tourism in rural areas. With this goal the government has given emphasis to ecotourism development in protected areas, forest areas, mountains and natural attractions.

Infrastructure Development

Improvement of communication and infrastructure facilities are compulsory for boosting the ecotourism activities. Local governments spent a lot of allocation on the development of infrastructure and communication in ecotourism areas, which ensures the ecotourism development in this region.

9. Conclusion

Geographical, cultural and environmental diversity of a country like India has a plenty of opportunities to develop and promote eco rural tourism. If the implementation and promotion are properly done in rural tourism projects, it can influence the rural economic growth by generating employment for the youth. It solves the potential of addressing such issues as poverty, empowerment of women and strengthening the economic status of the rural people and conserving the natural and cultural resources. The Indian government considered the guidelines of the development of ecotourism in rural destinations to be important. It is a very crucial activity from the point of view of rural development because of its contribution to the socio-economic development and employment opportunities for

the rural people. Still in its nascent state, concentrated efforts must be made by both the State government as well as the Ministry of Tourism to develop and promote rural tourism in India.

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THE ROLE OF SMALL AND MEDIUM ENTERPRISES IN INNOVATION ACTIVITIES IN KAZAKHSTAN

KIS ÉS KÖZÉPVÁLLALKOZÁSOK SZEREPE AZ INNOVÁCIÓS TEVÉKENYSÉGEKBEN KAZAHSZTÁNBAN

AINURA SHAKENOVA PhD student

Kaposvár University, Faculty of Economic Science,
Doctoral School of Management and Organizational Sciences

Abstract

This article is about the fact that there are certain factors that have a huge impact on the activities of small and medium-sized enterprises in innovation on the example of the Republic of Kazakhstan. Indicators of SMEs are reflected in the economy of the people and their country. The author used statistical analysis of indicators of innovation-based growth in the Republic of Kazakhstan. Moreover, these figures were compared to those of developed countries, which were involved in such indicators as the share of innovation of active enterprises, domestic expenditure on R&D (as a percentage of gross domestic product). According to the survey the key factors that have a major impact on innovation by SMEs were identified.

Keywords: SME, innovation development, innovation activity, triple helix, R&D.

1. Introduction

Today it is difficult to imagine any country without SMEs. Small and medium businesses often bear the brunt of the burden in the formation of the country's budget. Through the participation of SMEs technological progress, innovation are carried out, culture (Morrison, 2000) and the life of the population are developed, leading to the country's economic growth through the development of SMEs. Business has a huge impact on GDP, develops science and innovation in both developed and developing countries. There are various factors that influence the innovative development of the country (from the level of SME development through environmental factors), and each country is faced with historic and modern features of the development of the technological progress. Today, the government understands the impact that SMEs have, the government recognizes that SMEs affected not only the economy, as the main source of the budget, but also the society, through job creation, employee motivation to the development and formation of the middle class. In economically developed countries, small and medium enterprises are about 50% of GDP. Several developed countries support the development of small and medium-sized businesses. It is a kind of basis for forming the middle class, the existence and size of which determines the level of the economic development of a state.

According USAID MEP (2015) development of SMEs in the country provides the following: enhances competition, economic initiative and activity of citizens, inhibits the

growth of prices for goods and services, and motivates entrepreneurs to improve the quality of products or services, the use of innovative technologies, the increase in tax revenues, the solution of unemployment problem.

The modern development of Kazakhstan's economy does not lose the dynamics of development and transformation assigns a significant role in overcoming the technological degradation. Moreover, Kazakhstan is tasked with the transition to industrial-innovative development of the economy, with focus on supporting high-tech enterprises and the SME sector. Economic growth in Kazakhstan in the recent past was largely ensured by the intensive development of the commodity market. However, the technological backwardness of some enterprises, as well as the absence of the relationship of science and industry were a definite threat to the economic security of the country in the past. Today, the country has entered a new development path, knowing that there is the prospect of innovation for the country's future generations.

As mentioned earlier, SME is one of the sources of innovation activity in the country. It is obtained through enterprises' "triple helix" - Government - R&D - Business, where the business is the end result of innovation and technological progress conductor, which should reach the consumer. At present, there are difficulties in Kazakhstan, where the Soviet period has left its traces in the form of old equipment and world view. Currently, Kazakhstan decides to move away from dependence on natural resources in the economy and give preference to innovative projects, businesses and ideas. It creates a variety of projects that involve the authorities, science and business (e.g., ENACTUS KAZAKHSTAN). However, this is not enough, because innovations are slow and sometimes do not correspond to the needs of the population and are often under a "rough ground" to promote their innovative products and poor management. Of course, as in any young developing states, Kazakhstan faces a number of challenges and the factors influencing the innovation activity in the country. The main factors that influence the development of technological progress and innovation occur in different variations in countries with economies in transition. The author highlighted the main factors that affect the activity of innovative SMEs in Kazakhstan.

The development of SMEs in the field of innovation is influenced by many factors, some of which are: general economic conditions of the country or region, the level of entrepreneurial culture, historical experience, education, perception of entrepreneurship, education, business, time and costs, R & D.

The totality of these factors not only has an impact on entrepreneurial activity, but also provides an opportunity to assess the entrepreneurial potential of the country. However, the organization and support of SMEs is not sufficient for the full launch of the country's innovation potential. It is necessary to establish the scientific and technical institutions, namely to develop the scientific and technological capabilities in the priority areas of science.

2. Literature review

Entrepreneurship is a crucial link in the development of small and medium-sized businesses, while the development of SMEs is one of the major driving forces in the growth of the economy (Lee & Tai, 2010).

Moreover, SMEs have a lot of concepts and definitions (Hooi, 2006), and everyone interprets this concept to a certain standard in each country, according to well-established business conditions (SMEinfo, 2011).

The authors of some articles claim that entrepreneurship and innovation are a direct bond, where the first one stimulates the latter one (Zhou, Tan & Uhlaner, 2007; Littunen, 2010), and will present entrepreneurs as innovators (Schumpeter, 1965 as cited in Marcati et. al., 2008; Abdullah, Shamsudin, Wahab & Hamid, 2012). Morrison (2000) found a significant relationship between business and cultural characteristics, providing a more meaningful decision for the symbiotic relationship between business and culture.

In the past half-century innovations attracted a lot of attention on behalf of the society, and especially a clear reflection of this interest can be seen in scientific literature (Cooper, 2005; Hamel and Prahalad, 1994; Kaplan and Norton, 1992), at the same time developing their products and services (Hartley, 2005; Mulgan and Albury, 2003) and understanding that the need for innovation is mandatory (Tidd and Bessant, 2005).

Moreover, exploring the innovative activity of SMEs in Kazakhstan, it is necessary to consider and to know the opinion of entrepreneurs about the challenges and constraints to innovation in Kazakhstan (Abdymanapov et al., 2016).

3. Materials and methods

The methodology used for the article consists of a search in the library and the evaluation of the previous literature review on the topic related to SMEs and innovation. Searching for literature includes online and offline material for scientific articles and chapters in books. Links are based on online databases, such as the Internet Science, Scopus, Science Direct and Google Scholar (Rahman et. al., 2016).

At the same time, an analysis is made of innovative development of the Republic of Kazakhstan and its comparison with some countries (Russia, Canada, USA, France, Germany, Lithuania and others) on indicators such as GDP, GDP per capita, business activity and investment in R & D.

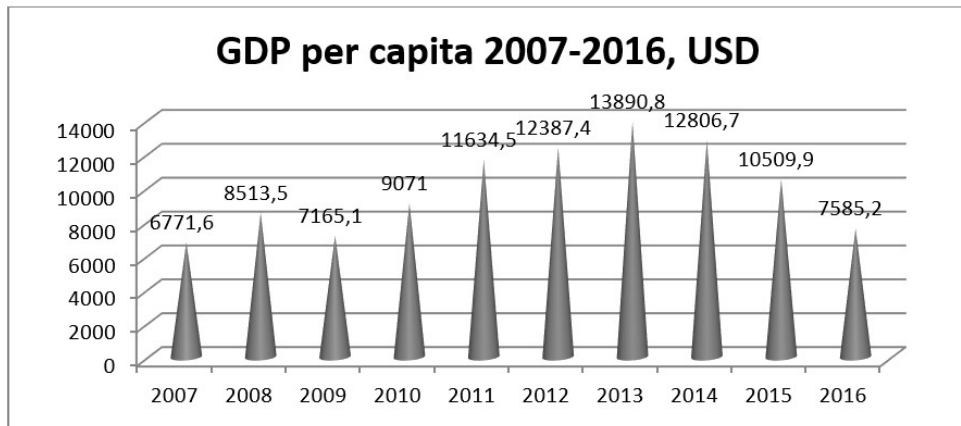
The first thing you will see in this article is how Kazakhstan's development during the decade was realized and success was attained in this period. At the same time, the author will examine how domestic expenditure on research and development activities affects the country's GDP.

4. Results and discussion

Today, Kazakhstan is a young developing country. On its way of development the state has faced a number of challenges in every area of the economy and tried to find solutions, which have had their impact on the business structure and innovation processes, and is also reflected in the GDP (Figure 1).

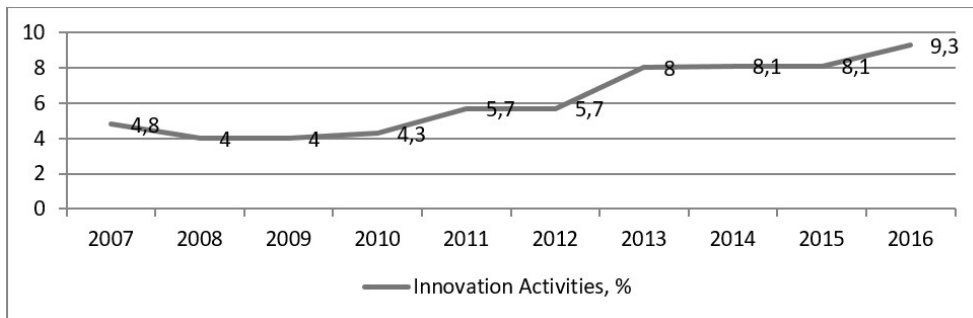
The decline in oil prices in the international community has caused great damage to state dependence on natural resources. Moreover, during the first seven years there was an increase in the 2013 GDP per capita reaching USD 13 890.8. However, in 2013 there was a decrease in GDP per capita, which was caused by a slowdown in developed economies, due to lower commodity prices, weaker global trade and capital flows. Simultaneously, the proportion of innovative products produced in relation to GDP is 0.97%, according to preliminary data of the Committee of Statistics of the Republic of Kazakhstan. Despite this fact, the share of innovative business in Kazakhstan remains low: the number of innovation-active enterprises in 2016 was 2879 – with an increase by 295 enterprises in comparison with 2015. The level of innovation activity in recent years has increased slightly and is about 9.3% (Figure 2).

Figure 1.: Dynamics of GDP per capita from 2007–2016 year
1. ábra: Dynamics egy főre jutó GDP 2007–2016 évben



(Source: the Committee of Statistics of the Republic of Kazakhstan, 2007-2016)

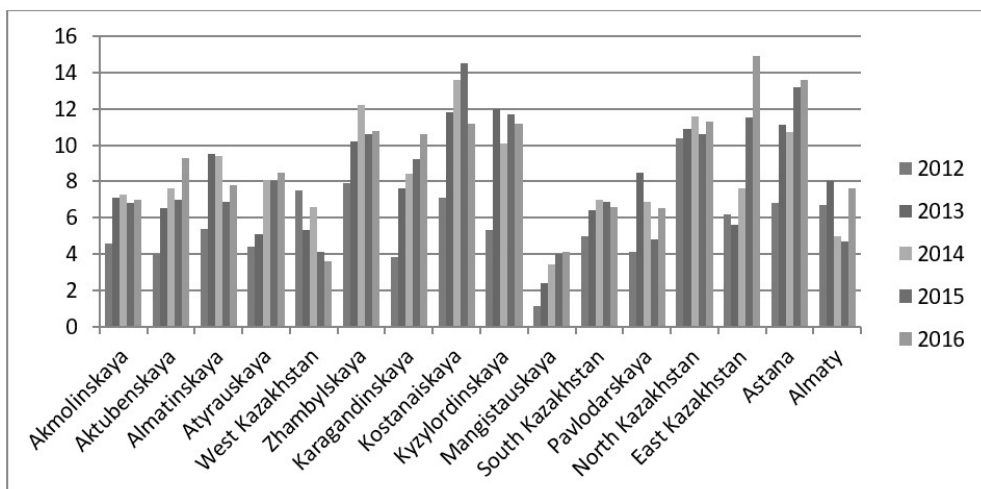
Figure 2.: Level of innovative activity in the Republic of Kazakhstan
2. ábra: Innovatív tevékenység szintje a Kazah Köztársaságban



(Source: the Committee of Statistics of the Republic of Kazakhstan, 2007-2016)

Figure 3.: Level of innovation activity of enterprises of all types of innovations in regions, 2012–2016

3. ábra: A vállalkozások innovációs szintje minden típusú innovációban a régiókban, 2012–2016

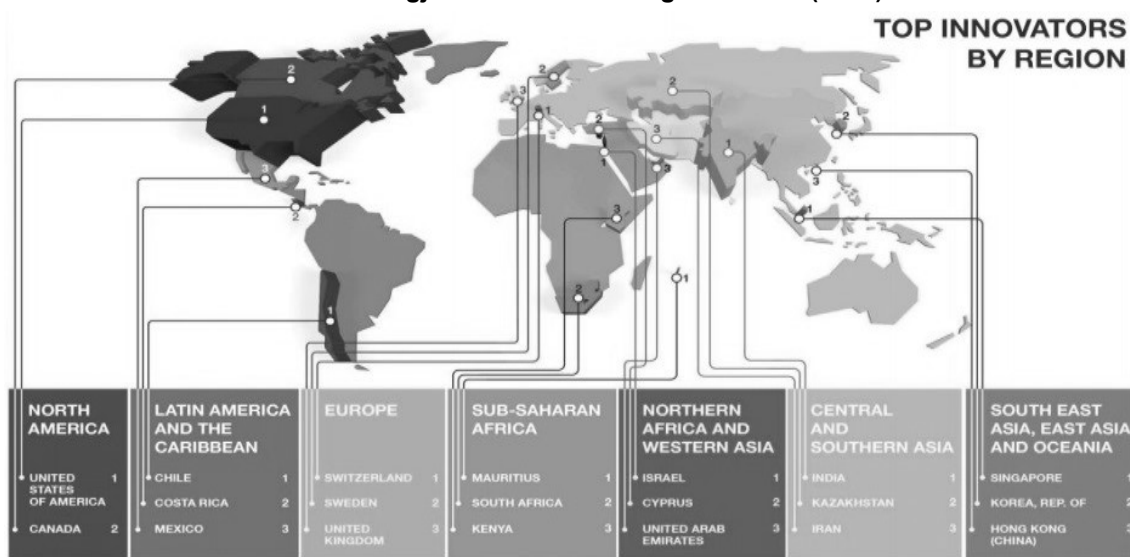


(Source: the Committee of Statistics of the Republic of Kazakhstan, 2012-2016)

According to Figure 3., leading positions in innovative activity were taken by Astana, East Kazakhstan, North Kazakhstan, Kyzylorda, Karaganda, Kostanay and Dzhambul regions in 2016. These regions are considered large in the Republic of Kazakhstan. The dynamics of growth in the level of innovation activity may be noted during the 2007-2016's, as a percentage. For example, since 2007 to the present, this rate has increased by 2.5 times and amounted to 9.3%

Today the Kazakh Government understands the importance of scientific progress and the opportunities for expansion of R & D, as a potential innovation. The government works on “triple helix” where the state will be a source of formation and R & D support development, researchers will have a wide range of opportunities for innovation and technological development and SMEs will be the end result innovating and using internal and external resources translating the idea into production.

Figure 4.: Top innovators by regions (2016)
4. ábra. A legjobb innovátorok régiók szerint (2016)



(Source: Global Innovation Index, 2016)

Every year The Global Innovation Index ranks the innovation performance of nearly 130 countries and economies around the world. Each country is ranked according to about 82 indicators including political environment, education, infrastructure and business sophistication. Figure 4 shows the top innovative countries by region and Kazakhstan is at the top of Central and Southern Asia (Figure 4).

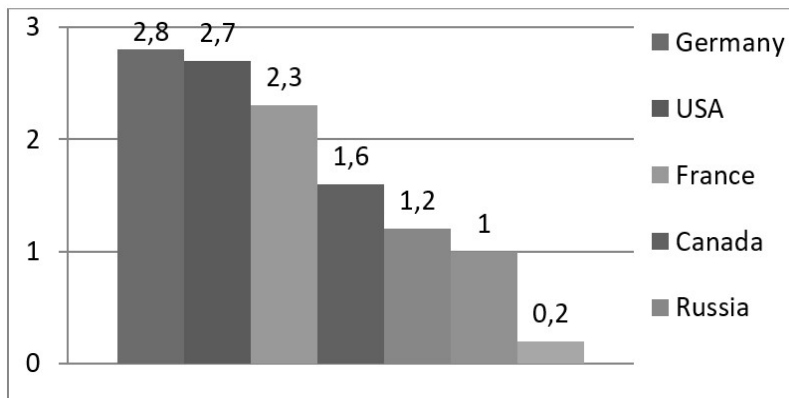
Also SME contribution to GDP is 26% in Kazakhstan, according to Global Entrepreneurship Monitoring (GEM, 2016). Comparing it with the developed countries like the US, we can see that this figure is 54%, in France 58%, in Germany 53%, in Canada 27%. Simultaneously, in developing countries SME contribution to GDP is 21% in Russia, in Lithuania 60%, in Latvia 72% according to GEM.

Each country knows how important it is to maintain the level of R&D and invest in its development. For example, South Korea took the leading position (89.5) in 2016. Among the research group of countries in the United States, the article earned 77.7 points; Germany 74.0; France 67.9; Canada 63.5, Russia 45.0; Lithuania 20.2; Kazakhstan 12.0; Latvia 9.5. In addition, the total internal expenditure on R&D in percentage of GDP is

65.9 (2.8%) in Germany, 63.1 (2.7%) in the United States, 52.1 (2.3 %) in France, 36.9 (1.6%) in Canada, 26.9 (1.2%) in Russia, 22.8 (1.0%) in Lithuania, 3.1 (0.2%) in Kazakhstan during this period (Figure 5).

Figure 5.: Overall internal R & D expenses (2016)

5. ábra: Teljes belső K + F kiadások (2016)



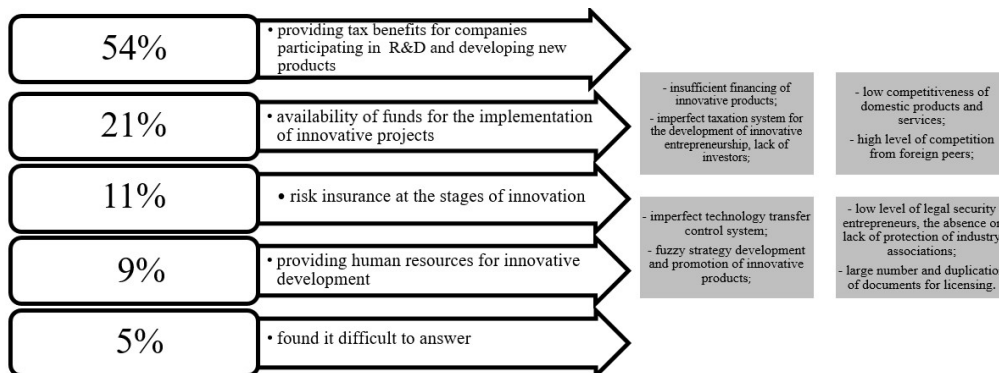
(Source: Global Innovation Index, 2016)

The main negative trends of R & D in Kazakhstan are underdeveloped “triple helix”, insufficient research and design departments in enterprises and number of employees, clear depletion mechanisms of budget control spent on R&D, low level of R&D costs, poor motivation of scientists and imperfection of laws. Moreover, the government in Kazakhstan provides support for innovative entrepreneurs through organizations as a platform between an entrepreneur and the society: “National Agency for Technological Development” JSC, “DAMU” Entrepreneurship Development Fund” JSC, “Kaznex” Corporation for Export Development and Promotion” JSC, “Investment Fund of Kazakhstan” JSC, “Development Bank of Kazakhstan” JSC.

In 2016 the scientific community in Kazakhstan (Panzabekova, A. & Ruzanov, R., 2013; Shimshikov, Z., 2013; Abdymanapov et al., 2016) conducted a survey of owners and managers of SMEs where the respondents answered the questions about what measures should stimulate innovative entrepreneurship and the main factors constraining the development of the innovative activity of business (Figure 6):

Figure 6.: Survey of SME

6. ábra. KKV-felmérés



(Source: Abdymanapov et al., 2016)

Moreover, against the backdrop of the globalization of the world economy Kazakhstan faces a number of challenges that need to be addressed; such as commodity dependence, small integration, low consumer demand for goods and services within the market, the lack of development of industrial and social infrastructure, technical and technological backwardness and lack of communication between science and manufacturing, the lack of effective interaction of the “triple helix”, the low costs of R & D, weak management, inadequate new challenges of the global economy.

In order to ensure sustainable development Kazakhstan has taken a number of policy documents: the Strategy of the Republic of Kazakhstan industrial-innovative development for 2003-2015, the Program for the speeding up and development of the national innovation system of Kazakhstan for 2005-2015, the Program of Technological Development of Kazakhstan up to 2015, Strategic Development Plan Kazakhstan till 2020 and others.

According to the Strategic Plan of Development of Kazakhstan till 2020, one of the priorities is the development of the economy and the transition from raw material to the development of industrial-innovative development. Such transitions involve the development of a national innovation system (NIS), which is a system of interconnected institutions to create, store, transfer knowledge and technology, which has an internal structure, which is set by the government to influence the innovation process. At the same time, it is necessary to allocate NIS as a set of interconnected structures that connects the “triple helix”, bringing product innovation to production (Kinasheva and Akhmetova, 2016).

5. Conclusion

Obstacles of cooperation between universities and industry in Kazakhstan are similar to countries with transit economies (Renko, 2004), where R & D is not familiar with the needs of the society. At the same time, the government should encourage companies to cooperate with research centers in the field of innovation. On the other hand, research centers should also conduct high-quality research, which is relevant and appropriate to the current and future needs of the society, as well as they should work to improve R & D and to increase confidence in SMEs. Moreover, the government needs to take into account and revise the strategic program, where the effectiveness of SME linkages and research centers will be more successful. Further, the experience of developed countries is necessary to be studied in details the developed economies, aiming at innovative development, developing and promoting the work of the “triple helix” effectively and supporting innovative SME projects in the production phase.

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INDIA'S OUTWARD AND INWARD FOREIGN DIRECT INVESTMENT – POST LIBERALIZATION PERIOD

INDIA KÜLSŐ ÉS BELSŐ KÜLFÖLDI KÖZVETLEN BERUHÁZÁSA – POST LIBERALIZÁCIÓS IDŐSZAK

DEVESH SINGH PhD-hallgató

Kaposvar University, Faculty of Economic Science

Abstract

Research identifies and discusses inward and outward foreign direct investment after the post-liberalization period. Trade investment policies played a critical role in encouraging and facilitating the OFDI (outward FDI Inflow). The Indian liberalization period has three phases, the first in 1992 when India opened the market for the world, the second phase of liberalization was undertaken by way of FEMA (1999) beginning, which is the major change in India's forex regulation act. The third is 2014 when India reanalyzed the FDI policy and promoted as a manufacturing hub to the world. India in 2016 was placed the ninth on global IFDI ranking and attracted global attention. OFDI, with a large number of motivation, strategies along with the series of policy liberalization and series of deregulation are the driving force required to enhance this OFDI outflow from India. This paper compares the inward and outward FDI flow of the post-liberalization period.

Keyword: Outward foreign direct investment, FDI, India, economy, deregulation, liberalization

1. Introduction

Concerning the case of outward FDI flow there are limited studies available. According to IBEF, India has emerged as one of the strongest performers in the OFDI case across the world in mergers and acquisitions. M & A activity in India more than doubled year-by-year to reach US\$ 61.26 billion in 2016-17, since Indian firm Before Brexit UK was the entrance source of entry in the European market. In a recent development, the UK announced in the news of an officially owned newspaper in 2013 that India became the third largest source of FDI for them as investments increased by 65 percent in 2015 leading to over 9,000 new and safeguarded jobs. In major recipients of IFDI India renewed policy changes in 2016 efforts to attract FDI which could contribute to an increase of inflows in 2017.

Kumar 2008, Nayar 2008, Pradhan 2007 researchers suggest that during 2000s a large number of outward FDI proposals under the Automatic Route had been raised. India is developing the country with scarce capital resources and low foreign reserve. The country is largely depending on IFDI to finance the BOP but at the same time, it becomes the exporter of OFDI to the world capital market. Evidence from IMF data shows that India was the third largest PPP (purchasing power parity) based on economy after China and the USA in 2016. Part of India's OFDI is the large number of motivation, strategies along with the series of policy liberalization and series of deregulation which are the driving force required to enhance this OFDI outflow from India.

2. Material and Methods

The inflow of attracting massive continuous investment of India has been on since 1993, after the opening of its economy. The liberalization of the Indian market is divided into three waves. The first wave lasted from 1991 to 1992 when India introduced the liberalization steps and opened the economy for the world. The Foreign Exchange Regulation Act (FERA) of 1973 in India was replaced in June 2000 by the Foreign Exchange Management Act (FERA), the second wave lasted from 1999 to 2000 which was passed in 1999. The third wave was in 2014 when India launched Make in India initiatives in September 2014, with 48 percent (Press Information Bureau Government of India Ministry of Commerce & Industry 14-July-2015 17:21 IS) increase in FDI equity inflows from October 2014 to April 2015. The growth in FDI was signed after the launch of Make in India initiative.

A research was completed in three sections the first section of which provides an analysis on the status of India among the global leaders in terms of inward and outward FDI flows. For analyzing the first section, we depended on secondary sources: the UNCTAD, IMF, RBI, CII. The second section deals with the quantum of OFDI flows and carries out a detailed profiling further. The data is compiled from the monthly report of the Indian central bank, Reserve Bank of India (RBI), analyses OFDI on different time intervals. In the third section of the report, we carried out a detailed analysis of the impact of the outward FDI flows. The growing appetite of the Indian corporate to establish their footprints abroad and the liberal regulatory regime can be seen in annex Table 1 and 2, where equity-based OFDI and IFDI was maximum in 2008, In 1994 the Equity based FDI increased almost 57 percent after the deregulation of the Indian market and opened for the world. The Second major increment of FDI was in 2008.

Table 1.: FDI flows, by type of investment, 1985–2011

Year	Inward Investment				Outward Investment			
	Equity	Reinvested earnings	Other	Total	Equity	Reinvested earnings	Other	Total
1985	..	..	..	106	..	..	..	3
1986	..	..	..	118	..	..	..	- 1
1987	..	..	..	212	..	..	..	5
1988	..	..	..	91	..	..	..	11
1989	..	..	..	252	..	..	..	10
1990	..	..	..	237	..	..	..	6
1991	129	..	..	75	..	..	..	- 11
1992	315	..	..	252	..	..	..	24
1993	586	..	..	532	0	..	..	0
1994	1 314	..	..	974	83	..	..	82
1995	2 144	..	..	2 151	117	..	..	119
1996	2 821	..	..	2 525	239	..	..	240
1997	3 557	..	..	3 619	113	..	..	113
1998	2 462	..	..	2 633	48	..	..	47
1999	2 155	..	..	2 168	79	..	..	80
2000	2 352	1 024	212	3 588	201	257	56	514
2001	3 562	1 572	343	5 478	658	611	128	1 397
2002	3 428	1 785	417	5 630	585	1 003	91	1 678
2003	2 127	1 555	639	4 321	962	693	220	1 876
2004	3 642	1 793	343	5 778	1 598	324	254	2 175
2005	4 738	2 548	336	7 622	1 473	883	630	2 985
2006	14 946	5 076	306	20 328	11 689	1 080	1 516	14 285
2007	17 753	7 185	567	25 506	16 299	1 082	2 214	19 594
2008	33 996	8 694	716	43 406	14 127	1 083	4 046	19 257
2009	25 355	8 758	1 483	35 596	11 579	1 083	3 265	15 927
2010	15 364	8 869	- 74	24 159	6 580	1 084	5 487	13 151
2011	..	..	..	31 554	..	..	..	14 752

(UNCTAD Country investment profile India 2012)

Table 2.: FDI stock, by type of investment, 1985–2011

Year	Inward Investment			Outward Investment		
	Equity&Retained earnings	Other	Total	Equity&Retained earnings	Other	Total
1985	..	..	747	..	..	93
1986	..	..	864	..	..	92
1987	..	..	1 077	..	..	97
1988	..	..	1 168	..	..	108
1989	..	..	1 420	..	..	118
1990	..	..	1 657	..	..	124
1991	..	..	1 732	..	..	113
1992	..	..	1 984	..	..	294
1993	..	..	2 516	..	..	294
1994	..	..	3 490	..	..	376
1995	..	..	5 641	..	..	495
1996	..	..	8 166	..	..	735
1997	10 166	464	10 630	617	-	617
1998	13 423	642	14 065	706	-	706
1999	14 052	1 000	15 052	1 666	-	1 666
2000	15 269	1 070	16 339	1 733	-	1 733
2001	18 373	1 303	19 676	2 460	71	2 532
2002	24 133	1 694	25 826	3 873	198	4 071
2003	30 301	2 248	32 549	5 762	312	6 073
2004	35 589	2 472	38 060	7 177	557	7 734
2005	40 033	3 169	43 202	8 821	920	9 741
2006	67 320	3 550	70 870	24 110	2 925	27 036
2007	101 568	4 222	105 790	38 948	5 132	44 080
2008	120 124	5 088	125 212	54 160	9 177	63 338
2009	164 374	6 844	171 218	65 316	15 523	80 839
2010	198 276	6 415	204 692	74 221	22 200	96 421
2011	192 535	9 189	201 724	80 051	31 206	111 257

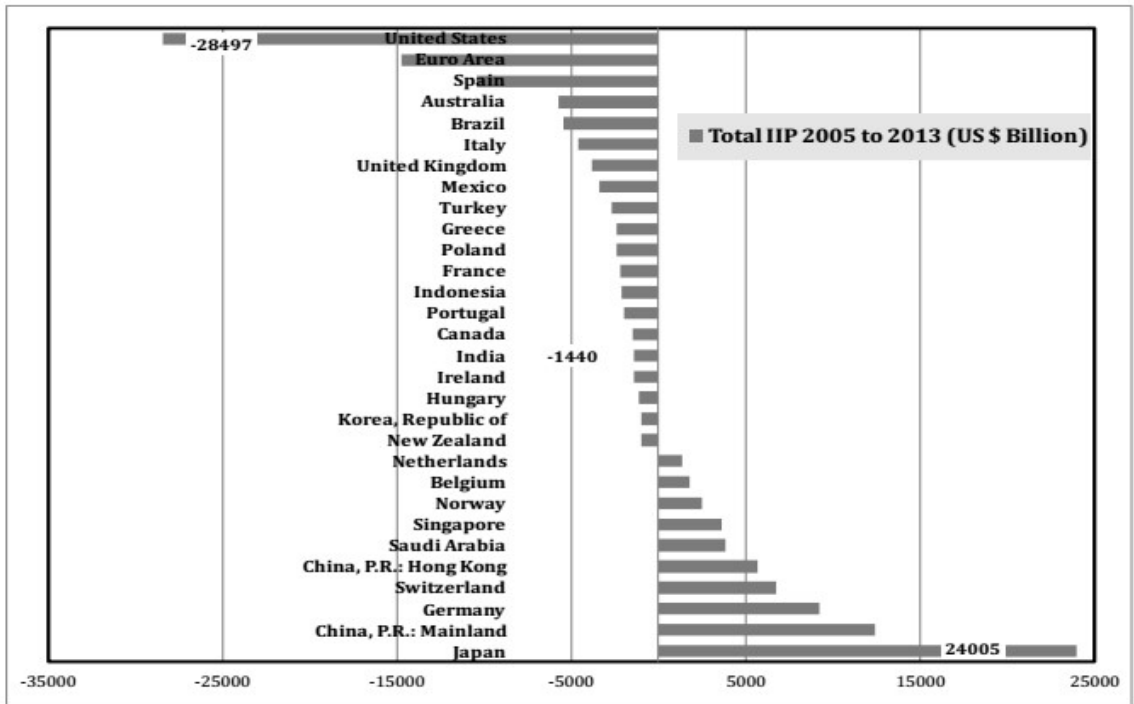
(UNCTAD Country investment profile India 2012)

The firm actively acquires in global merger and acquisition (M & A) markets, particularly in developed countries such as the United Kingdom and the United States. Indian IT service providers have long been important players in M & A markets (UNCTAD Investment country profile India, March 2013, page 5). With the regulation of RBI central bank of India from 2017 for an investment to qualify as FDI the foreign investor needs to have a 10 percent or higher stake in a given company, but this rule is flexible in some cases.

2.1. The Position of India: International Investment Position Analysis

The IMF provided information on the net International Investment Position (IIP) of 143 countries from 2005 to 2013. The Figure 3 suggests that the United States had a negative international investment position of US \$ 28,497 billion. This indicates that the United States had more international liabilities as compared to its international assets, which indicates inward FDI in the US. Japan has most positive total IIP of US \$ 24,005 billion, which indicates Japan is the topmost nation who invested in other countries positively. This suggests that Japan had more international assets during the period from 2005 to 2013 compared to its international liabilities. The Figure 1. further clearly indicates that India had a negative international investment position of US \$ 1,440 billion and was the fifteenth country from the United States.

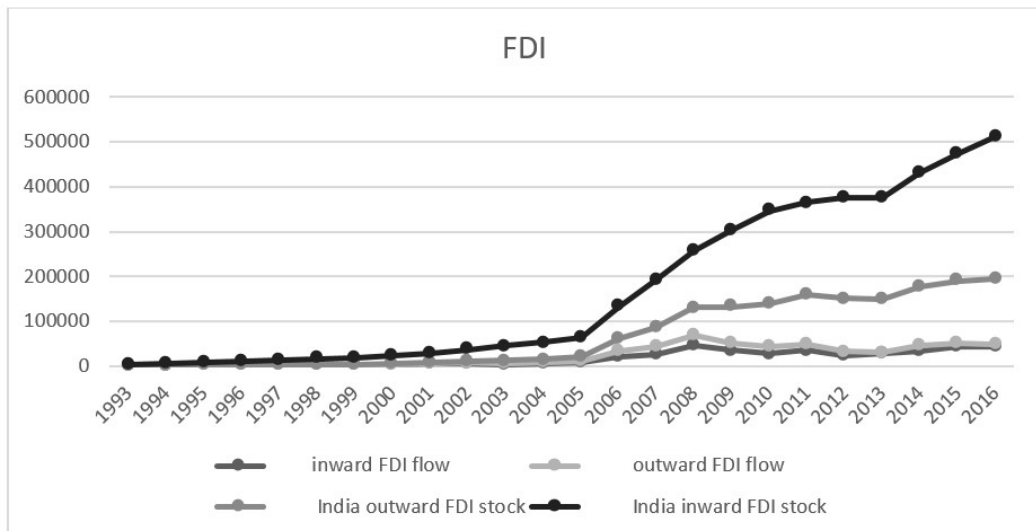
Figure 1.: Net International Investment Positions of Selected Countries (2005-2013)



(UNCTAD Investment report 2013, amount in US \$ Billion)

The UNCTAD World Investment Report (WIR) of 2016 indicated that India had the 10th place for FDI inflow during the years 2014-2015, while the same report indicates that India is not in the top 20 lists in outward FDI

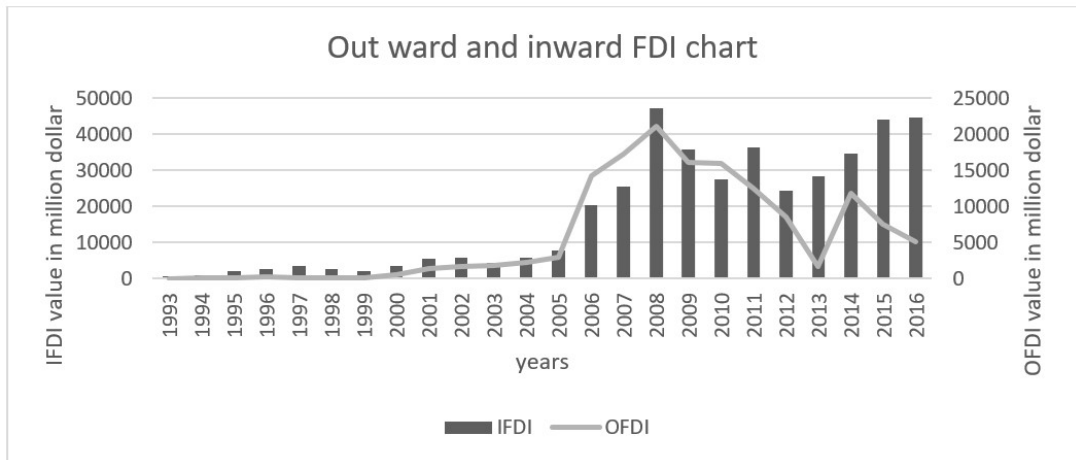
Figure 2.: India's Inward and Outward FDI flows, OFDI and IFDI stock from 1993 to 2016



(Compiled by the author based on UNCTAD data September 2017)

From research data Figures 3 & 4 it can be seen that India is not a significant player in terms of outward direct investments in comparison to the global players. Figure 3 clearly indicates that in the second half of the decade of 2000 the OFDI gained significantly compared to the past years.

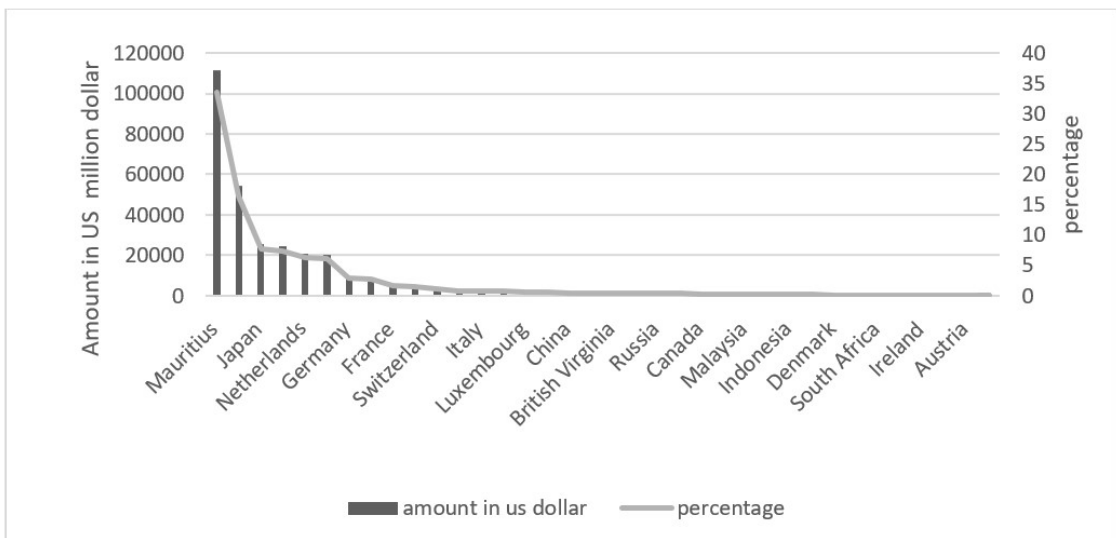
Fig 3.: Outward and inward FDI chart



(Compiled by the author based on UNCTAD data September 2017)

There is enough evidence that OFDI and IFDI are correlated. In figure 3 from the last two-decade OFDI and FDI is on the peak in the same year in 2008. Between April 2000 and September 2015, India received 265,1.43 billion USD FDI. From figure2 the largest 34 percent was received from Mauritius, 15 percent from Singapore, 9 percent from the UK, 7 percent from Japan, 6 percent from the Netherlands and 5 percent from the U.S.A. India has Double Taxation Avoidance Agreement (DTAA) with Mauritius.

Figure 4.: Country wise FDI equity inflow from April 2000 to March



(Data compiled by author Source RBI September 2017, note: less than 233 US million-dollar investment not shown due to compatibility)

Indo - Singapore Comprehensive Economic Cooperation Agreement (CECA), 2005 and India - Japan Comprehensive Economic Partnership Agreement (CEPA), 2011 are important agreements in this direction. Investors preferred to invest in India by the Mauritius route. DTAA is the main reason to prefer this route, the reason behind it is that the Company registered itself in Mauritius with a global license. There is only 3 percent capital tax for the company if they come through the Mauritius route. Figure 3. suggest that during 2008 the FDI was maximum, although the world was struggling with the American crisis. The investor was trying to search for a new market. Companies realized that India was a market opportunity. Investors found India as a new opportunity and due to this reason from figure 3 we can see the maximum FDI.

3. Result and Discussion

Inward foreign direct investment and Outward foreign direct investment from India increased after 2005, which is due to the deregulation of the Indian market in 2004. Indian companies abroad is not a new phenomenon. After moderate FDI investment between the financial year 2003 and fiscal year 2004, FDI investments started to increase gradually due to the relaxations in overseas investment policy after 2004. FDI investment by India picked up significantly in the financial year 2007 and peaked in the financial year 2009. The first foreign investment by a foreign firm was made by a textile mill in Ethiopia in 1955 by Birla Group. During the 1960s a number of foreign investment was taken in Kenya, Uganda, Malaysia, Nigeria and Thailand (Morris 1987). Companies from India started to invest abroad since 1970 but the magnitude of OFDI was small and expanded rapidly from 2000 (Kumar, 2007, Nayar: 2007, Pradhan: 2007). Most of the investment before the pre-liberalization period was in the form of the joint venture (Morris: 1990). In the research we found that the post-liberalization period data OFDI and FDI were maximum during the year 2008.

4. Conclusion

It has been observed after research that the motivation of OFDI and IFDI is directed by the deregulation of the market and the improvement of the policy. FEMA act and 1992 deregulation are the examples. There is enough evidence available during the research that OFDI and IFDI are correlated in the case of the Indian market. The research found that during three waves (discussed in methodology), OFDI and IFDI were increased. The Indian Economy is growing market still needs the policy Improvement of ease of business doing. After the first wave, FDI increase was significant. The second wave the FDI was maximum. It had been observed as attractive destinations for foreign capital, India, and Indian companies are increasingly looking for ways of expanding their global footprint by investing overseas.

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HOW ARE CONSUMERS INFLUENCED BY GENDER STEREOTYPES OF FOOD ADVERTISEMENTS?

HOGYAN BEFOLYÁSOLJÁK AZ ÉLELMISZER REKLÁMOKBAN ALKALMAZOTT NEMI SZTEREOTÍPIÁK A FOGYASZTÓKAT?

HAILE VERSAVEL TECLEAB

Kaposvár University, Faculty of Economic Science

Abstract

This paper aims at analyzing the stereotype of certain foods being associated with gender. It discusses how consumers are influenced by gender-specific food marketing. Food is gender-neutral, however, what we consume is heavily gendered. Food advertisers have conditioned us to think that salad is for women and steak is for men. Commercials have resulted in gender-segregated eating culture and bias in gender role distribution. If we really realize it, food advertising influences our choices and preference of food. It affects our role in the society telling us how to act and what to eat. This paper is developed based on a review of the literature on how food industries in developed countries use product package and advertisements (mostly commercials) as a tool to target their market and influence consumers' preference of foods in relation to gender. Based on the analysis it was concluded that no matter how gender-neutral food is, advertisers brainwash consumers into thinking that food is gender-segregated. Despite the changes towards greater gender equality, food advertisers are still portraying gender in very "traditional" ways. Women are shown as a stay at home mom and men as an independent or working husband. Advertisers create gender stereotypes and use them to their advantage to sell as many products as possible. This paper is believed to give an insight into further research in the area.

Keywords: Food advertising, Food marketing, Gender stereotype, Developed countries, Consumers

1. Introduction

Advertising plays a massive role in conveying messages, building expectations, and images resulting in the construction of gender identity. Media influences advertising used in transmitting the stereotyped roles of women and men. Television is the most influential and compelling medium because of its audio-visual power and it acts as a socializing agent (Uray and Burnaz, 2003). Television conveys normative, social and cultural information to a broad (heterogeneous) audience. Through watching food advertisements on television, consumers build a perception how both men and women live and consume food. Food industries use gender marketing as a method to boost buyer's motivation and appeal. The sole purpose of gender marketing is to appeal specifically to men or women. Food producers and advertisers use this direct gender marketing approach in order to achieve increased sales (Missbach et al., 2015). Normally food is gender neutral, however, certain industries appear to distinguish food on the basis of gender. Food advertisements have been focusing on female stereotypes, particularly when it comes to physical

appearance and health. Food commercials present women as one very attached to nutritional food products rather than men and healthy foods are perceived “feminine” even though the product category as a whole does not carry obvious gender biases. Women are generally thought to be more concerned with the consequences of food consumption as well as the content of the food itself (Furnham and Li 2008).

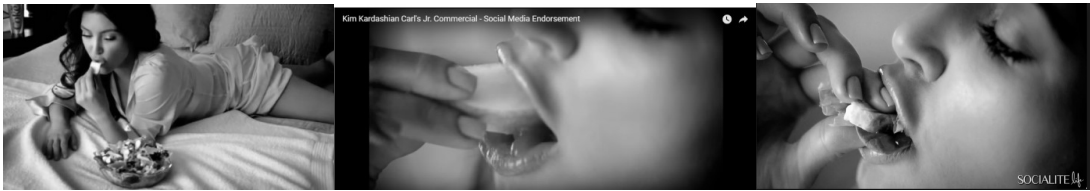
2. Literature Review

2.1. Gender portrayal in food commercials

Although advertising has changed since the early twentieth century, food advertising has remained the same when it comes to the message sent to the audiences. Most advertising promotes food in gendered terms associating shopping and cooking with women. Now it is obvious that women have come far way from being the stay at home mom and just a caretaker for the home. But advertisers are still feeding into this type of woman, the mom who cooks for the family. This is why women are in the focus for advertisers (Madar, 2015). According to Katherine Parkin in the US, kitchen work and serving food are mostly portrayed as women’s work which is believed as a demonstration of love for their family. Advertising establishes and reinforces the belief that by buying and making the particular product, women could achieve a social status, a happy marriage and healthy children (Parkin, 2006).

A big difference between the way men and women are presented can be found in how working roles are portrayed. Women are shown to be in non-working roles and if they are in a work-role, they are most commonly presented as employees (An and Kim, 2006). Even though women’s participation in the labor market has shown a dramatic increase, women in commercials have always been attached to domestic setting and presented as a wife, mother or housekeeper. They have also been shown as dependent on others at home and depicted against a background of children giving an opinion based rather on a “scientific” argument for the product advertised (Furnham and Li, 2008). Whereas generally men are shown as quite occupied with work usually in public (Royo et al., 2007), and are described as professionals, expert’s authoritarian, independent, intelligent, hardworking, objective decision-makers as interviewers, narrators, or celebrities in other locations different from home (Furnham and Paltzer, 2010). Furthermore, ads continue to project women, which limits the viewers’ attitude towards women comparatively more incapable than men. Generally, men are portrayed as active, adventurous, powerful, aggressive and largely uninvolved in human relationships. Whereas women are shown as sex objects that are usually young, thin, beautiful, passive, dependent and often incompetent. Women characters on ads are presented as ones who devote their primary energies to improve their appearances and take care of homes, family, and friends, enmeshed in relationships or housework. Media relays the cultural image of women as ornamental objects whose primary functions are to look good, please men and serve their family. Certain food advertisements use women as a sex object to transmit sexual information displayed as nudity, sexual behavior, physical attraction, sexual referents and sexual embeds. Women are often seen as having an erotic experience with food in ads. Advertisers offer food as a way to relate sexual images to their product creating a connection between the consumer and the product. For example, Kim Kardashian, a celebrity in Hollywood known for her sex appeal played in Carl’s Jr commercial eating sensually a salad, acting in a sexual behavior, making eye contact with the viewer, which creates interpersonal interaction.

Figure 1.: Advertising portrayal of women as a sex object



As discussed by Furnham (Furnham, 2016), individuals should conform to the role expected by their gender's stereotype, these portrayals could, therefore, lead to behavior at odds with modern social norms, as consumers bid to avoid contradicting the stereotype described by the advert, for example, viewing advertisements portraying gender role stereotypes reducing women's self-confidence and their aspiration in leadership affecting their career ambition. Furthermore, the repeated observation of such negative stereotypes at a young age could lead to children learning archaic gender roles that are reinforced in adulthood by continued exposure to these advertisements. Moreover, Eisend (Eisend, 2010) mentioned in his study that previous research examined predominantly short-term attitude changes. Under the meta-analysis of 64 studies regarding gender portrayal in advertising, he found that advertising primarily depended on the widely accepted gender attitudes and values in a society with no significant lasting effects on the viewer's attitudes. His study has been the first to provide a definitive evidence to the debate regarding the influence of advertising on the perception of gender roles in society

2.2. Food Advertising Stereotypes

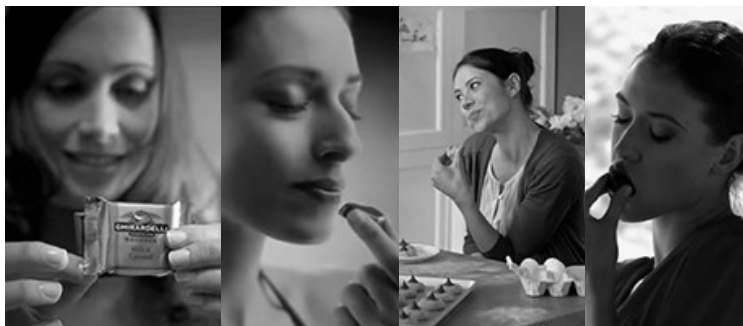
Gender biases have always been presented in food advertising for long decades. Certain foods are stereotyped as either masculine or feminine when marketed to the consumers. The ways that food corporations present men and women in commercials and other forms of advertising contribute to gender stereotypes. How men and women are showcased in advertisements causes these stereotypes to grow and become more like natural phenomena. Most of the food ads show, what we consume is heavily gendered. Marketers reflect a feature of masculinity and femininity to make food appealing to us: Yogurt and certain types of breakfast cereals are branded as healthy, light and slimming, which is mostly are advertised to appeal to women, while energy drinks and heavy foods are branded as powerful and strengthening advertised targeting men. The attitude that women eat healthy food and men eat less healthy food is common in the developed countries. These sociocultural influences end up affecting what we buy in grocery stores, and what we choose to eat more. Marketers seem to take advantage of this attitude. Foods they advertise are gender stereotyped for example, we just do not see women eating steak, burger, and pizza, in commercials the way we see them eat yoghurt. Marketing companies target a specific gender to sell certain food. For example, we do not see a man on ads looking excited to eat yoghurt. Do we? So, do advertisers imply that yoghurt is for women?

Figure 2.: Advertising claims that “yoghurt is for women”



Male and female are influenced by gender-stereotypical food advertising. Researchers indicated that both men and women were more likely to see unhealthy food options as masculine and healthy options as feminine and people were more likely to dislike foods that did not match these stereotypical gender characteristics. Furthermore, researchers show that women are more likely to go for nutritious and diet-conscious foods. Whereas, men are more into less healthy options (McNeilly, 2016). On the other hand, women appear to eat more responding to emotions and feelings (Elfhag and Linne 2005), for instance craving dessert when dealing with PMS and breakups. The perception that “women crave sweet more than men” is a paradox with the fact that they choose healthier foods. Despite being lovers of chocolate and sweets, women are more likely to be concerned about their weight. Moreover, women are also reported having more frequent negative feelings and regrets associated with sweet consumption (Lafay et al., 2000). They feel guilty of indulging them. Generally, sweets are most associated with women. It seems that women cover the highest portion of the chocolate industry’s target market. We see a lot of chocolate commercials aimed at women. Take a look at the following pictures.

Figure 3.: Feminine characters in chocolate commercials



It is true that there is a perception that chocolate is for women and it depicts a feminine character but companies also come with special chocolates designed for men which depict masculinity. A good example would be Snickers chocolate “masculine hunger bars” (Boost, Snickers), which cuts hunger and fills you up rather than give you a feminine treat. Companies do whatever it takes to make as much money as possible. These companies drag consumers into the gender stereotype zone and compel them to think that that particular product is for one particular gender.

Figure 4.: A masculine character in a chocolate commercial



Food producers and advertisers use this direct gender marketing approach in order to achieve increased sales (Missbach, et al., 2015). How food companies make their products sell is that they decide who they want to buy it and they advertise to them. If the product has a masculine character, the advertisement will be designed to persuade men to buy the product. Therefore, men will buy products that are seen as masculine in the public eye because they believe they are meant for them. For example, a commercial of Dr. Pepper is a highly gendered stereotypical ad. The commercial was targeted to men only directly saying it clearly that the product is not for women. The goal is to encourage men to buy it and discourage women from buying it (Jirvictor 2014). It seems pretty obvious that these kinds of strategies decrease the possible sales of the products by women because of the limited gender target, however food industries are still making a profit out of it.

Figure 5.: Gender stereotype in advertisements



2.3. Culture-based stereotype

Different countries have different cultures. Food is one part of cultures, which has a symbolic value of a particular society. Food and eating are highly associated with one's social life. Our interactions with others involve the consumption of food and drinks. We consume foods together with others or in the presence of others and that might influence how we consume certain types of food (Vartanian, et al., 2007). Gender stereotypes are not limited to what we do or what we wear but obviously and almost universally extend to how we consume food as well (Sarah 2015). Women are ashamed of eating food which is supposed to be for men and men are ashamed of eating food which is supposed to be for women (Eva 2010). For instance, biting big in public would be shameful for women, while it is normal for men. Not only the type of food we eat is associated with our gender, but even the amount we consume. If a woman eats of a plate, full of food then she will be considered as an overeater. Food marketers seem to understand the cultural pressure acting upon it. For instance, they came up with extra small burgers. It is not clear who invented them but it is no question that they were designed for women. Firstly, the burgers are very small so that they will not add much fat meeting the health-conscious need of women. Secondly, presumably women will not worry what the society around them would think of seeing them eating. They can just eat it without shame and satisfy their needs. You may wonder how very small the burgers below are. Yes, they are small because they are made for women.

Figure 6.: The extra-small burgers designed for women



We live in a very modern generation but we still live with an old culture that men must eat more than women because they are physically bigger and stronger. Such types of culture-based food biases still exist. Although it is a primitive way of thinking, it seems we have not changed the perception that it is very normal for a man to overeat and engulf everything as long as his physical appearance falls under the socially acceptable figure. However, it is considered gross for women if she is seen eating a lot. In fact, people will disgrace her and say “she eats like a man”. It is not a big deal for men to participate in eating contests, in fact, they will be glorified and praised for that but if women engage in similar eating contests, they will be considered as unfeminine, disgusting and unattractive. If women eat the way men sometimes do publicly, they do it in private and in shame. The stereotype that women eat light foods like salads and fruits perpetuates the destructive mentality that women need to take fewer calories because they should maintain their body weight in order to be thin, which is the symbol of being attractive and sexy. On the other hand, women are also more fragile, so eating heavy food would certainly cause them to gain weight (Amber 2014). For example, in a restaurant, if a man and woman are on a date, it is very common that to see the man ordering the steak and the woman ordering the salad. In America, it has been claimed that a woman would not dare

to order a stake in a restaurant, especially on her first date because she does not want the guy to get the wrong impression about her eating habit. Saving herself from being judged, she would eat salad although she craves for some meat.

Figure 7.: The extra-large steaks designed for men



During a research among undergraduates at McMaster University in Ontario, Canada it was discovered that if a woman was sitting with men, she was more likely to eat the food of a lower caloric value than if she was sitting with other women. Boys did not change their caloric intake whether one girl or a gaggle of girls joined the table. Particularly girls between the ages of seventeen and twenty believe that boys are more attracted to females who eat less. Under the same study, it was found out that girls consumed low calories because the salad leaves are meant to say “ I’m pretty; I’m attractive and I take care of myself”. Boys, on the other, seem to have no such need to alter their food intake to impress the opposite sex. The study showed that they eat pretty much the same regardless of who their dining companions are (Michael 2014).

Over time, salads have been branded as feminine and burgers as masculine (Adeline 2016). This categorization of food based on gender is created by the influence of culture and norms. Due to the cultural standards, people become judgmental about what others eat and the amount they consume. If we realize how we have been conditioned by the cultural norms, we would have learned that the foods are gender neutral. Everybody has its own unique relationship with food and the way food affects them, regardless of whether they are identified as men, women, trans or otherwise. It is true that women and men have biological differences, but most of the differences about the way how we should eat are socially constructed rather than based scientifically. When we learn more about the stereotypes of food habits in our daily lives and their effects on our food preferences, we will refrain ourselves from the judgments and become more open. This will allow us to accept the society regardless of which gender eats what food. Even when our choices seem to break the social rules, we would not care but eat like a human being (Claudia 2016).

2.4. Gendered food packaging

According to Robine (Robine 2015), gender-specific packaging influences what we pick in the grocery store, and whether we believe the products are good for us. The wraps that products are covered with and their colors could be stereotypically feminine or masculine. Packaging with script-style fonts and subtle colors is used for healthier foods, whereas more masculine packaging with large fonts and bold colors is often used for less

healthy foods. In the study, the exact same blueberry muffins were packed in several different ways. One featured a football background, along with a high-energy or power message, using the word “mega”. The second package was more portraying feminine features like a ballerina and a message saying “healthy”. Package three was the hybrid of the feminine message with the masculine one. And a fourth package put together a feminine image and a masculine message. In the two cases where the packaging and message matched the stereotype-masculine packaging with a masculine message, or feminine packaging and messaging - subjects were more likely to pay more for the muffin and believed it tasted better. When the messaging was mixed up, pairing a masculine image with a feminine message, people said the muffin did not taste as good (Robine 2015).

What we can understand from the finding is that how people are highly affected by the way products are packed. The same product can be packed in a different stereotypical wrap and can cause a difference in preference between genders. Usually, consumers fall for these kinds of tricky and pointless packaging, which marketers purposefully do just to differentiate sex. I wonder how successful these kinds of packaging are. For example, take a look at these products.

Figure 8.: Gendered food packaging



The images above show how products can be gendered by their wraps only. For example both chips seen in the first image are the same. The only difference is the packaging and the message that the marketer wants to send to the consumers. As we can see from the picture, the products are packed with a feminine (lips) and a masculine (mustache) prints. And the suggested serving style is also stereotypical, as the feminine chips are supposed to be eaten with yoghurt and the masculine chips with BBQ sauce. The message that the marketer wants to send has the connotation “women like yoghurt and men like meat”.

2.5. Food advertising to children and the gender bias

According to Child and Maher (Child and Maher, 2003), there is a strong presence of gender preference in the advertisements for children. As her study shows the preference of gender in the food sample is significantly greater on several measures than the non-food advertisements for children. It is clearly seen that the food advertisements contain a greater distortion in gender distribution for voice-overs, dominant product users, and main character roles. Her findings raise some concern as it contributes to a general gender dominance favoring boys as dominant figures and role models. The dominance of male in the food industry’s advertising to children is more likely a reflection of the cultural bias

and outlook of the advertisers than a conscious decision. The subtlety of this message suggests that boys may be superior to girls and of greater concern, may suggest that girls are inappropriate consumers of food.

3. Methodology

The framework of this paper is developed based on some secondary sources of data such as scientific articles and online sources. The scientific articles were gathered through Google scholar. The keywords used to search the articles were food advertisings, gender stereotype, consumer behavior, etc. All literature used in this paper are from studies in developed countries such as the USA, Australia, Canada, Spain, Scandinavia and Turkey. The review articles include studies from the period 2003-2017.

4. Conclusion

Consumers' behavior is affected by food marketing. The way foods are packed and advertised plays a significant role. People seem to shape their lifestyle and choices of food based on the advertisements they are exposed to. The food marketing influences consumers to test and give preferences to foods in relation to gender. The TV commercials and advertisements have the impression of what women and men should eat and not eat. There are certain types of foods that are characterized as feminine or as masculine, where in most cases there are healthy and unhealthy foods respectively. Furthermore, the foods we consume are highly gendered due to the cultural stereotypes that implicitly shape food preferences. Nevertheless, this difference is not based on science rather manmade, created by advertisers. Men crave for steak and women want chocolate because of food advertising. There are no biological reasons for either food to be gender specific. Gendered advertisements in the food industry influence the thoughts of the consumers and embed stereotypes into their mind. When women are exposed to ads in which the women "diet", they are more likely to aspire to have this type of role in their own life. Despite the changes in greater gender equality and conceptions that "men" and "women" are to serve distinct roles in society, advertisers seem insistent on portraying gender in very "traditional" ways. Gender stereotypes can be so powerful that they bias people's thoughts. Therefore, we should be aware that food marketing can affect our behavior as a consumer and try not to be deceived by pointlessly gendered food advertisements.

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DESCRIPTION OF THE AGRICULTURAL DEVELOPMENT IN VIETNAM AND THE SEAN COUNTRIES (SOUTH EAST ASIAN COUNTRIES)

A MEZŐGAZDASÁGI FEJLŐDÉS VIETNÁMBAN ÉS DÉL-KELET-ÁZSIA ORSZÁGAIBAN

NGUYEN THI THU THUY PhD student

Doctoral school for Management and Organizational Science,
Kaposvar University, Hungary

LASZLO VASA Assoc. Prof.

Institute of Foreign Affairs and Trade, Hungary

Abstract

Nowadays agricultural development still plays an important role for many countries in the world, especially for the agriculture-based countries. In this case, Vietnam is one of this kind of agricultural countries and is one of a member state of ASEAN countries where almost all countries are based on the agricultural advantages, natural conditions of tropical weather for socio-economic development. As the statement in the World development report 2008 - "Agriculture for Development" of the World Bank says: "*The case for using the powers of agriculture for poverty reduction and as an engine of growth for the agriculture-based countries is still very much alive today... New opportunities for realizing this potential are present today, but also coming are new challenges...*" (The International Bank for Reconstruction and Development/The World Bank, 2007:44). Therefore this topic would like to find a diversification of agricultural development in Vietnam and the ASEAN countries by using FAOSTAT, related reviews in a scope of the significant and necessary threshold of the primary sector in the economy - Agriculture.

Keywords: Vietnam, ASEAN countries, agricultural development, World Bank, description

1. Introduction

Socio-economic conditions with common access for agriculture

12 things are known about Asian agriculture on website www.adb.org/features/12-things-know-2012-asian-agriculture, as the Asian Development Bank (ADB) has shown a glance of the Asian agricultural sector in the region. Some highlighted features can be seen here, such as: More than 2.2 billion people in the region rely on agriculture for their livelihoods (ADB 2009); Rice is by far the most important crop throughout Asia: 90% of the world's production and consumption occurs in this region (ADB 2010); With 25% of the world's populations and only 7% of the world's arable land, projected imports of agro-food in the coming decades will have significant implications within Asia (ADB 2010). Therefore "with rising populations, increasing food prices and environmental concern, Asia's agricultural sector faces a raft of challenges." (Source: <https://www.adb.org/>).

Ponciano S. Intal, Jr et al. (2011), confirmed that "Despite the surge in manufactures trade and production networks that anchor the industrialization process in East Asia,

agriculture remains an important sector of the economy of most developing countries in the region. Indeed, for the lower-income member countries of the Association of Southeast Asian Nations (ASEAN) that rely preponderantly on agriculture, agricultural development is the key to widespread economic growth and rapid poverty reduction.” (Ponciano S. Intal Jr et al., 2011: Preface)

Continually, there is a view about the agricultural sector in Vietnam, where prominent economic transition has taken place in the period of 30 years since 1980s. As the opinions of OECD experts: “Vietnam on the other hand is interesting because it is a transition economy, shifting from central planning to a market economy over the period from the latter 1980s through the 1990s. It is also interesting because both its overall and its agricultural sector economic growth rates have been excellent in the 1990s....Part of this rapid growth rate is due to the new institutions that were adopted affecting the agricultural sector, notably the changes in property rights and land tenure arrangements.” (Rick Barichello, 2004:13, 16).

So the finding of this topic is the description of agricultural development interrelated to the efficiency of socio-economic development.

2. Literature review

Definition of agricultural development

As the definition of agricultural development of OECD says, the context is: “Agricultural development is defined as the process that creates the conditions for the fulfilment of agricultural potential. Those conditions include the accumulation of knowledge and availability of technology as well as the allocation of inputs and output.” (Juan R. de Laiglesia, 2006:10).

There is a meaning of the concept about agricultural development on the website of EU with the main discipline: Sustainable agriculture and rural development policy is the agricultural development - it is explained in the following way: “Supporting sustainable agricultural development also involves ensuring and maintaining productive capacity for the future and increasing productivity without damaging the environment or jeopardizing natural resources. In addition, it requires respect for and recognition of local knowledge and local management of natural resources, and efforts to promote the capabilities of current generations without compromising the prospects of future ones. Consequently, economic and environmental sustainability, adequate farmer incomes, productive capacity for the future, improved food security and social sustainability are important elements of developing countries’ agricultural development.” (Source: <https://ec.europa.eu/>).

On the other hand, the World Bank in World development report 2008 defined a notion “Agriculture for development agenda” is “Making agriculture more effective in supporting sustainable growth and reducing poverty starts with a favorable sociopolitical climate, adequate governance, and sound macroeconomic fundamentals. It then requires defining an agenda for each country type, based on a combination of four policy objectives:

- *Objective 1.* Improve access to markets and establish efficient value chains
- *Objective 2.* Enhance smallholder competitiveness and facilitate market entry
- *Objective 3.* Improve livelihoods in subsistence farming and low-skill rural occupations
- *Objective 4.* Increase employment in agriculture and the rural nonfarm economy, and enhance skills (The IBRD/ The World Bank, 2007:18, 19).

Brief meaning of agricultural development for Vietnam and the ASEAN countries

“In 2011-20 Vietnam will enter the third decade of growth based on its reintegration with the global economy. The country that in the 1990s was counted among the World’s very poorest is now poised to become a middle-income economy, having leapfrogged many others in the process. ... The economy has been transformed by growth from overwhelmingly rural, agrarian and low-tech to a vibrant mixed marketplace with bustling cities, highly diverse industries and advanced information and communications networks. ...For all this progress, the wealth of today’s Vietnam is still based on two fundamental endowments: labour and land.” (Ian Coxhead et al., 2010:i, Executive summary). Therefore, not only agricultural development but also economic development in general in Vietnam depend on the efficient and dynamic applications of the country’s labour, land and other natural resources to the have greatest economic effect.

As well as in the White paper about “Efficient agriculture, stronger economies in ASEAN” implemented by Syngenta and the Business Council for Sustainable Development Singapore, 2016, there is one more literature to supplement for the common circumstance of ASEAN countries such as: “Agriculture has played and continues to play an important role in the ASEAN region despite its declining contribution to the region’s GDP during the last two decades. It is viewed as an important driver for social, inclusive growth; an important source of export earnings in support of economic development; a guarantor of food availability to its citizens for staple and non-staple food items; and a source of employment directly and through agriculture-related, value adding activities.”; and “Endowed with abundant resources including land, water and people, ASEAN’s agriculture sector has the potential to have even more of a positive impact on the region’s food security and economic progress” (White paper - Syngenta and BCSD Singapore, 2016:3, 4, 5).

3. Materials and Methods

This topic is a research by reviewing the studies about agricultural development in Vietnam and the ASEAN countries in a scope of the significant and necessary threshold of the primary sector in economy - Agriculture.

Map of ASEAN countries



Source: FAOSTAT 2017 - <http://www.fao.org>

By using secondary data in related reviews of WorldBank and FAOSTAT website to create a comparison by ratio, index and using references on reviews about agricultural development and the agriculture sector in general, the objective of this topic is a presentation on the diversification of agricultural development taken placerecently in Vietnam and the ASEAN countries.

4. Results and discussion

1. Characteristics of agricultural development in Vietnam and the ASEAN countries - Agriculture in the ASEAN countries

ASEAN countries nowadays include 10 member states named in Table 1 as below and it is an active region in the world economy with abundant advantages in natural resources, demography and tropical climate.

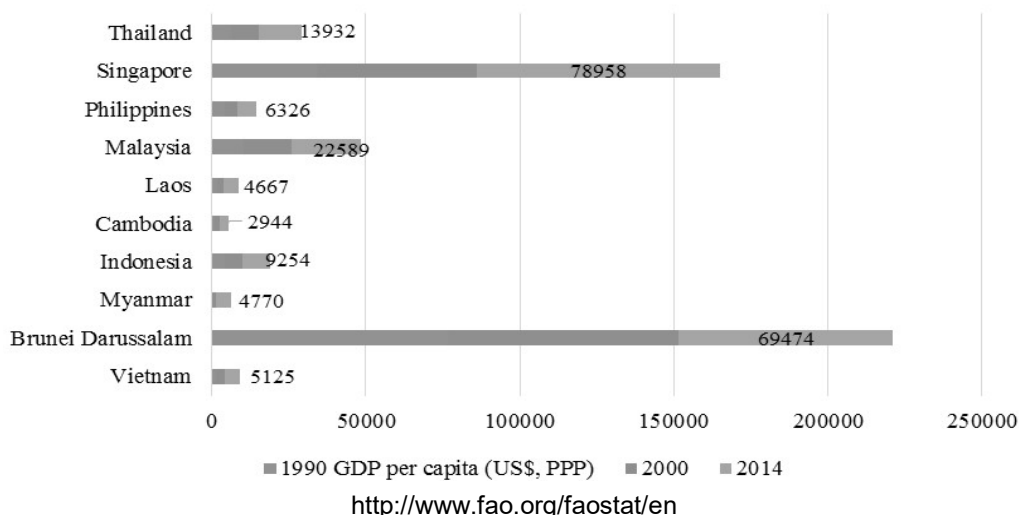
Table 1.: Areas of ASEAN member states

No	Country	Key Statistics			
		Country area (1000 ha)	Land area (1000 ha)	Agricultural area (1000 ha)	Forest (1000 ha)
1	Brunei Darussalam	577	527	14.4	380
2	Cambodia	18,104	17,652	5,455	9,584.4
3	Indonesia	191,093.1	181,157	57,000	91,694.4
4	Lao PDR	23,680	23,080	2,369	18,572.24
5	Malaysia	33,080	32,855	7,839	22,180.8
6	Myanmar	67,659	65,308	12,645	29,587.4
7	Philippines	30,000	29,817	12,440	7,800
8	Singapore	71.9	70.9	0.66	16.35
9	Thailand	51,312	51,089	22,110	16,369
10	Vietnam	33,096.7	31,007	10,873.7	14,644
	Total area	448,673.7	432,562.9	130,746.76	210,828.59
	Total area in km ²	4,486,737.00	4,325,629.00	1,307,467.60	2,108,285.90

(Source: FAOSTAT - <http://www.fao.org>)

In a White Paper about Efficient agriculture, stronger economies in ASEAN implemented by Syngenta and the Business Council for Sustainable Development Singapore, 2016, the role of agriculture for development in ASEAN it had been stated that: “Agriculture is central to the economies of the region and provides livelihoods to a large segment of the population.... As population continues to grow and ASEAN’s middle-class population further increases, demand for not only more food but also more diverse foods will also rise, while our natural resource base diminishes. This means that the need for more efficient agriculture has never been greater” (White paper - Syngenta and BCSD Singapore, 2016:1).

Figure 1.: GDP per capita (US\$, PPP)
ASEAN countries, GDP per capita (US\$, PPP)



According to an extract from the report “Agricultural Development, Trade and Regional Cooperation in Developing East Asia” of Economic Research Institute for ASEAN and East Asia in 2011, this topic has a view for characteristics of agricultural development in Vietnam and ASEAN countries only in some aspects as can be seen below.

Table 2.: ASEAN countries’ categories in the agricultural sector

<i>1. Countries ranging from low-income countries highly dependent on agriculture to rich and industrialized countries.</i>	Name of countries in ASEAN
agriculture is a major sector of the whole economy, accounting for at least 30% of GDP	Myanmar, Laos and Cambodia
agriculture remains an important sector, contributing between 10% and less than 30% to GDP	Indonesia, Malaysia, Philippines, Thailand and Vietnam.
highly industrialized countries and high -income city-states where agriculture is a minor segment of the whole economy	Brunei and Singapore
<i>2. The contribution of the agricultural sector with respect to national employment</i>	Name of countries in ASEAN
Agriculture is the dominant sector contributing to more than 50% of total employment	Cambodia, Laos, Myanmar and Vietnam
Agriculture is a minor employment generator in highly industrialized countries and high-income city states contributing to less than 10% of total employment.	Singapore, Brunei and Malaysia
Between the two groups are the countries where agriculture remains an important generator of employment, contributing least to one-third, albeit not the dominant one ($1/3 < x < 1/2$)	Indonesia, Philippines and Thailand
<i>3. Agricultural development as engine of growth and main driver of poverty reduction</i>	Name of countries in ASEAN
agriculture sector is the main sector of the economy: the majority of the population is in the rural sector and most of the poor live in the rural areas but abundance of land or natural resources	Cambodia, Laos and Myanmar
agricultural development has a larger impact on poverty reduction efforts compared to manufacturing: a substantial increase in agriculture production and productivity, followed by a sharp growth in labor-intensive manufacturers	Vietnam and Indonesia

(Source: Ponciano S. Intal Jr et al., 2011:4, 5, 13)

Transformation of Vietnam's agriculture

In the FAO Vietnam Country Programming Framework 2012-2016, (FAO, 2013), the agricultural development in Vietnam had been designed in a SWOT model as can be seen below:

Table 3.: SWOT model for the agricultural sector in Vietnam

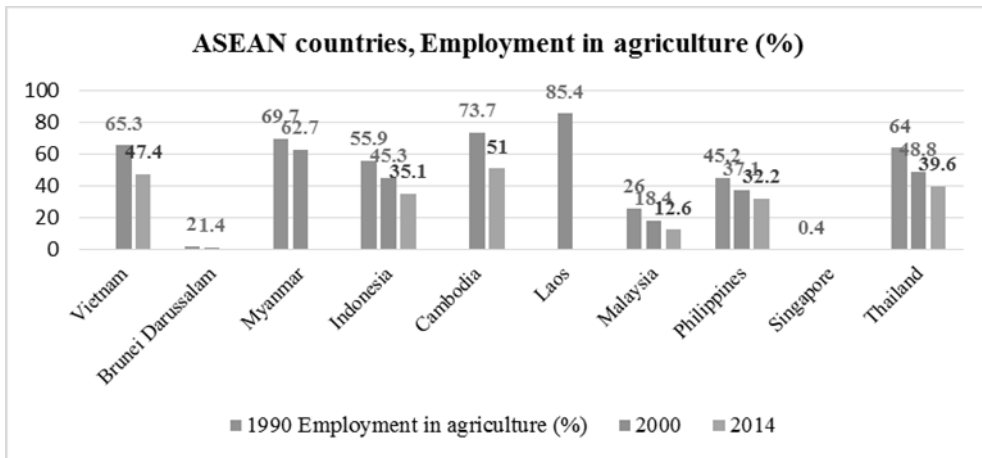
<p>Strength</p> <ul style="list-style-type: none"> - Since 2000: agricultural structure has been changing positively towards improved productivity, quality, efficiency, more market oriented and demand-driven growth. - Agricultural production developed despite of market fluctuations, natural disasters and diseases. - Agricultural prices are compared to neighboring countries (especially food prices) at low level, and low labor costs that helped the country attract foreign investment, made important contribution to economic growth and social stability. - Agricultural export played important roles in international and regional markets of commodities: rice, rubber, coffee, pepper, cashew, wood products and fisheries products. 	<p>Weakness</p> <ul style="list-style-type: none"> - Agricultural growth has benefited from land expansion, intensive use of intermediate inputs (fertilizers, pesticides), and improved irrigation system. - Land fragmentation, outdated technology, low production efficiency and product quality, poor food safety, fragmented supply chain, weak management of product quarantine and quality control.... were the main reasons for the lower competitiveness of agricultural production.
<p>Opportunities</p> <p>Agricultural growth and rural development made important contributions to political and socio-economic stability, generated a solid foundation for the "Doi Moi" process from 1986. Agriculture and rural sector have acted as a safeguard for the economy in the most difficult times and in the remarkable development of Vietnam.</p>	<p>Challenges</p> <ul style="list-style-type: none"> - Structure of agriculture sector does not reflect the comparative advantage and its products, has not been able to capture and meet the potential demand for the future. - Cultivation, especially rice, still accounts for a large share in the sectorial structure despite the low economic efficiency of rice. - Livestock has grown rapidly but unstably and unsustainably, and still on a limited scale. - Fishery and aquaculture lack stability and linkages between producers, traders and processing enterprises. The processing methods pollute the environment. In-land fishery outpaces the seafood reproduction capacity, and off-shore fishery is inefficient. - For forestry, its contribution to economic growth is still too low in comparison to its potential.

(Source: FAO Vietnam Country Programming Framework 2012-2016, FAO 2013:11, 12)

Beside the picture of agricultural development in Vietnam in general, the trend of structural transformation in agriculture of the country had been presented in the Vietnam Development Report 2016 of World Bank to answer the question "Where is Vietnam today?" In this report the World Bank (2016) stated that there were some changes which are to be determined in the agricultural sector in Vietnam:

- the share of agriculture in employment, which fell from 65 percent in 2000 to 47 percent in 2012: The transformation from farm to non-farm activities at the household level is reflected in households' income structure (World Bank, 2016:3).

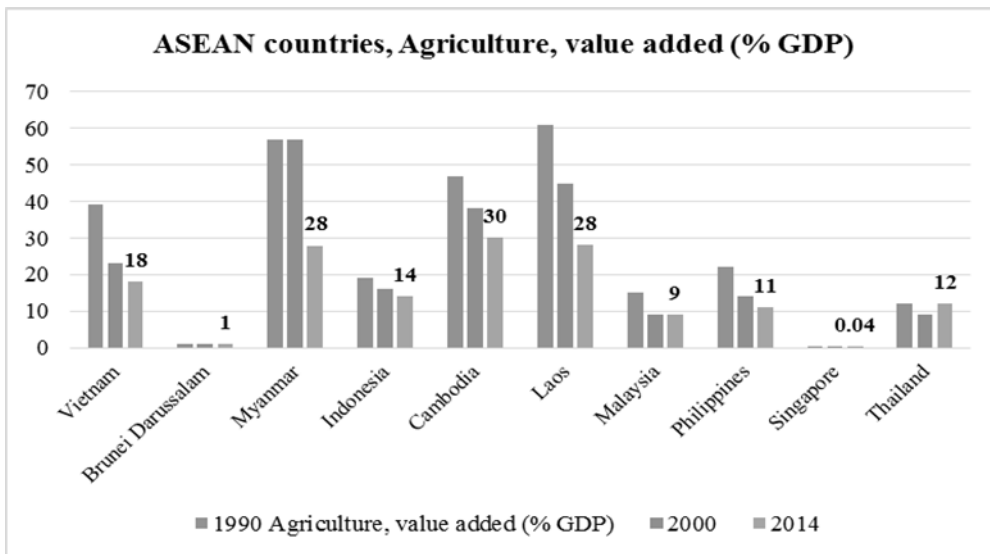
Figure 2.: Employment in agriculture (%)



<http://www.fao.org/faostat/en>

- the share of agriculture in Vietnamese GDP and trade has been relatively flat since the mid-2000s: agriculture's steady share in trade can be attributed to various factors, including favorable international commodity prices, changing patterns of domestic demand, and industry-specific developments. (World Bank, 2016:3, 4)

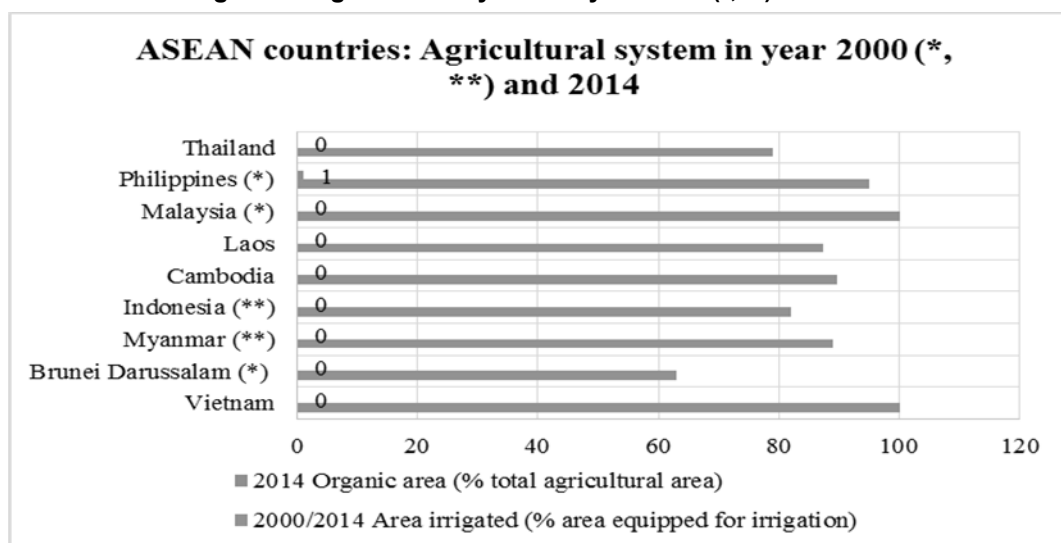
Figure 3.: Agriculture, value added (% GDP)



<http://www.fao.org/faostat/en>

- changes in agricultural land-use and the structure of production: Vietnam's agricultural land-use reflects the historical importance and dominant policy and public investment attention to rice, together with the agricultural sector's response to international market opportunities from the mid-1990s onward (World Bank, 2016:8).

Figure 4.: Agricultural system in year 2000 (*, **) and 2014



(**) Water withdrawal by agriculture (% of total) in year 2000

(*) Area irrigated (% area equipped for irrigation) in year 2000

<http://www.fao.org/faostat/en>

- Shortcomings in agricultural growth in Vietnam nowadays

Ian Coxhead et al., 2010, had studied the shortcomings of agricultural growth in Vietnam with some significant aspects such as:

Vietnam's land-labour ratio is one of the lowest in the world, and this is a key factor responsible for depressing farm incomes and constraining their growth. Farm land fragmentation (especially in Northern provinces), land size limits, and imperfect land markets preventing consolidation and expansion are all constraints operating on land... Agricultural growth generates job growth and rural development so the task of creating jobs, alleviating poverty and raising incomes in Vietnam is too big to be left to agricultural development alone.”(Ian Coxhead et al., 2010:x).

Therefore, the recommendation for the long-term development strategy for Vietnam's agricultural and rural development should be to ensure a continuation of transitional growth; to take measures to anticipate the need for more skill-based, and less resource-driven growth in the future with three key strategic options:

1. improving incentives for efficient resource allocation within the agricultural economy and reducing institutional obstacles to least-cost input supply and profitable post-harvest processing and trade;

2. leveraging public investments in infrastructure, R&D, and rural credit through partnerships with the private sector; and

3. ensuring that labour and other resources can move freely in and out of the rural economy in response to productive opportunities.” (Ian Coxhead et al., 2010:xi).

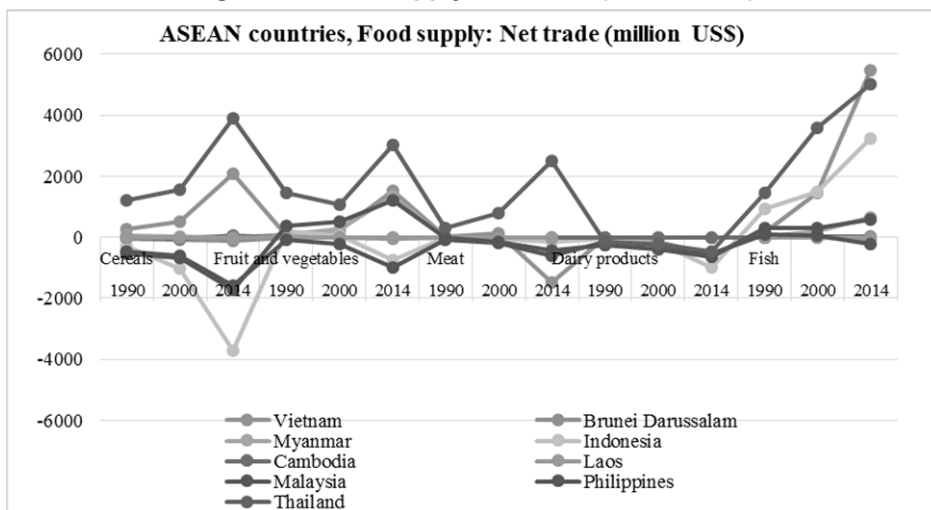
2. Advantages and difficulties in Vietnam and ASEAN countries through agricultural indicators

- Agriculture advantages in ASEAN countries

Based on national nature conditions and distributions of socio-economic development, it is strongly advised to draw the progress of agricultural production from ASEAN countries.

“ASEAN is one of the most productive agricultural baskets in the world. In 2012, the region produced 129 million tons of rice, 40 million tons of corn, 171 million tons of sugarcane, 1.44 million tons of soybean, and 70.34 million tons of cassava. Rice production is forecast to increase to 132.87 million tons in 2013. ...ASEAN is likely to increase exports to 18.28 million tons. While domestic utilization is projected to increase to 114.57 million from 113.04 million tons in 2012, self-sufficiency (production to domestic utilization) ratio is still assured at 116%.”

Figure 5.: Food supply: Net trade (million US\$)

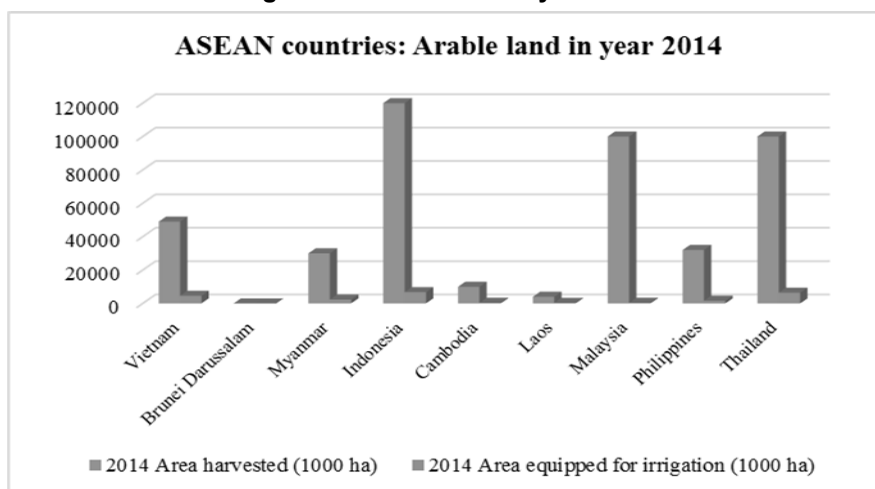


<http://www.fao.org/faostat/en>

The common achievements of ASEAN countries in agricultural production in some main aspects are as below:

- No boundaries: most ASEAN countries are yet to reach their production boundaries. On the region’s balanced climate, fertile lands, and mix of lowlands and uplands, forests, rivers, and coastlines: there are opportunities for crop and livestock production, in managing food supply chain, agriculture infrastructure and safety and agribusiness.

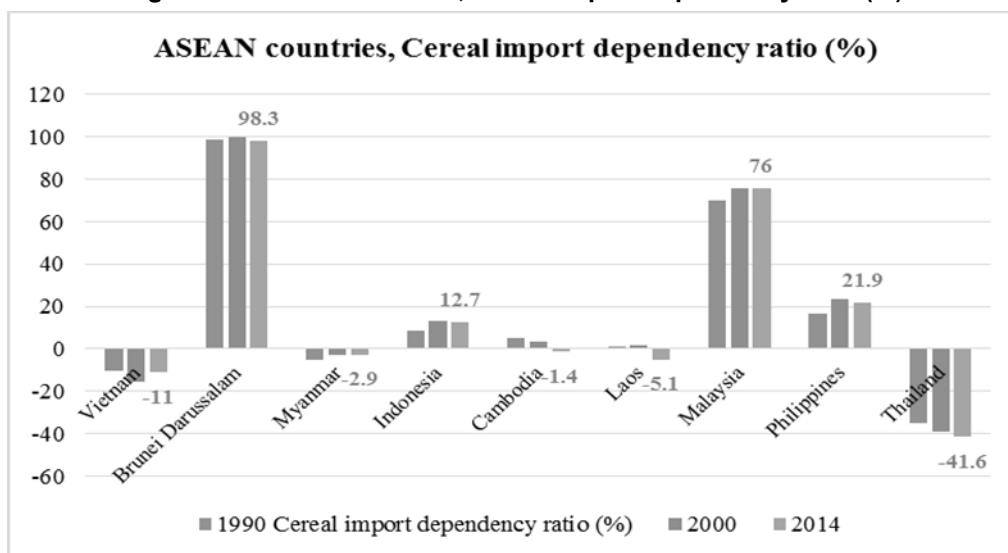
Figure 6.: Arable land in year 2014



<http://www.fao.org/faostat/en>

- Growth drivers: The ASEAN region is home to around 600 million people as its main food markets. ASEAN can act as the supply base for its larger neighbours.

Figure 7.: ASEAN countries, Cereal import dependency ratio (%)



<http://www.fao.org/faostat/en>

- Towards regional integration: The agricultural sector is off to reach its target for the ASEAN Economic Community in 2015 through increased efforts to ease trade between member states, allowing faster movement of perishable goods across long distances.... Region-wide, priority is given to the ASEAN Highway Network which involves upgrading of below Class III roads in designated Transit Transport Routes, and completion of the Singapore Kunming Rail Link which is intended to link seven ASEAN countries (Singapore, Malaysia, Thailand, Cambodia, Vietnam, Myanmar, and Lao) to China. (Source: <http://investasean.asean.org/>)

- Difficulties of ASEAN agriculture

“Agriculture has played and continues to play an important role in the ASEAN region despite its declining contribution to the region’s GDP during the last two decades. ASEAN agriculture remains a powerhouse for the production and supply of important food items. It is home to the world’s top two largest rice exporters (Thailand and Vietnam) and has among the top three exporting countries for pineapples, bananas, mango, sugar crops, coffee, cashew nuts and cassava. It is the top producer and exporter of palm oil, coconut and rubber and a major producer and exporter of seafood. In the ASEAN region available statistics show more than 100 million farmers. .. The number of farm holdings less than 1 ha were, for Indonesia, Vietnam, Philippines and Myanmar, respectively, 18.6 million, 9.1 million, 1.9 million and 1.2 million, in 2013.” (White paper - Syngenta and BCSD Singapore, 2016:3, 4)

Table 4.: Challenges and Recommendations for ASEAN agriculture under the ASEAN Vision 2025

Challenges to ASEAN agriculture
Declining Performance of Agriculture: Farmers in ASEAN are rarely able to achieve more than 70% of potential yields due to a range of agronomic and economic constraints. It is necessary to consider the inter-link between ASEAN crop yields and those in the extra-ASEAN.
Diminishing Quality and Quantity of Natural Resources and Climate Change: Changes in dietary preferences and increases in food prices are among the factors that have led to the expansion of land used for crops as a percentage of total land area in most of ASEAN while forest areas have declined significantly.
Policy Approaches to Agriculture and Food Security in ASEAN: Member countries have differing policies to ensure food security, from declared self-sufficiency (rice for Indonesia, Philippines) to self-reliance (purchase food through imports, i.e. Singapore, Brunei Darussalam) and focus on more “export-oriented” agriculture (palm oil and rubber: Indonesia, Malaysia, cacao and coffee in Vietnam) while others recognize the importance of both export and food security needs (Thailand, Vietnam).
Recommendations for ASEAN agriculture
- Explicit pronouncements at highest ASEAN government levels to support public-private synergies. Many of the challenges to ASEAN agriculture and food security cannot be solved by a single entity.
- Encourage policies which increase private sector investment in R&D for food production, processing, distribution and safe supply chains. . It is essential that ASEAN develops ways to harness this huge private sector investment for the benefit of the millions of smallholders, in a “win-win” situation.
- Support for policies and implementation guidelines which enable inclusive agribusiness.

(Source: White paper - Syngenta and BCSD Singapore, 2016:4, 5, 9)

Table 5.: Structure of agricultural production in Vietnam

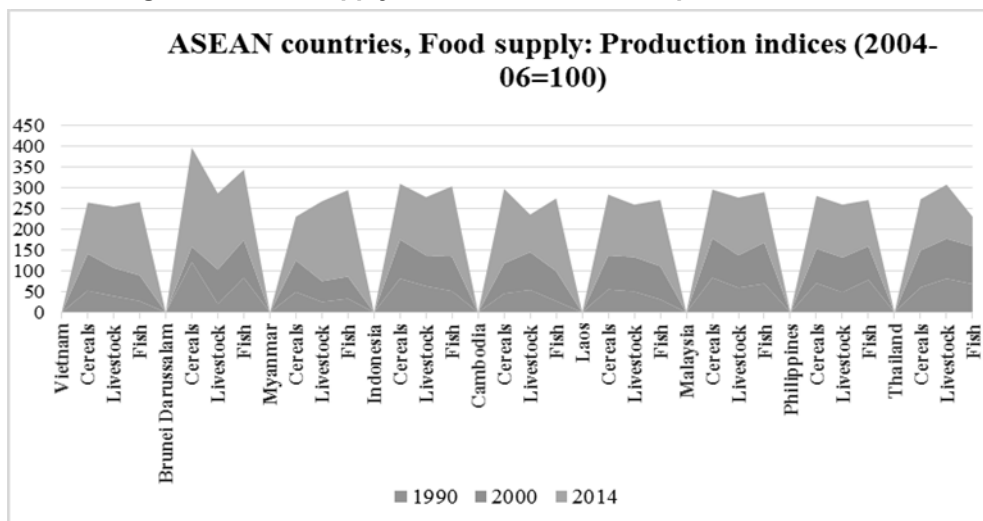
Agricultural production units in Vietnam	
“Agricultural” households	8.9 million in 2011
“Farms”	126,000 in 2011
“Agricultural Enterprises”	2,536 in 2011
Production cooperatives	6,065 in 2011
Other entities: farms, other domestic agencies, and foreign individuals/companies	
Vietnamese agriculture at a crossroads	
enormous progress: Vietnam’s successes in poverty reduction, national food security, and social stability	Ranks among the top of middle-income countries; the top of five global exporters in products as diverse as shrimp, coffee, cashews, rice and pepper
agricultural performance: total factor productivity decline in recent years - lags behind regional peers in relation to agricultural land, labour, and water productivity	A chasm is forming between farm and non-farm incomes; income inequality is rising within rural areas; agricultural trade is in the form of raw commodities even at lower prices; growing concerns about food safety.
increasing environmental cost: consequences of Vietnam’s agricultural success	expanded or more intensive use of land and other natural resources, and heavy use of fertilizer and other agro-chemicals; ranging from deforestation and fishery resource depletion to a growing incidence of land degradation and water pollution.
Vietnam’s agricultural sector needs to generate “more from less.”	Products with assurances relating to quality, safety, and sustainability; generate more economic value for farmer and consumer welfare - using less natural and human capital, less harmful intermediate inputs; Future growth can rely primarily on increased efficiency, innovation, diversification and value addition.

(Source: World Bank, 2016:9, xi, xii, Executive summary)

- Comparison of a ratio of agricultural indicators in Vietnam with ASEAN countries

In the circumstance of data indicators for Vietnam's economy and agricultural production in particular as well as for ASEAN countries on FAOSTAT website (2017) there are significant statistics and meaning for evaluation and access to studies about agricultural development and also about decision-making for a strategy or a plan.

Figure 8.: Food supply: Production indices in period 1990-2014



<http://www.fao.org/faostat/en>

Table 6. below shows the overall assessment for comparison of Vietnam's indicators with ASEAN average in three decades recently and what can be expected for conduction in macro and micro-economic plans of the Vietnamese government by learning lessons from the ASEAN neighbours.

Table 6.: Comparison of Vietnam indicators with ASEAN average

Ratio of:	1990	2000	2014
Population (millions)	0.77	0.77	0.73
Employment in agriculture (%)		1.50	1.49
Agricultural value added per worker (constant US\$)	0.03	0.01	0.01
GDP per capita (US\$, PPP)	0.04	0.07	0.13
Forest area (%)	0.58	0.77	0.96
Agriculture, value added (% GDP)	1.27	0.81	1.20
Food supply: Production indices (2004-06=100):			
Cereals, Livestock, Fish	0.56	1.20	1.21
Food supply: Net trade (million US\$), Cereal	0.79	1.98	22.62
Fertilizers - Consumption in nutrients (kg of nutrients per ha), Nitrogen		0.79	0.49
Area harvested (1000 ha)			0.82
Area irrigated (% area equipped for irrigation)			1.23

Source: Own calculation based on "FAO Statistical Pocketbook 2015 - World food and agriculture" and Data on website <http://www.fao.org/faostat/en/#data>, 2017

It is a fact that Vietnam is still a poor country in the ASEAN nations (low GDP per capita, PPP) due to the fact that agricultural development has dynamic pace along the time (in the top of exporters in the ASEAN region in cereal, industry plants, fish...) and Vietnam's economy grows more stably and rapidly than in the past but this growth has a lot more shortcomings than other ASEAN countries (especially low in agricultural value added per worker, high in employment ratio in agriculture, high in agricultural value added of GDP.) which continues to be a challenge for Vietnam's efficient agricultural development today.

5. Discussion

Agricultural and rural development is an increasing proportion in the economy, it is more concerned in socio-economic development in Vietnam and in the ASEAN countries.

According to "the ASEAN Vision 2025 articulated by ASEAN leaders for the post-2015 period", there is an aim to create an integrated ASEAN market with strong trade, people and investment flows between the member economies. Currently, agriculture and food security are primarily addressed within the AEC (ASEAN Economic Community)". Otherwise "the post-2015 ASCC (ASEAN Socio-Cultural Community) blueprint has to recognize the inter-linkages between food security, climate change and farmer livelihoods. The insecurities of vulnerable populations and their lack of adaptive capacities need to be addressed under the umbrella of a single ASEAN Community". (Syngenta and BCSD Singapore, 2016:7).

Considering the access of Vietnam's agricultural development by the report of the World Bank in an article: "Transforming Vietnam's Agriculture Sector Will Stimulate Higher Growth", website www.worldbank.org, September 2016, says reforms and policy shifts are essential to the success for agricultural development in Vietnam. It continues saying that "Vietnam's agriculture and overall food system are at a turning point. While having a strong track record and ample opportunities for future growth - both at home and abroad - the sector faces major demographic, economic, and environmental challenges.... To remain competitive in the international market, Vietnam needs to improve supply, quality, and food safety with added value. So "Change will help overcome these challenges, ensure the future of agricultural growth, and better meet the expectations and aspirations of the people of Vietnam". And an agenda of short- and longer-term strengthening of public and market institutions which will be needed to achieve the ambitious goals for Vietnam's agriculture and overall food system."

Finally, the most important question to be addressed is *how to formulate strategies for sustaining Vietnam's agricultural development* in the context of globalization and rapid structural change in the period between 2011-2020. Vietnam is still very poor (with per capita income less than 10% of the world average), but it is growing rapidly. As the country moves toward middle-income status, its agricultural sector should be assisted to evolve appropriately, adapting to changed circumstances caused by the growth of secondary and tertiary sectors, yet remaining dynamic and innovative as befits a major sectoral source of staple foods, employment, household income, and foreign exchange. (Ian Coxhead et al., 2010:66).

To sum up, agricultural development is still having an important role for almost ASEAN countries with crowded rural population and diversity of topography for agricultural production.

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REGIONAL RENEWABLE ENERGY POTENTIAL IN HUNGARY. THE CASE OF KOPPANY VALLEY

A MEGÚJULÓ ENERGIA REGIONÁLIS POTENCIÁLJÁNAK LEHETŐSÉGEI MAGYARORSZÁGON. KOPPÁNY VÖLGYE PÉLDÁJÁN

A. TITOV, B. H. DR. KOVÁCS

Kaposvar University, Faculty of Economic Science

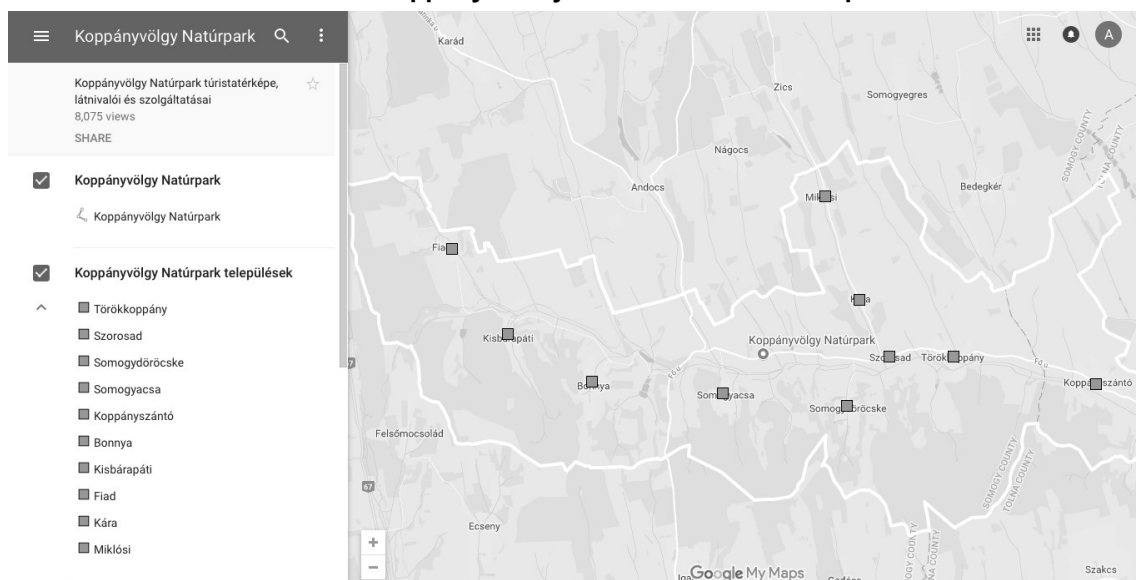
Abstract

Koppány Valley is the target region within the framework of the RuRES research project. Using relevant literature the authors draw their attention to the regional renewable energy potential's estimation taking into consideration the best Hungarian practices in this field. The aim of the paper is the analysis of the specific territorial data on renewable energy sources particularly appropriate for Koppány Valley including solar and biomass regional potentials. From the other point of view the authors recognise the necessity to investigate the structure of energy consumption of Koppány Valley based purely on statistical data. The authors conclude with recommendations for the energy efficiency improvement towards green local society development.

1. Introduction

The acronym RuRES refers to the research project undertaken within the framework of Hungarian-Croatian cross border cooperation programme and implies renewable energy sources (RES) and energy efficiency (EE) in the function of rural development. It aims to investigate the solar, the wind and the biomass potential of eligible settlements. Besides, a survey of the attitude, the socio-cultural circumstances and environmental consciousness of the citizens of rural areas regarding RES and EE is going to be conducted. This article reports the very first results and further proposals of the RuRES project which was started from September, 2017. Particular focus of the authors was directed to the regional solar energy potential, the regional biomass energy potential and the public acceptance survey regarding RES. The research area is the Koppány Valley located in Somogy county of Hungary, 40 km to the North-East from Kaposvar. This area was selected taking into consideration the reason of already existing initiatives related to the green local society development run by Vox Vallis development association (Filep-Kovács et. al, 2016). The plans to establish locally photovoltaic elements and biogas power plant station are among them. That is why the relevance of the current research to assess the potentials of the sources of energy listed and to investigate, accordingly, the awareness of the rural stakeholders raises its value.

Pic.1.: Koppány Valley Nature Park on the map



Source: <https://koppanyvolgy.com>

Koppány Valley Nature Park is the development unit consisting of 10 settlements: Fiad, Kisbárapáti, Bonnya, Somogyacska, Somogydöröcske, Szorosad, Kára, Miklósi, Törökkoppány, Koppányszántó. The lead organisation is Vox Vallis association in cooperation with members of the self-governments of these settlements. Törökkoppány is the first pilot location for the proposed methodology which is going to be applied for the other settlements as well.

2. Literature review

Several authors have been working on the topic in Hungary. The potential for the production and use of biomass-based energy sources in Hungary has already been considered (Garay et al., 2012). The paper gives a broad introductory part including the consideration of the national and European renewable policy aspects, particularly focusing on solid biomass and its estimated amount in Hungary. The authors provided comparison models between Hungary and other European countries in biogas and biofuel production as well. They concluded that solid biomass would continue to be the most used bioenergy source in Hungary; the amount of solid biomass that would be needed by 2020 is already available from forestry and agriculture; in Hungary the potential to produce first generation bio-fuel from domestically grown crops was significantly higher than in most EU Member States but the development of the sector had not met the expectations yet. A significant biomass potential has been investigated in Hernad Valley (A. Bai et al., 2016). Photovoltaic panels were recognised as highly accepted by the local population. The authors found that the population did not have adequate knowledge in regard to RES. The lack of information sources was listed as a main reason for that fact. Seventeen settlements of Heves County were examined through the survey in order to research the subject of public acceptance of renewable energy sources based on biomass and to explore the general knowledge, innovative attitude, acceptance and willingness of application as well as the estimation of the benefits of the use of RES within the inhabitants (Bujdosó et al., 2012). The authors found that knowledge on various bioenergy-related technologies in

general was moderate. Knowledge on biogas, biodiesel and the combustion of biomass exceeded 40%. Environmental protection aspects proved to be the most relevant among the most important benefits in relation to the use of RES. The authors admitted that the society took the biomass energy into consideration and its importance and responsibility were increasing.

3. Materials and methods

For the regional solar potential the latest version of the photovoltaic geographical information system, photovoltaic software PVGIS 5 was applied. For the biomass regional potential assessment Methodology based on MePar-Agricultural Parcel Identification System is proposed to be used.

4. Results and discussion

4.1. Regional solar energy potential

According to the European Commission, global irradiation and solar electricity potential based on optimally-inclined photovoltaic modules in Hungary is relatively moderate in comparison with other European countries. The average amount of inland solar energy potential lies in the range between 1000 kWh and 1200 kWh.

Pic. 2.: Global irradiation and solar electricity potential in Hungary



Source: European Commission

The local solar energy potential in Törökkoppány village was estimated based on PVGIS 5 system. PVGIS 5 allows to select defined settings to identify the performance of grid-connected PV such as: solar radiation database, PV technology, mounting position and so on. In our case Satellite application facility on Climate Monitoring PVGIS-CMSAF database was applied as the most traditional one. Crystalline silicon and Cadmium telluride PV technologies were tested by the model. The GPS coordinates of the target location were chosen apart from them. The results demonstrated the following: yearly PV energy production in Törökkoppány, which is recognised as the regional energy potential on micro-level, is 1140 kWh-1180 kWh depending on the solar panel technology. In fact, CdTE PV cells were found as the most efficient in this order. The received numbers correspond, in general, to the overall Hungarian data. But indeed, regional solar energy potential based on PVGIS 5 might be improved through several options:

- Usage of different solar radiation database (PVGIS-CMSAF, PVGIS-SARAH, PVGIS-ERA5, PVGIS-COSMO);
- Different PV cells technology (Crystalline silicon, CdTE, CIS);
- Adding tracking options.

Also, results may differ from each other due to the building integrated or free standing mounting.

Nevertheless, the current situation in the research states that the PVGIS software allows only 90m resolution according to the solar potential map and provides the horizon height which is strictly built on the landscape shape. The improvement in the project is expected to precise the resolution of the map up to 6-10 m in order to incorporate the shadowing effect of buildings and trees plus the identification of ideal surfaces for the solar panel installation (size, slope, N-S exposure). The methodology is going to be applied to achieve such improvements based on field experiment using a manual device for measuring the horizon height at a certain place; measuring points will be defined as grids supplemented by GPS information; detailed horizon file to be uploaded to the software's simulation model.

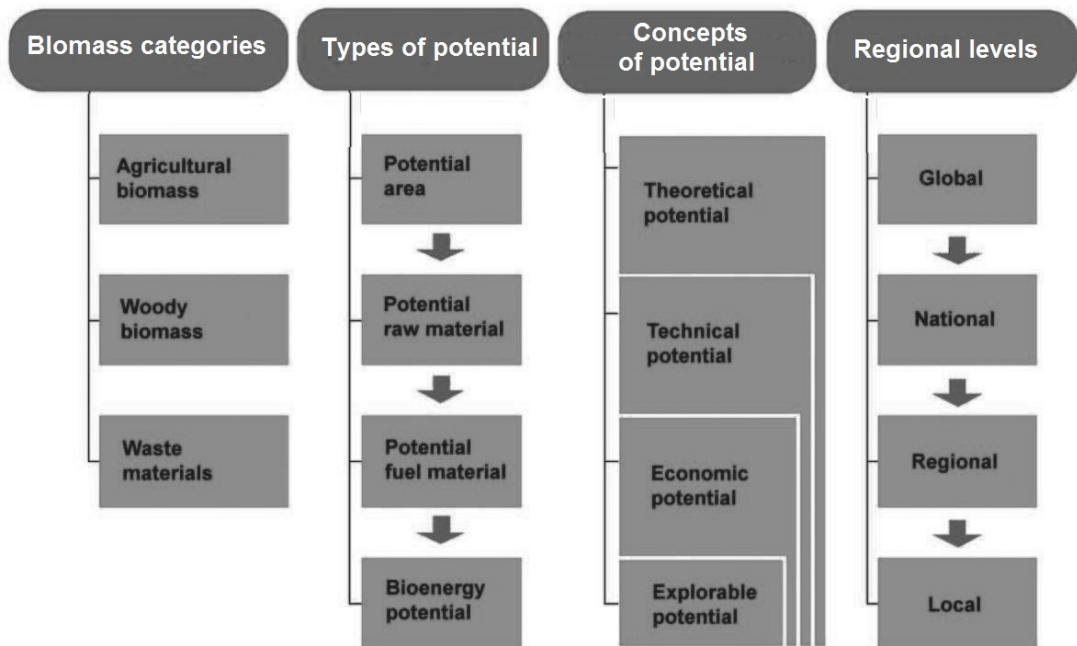
The test approbation of the given methodology has been recently conducted at the student campus of Kaposvar University with successful results.

4.2. Regional biomass energy potential

If we look at the theoretical concepts for the various types of biomass potential (Pic. 4), we may declare that in our research we are going to take into consideration all of the biomass categories mentioned as agricultural, woody and waste material. A potential area has already been selected, the bioenergy potential is going to be estimated on regional and local levels.

MePar - Agricultural Parcel Identification System is the universal software allowing to get satellite maps equipped with the function to distinguish different layers for appropriate data selection. In our case, it is suitable for the identification of agricultural layouts as well as vineyards, orchards, uncultivated fields, etc. namely all the possible territories which may be used for the biomass resources collection.

Pic.4.: Biomass potentials form different points of view



Source: Schubert et al., 2012

On the other hand, MePar is convenient for the investigation of potential surfaces for solar panel installation. It provides a detailed map about the building constructions of a settlement.

To summarise briefly, biomass-based energy data are going to be collected by the following sources:

- MePar system;
- Local agricultural statistics;
- Waste management agency’s data;
- Questionnaires for the local residents.

4.3. RES public acceptance survey

Three hundred samples of the questionnaire will be distributed among the local population of the 10 eligible settlements in Koppány Valley. The survey is planned to be started from April, 2018.

The questionnaire focuses on:

- General knowledge and awareness about RES (types of RES, information sources, reasons to use etc.);
This part includes questions like:
 - Have you ever heard about renewable energy sources?
 - What kind of renewable energy sources do you know?
 - What is the main information source to know about the RES in your local area?
 - What are the main reasons to use RES instead of conventional ones?
 - What kind of RES would you wish to have in your local community: small hydro, solar thermal, photovoltaic panels, wind, biomass-based power plants? etc.

- Particular emphasis on biomass for energy purposes (domestically used amount of biomass, willingness to be involved in related community activities, influence on the local economy, etc.).

That part includes questions like:

- Do you know what biomass is?
 - Do you use biomass for heating in your residence?
 - Which forms of energy-related utilization of biomass do you know (heating, electricity, etc.)?
 - What bio-energy resources do you know or/and use (energy forest, energy grass, bio-briquettes, pellets, bio-gas, bio-fuels)?
 - What positive/negative aspects can you see regarding the usage of biomass? etc.
- Some of the questions will contribute to the domestic use of biomass data collection.

5. Conclusions

Koppany Valley is the target research area for the RuRes project. The estimated regional solar energy potential in Koppany valley is 1180 kWh, which is a bit higher than the Hungarian average. Regional solar and biomass energy potential maps will be created based on collected data. A RES public acceptance survey will be conducted. An approved methodology will be provided for other regions.

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THE OPERATION OF ISLAMIC BANKS ON THE BASIS OF AN EU EXAMPLE

AZ ISZLÁM BANKOK MŰKÖDÉSE EGY EU-S PÉLDA ALAPJÁN

DR. JÓZSEF VARGA associate professor

Kaposvár University, Faculty of Economic Science

DR. BALÁZS CSEH PhD student

Kaposvár University, Faculty of Economic Science

Abstract

The Al Rayan Bank (called IBB Bank until December 2014) was the first and greatest Islamic bank in the European Union before the Brexit. The Al Rayan Bank is a trade bank in Great Britain, functioning according to the principles of Islam, taking an eminent place among the Islamic financial institutions. The bank operating in Anglo-Saxon financial environment has shown such success to the world in recent years that can be an inspiration for investors of other Islamic financial institutions. The authors are doing the analysis of the balance structure of one of the most famous West-European Islamic banks. The authors analyzing the balance sheet of the Al Rayan Bank call attention to the necessity of the cooperation of conventional and Islamic banks due to the increasing similar claims of Muslims living in Europe by drawing conclusions. Besides these, they discuss the opportunities of cooperation as well. According to the authors, the Islamic banks and their institutions provide alternative opportunities in the regional financial system.

1. Introduction

We are doing the analysis of the balance structure of one of the most famous West-European Islamic banks, namely the Islamic Bank of Britain (IBB). In the end of 2011 the Islamic Bank of Britain had a total assets of 217 million pounds, at the end of 2012 it was 261 billion pounds that increased significantly by the end of 2013 to 368 million pounds and then in 2014 to 648 million pounds. Its motherbank is Qatar International Islamic Bank QIIB (in 2011 83,86%, in 2012 88,41% ownership), its seat is located in Birmingham. The bank was founded in 2004. Its capital adequacy was 28,1% in 2011, in 2012 it was 25%. Its auditor is KPMG. Though the first Islamic bank in the European continent was Bosna Bank International (BBI) founded in 2000, which is a significant financial institution of the Balkans due to its seat Sarajevo, it can be said that after the foundation of IBB (2004) it is the most successful European Islamic financial institution. The motherbanks of BBI (Islamic Development Bank 45,46%), Abu Dhabi Islamic Bank 27,27%, Dubai Islamic Bank 27,27% ownership) are its rivals as well. Currently, due to the competition that evolved in the financial markets, there is natural rivalry. Besides these, the success of IBB Islamic bank can be an example regarding the Balkanic investments and the inferences drawn from the analysis of the balance sheet are exemplary for the area as well. (IBB Annual Report and Financial Statements For the year ended 31 December 2011, 31 December 2012, 31 December 2013 and 31 December 2014).

2. The philosophy of Islamic finances

The unique Islamic (or participatory) banking system has only a bit more than half a century of history, yet it made successful and significant progress over the course of that period which persists today and this is expected to continue in the future. The model of the Islamic bank is based on the philosophy of profit sharing and participation (participatory banking), which provides the other name of such banks, in which depositors and debtors basically run a joint business in a way, for example that depositors partake in the acquisition of a device or machine so they can share in the profits later. The basis of the Islamic banking system and Islamic financial products is Saría law, this is why the aforementioned transactions and products are called Saría compatible. This is the most important difference between conventional banks and Islamic banks, as the Islamic banking system, financing, and investments are all based on religious grounds. The philosophy of banking follows and honors the tenets of Islam (Balázs & Balogh & Varga 2014).

Another significant difference is the prohibition of interest (usury), which is also based on religious considerations. Most likely this already existed in the Arab world at the time of Prophet Muhammad (may peace be with him) due to antique influence based on a notion of Aristotle. Aristotle believed that interest was unnatural, but it was not an unholy act as he did not use the word “*ἀσεβεια*” when discussing interest. This is important to point out, as in the Islamic world the prohibition of riba (interest) is the same as in Aristotle's notion, although in the eyes of Allah the violation of the rule of qard-el-hassan (fair loan), which is loaning without riba (interest), is already a sin. Islam concurs that interest - which is the growth of money - is illogical as money is a sterile entity incapable of growth, which means it is unnatural and anything that mocks nature cannot be right or acceptable. Interest is a central part of conventional banking. Therefore Islamic banks have a different approach to western banks. They follow a conservative investment strategy and operate with a low loan/deposit ratio which can be seen clearly from the balance sheets that are in the focus of this study, which we use to deduce stability in the face of a crisis. (Botos & Botos 2008)

Based on these facts, the principles of Islamic banking are the following:

1. Banks cannot charge interest (riba) after issued loans. They do not acknowledge the “time value” of money in the usual way, therefore they reject profit solely based on the passing of time. They also reject the idea of making money from money. The basic principle is that making profit is only legal through actual, real transactions, and behind every transaction there has to be real collateral, money is only an intermediary device.
2. Unwanted uncertainty (“gharar”) and excessive risk taking (“mayseer” or “qimar”) is to be avoided. This is why Islam specifically forbids speculation.
3. Islamic banks cannot finance activities or enterprises which can have a negative effect on society or considered illegal by the laws of Islam, for example gambling, or the production and consumption of alcohol or pork. This is called “haram”.
4. Financing transactions must also contain an item of charity (“zakat”). Charity can be manifested in different ways, for instance banks can offer help to clients in difficult situations who need financing, with a process uniquely suited to meet the needs of a specific client, for example the "salam". Traditional commercial banks usually refuse to do this as financial assessment determines that these clients are ineligible for a loan due to high risk.

5. Finally, in most cases, after providing a loan in the traditional banking environment, the responsibility rests with the borrower. In Islamic banking, the bank and the borrower agree to share the risks, and the profits or losses of an enterprise are divided between the bank and the borrower. They often not only share the risk, but the bank also undertakes an ownership interest in the financed project or device, thus bringing Islamic banks closer to the real sector than traditional banks. This means that the attitude of Islamic banks is asset-based, which is opposite to the debt-based investment strategy of traditional banks. It can be concluded that the approach of traditional banks is risk-transfer while the approach of Islamic banks is risk-sharing, which is an essential distinction between the two systems.

The most important indicators in the Islamic banking system are the following: devices, deposits, loans, individual credit, capital and reserves, capital adequacy ratio, and foreign devices (Imran 2008).

3. Analysis of the Assets

The first title of the asset of the balance sheet serves liquidity that means meagre entry. The biggest entries of the asset of the balance sheet are the loans and the accounts receivable in the Islamic bank as well. The row with the largest sum of the balance sheet is the commodity Murabaha and Wakala receivables and other advances to banks. This entry gives 50% of total assets. The second biggest entry of the asset of the IBB balance sheet is the net investment in Home Purchase Plans which is nearly 45% of the total assets. These two entries cover almost the whole balance sheet total of the Islamic Bank of Britain. It is modulated by the increase of the significance of the net investment in commercial property finance and the investment securities-Sukuks since these forestall entry by entry the decreasing sum of commodity Murabaha and Wakala receivables and other advances to banks. Other elements of the asset, (intangible assets, property and equipment, investments in commercial property finance and from 2014 the deferred tax asset) concerning their contents, are equal to the proper rows of the local balance sheet. The sortment of other entries of the asset into profit and loss shares (PLS) and non-PLS affairs and the exposition of particular concrete affairs (Mudaraba, Musharaka, Qard- al Hasanah – charitable loans, etc.) were explained in another study. Due to several reasons the detailed analysis here is restricted to these two entries of the asset of the balance sheet and the essence of the Saría-compatible affair is summarized briefly (Varga & Wickert 2013).

Three assumptions should be materialized so that the affair could become Saría compatible: on one hand, the bank cannot bear the whole financial risk as coverage. At the same time, it can ask for assurance for the reduction of ethic risk, for instance for the prevention of the vanishing of the entrepreneur. On the other hand, the rate of return should be given strictly in percent and not in a lump (the profit should be divided). (Mahlknecht 2008) Finally, the moneylender cannot have a say in the operation of the entrepreneur, in leading the business the entrepreneur is completely free.

In the Murabaha construction the seller tells the buyers the price of the making and the acquisition of the product and then they agree in the extent of profit margin. The profit margin is halal-like, it is not interest because it does not depend on the period of the contract and the contract is not about lending money but selling and buying real assets. It is a common characteristic of these financing types that in contradistinction of PLSs in

case of both letting and leasing, the return is predetermined and the affair also includes assurance. In fact, in these cases the bank adds a particular percent to the purchase price or to the additional expenses which is like profit margin regarding its content and the assets bought are serving as an assurance. Beside these, the bank can ask from the client more coverage (Gafoor 1999).

Wakala is such an Islamic financial product during which the bank ensures a particular amount of money for investment for a third person (for the agent). The bank and the agent previously agree in the assumptions and the rate of return. The third person is obliged to refund the money in case of non-accomplishment, carelessness or default of any of the rules of Wakala.

These affairs can be regarded as being avoiding risks and these do not differ from the constructions used by conventional banks. The difference is in terminology and some legal formality. These affairs however answer the requirements of the principals of Islam in the way that the rate of returns are more attached to the particular transactions than to duration.

According to the Islamic law, there are two acceptable ways of estate – financing, which can be regarded as financing mortgage (Salamon & Munif 2003). The Ijara method, basically, is a long-term back leasing agreement. The service provider (the lessor) buys the estate, becomes its legal owner and then makes a rental contract with the customer that he/she rents the estate for a particular period that basically means 25 years. In this period, the customer supplies regular paying to the service provider that includes partly the rental fee and partly the purchase price of the estate. In the end of the period when everything is paid, the customer receives the ownership of the estate (Balázs 2013).

The other method is the so-called Murabaha, where the service provider buys the estate but sells it immediately and the customer pays the original price and the agreed profit margin. The customer pays the higher price on the basis of the delayed paying in accord with the agreed schedule of amortization and in order to guarantee the refund the service provider receives the first charge in connection with the estate.

It is worth mentioning the so-called Sukuk, since they appear in the assets of the balance sheet of IBB in 2013 and in 2014, they increased to be a significant entry of it. Sukuk is such an institution of the Islamic financial system that is similar to the shares of western finance while it meets the requirements of the rules of Saría and Islamic religious law. As the structure of traditional bond including western interest is not allowed, in case of the Sukuk the investor group that turns it to account makes such an acknowledgement in which it rerents the bond in exchange for the rental fee predetermined by the drawer. The drawer makes a contractual promise in which he/she declares that he/she repurchases them later in the determined face-value. Sukuk represents the ownerships of the undivided shares as well in connection with the particular projects and investments connected to the material assets. The Sukuk investor wins a share in the material assets connected to investments. It results in a common share that does not mean a debt obligation to the drawer. Consequently, those who are entitled to Sukuk can ask for a part of the incomes. Though Sukuk became an important Islamic financial asset in the beginning of the second millennium for financing the finance assets with long-term projects, its significance increases nowadays as it can be seen in the balance sheet, too. Concerning the world, the Sukuk is getting more popular, which means an annual increase of 10-15% in global financial markets (Pollard & Samers 2017).

4. Analysis of the Liabilities

Examining the liability of the balance sheet it can be said that the value of liabilities reaches 92% of the total assets and it shows a significant increase compared to the previous years. Among the liabilities the largest entry is the liabilities to depositors. It is notable that this means an increase of 22% compared to the deposits of customers in 2011 that still increased in 2013 and produced an outstanding result in 2014.

The liability of the balance sheet of the Islamic bank includes two main entries, beside the equity the liabilities can be found here. In this study, I examine the deposits among the liabilities. The two main financing types of the liabilities to depositors can be the transactional and investment deposits.

The transactional deposit type relates to transactions. In the traditional bank system its equivalent is the demand deposit. The bank opens a bank account for the depositor and the depositor can use the money that is on this bank account any time. So the bank account of depositors (qard) is such a loan which is ungainful for both the depositor and the bank. The banks finance their activities from this money. Banks provide different services for the transactional depositors. The bank for this deposit type keeps 100% backup (Fekete & Tatay 2013).

The investment deposits are the other main financing sources of Islamic banks that are situated between the deposits and shares in contradistinction to the time-deposits provided by traditional banks. The whole result of investment deposits is divided, so the gain and the loss are shared with the depositors. The contract between the bank and the investor determines the split of gain and loss. In the division of the profit the parties agree before signing the contract. The division of the profit can only be changed with common agreement. There are two significant differences between common stockholders and investment depositors. The owner of the deposit has no word in how the bank should work. The second difference is that the dividends of shares are varied while the return of investment deposits is incessant.

„The Islam theologians as a thumb-rule advise that such a company should serve as the aim of the investment where the proportion of the external source and the equity is less than 1/3 and on the assets the proportion of cash and receivables is not more than 33%.” (Balázs 2011).

The other liabilities row of the liability of the balance sheet includes the employee-related liabilities, the debts to suppliers, the taxes, rental fees, delayed incomes and the amount of money that should be paid after preferred stocks.

It can be between the liabilities if the bank issues an Islamic bond (Sukuk). Interest cannot be paid after Islamic bonds (Sukuk), instead of this they pay rental fee as an asset backed bond to the investors from the incomes generated from the assets in hand.

On the basis of the Turkish Trade Law the Islamic bank is legally obliged to create backup. It can be used to cover loss if the bank runs out of the profit stabilisation reserve. Two legal backups should be created, shares cannot be paid from it (Szigetvári 2008).

Profit Stabilisation Reserve, which can be found in the liability of the balance sheet of the Islamic bank, cannot be found in the balance sheets of banks that work in the framework of then conventional bank system. But creating backup can be found in the liability of insurance banks. Another similarity between the western assurance and Islamic financial institutions is that refunding profits, which is usual in the assurance industry, can be indirectly equated with the PLS (profit and loss sharing) model of Islamic bank (mudaraba, musharaka). In case of mudaraba the bank provides equity and the

entrepreneur provides labour and market knowledge. In case of musharaka the bank receives company shares, a common investment occurs and they get shares in the proportion determined in the contract (Gálosi 2010).

A similarity between the methods of refunding profit and loss of the two industries is that both in PLS and in refunding profits a ratio can be found that declares appropriately how the participants of the affair get their shares from the profit and loss. The role of creating reserve, the amount of money for the coverage of the negative occasions of the future and risks, is anything else but a certain assurance of solvent operation in case of Islamic banks.

5. Consequences: the cooperation of the two bank systems

To end our study, we introduce some aspects of the cooperation of the Islamic and the traditional bank system. In our article we came to the consequence that according to one of the most important differences of the Islamic and the traditional bank system on the basis of the procyclic – anticyclic feature of the bank system, the traditional bank system deepens the crisis by the severity of the classification of the debtor, while the Islamic bank system decreases the depth of the crisis by lightening the liabilities of the debtor. The anticyclic economy and finance policy is one of the key questions of the traditional bank system and it is greatly exemplified by the introduction of the Basel III. system.

The second important element of the Islamic bank system where experiences can be borrowed is the share of risk in connection with the saver – borrower. The Islamic bank system is a lesson for that the depositor – at least partly – can be responsible for the investment and in this way the identity of interest of the trio of the saver-bank-borrower can be created.

On the basis of the economic indicators and the balance sheets we can come to the conclusion that there is an increasing need for the institutions of the Islamic financial system in the European financial market which is proved by the fact that the total assets of the IBB trebled within 4 years and it is also proved by the numbers showing increase and profit analysed above. Moreover, it is supported by the case of the Kveyt Turk Bank (KTB) that opened in July 2015, which is the first clearly Islamic bank of Germany besides the leading trade banks such as Citibank and Deutsche Bank.

Though our analysis does not overhang the statements of the end of 2015, we can foresee that probably more serious effects will appear due to BREXIT. In the statements of the end of 2016, the effects of BREXIT will be perceptible. More of the scenario could be pointed out in case of the Islamic finance matters and the Al-Rayan Islamic Bank. According to one of the likely scenarios, due to the opening towards the Commonwealth and the establishing of closer links, the number of Islamic-type investments and the interest towards Islamic financial products could increase, which could imply a powerful enlargement. As opposed to this, we can foresee another possible scenario according to which such barriers could appear due to the repugnance for Islam and Muslims that would have an effect on the financial market and this repulsion could also be strengthened by the altering and severity of immigration and settlement policies. This process would obviously have a negative effect on the increase of the amount of Islamic financial products. We also have to admit that more scenarios exist as well, even parallel, so in connection with the trends, more specific conclusions could be formulated by the analysis of the data of the end of 2016.

Both in the western and the Balkan area there is an increasing need for the cooperation of the conventional and Islamic banks, which can be seen in the changes of laws of the particular countries and in the increase of the number of banks and also in the different financial institutions analysed in this study. The cooperation and harmonization of banks systems are an opportunity for the future in regional development and financing banks but it requires more research.

Appendix

Table 1.: Balance sheet of IBB on the basis of Statement of Financial Position from 2010 to 2012

Balance sheet of IBB (in Pounds Sterling-GBP)	2012	2011	2010
<i>(In the name of Allah, the Most Gracious, the Most Merciful)</i>			
Assets			
Cash	686.302	851.438	559.791
Commodity Murabaha and Wakala receivables and other advances to banks	129.455.216	143.864.701	160.333.251
Consumer finance accounts and other advances to customers	306.292	886.235	2.310.206
Net investment in Home Purchase Plans	117.104.184	61.316.346	43.761.647
Net investment in Commercial Property Finance	11.611.726	7.107.440	132.739
Property and equipment	805.746	1.586.974	1.885.136
Intangible assets	307.457	349.362	363.222
Other assets	870.552	980.979	846.206
Total assets	261.147.475	216.943.475	218.192.198
Liability side of IBB	2012	2011	2010
<i>Liabilities and equity</i>			
Liabilities			
Deposits from banks	1.172.829	905.016	880.645
Deposits from customers	237.535.153	195.190.008	187.796.190
Other liabilities	2.363.851	3.778.785	3.317.104
Total liabilities	241.071.833	199.873.809	191.993.939
Called up share capital	35.464.700	25.464.700	25.464.700
Share premium	54.806.652	54.806.652	54.806.652
Retained deficit	-70.245.789	-63.247.007	-54.118.414
Profit stabilization reserve	50.079	45.321	45.321
Total equity	20.075.642	17.069.666	26.198.259
Total equity and liabilities	261.147.475	216.943.475	218.192.198

Source: <https://www.alrayanbank.co.uk/media/262407/al-ryan-bank-plc-financial-statements-31-december-2014-signed.pdf>

Table 2.: Balance sheet of IBB on the basis of Statement of Financial Position from 2013 to 2014

Balance sheet of IBB (in Pounds Sterling-GBP)	2014	2013
<i>(In the name of Allah, the Most Gracious, the Most Merciful)</i>		
Assets		
Cash	803.780	691.492
Commodity Murabaha and Wakala receivables and other advances to banks	83.285.338	104.820.956
Consumer finance accounts and other advances to customers	143.308	198.335
Net investment in Home Purchase Plans	311.574.308	207.091.407
Net investment in Commercial Property Finance	138.465.310	34.325.961
Property and equipment	261.209	403.095
Intangible assets /	357.466	426.459
Investment securities-Sukuks	109.360.094	18.998.439
Deferred tax asset	712.864	
Other assets	3.009.660	1.029.503
Total assets	647.973.337	367.985.647
Liability side of IBB	2014	2013
<i>Liabilities and equity</i>		
Liabilities		
Deposits from banks	31.728.248	20.661.155
Deposits from customers	509.802.583	320.373.032
Other liabilities	3.330.961	2.701.385
Total liabilities	544.861.792	343.735.572
Called up share capital	121.218.700	45.464.700
Share premium	54.806.652	54.806.652
Retained deficit	-74.545.400	-75.993.335
Profit stabilization reserve	51.620	51.117
Fair value reserve	1.580.013	-79.059
Total equity	103.111.545	24.250.075
Total equity and liabilities	647.973.337	367.985.647

Source: <https://www.alrayanbank.co.uk/media/262407/al-ryan-bank-plc-financial-statements-31-december-2014-signed.pdf>

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THE GREEK FINANCIAL CRISIS: INTERNAL IMPACT AND ITS EXTERNAL EFFECTS ON EUROPE

A GÖRÖG GAZDASÁGI VÁLSÁG: BELSŐ ÉS AZ EURÓPÁRA GYAKOROLT KÜLSŐ HATÁSOK

FIRAS NAJIB ZEIDAN PhD Student
Management and Organizational Sciences
Kaposvár University

Abstract

The Greek Debt Crisis started in October 2010 when Greece took the decision to enter the Euro Zone, which is considered to be the second largest economic power in the world after the United States.

The problem increased in Greece between the previous government and the new government with a budget deficit of 13.6% and that its debt was 163% of its GDP.

Based on the above, the problem of this paper revolves around the following question: What are the causes of the financial crisis and what are the internal impact and external effects on the euro area?

1. Introduction

The global economy was under attack since 2008 by an old-returning type of terror under the name of financial crisis. This attack was the number one news headline during these years since it impacted almost everyone. Every country in the globe was affected in a way or another by the crisis which was the result of the housing sector's boom in the US (Stiglitz2009).

European and Asian countries were affected by the crisis due to the integration in their financial markets. The stock market indices in the European Union witnessed sharp declines following the financial deterioration in the US (The Economist 2009).

Greece was facing a poor economic performance and problems in maintaining economic growth and development of the country as a whole, as well the less control of the public expenditure and the increasing rate of debt (Hasaj,2012). Further to the above, their joining to the European Community in 1981 encouraged them to borrow more due to the stability in the interest rate, which lead to a high increase in the value of the debt and it was difficult for them to repay it (International Monetary Fund, European Department, 2017; Economou, C., Kaitelidou, D., Kentikelenis, A., Sissouras, A. & Maresso, A., 2014).

This Crisis increased in the last three years with the Confrontation between the three creditors of Greece: "The European Commissioner, the International Monetary Fund IMF Euro group and the World Bank" and "the new Greek government" (Gibson, Heather D., Stephen G. Hall, and George S. Tavlas, 2012; Al Sayyed, 2015; Mink, Mark, and Jakob De Haan, 2013).

As a matter of fact, the new Greek government headed by Alexis Tsipras, refused to receive the final installment of the amount of € 7.2 billion package which was supposed to

be received by the Greek government, and who refused to extend the bailout program after the end of February 2015 (Al Sayyed, 2015; Mink, Mark, and Jakob De Haan, 2013).

Knowing that the three creditors of Greece (the European Commissioner, the International Monetary Fund IMF and the World Bank) had given Greece two rescue packages between 2011 and 2012 and on 15 August 2015, when according to many negotiations, the European Commissioner and the euro group said that: the Eurozone finance ministers agreed to give Greece a third bailout package which will help and support Greece (Al Sayyed, 2015; Mink, Mark, and Jakob De Haan, 2013).

This project discusses the overall economic situation in Greece. It provides an overview about Greek economy then tackles its different sectors. Then it talks about some actions taken by the government and the ECB European Central Bank and International Monetary Fund IMF in order to strengthen the Greek economical standings and lessen the impact of the crisis (Al Sayyed, 2015; International Monetary Fund, European Department, 2017).

2. Objectives

I would like to highlight the Greek financial crisis and to examine the internal impact and its external effects on Europe, and to find the financial solution to its problem.

Research questions

1) Deals with the Greek Crisis and the causes behind it. What is the reality of Greek economy that led to this crisis?

2) What is the true size of Greece's debt and how can we describe the reality of the crisis today?

3) How can we evaluate the Greek and European atmosphere, after the Greek people rejected the austerity policy?

4) Is the decision to exit the European Union financially sound? How to float banks and the state treasury and get rid of debt?

5) And the questions about What if Greece left the euro area? What are the impacts of Greece's exit from the euro zone if this happens?

3. Methodology

Primary: Methods Used Qualitative method: analysis of documents and quantitative method: analysis of tables and charts. *Secondary:* Research Papers and reports

4. Literature review

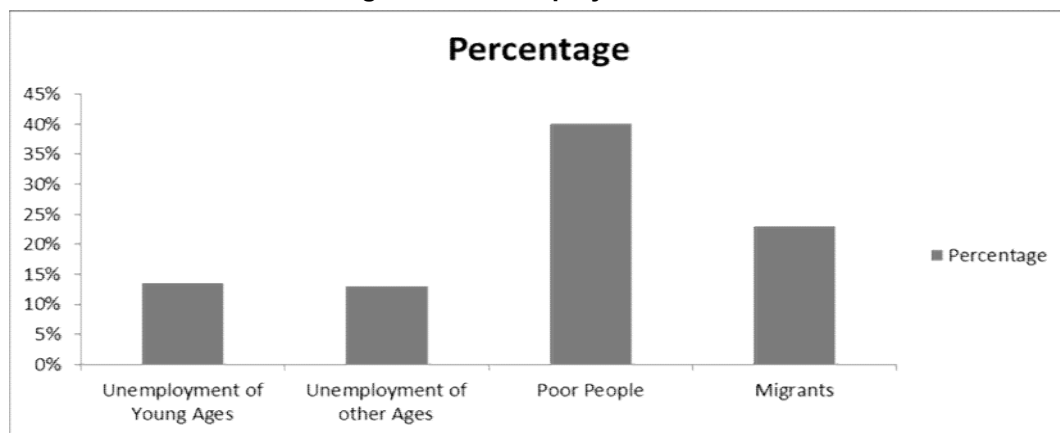
1: Causes of the Crisis

What is the reality of Greek economy that led to this crisis?

Greece is located on the periphery of the European continent, and its economic strength is concentrated in the tourism sector, and in maritime transport (Hasaj,2012). The size of its economy because of the absence of giant commercial and industrial enterprises. Its financial problem began to worsen following the global financial crisis (2008), due to the economic recession. The unemployment rate is about 27 percent, and it is about 50 percent

of the young age groups, which is a very dangerous economic indicator. While some are forced to work in European countries, some migrate to America and Australia, violence increases, and about 40 percent are poor and mostly they are young (Hasaj, 2012; KARANIKOLOS, 2013).

Fig. 1.: Power Employment Chart



Source: The researcher

Regarding the Greek GDP, it is about 242 billion euros, or about 265 billion dollars of the rate of public debt. The GDP fell by about 26 percent between 2010 and 2014. The ratio of public debt to GDP rose from 100 percent (2008) to 163 percent in the first half of 2015. The European debt index should not exceed 60 percent of GDP (International Monetary Fund, European Department, 2017; KARANIKOLOS, 2013; Hasaj, 2012).

Austerity policy has been adopted in Greece since 2010, they reduced the volume of social assistance, and allocations for retirees and to ensure old age (KARANIKOLOS, 2013; Ifanti, A. A., Argyriou, A. A., Kalofonou, F. H., & Kalofonos, H. P., 2013).

Several steps taken by the new government in this regard:

- Take action for the poor, who absolutely reject austerity policy.
- Electricity is restored to hundreds of homes who have been cut off due to defaults on bills or other reasons.
- Determination of the minimum wage.
- Reemployment to a large number of those who were fired before.
- Cancellation of the terms of privatization.

2: The size of the debt and the reality of the crisis

What is the true size of Greece's debt and how can we describe the reality of the crisis today?

– Greek public debt is about 342 billion euros, or 380 billion dollars. In addition, the debts of banks and companies amount to about 160 billion euros, or about 175 billion dollars. Greece's total debt is about 500 billion euros, or \$ 550 billion. The most important creditors are the troika consisting of the European Commission (130 billion euros), the International Monetary Fund (20 billion euros) and the World Bank (53 billion euros) (KARANIKOLOS, 2013; Hasaj, 2012; FEATHERSTONET, 2011; Ifanti, A. A., Argyriou, A. A., Kalofonou, F. H., & Kalofonos, H. P., 2013).

At the meeting between the Greek Prime Minister and German Chancellor Angela Merkel, it was agreed that Greece would make new proposals to resolve the crisis and

close the banks out of fear of massive withdrawals that would create a major crisis for the country and extend the closure if needed. Since the victory of the Radical Left Party (SIRIZA) in the January 2015 parliamentary elections and the arrival of its leader in the new government, interest on Greece's debt and treasury bonds has risen from 14.6 percent to about 18 percent (Al Sayyed, 2015).

As a result of the popular referendum held last June, 61 percent of the votes who supported Tsipras' call to stop austerity, which was adopted by the previous party, and thus showed the attitude of the Greek people who reject austerity. But this equation has changed today, especially after the case has taken a political direction, the Tsipras' party divided into two sections: the first section is in favor of the Prime Minister in his decisions that may be different from the promises he made during his campaign, the second section is still against austerity (KARANIKOLOS, 2013; Al Sayyed, 2015; Ifanti, A. A., Argyriou, A. A., Kalofonou, F. H., & Kalofonos, H. P., 2013).

It should be noted that the adoption of the third rescue package today, came at a high political price paid by Alexis Tsipras, which could lead to early elections (Al Sayyed, 2015).

Internal Impact and External Effect on Europe

3: Fear in other countries

How can we evaluate the Greek and European atmosphere, after the Greek people rejected the austerity policy?

Today, fear prevails in most European countries such as Portugal, Spain, Italy, Ireland and France, especially after the Greek experience of the people's rejection of austerity policy. The fear is that there may be protests up to the end of the revolution, which would open the file of revision (or change) in several financial items approved in the European Union (Ifanti, A. A., Argyriou, A. A., Kalofonou, F. H., & Kalofonos, H. P., 2013; Al Sayyed, 2015).

4: Is the decision to exit the European Union financially sound, how to float banks and the state treasury and how to get rid of debt? (ACIT, 2012)

– Today, the European Union is facing the dilemma of solving the Greek debt crisis as either accepting Greece's bankruptcy or leaving the euro zone. Credit institutions will suffer a big loss, either support it again and keep it in the region, but the crisis will come back after two years and perhaps even less.

The Greek debt crisis has begun to take a political turn, rather than a financial and economic one. While negotiations are under way between the Greek government and the European Union, international insistence on resolving the crisis is evident by several parties, the United States, Russia and China.

It can be said that whatever the outcome of the difficult and complicated negotiations is, it will serve as a temporary solution, given that the Greek debt crisis is intractable and grows annually as snowballs (International Monetary Fund, European Department, 2017). The prospects for a renewed crisis are therefore apparent, including the possibility of returning to the search for Greece's exit from the euro area (ACIT, 2012).

5: What if Greece left the euro area? What are the impacts of Greece's exit from the euro zone if this happens? (ACIT, 2012).

- For Greece, its exit from the Eurozone will entail the following:
- Declaration of Bankruptcy.

- Return to the basic currency (Drachma) and reduce their value to subsequently reduce the value of debt, and scheduling amounts agreed with creditors in national currency.
- Determining the amount that Greece will pay creditors, in order to avoid the seizure of its property abroad.
- Restitution of subsidies, support of wages and pensions of retirees, and assistance to industrialists and farmers with soft loans.
- The restoration of Greece's financial independence, like some non-eurozone European countries.
- To resort to China, Russia and also America to borrow in foreign currency if this cannot be from the troika.
- Devaluation of the national currency (Drachma).

As for the European Union and creditors, the main results of Greece's exit from the euro area are:

- Loss of creditors' portion of the amounts owed to Greece.
- Certain EU countries with financial problems may take the same step and return to the main national currencies (Portugal, Ireland, Italy, etc.).
- The confusion in the financial markets and the currency of the euro.

5. Conclusions

- It is better for Greece to return to financial independence, provided that the necessary measures are taken to remove all irregularities and mistakes committed in the past years, which led to the financial and economic crisis intractable. Greece's exit from the Eurozone is the first step in resolving its complex financial crisis, and for restoring its financial independence and with declaring bankruptcy, which is the second step in building its financial structure and starting again on a stable financial and economic basics.
- Greece is a service based economy and it is not as safe as it might be. Foreign aid, tourism, remittances, services, constitute a large part of the income of the economy; these are volatile and risky factors to rely on. The size of its economy is small because of the absence of giant commercial and industrial enterprises. Despite the guarantees from different types of donors, it might be a good idea for Greece to expand its economy further based on more reliable bases.
- From the indicators and the charts below Greece's Balance of Payment revealed a deficit in the years 2011, 2012, 2013, 2014, 2015, 2016 and 2017 and an increase of external debt (percent to GDP) continued to rise from Euro 188.2 M in 2011 to Euro 239.2 M in 2017. This led to the decreasing of Foreign Direct Investment FDI (percent to GDP) inflow to Economy, which led to a decline in the Economic growth and more fiscal deficits of Greece. It confirms that Greece cannot be expected to grow out of its debt problem even with full implementation of reforms and reliefs.
- About the restricting and baseline scenario. Debt seems unsustainable amounting to 170 percent of GDP by 2020, and 164 percent by 2022, and it will raise more to reach around 275 percent of GDP by 2060, where the cost of debt is going to rise overtime.

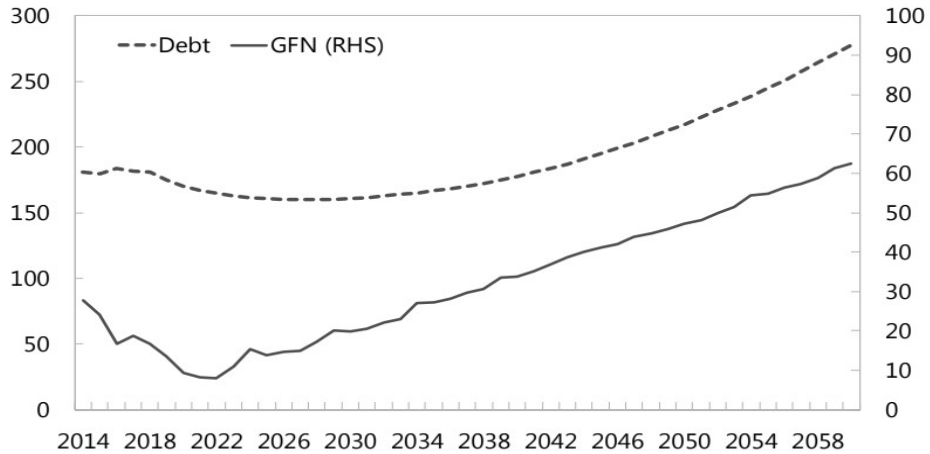
- About questions 3, 4 and 5 and about these conclusions concerning debit increase overtime my opinion is the possibility of returning to the search for Greece's exit from the euro zone.

Fig. 2.: Greece: Selected Economic Indicators

Population (millions of people)	10.9				Per capita GDP (€'000)	16.2	
IMF quota (millions of SDRs)	1,101.8				Literacy rate (percent)	97.7	
(Percent of total)	0.46				Poverty rate (percent)	35.7	
Main products and exports: tourism services; shipping services; food and beverages; industrial products; petroleum products; chemical products.							
Key export markets: E.U. (Italy, Germany, Bulgaria, Cyprus, U. K.), Turkey, U.S.							
	2011	2012	2013	2014	2015	2016 (proj.)	2017 (proj.)
Output							
Real GDP growth (percent)	-9.1	-7.3	-3.2	0.4	-0.2	0.4	2.7
Employment							
Unemployment rate (percent)	17.9	24.4	27.5	26.5	24.9	23.2	21.3
Prices							
CPI inflation (period avg., percent)	3.1	1.0	-0.9	-1.4	-1.1	0.0	1.2
General government finances (percent of GDP)							
Revenue	44.1	45.9	48.0	46.8	47.8	49.3	47.4
Expenditure	54.4	52.4	51.6	50.8	51.2	51.6	49.7
Fiscal overall balance	-10.3	-6.5	-3.7	-4.0	-3.4	-2.3	-2.3
Fiscal primary balance	-3.0	-1.4	0.4	0.0	0.2	0.9	1.0
Public debt	172.1	159.6	177.9	180.9	179.4	183.9	180.8
Money and credit							
Broad money (percent change)	-14.6	-5.3	2.7	-0.4	-16.9	1.6	...
Credit to private sector (percent change)	-3.1	-4.0	-3.9	-3.9	-3.6	-3.1	0.7
3-month T-bill rate (percent)	9.2	9.2	4.8	2.8	4.5	3.1	...
Balance of payments							
Current account (percent of GDP)	-10.0	-3.8	-2.0	-1.6	0.1	0.0	-0.1
FDI (percent of GDP)	0.2	-0.4	-1.5	0.1	0.5	-1.6	-0.8
Reserves (months of imports)	-1.0	-1.1	-0.8	-1.0	-1.3	-1.3	-1.2
External debt (percent of GDP)	188.2	237.0	237.3	238.5	251.1	245.7	239.2
Exchange rate							
REER (percent change)	0.7	-3.1	-0.8	-2.1	-4.9	0.6	0.0

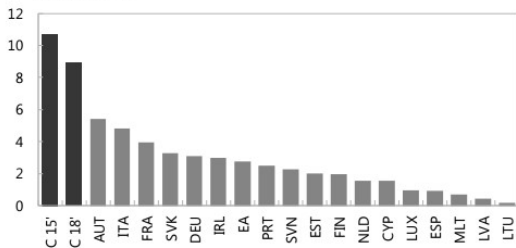
Sources: Elstat; Ministry of Finance; Bank of Greece; Bloomberg; World Bank, World Development Indicators; IMF, International Finance Statistics; IMF, Direction of Trade Statistics; and IMF staff projections. 1/ Data according to ESA-2010 methodology

Greece: GG Debt and GFN-- Baseline, 2014-2060 (Percent of GDP)



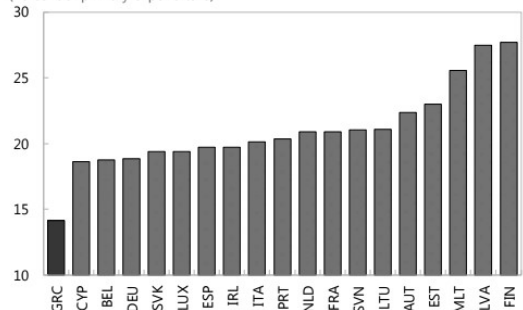
Source: IMF staff estimates.

State Transfers to the Public Pension System (Percent of GDP)



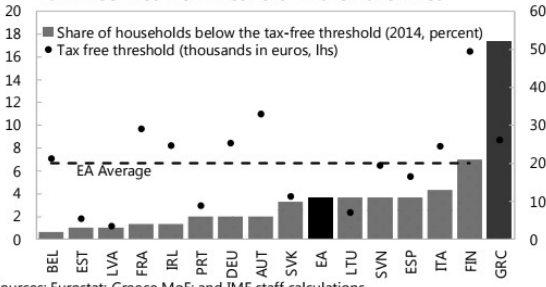
Sources: 2012 and 2015 Aging Reports; and IMF staff calculations.
Note: State transfers are defined as difference between pension spending and actual contributions, excluding third-party revenues and non-contributory state transfers.

General Government Expenditure on Goods and Services, 2015 (Percent of primary expenditure)



Sources: Eurostat, and IMF staff calculations.

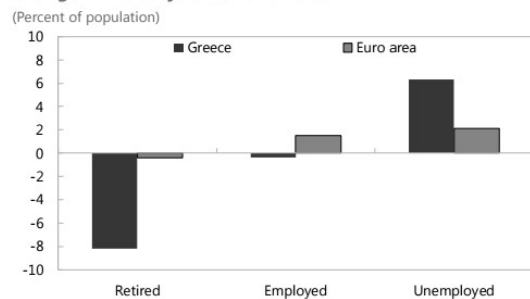
Tax-Free Income Threshold in the Euro Area



Sources: Eurostat; Greece MoF; and IMF staff calculations.

Sources: Eurostat; Greece MoF; and IMF staff calculations.
Note: Share of exempted households for Greece is calculated based on 2016 income tax declaration (2015 declared incomes) using thresholds legislated in 2016. For other euro area countries, the share is based on 2014 Household Budget Survey data and 2015 tax-free thresholds.

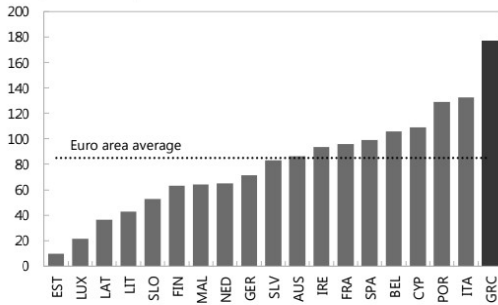
Change in Poverty Rate, 2010-2015 (Percent of population)



Source: Eurostat. Note: Persons at risk of poverty are those living in a household with equivalized disposable income below 60 percent of the national median.

General Government Debt, 2015

(Percent of GDP)

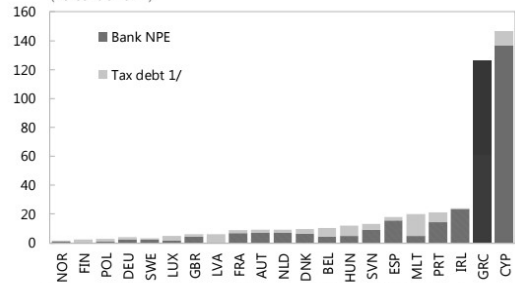


Sources: Eurostat; and Haver Analytics.

Sources: Eurostat; Greece MoF; and IMF staff calculations.
 Sources: Eurostat; Greece MoF; and IMF staff calculations.
 Note: Share of exempted households for Greece is calculated based on 2016 income tax declaration (2015 declared incomes) using thresholds legislated in 2016. For other euro area countries, the share is based on 2014 Household Budget Survey data and 2015 tax-free thresholds..

Private Sector Arrears

(Percent of GDP)

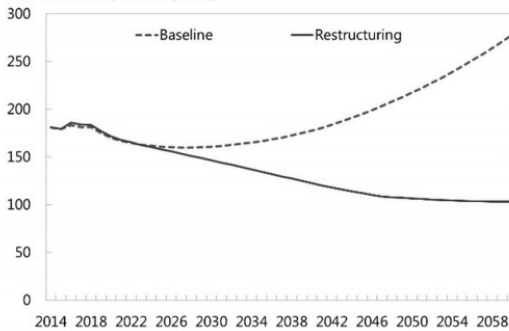


Sources: EBA 2015 June Report; Eurostat; OECD; and IMF Staff Calculations.
 1/ Data for Greece are estimates as of end-November 2016 and include social security contribution debt.

Source: Eurostat. Note: Persons at risk of poverty are those living in a household with equalized disposable income below 60 percent of the national median.

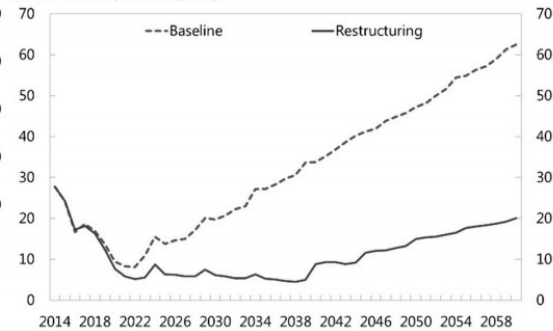
Debt Restructuring Scenario, 2014–2060

Greece: GG Debt-- Restructuring Scenario, 2014-2060 (Percent of GDP)

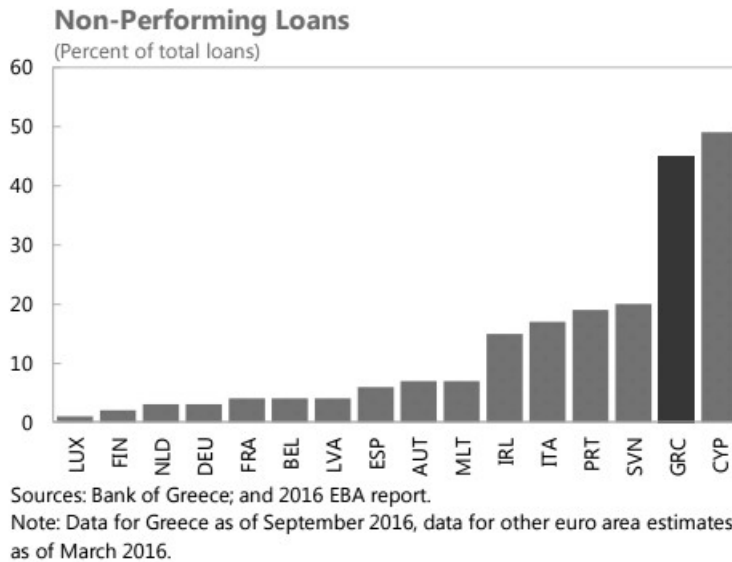


Source: IMF staff estimates.

Greece: GFN -- Restructuring Scenario, 2014-2060 (Percent of GDP)



- Taxpayers in the highest income decile pay about 60 percent of personal income tax revenue, while 53 percent of wage earners and 85 percent of farmers are exempt.
- Persons at risk of poverty are those living in households with an equalized disposable income below 60 percent of the national median after social transfers.
- The significant reduction in Greece's poverty rate among retirees during the crisis continues a trend that started well before the crisis due to a rapid increase in pension spending during the boom years.



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