



**MOLDOVA INSTITUTE OF INTERNATIONAL ECONOMIC  
RELATIONS**

# **Economy of foreign countries**

**TRAINING MANUAL**

**Edited by Y. Kozak, A. Gribincea**

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The training manual contains the most important information about the economies of foreign countries. The peculiarities of the structure of national economies of individual states, typological and regional groups of countries, factors and trends of their development, internal and external economic policies of states and regional associations, features of their business cultures are considered. The development of the economies of the countries of the world is analyzed in the context of their foreign economic relations, the evolution of modern integration processes.

Manual is intended for students of economic universities and faculties of the specialty "International economic relations", for specialists in the field of international economy.

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## PREFACE

In modern conditions, it is very important to know the economies of other countries with which each national economy interacts. The economy of any country is getting deeper into the international division of labor, becoming an active agent of international economic relations, expanding economic ties with an increasing number of states. A deep study of the characteristics of the economies of different countries, groups of countries and regions with which economic ties are established will allow all agent of foreign economic activity to get maximum benefits from cooperation with foreign partners and to avoid losses.

It is important to know the economic potential of foreign partner countries, the sectoral structure of their economy, the type of their development, the peculiarities of economic traditions, the conditions for doing business, the economic policy of the government, and entrepreneurial culture, in order to choose the right economic behavior strategy towards them. Every business entity in a particular country, every government agency that carries out foreign economic activities must include in its staff the economists who possess such knowledge, deeply understand the characteristics of the foreign economic partner.

The purpose of studying the discipline "Economy of foreign countries" is the formation of knowledge about the peculiarities of the economic life of different peoples. The mastering of this course precedes the study of the basic disciplines of the program of study in the specialty "International economic relations", creating prerequisites for their successful comprehension.

The training manual consists of five chapters. In the first chapter "National Economy in the World Economic System", issues of predominantly theoretical plan are considered: it provides summarized information about the national economy, its essence, structure, type. Considerable attention is paid to the interaction of national economies in the global economic space, in particular, to regional and integration associations of countries of the world.

In the second chapter, "Classification of countries in the world economy," a typological classification of the countries of the world in the regional and integration aspects is given. Three typological groups are distinguished: economically developed countries, countries with transitional economies, and developing countries.

In the third chapter "The Economies of Developed Countries", the defining features of the economies of developed countries, the general features of their economic structure and policies, specific features of business culture are examined. Then, the features of the economy and economic policy of the United States, Japan, Germany, Great Britain, France and Italy are analyzed.

The fourth chapter "Countries with a Transitional Economy" is devoted to the analysis of the economy and economic policies of post-socialist countries, the general features of economic reforms, and the specifics of their economic development. Particular attention is paid to the economy and economic policies of

such countries as the Russian Federation, the People's Republic of China, the Republic of Moldova.

The fifth chapter, "The Economies of Developing Countries," analyzes the factors and problems of the economic development of a large group of countries in Africa, Asia and Latin America. The economy and economic policies of Brazil and India are examined in more detail. The economic policy of the newly industrialized countries and the problems of the least developed countries are analyzed separately.

## CHAPTER I. THE NATIONAL ECONOMIES IN THE WORLD ECONOMIC SYSTEM

Modern world community, according to the United Nations, includes 195 sovereign states (of which 193 are UN members). This number will rise up to more than 200 if we include countries and territories that have not received universal recognition. All countries differ significantly both in terms of the size of the territory and population, and in terms of economic potential, and, consequently, in their role in the world economy. At the same time, the national economy of each state is a component of the global economic system. Even the least developed countries contribute to the global process of economic development - by their natural or human resources, production activities (even insignificant on a global scale), consumption of imported products, etc. To date, there is no single state that would be outside the world market, would not have economic ties with other national economies. Nowadays the International territorial division of labor has become comprehensive as an important part of the globalization process. Globalization promotes the strengthening of economic ties between countries and deepening their interdependence. It leads to some standardization both the economic relations, and national economies. But each country brings to the economy of world community the peculiarities of national economic structure and unique features of business culture. This qualitatively enriches the world economy, adds to its dynamism and diversity.

Each country has its own national economy. In the process of international division of labor, the system of *the world economy* has been formed, which is a set of national economies interconnected through international exchanges. Each national economy is the subsystem of the global economic system, which is based on the international and supranational division of labor, on the internationalization and integration of production and circulation, and operates on the market principles.

### 1.1. The notion and main characteristics of the national economy

*National economy* is an economic complex of a country, characterized by branch and territorial structure, governance system and certain socio-economic relations. The general view of national economy can be expressed in *economic potential*, which means the total ability of branches of national economy to produce the goods and services. Economic potential depends on the amount of labor resources and the level of their skills, on the natural resources (especially minerals and soil-climatic conditions), production capacity, development of productive infrastructure (transport, telecommunication, energy system, etc.), science and technology.

Labor resources, natural resources and means of labor are *the productive forces of a country*.

The power of the country's economy is heavily dependent on the amount and quality of **factors of production**: resources that are indispensable to produce the goods. The main factors of production are the following:

- Labor - physical and intellectual human activities, aimed at the production of goods or services;
- Technology - scientific methods of organization of production organizing, based on using the latest scientific achievements;
- Natural resources, suitable and necessary for productive activities;
- Capital, i.e. accumulated funds in productive, cash and commodity forms.

Countries fully equipped with all the factors of production are few. But there are countries in which one of the factors is leading, and then their economies focus on the effective use of this factor. For example, the natural factor plays a significant role in the economy of Russia, Canada, Australia, Kazakhstan, in oil-producing countries of the Gulf. The labor factor is leading for many developing countries, especially the Southern and Southeast Asian region; in these countries, cheap and numerical labor contributed much to the achievement of products competitiveness in world markets. The factor of technology and the factor of capital determine the direction of economic development of developed countries, in the first place, the countries of Western Europe and Japan. China relies on the factors of natural resources and labor; The US is practically equipped with all the factors in full, although capital and technology are still decisive.

At the present stage of development of the world economy, capital and technology are crucial stimuli to the country's development

An important indicator of the country's economic potential is **the branch structure** of economy.

The main branches of the economy are the following: industry; agriculture; construction; transport and communication; trade and public catering; housing and communal services; healthcare; education, science, culture; finance, credit, insurance; activity of the administrative apparatus.

The role of each sector varies from the standpoint of the progressive development of economy at certain stage. Today the basis of a country's economic power is the latest industries, such as electronics, aerospace engineering, energy, petrochemicals. Recently, at the crest of scientific and technological progress, the front-rank positions are taken by bioengineering, pharmaceuticals, laser technology, and computer science.

Generalizing the structure of the national economy it can be divided into three blocks: agriculture, forestry and fishing; industry; services. The latter group includes, in particular, credit, computer science, trade, tourism, education, etc.

Depending on the country's level of development, one of these blocks is leading. At the beginning of the 20th century, in most countries of the world, most of the able-bodied population was employed in agriculture. Today only in a small number of least developed countries the share of employed in agriculture exceeds 50%. It is also quite significant in such dynamically developing economies as Thailand, Philippines, Turkey, where it is about 40%. However, it is quite



significant in developing countries. So, if the share of agriculture in the US GDP is 1.2%, in Germany 0.9%, in Japan 1.6%, then in Ethiopia this figure is 43.8%, in Afghanistan 31.0%, in Myanmar 42.9% , in Central African Republic 55.0%, and in Liberia even 76.9%.

The industry occupied a leading place in the economies of developed countries at the end of the nineteenth and in the first half of the twentieth century, when it reached over 50%. Subsequently, it has decreased, but even now in this group of countries it is 25-35%. In China, as well as in some post-socialist countries, it is even higher. In developing countries (with the exception of the new industrialized countries), employment in this sector of industries does not usually exceed 10-15%.

From the second half of the twentieth century, industries that are grouped in a block of services are rapidly developing. In developed countries, employment in the service sector exceeds 60%, and in some of them - even 70% (USA, Canada, Australia, Sweden, the Netherlands, etc.).

Lately also the following scheme of brunch structure of the economy became widespread: primery, secondary and tertiary branches. The *primary* sector extracts or harvests products from the earth, such as raw materials and basic foods. So activities associated with this sector are agriculture, mining, forestry, hunting and gathering, fishing. The packaging and processing of raw materials are also parts of this sector. The *secondary* sector is about the production of finished goods from the raw materials. It includes manufacturing industry and construction. The *tertiary* block includes services. This sector sells the goods produced by the secondary sector and provides commercial services to all other sectors. It includes retail and wholesale sales, transportation and distribution, restaurants, media, tourism, insurance, banking, healthcare, and law. In most developed and developing countries, a growing proportion of workers is devoted to the tertiary sector (in the U.S., about 80 percent of the labor force). Sometimes (in some economic models) the *fourth (or quaternary)* sector, i.e. informational sector, is distinguished, thgrouth retreaving of information services from the third block. The quaternary sector consists of intellectual activities often associated with technological innovation. It is sometimes called the knowledge economy. Activities associated with this sector include government, culture, libraries, scientific research, education and information technology. These intellectual services and activities are what drive technological advancement, which can have a huge impact on economic growth. It is needed to add that Some researchers further distinguish within the fourth sector also the *fifth (quinary)* sector. It includes the highest levels of decision making in a society or economy. This are the activities of top executives or officials in such fields as government, science, universities, healthcare, culture and the media (which are public services as opposed to for-profit enterprises).

For a long time the branches of the primary sector dominated in the economies of the world's countries. After the end of the industrial revolution (the end of the 18th - the middle of the nineteenth century), in most European countries,

in the United States and in some other countries, the backbone of the economy were already the branches of the secondary sector. In the twentieth century, the secondary sector dominated in the economies of all developed countries, of socialist countries and in a significant number of developing countries.

From the second half of the last century, as already noted, in the economically developed countries, the sphere of services comes first into the sectoral structure. This path is repeated by developing countries, but with a certain time-lag compared to developed countries.

According to the predominance of each of the sectors, the following *stages of economic development* of the country (groups of countries) are distinguished: *preindustrial (agricultural)*, *industrial* and *postindustrial (informational)*.

The agrarian stage of development is characteristic for least developed countries, mostly African. In agriculture there are employed up to 70-95% of the able-bodied population. Among these countries are Angola, Botswana, Ethiopia, Afghanistan, Benin, Burkina Faso (90% of the employed), Burundi (over 90%), Haiti, Democratic Republic of the Congo, Yemen, Cambodia (85%), Kenya, Laos, Madagascar, Tanzania (80%), Togo, Uganda, the Central African Republic, Chad, Malawi, Myanmar, Nepal (90%), Papua New Guinea, Rwanda (93%), Swaziland, Senegal, Somalia, Sudan, Eritrea.

The primary sector also plays significant role in the economies of some developing countries, which exist at the expense of the *mining* industry. So, in Bolivia it is an extraction of antimony, tin, zinc; in Peru - zinc, copper; in Guinea - bauxite; in Zambia - copper, cobalt; in Namibia - diamonds; In Nauru - phosphates; in Mauritania iron ore. Special groups form the *oil-producing* countries. The Gulf economies are almost entirely based on revenues from oil exports. In Saudi Arabia, oil accounts for 85% of its export earnings. A similar situation exists in Kuwait, the United Arab Emirates. In Bahrain, the oil sector provides 70% of revenue to the budget, while agriculture is only 1%. In Qatar, oil revenues account for 80% of total revenues in the state treasury. Oman's oil sales account for 90% of hard currency receipts; they account for 70% of national income. Unlike agricultural countries, oil-producing countries are quite rich, having high per capita national income. However, this was achieved at the expense of a very favorable market environment for oil in the second half of the 20th century, and especially from the 1970s, when oil prices rose sharply. Let us note that in the late 40-ies the countries of this region belonged to the group of the poorest in the world.

Already since the middle of the XIX century the secondary sector has taken a prominent place in the economies of the most developed countries;

Secondary sector already since the mid-nineteenth century occupies leading place in the economy of the most developed countries (Great Britain, USA, France, Germany, and some others); in the next century it geographically expanded and covered almost all of Europe, Japan, a significant number of developing countries. The economies of these countries began to be determined by the amount of smelted steel, machine tools, electricity, cars, airplanes, organic chemicals. The process of

decolonization of dependent countries, which has gained momentum after the Second World War, was accompanied by the beginning of their industrialization. The national leaders of the newly independent countries proclaimed that the industrialization is the main goal of their economic policy.

Let us recall that construction of socialism was carried out under the dominant slogan of industrialization. For the Soviet Union, the overwhelming goal was to catch up with the United States on the production of steel, electricity, coal, oil, gas, machine tools and the like. Similar goals were set by the Chinese government in the 1960s in relation to Great Britain. In many respects these goals were achieved; the USSR overtook the United States on the production of steel and fuel, China surpassed all UK industry figures. However, this proved to be insufficient to match developed countries on qualitative indicators.

In the 70's and 80's of the twentieth century, a number of developing countries started the process of industrialization at an extremely high pace. In a short period from agrarian or agrarian-industrial, they turned into "newly industrialized countries" with a developed industrial structure. This group includes, in particular, Brazil, Mexico, the Republic of Korea, Singapore, Thailand, the Philippines and some others.

It would seem that the global economy is leveling off countries on an industrial basis. However, the most developed countries at the end of the twentieth century have passed to such a stage of development, when the power of the country is determined not by the amount of machine-building parks, neither by the amount of smelted steel, but by the volume and efficiency of providing services, first of all, of informational. It should be noted that both agricultural potential and production capacities in developed countries remain enormous. Thus, the USA, France, Canada, Australia are among the world's largest producers of agricultural products. However, the agro-industrial complex has no leading role in the creation of gross domestic product (GDP) of these countries. In the European countries and the US, the production of ferrous metals is decreasing; ferrous metallurgy, as it happened with light industry, as well as with other manufacturing on the basis of simple technology seems to be moving from developed countries to developing countries. At the same time, the service sector accounts for 77% of US GDP, in Germany 72%, Japan 75%, France 79%.

Based on the dynamics of the development of these sectors of the national economy, in economic science has formed a conception about ***three types of economic development***, which successively replace each other: pre-industrial (agrarian) type; industrial type; and post-industrial (informational) one, based on the sphere of services. They form a historical sequence. Post-industrial type of economy is based on the rational use of resources, on a satisfaction of people's non-material needs. In the mid-1990s, more than half of developed countries' GDP was accounted for the production of information industries - telecommunications, computer systems, software, and pharmaceuticals. In the US economy,  $\frac{3}{4}$  of value added in industry was connected with an information factor.

World-wide information and financial markets, insurance, investment, currency markets rapidly evolve, exceeding on turnover in many cases the traditional commodity markets [17, p.11]. Consequently, today the country's economic power is determined not by the amount of consumed substance and energy for material production, but by the level of information consumption.

An essential feature of the national economy is its *territorial structure*. It consists in the economic organization of the country's geographical space. Territorial organization is then effective, when are rationally used the natural and labor resources of the country throughout the territory, as well as a geographical location of a country. Effective territorial structure does not mean uniform placement of objects of the national economy upon the country's territory; however, a very significant unevenness is accompanied as a rule by the underutilization of national resources.

The uneven allocation of productive forces is inherent in predominantly underdeveloped countries. In the former colonies, the largest cities were located on the coasts of the seas and oceans. In such a way it was more convenient to keep in touch with the metropolises. After independence, large seaside cities grew even more. And almost all of the country's industry, business activity, banks, exchanges, and financial institutions were concentrated in them. In Nigeria, e.g. such a city was Lagos, in Senegal - Dakar, in Ghana - Accra, in Guinea - Conakry. Even in Brazil all major cities were located along the Atlantic coast - Rio de Janeiro, Sao Paulo, Salvador, Fortaleza and others. At the same time, vast expanses in the depths of the country remain undeveloped. This leads not only to underutilization of resources, but also to increasing social tension. Governments of these countries are trying to improve the situation, to eliminate unevenness. One of the measures is the transfer of the state's capital to the depth of the country in order to revitalize economic life in other territories. For example, Brazil has a new capital - Brazil, located a thousand kilometers from the ocean; The Nigerian government has moved the capital from Lagos to Abuja, Tanzania from Dar es Salam to Dodoma. Even in Brazil all major cities were located along the Atlantic coast - Rio de Janeiro, Sao Paulo, Salvador, Fortaleza and others. At the same time, vast expanses in the depths of the country remain undeveloped. This leads not only to underutilization of resources, but also to increasing social tension. Governments of these countries are trying to improve the situation, to eliminate unevenness. One of the measures is the transfer of the state's capital to the depth of the country in order to revitalize economic life in other territories. For example, Brazil has a new capital - Brazil, located a thousand kilometers from the ocean; The Nigerian government has moved the capital from Lagos to Abuja, Tanzania from Dar es Salaam to Dodoma. However, this action is not enough to activate the regions situated far from seacoast.

In developed countries, the contrast between the most developed regions and the relatively backward is much less. Most often they are determined by natural conditions. Thus, almost half of Canada's territory is located to the north of the 60th parallel and has a climate that is too unfavorable to live; A similar situation in

northern Australia. In the countries of Western Europe, the placement of productive forces in general are fairly uniform. However, there are problems as well. For example, Northern Italy (Lombardy) has a much more powerful economy than the central and southern parts of the country (Calabria, Sicily); Such a situation even encourages some political forces to strive to separate the North of the country and create an independent state here. The leadership of the European Union, in order to equalize the socio-economic status of the regions, has developed and will implement a special regional program.

Analyzing the degree of uniformity of development of the regions of the country, it should keep in mind that the economic level of the region is not necessarily determined by the development of industry, the concentration of industrial enterprises. The main criterion is the ratio of the share of national income produced by the region and the population of the region. Thus, regions with developed agriculture, for example, in the US or in Australia or Canada, do not concede to industrial regions on relative development indicators.

Scientific and technological progress led to the emergence of new forms of territorial organization of the national economy - the so-called technopolises. **Technopolises** are territorial cells, where industries with usage of newest technologies (the high-technology businesses) are concentrated. They form a complex of organizations and enterprises that carry out scientific research and technical development, and produce high-tech products. Labor productivity in technopolis is much higher than in the manufacturing industry as a whole. The most famous technopolises are situated in the Silicon Valley in the USA, where research institutions and enterprises in the field of electronics and aerospace technology are concentrated. Similar scientific and industrial structures are in Europe, Japan. Technopolis is one of the typical phenomena of the post-industrial stage of development of the country's economy.

Each country is characterized by the dominant **socio-economic mode** and **system of management of economy**. Today the vast majority of countries in the world have a market economy, which provides for the regulation of production on the principles of supply and demand; the functions of the government are to regulate economic mechanism in order to prevent undesirable trends in the economy of a country and to strengthen the positive market trends. The government does not abuse the administrative pressure, entrepreneurs have a fairly wide range of freedom of activity. But in exceptional for the country moments, during the crisis, the government can temporarily restrict this freedom. This was the case during the "Great Depression" in the United States (1929-1933), in post-war Europe and Japan. Then, the most important sectors of the economy (in particular, energy) were nationalized, governments redistributed budgetary funds in order to support a certain group of enterprises or banks that were in crisis, as well as the most vulnerable segments of the population, etc. During the stabilization period, the governments once again returned to liberal economic policy.

In the socialist countries, the role of the state in managing the economy was too great; it was based on the domination of state property. Economic policy was implemented through the mechanism of administrative management. The most typical examples of this model are the economies of Cuba and the Democratic People's Republic of Korea.

China has been pursuing an economic reform over the last two decades, which combines strong state power and market relations. The state sector of the economy is preserved, but next to it on a competitive basis, private companies are rapidly emerging, including those with foreign capital. The high rates of economic development in China testify to the effectiveness of such an internal policy.

Most post-socialist countries, including those that used to be part of the USSR, are moving to a market type of economy, reducing the public sector and optimizing regulatory impacts on the economy.

Developing countries in their majority also focus on the market economy, considering as a sample the economic model of the US, European countries and Japan. In particular, this applies to the newly industrialized countries. However, in the least developing countries, along with market relations, there are also those that are based on the subsistence farming and semi-subsistence types of farms. In the agriculture of individual African states, the significant role play the communities.

The system of management of the national economy is closely linked to the *economic policy* of the state. In developed countries, regulation of the economy is carried out indirectly on the basis of indirect methods of state intervention. Usually it consists in regulating the bank's accounting rates, setting a certain amount of taxes, norms of budgetary expenditures for social needs, etc. The government can form special funds to support individual groups of enterprises, industries, regions or to regulate the environmental situation. By the way of government orders, the government usually gives an advantage to certain large firms, transnational corporations.

The economic policy of the developed countries is carried out using two basic economic paradigms: the "keynesianism" and the "monetarism". Differences in their implementation consist in the degree of government interference in the economic life of the country. Adherents of the first approach consider that the country should have a sufficiently powerful public sector in the economy, the government should, if necessary, make investment into individual industries or regions in order to provide the necessary direction for the development of the economy. Such an economic policy was the most popular in the first decades after the end of World War II, especially in Italy, France and Japan. Later, in countries with developed markets, monetary economic policy was widely used, which restricted government intervention in the economy and was based on the initiative of the private sector. This policy found the brightest expression in the United States and Great Britain during the time of President Reagan and Prime Minister Margaret Thatcher. The need to address the acute problems that arose from the global financial and economic crisis that originated in the US in 2007 and spread to most of the world's economies once again led to the expansion of the popularity of

ideas that postulate the importance of government intervention during market processes.

In countries with a planned economic system, management was carried out in the form of strict administration. For each enterprise from the center was presented a plan of output, the implementation of a plan was under careful control, and the products were subject to centralized distribution. This led to a lack of flexibility in the economic system.

In the foreign economic relations, developed countries adhere to the policy of *openness* to the world market, the maximum use of the effect of the international division of labor. Attention is focused on the **liberalization** of foreign trade, i.e. on elimination of tariff and non-tariff customs restrictions. The activities of the World Trade Organization (WTO) contributed to the fact that the governments of developed countries were able to reduce the average tariff rates in foreign trade to 3%, whereas in the late 1940s, they got 25-30%. Liberalization also extends to international capital flows, in particular investments.

The mostly interested in the policy of liberalization of international trade are developed countries, which have the very high competitiveness of their goods and services. Developing countries, as well as countries with economies in transition, are trying to protect their economic interests by applying **protectionist measures** (raising tariffs on imported goods, setting quotas for imports, granting special benefits to domestic exporters, etc.). Nevertheless, protectionist policy is strongly opposed by the developed states, and therefore is applied in a limited way.

The extreme opposite of liberal foreign economic policy is the policy of **autarky**. It consists in using only internal factors of the development of the national economy, without inclusion in international economic relations. Foreign trade is so limited that it does not play a significant role in the formation of the gross national product. Economic policy, close to autarky, was inherent in the former USSR in the 30-40s and China in the 60s XX century. At present, the autarky in pure form is completely rejected, since it has shown its inefficiency. Despite this, some states restrict economic relations with other countries, often selectively and for political reasons. In particular, the group of such countries include the DPRK and Libya during the period of the government of M. Gaddafi.

The economy of each country includes economic entities, or economic agents, which are also called *institutional units* in the *System of National Accounts* (SNA). Five groups of **agents of economic activity** are distinguished:

- non-financial corporations are enterprises that produce goods and services for the market (industrial and transport enterprises, agricultural farms, catering establishments, etc.);
- households - all individuals who actively operate in the economy, use their human capital, produce and consume market goods and services;
- non-profit institutions - legal entities that provide non-market services to households and are based on the voluntary participation of individuals, such as various charitable organizations, free consultative institutions, etc.;

- government agencies are ministries, departments, various state funds that regulate the economy, produce non-market services for individual or collective consumption, redistribute income;
- financial corporations - banks, insurance, financial companies that carry out financial intermediation, provide financial services.

According to the criterion of relation to foreign economic activity, agents are also divided into residents and non-residents.

**Residents** are traditionally considered to be all the agents that are constantly in the territory of a given country, despite their state affiliation. These are people who live permanently in the country; enterprises that carry out economic activities in a given country, even if they are wholly owned by foreign capital; government bodies; migrants, if they live in the country for more than a year.

**Non-residents** are the institutional units that are permanently located in the territory of a foreign state, even if they are businessmen and citizens of a given country, but permanently function and live abroad.

There is also another approach to the definition of these categories of economic operators: all domestic physical and legal persons are considered residents, regardless of whether they operate at home or abroad; non-residents are foreign individuals and legal entities that operate in the country regardless of the length of stay. Lately, the first mentioned above approach to the definition of these categories prevails in the economic literature [18, p. 51; 19, p. 115]. Let us note, that the territorial criterion, depending on the place of receipt of income, use mainly developing countries, actively importing capital.

## 1.2. Main indicators of the country's economic development

The degree of development of the national economy is measured by special indicators that give a general idea of the economic potential of the country, and also allow one to compare the development of individual states among themselves. The most important indicators are: gross domestic product (GDP); gross national product (GNP); national income (NI); export; import; foreign trade turnover; volumes of production of goods and services and some others. These indicators are calculated according to the formulae in the international system of national accounts (SNA). Usually the indicators in the formulas are given in the English abbreviation as this is customary in the SNA.

**Gross Domestic Product (GDP)** is the monetary value of all the finished goods and services, produced by residents in the economic space of a country during a year. It is calculated by the following formula:

$$GDP = C + Ig + G$$

where *GDP* is gross domestic product;

*C* - is consumer expenditures;

*Ig* – is internal private investment (capital investment);

*G* - government expenditures.



**Gross national product (GNP)** includes both the amount of value added, that is created in a country and forms GDP, and the money earned abroad. It is calculated as the sum of GDP and net exports; **net exports (NE)** are the difference between exports ( $X$ ) and imports ( $IM$ ) of a country. Then:

$$GNP = GDP + NE = GDP + (X - IM)$$

where  $GNP$  is gross national product.

Calculating  $GNP$ , it is more correctly to take into account not only the difference between exports and imports, but also the difference in income from money earned abroad (e.g., income from profits on investments made abroad) and profit payments to non-residents, transferred abroad. In this case, the  $GNP$  formula will have the following form:

$$GNP = GDP + NE + NY$$

where  $NY$  is net factor incomes (the difference in income and expenses).

**Net national product (NNP)** is determined by subtracting from the  $GNP$  the value of the means of production worn out in the production process (depreciation charges -  $A$ ):

The net national product (PPP) is determined by subtracting from the  $GNP$  the value of the means of production worn out in the production process (depreciation charges -  $A$ ):

$$NNP = GNP - A$$

where  $NNP$  is net national product.

If from the net national product subtract the indirect taxes, we will receive a **national income (NI)**:

$$NI = NNP - TH$$

where  $NI$  is national income;  $TH$  is indirect taxes.

Developed countries that receive a significant trade surplus and inflows of dividends on capital invested abroad have  $GNP$  indicators higher than GDP. Nevertheless, sometimes in highly developed countries, for example in the US, the opposite situation takes place. This is explained by the fact that the United States has a huge internal market, which absorbs the prevailing number of goods and services. The high standard of living of the US population stimulates imports, as a result of which the foreign trade balance in the United States is negative. The size of foreign investment into the country is also very large, and, accordingly, a significant amount is the outflow of dividends. An important role is played also by the reasons that are in the plane of currency relations.

For comparison of the economic potential of different countries we propose data on GDP for 2017 (**Table 1.1**).

**Table 1.1.**

**GDP of some countries in 2017, billions of US dollars  
(at the current exchange rate)**

Country	GDP	Country	GDP	Country	GDP
USA	19.390	Russia	1.530	Belgium	494
China	12.010	Australia	1.380	Thailand	455
Japan	4.870	Spain	1.310	Iran	431
Germany	3.680	Mexico	1.150	Austria	416

<b>Great Britain</b>	<b>2.620</b>		<b>Indonesia</b>	<b>1.020</b>		<b>UAE</b>	<b>377</b>
<b>India</b>	<b>2.610</b>		<b>Turkey</b>	<b>849</b>		<b>Nigeria</b>	<b>376</b>
<b>France</b>	<b>2.580</b>		<b>Netherlands</b>	<b>825</b>		<b>Israel</b>	<b>350</b>
<b>Brazil</b>	<b>2.050</b>		<b>Saudi Arabia</b>	<b>683</b>		<b>South Africa</b>	<b>349</b>
<b>Italy</b>	<b>1.940</b>		<b>Switzerland</b>	<b>678</b>		<b>Ireland</b>	<b>333</b>
<b>Canada</b>	<b>1.650</b>		<b>Sweden</b>	<b>538</b>		<b>Denmark</b>	<b>324</b>
<b>Rep. Korea</b>	<b>1.540</b>		<b>Poland</b>	<b>524</b>		<b>Singapore</b>	<b>323</b>

Reference: [52]

GDP can be calculated in *two ways*: based on the current exchange rate (called *GDP at exchange rate*) and based on purchasing power parity (called *GDP at Purchasing Power Parity - PPP*). The previous **Table 1.1.** contains data on GDP of some countries, calculated on the basis of the current exchange rate. If we take PPP as the basis, then the GDP will be different. Only US GDP will remain unchanged, as the value of GDP in international comparisons is measured in dollars. The GDP of some countries, calculated by PPP, is presented in **Table 1.2.**

**Table 1.2.**

**The GDP of some countries at purchasing power parity  
in 2017, billions of US dollars**

<i>Country</i>	<i>GDP</i>		<i>Country</i>	<i>GDP</i>		<i>Country</i>	<i>GDP</i>
<b>China</b>	<b>23,159</b>		<b>Italy</b>	<b>2,310</b>		<b>Poland</b>	<b>1,121</b>
<b>USA</b>	<b>19,390</b>		<b>Turkey</b>	<b>2,173</b>		<b>Nigeria</b>	<b>1,118</b>
<b>India</b>	<b>9,459</b>		<b>Rep. Korea</b>	<b>2,029</b>		<b>Pakistan</b>	<b>1,056</b>
<b>Japan</b>	<b>5,428</b>		<b>Spain</b>	<b>1,773</b>		<b>Malaysia</b>	<b>930</b>
<b>Germany</b>	<b>4,170</b>		<b>Saudi Arabia</b>	<b>1,773</b>		<b>Argentina</b>	<b>920</b>
<b>Russia</b>	<b>4,007</b>		<b>Canada</b>	<b>1,769</b>		<b>Netherlands</b>	<b>916</b>
<b>Indonesia</b>	<b>3,242</b>		<b>Iran</b>	<b>1,644</b>		<b>Philippines</b>	<b>875</b>
<b>Brazil</b>	<b>3,240</b>		<b>Australia</b>	<b>1,246</b>		<b>South Africa</b>	<b>765</b>
<b>Great Britain</b>	<b>2,914</b>		<b>Thailand</b>	<b>1,233</b>		<b>Colombia</b>	<b>714</b>
<b>France</b>	<b>2,835</b>		<b>Egypt</b>	<b>1,201</b>		<b>Bangladesh</b>	<b>687</b>
<b>Mexico</b>	<b>2,458</b>		<b>Taiwan</b>	<b>1,185</b>		<b>UAE</b>	<b>686</b>

Reference: [53]

Absolute amounts of GDP or GNP in general characterize the economic power of the country, but are not sufficient to determine the standard of living of the population. China or India have rather large volumes of GDP, not least because of the fact that a huge number of the employed people produces goods and services, even though they have insufficient or low productivity. But if we divide the absolute size of GDP by the number of people, the rankings in the table of economic potentials of the countries are changing, for some of them quite substantially. Luxembourg, Norway and the United States retain their leading positions among the most developed countries in terms of GDP per capita.

**Table 1.3.**

**GDP of some countries per capita in 2017, thousand US\$  
(at purchasing power parity)**

<i>Country</i>	<i>GDP</i>		<i>Country</i>	<i>GDP</i>		<i>Country</i>	<i>GDP</i>
<b>USA</b>	<b>59,5</b>		<b>Spain</b>	<b>38,2</b>		<b>Singapore</b>	<b>90,5</b>

China	16,6	Mexico	19,5	Belarus	18,6
Japan	42,7	Rep. Korea	39,4	Norway	70,6
Germany	50,2	Netherlands	53,6	Kuwait	69,7
France	43,6	Switzerland	61,4	Indonesia	12,4
Brazil	15,5	Sweden	51,3	Moldova	5,7
Great Britain	43,6	Poland	29,3	Turkey	26,5
Italy	38,0	Argentina	20,7	Australia	49,9
India	7,2	Denmark	49,6	Georgia	10,6
Russia	27,9	Qatar	124,9	South Africa	13,4
Canada	48,1	Luxembourg	109,1	Ukraine	8,7

Referance: [54]

Thus, the absolute value of GDP characterizes primarily the volume of output and services, and its *relative indicator* determines the level of labor productivity, organization and culture of production. International organizations (for example, the World Bank, the International Monetary Fund, the World Trade Organization), when classifying a countries according to the level of economic development, consider the *GDP per capita* indicator to be the main criterion. The higher this indicator, the higher the standard of living in the country. The most developed countries have high values of both indicators. And the least developed countries are characterized by low indicators on these criteria. Luxembourg, for example, has an absolute GDP of \$59,5 billion (at PPP) as of 2017, which is a bit compared to other countries. Nevertheless, it occupies the leading positions in per capita production. This gives grounds for classify this country as a developed state.

The most developed countries have high values by both indicators. The "seven" of the most powerful of them stands out by the absolute size of GDP, which exceed 1 trillion.dollars, as well as by GDP per capita - from almost 30 thousand dollars and higher. Brazil, Mexico, India, Indonesia, The Philippines has quite large absolute volume of GDP, but significantly behind the developed countries in relative indicators.

The least developed countries are characterized by low values for the both analyzed indicators (for example, Angola has an absolute GDP of \$116 billion, and relative - \$ 5,900; Haiti, respectively, \$12.4 billion, and \$1200; Ethiopia - \$95 billion, and \$1100; Burundi - \$3.6 billion, and \$ 400).

A specific group are the oil-producing countries of the Persian Gulf, which have large revenues from oil exports. The GDP per capita in these countries is rather high. Thus, in Saudi Arabia it is \$24,000, in the United Arab Emirates - \$48,500, in Qatar - \$102,700. Nevertheless, unlike developed and new industrial countries, this group of countries is characterized by an unbalanced economic structure. The production sector (except for oil production) until recently was poorly developed, and only now measures are being taken to develop industrial production, first of all energy and petrochemicals.

A generalized indicator of the level of economic development at the global level is the **Gross World Product (GWP)**. It shows the amount of final goods and

services produced worldwide. It is the combined national product of all the countries in the world.

When analyzing the economy, it is important to know *the degree of foreign economic activity* of the country. It is determined by: exports, imports, foreign trade turnover, the degree of openness of the economy and its dependence on the world market, the share of foreign capital in the economy of the country, the size of the activity of residents abroad and some other indicators. Let us consider some of these indicators.

**Export** - sending of goods and services to another country for sale. Statistical handbooks and economic publications usually give data on the export of goods and services. Often, if the figures on exports are given, it means the export of goods (unless there is a special reservation).

Usually the largest exporters are the most powerful countries in the economy. The top ten exporting countries are presented in the **Table 1.4**

**Table.1.4**

**The Exports of leading countries in 2017 (billions of USD)**

<i>Country</i>	<i>Exports</i>
<b>China</b>	<b>2,157</b>
<b>USA</b>	<b>1,576</b>
<b>Germany</b>	<b>1,401</b>
<b>Japan</b>	<b>683,3</b>
<b>France</b>	<b>541</b>
<b>Republic of Korea</b>	<b>552</b>
<b>Netherlands</b>	<b>526</b>
<b>Italy</b>	<b>499</b>
<b>Great Britain</b>	<b>436,5</b>
<b>Canada</b>	<b>433</b>

Reference: [54]

**Import** - bringing in of goods and services to the country from abroad. The size of imports usually depends on the capacity of the domestic market, which, in turn, is due to the country's economic might, primarily purchasing power. Therefore, the largest volumes of imports fall on the most developed countries. The **Table. 1.5** shows the size of import of some countries:

**Table. 1.5**

**The Imports of leading countries in 2017 (billions of USD)**

<i>Country</i>	<i>Imports</i>
<b>USA</b>	<b>2409</b>
<b>China</b>	<b>1841</b>
<b>Germany</b>	<b>1167</b>
<b>Japan</b>	<b>672</b>
<b>Great Britain</b>	<b>644</b>
<b>France</b>	<b>624</b>
<b>Hong Kong</b>	<b>589</b>
<b>Netherlands</b>	<b>574</b>
<b>Republic of Korea</b>	<b>478</b>
<b>Italy</b>	<b>452</b>

Reference: [54].

In analyzing this table, it should be borne in mind that Hong Kong is part of China, has a special status (significant autonomy is in relation to foreign economic activity). Data on the economy of Hong Kong in international collections of data are published separately.

Hong Kong and Singapore have large volumes of exports and imports due to the fact that they are engaged primarily in intermediary trade - re-export and re-import. The re-export accounts for 87% of Hong Kong's exports. The predominant part of re-export and re-importation is formed predominantly at the expense of China. For political (and some economic) reasons, direct trade of developed countries with China is limited, so Hong Kong also plays the role of intermediary.

The difference between the monetary value of a nation's exports and imports over a certain period is ***a country's balance of trade (or net exports - NX)***. The balance of trade can be positive (active) or negative (passive). Usually the government of the country tends to a positive balance of trade, as it ensures the inflow of currency into the country. The most favorable conditions for this are in developed countries, whose products are highly competitive. So, the positive balance of trade of Japan is equal to 6.1 billion dollars (2011), Germany - 210 billion dollars. The exception is the United States, which is characterized by a large negative balance - \$ 803 billion. And this passive balance of US foreign trade is chronic. One of the main reasons for this situation is a very capacious domestic market, which absorbs the bulk of domestic production and a large number of imported goods. In the group of developed countries, the passive foreign trade balance is inherent in the United Kingdom, Spain. Passive balances have also formed in a significant part of developing countries (in particular, India, Egypt, Lebanon, etc.).

With foreign trade is connected the concept of ***openness of the country's economy***, i.e. a degree of its participation in the international division of labor. An open economy is a country's economy integrated into the world economy, the world market. It is necessary to distinguish between the concepts of "freedom of trade" and "open economy". The concept of "open economy" is broader than the concept of "freedom of trade" as trade in goods. It also includes freedom of movement of factors of production, information, exchange of national currencies.

***Indicators of openness of the country's economy.*** There is no absolute openness of the economy in any country. The indicators, according to which one can assess the degree of openness of the economy, are qualitative and quantitative.

***Qualitative*** criteria include the following: a favorable investment climate of the country; the accessibility of the domestic market for the inflow of foreign capital, goods, technology, information, labor; the structure of the country's foreign trade turnover.

The ***quantitative*** criteria include the share of exports and imports in GDP, giving an idea of the extent of the links between individual national economies and the world market. Thus, the ratio of exports to GDP is defined as the export quota (Eq). The export quota is determined in percentages and is calculated most often by the formula:

$$Eq = (EX/GDP) \times 100\%,$$

where *EX* - the volume of the country's exports for a certain period;

*GDP* - the volume of gross domestic product produced during the relevant period (the sum of the prices of all goods produced within the country for 1 year).

The degree of openness of the economy is generally considered *acceptable* if  $Eq = 10\%$ .

The higher is the indicator of openness the deeper the country's participation in international economic relations. The indicators more than 30% are considered as a high. Traditionally, a significant degree of openness is characteristic for Western European countries (Netherlands, Luxembourg, Sweden, Switzerland). The highest indicators of openness (70-80%) have some developing countries, such as the United Arab Emirates, Guyana, Qatar, Suriname, nevertheless, unlike the developed countries, the economy of these states depends almost entirely on the export of raw materials (oil or bauxite).

The most powerful states in the world have low levels of openness: the USA - 10%, Japan - 18%, France - 26%, Great Britain - 22%, Italy - 28%. But this shows not a low degree of integration of these countries into the world economy, but of large volumes of GDP and the availability of a broad domestic market.

The important feature in the development of the national economy is also the indicator of ***import dependence*** (or import quota). It is calculated by the formula:

$$Iq = (IM/GDP) \times 100\%$$

where *IM* - the volume of imports of the country for a certain period

This indicator is usually high in developing countries and is moderate or low in developed countries. So, in Guyana it is 97%, Swaziland - 50%, Suriname - 54%. At the same time in France, this figure is 24%, Italy -25%, the United States - 14%, Japan -13%..

The coefficients of openness and import-dependence should be used in combination with other indicators of the country's economic development. For example, the US and Japan have huge volume of exports and imports, but in terms of openness, they are viewed as states with limited external links. In contrast, the poorest countries that export only one type of product (for example, coffee, cocoa, bananas), and which generally have an underdeveloped economy, look like active participants in the international division of labor.

The intensity of foreign economic relations of the country is characterized not only by the volumes of trade turnover, but also by ***the international movement of factors of production***, which include labor, capital and technology.

The ***movement of labor resources*** is expressed in international migrations of the able-bodied population. Departure of the population abroad is called ***emigration***; arrival from abroad is called ***immigration***. The intensity of migration is determined by the comparison of the number of migrants with the population of the country. The coefficients of emigration (*KE*) and immigration (*KI*), of migration turnover (*KM*) are calculated as follows:

$$KE = E/P \times 1000;$$

$$KI = I/P \times 1000;$$

$$KM = (E+I)/P \times 1000$$

where  $P$  - average annual population of country;  $E$  - number of emigrants;  $I$  - number of immigrants.

The migration rate is usually determined in per mille (‰). The difference between the number of immigrants and emigrants is the **country's migration balance**. It can be positive or negative.

Migration processes are determined by economic and political circumstances. Modern international migration is carried out mainly under the influence of economic factors. Industrially developed countries and countries with a dynamically developing economy attract labor resources from those regions where the rates of economic growth are insignificant, and the natural growth of the population is high. A defining trend is the transfer of labor resources from developing countries to highly developed states.

Integration processes have a significant impact on population migration, especially within the regional groupings. Thus, between the countries of the European Union, any obstacles to the free movement of the population have been eliminated, so the migration flows have become very intense.

One of the most important characteristics of the country's economy is its participation in the **international movement of capital**. Today almost every state either exports its capital, or accepts foreign capital. Developed countries simultaneously carry out both exports and imports of capital. Capital crosses national borders in entrepreneurial or loan form.

Entrepreneurial capital is called **investments**, which are divided into direct investments and portfolio investments. **Direct investments** give the non-resident the right to control the enterprise in which they invested. Usually direct investment is carried out by the formation of subsidiaries or subsidiaries abroad by companies or banks. **Portfolio investments** are investment in securities of foreign firms; the share of foreign capital in this case is insufficient to control the firm by a non-resident.

**Loan capital** acquires an international character if the country receives a loan from the government of another state, a foreign or private bank or an international financial institution, such as the International Monetary Fund or the World Bank.

The role of foreign capital in the national economy is determined by its share in the total amount of capital investments in the country (including the investments of residents). Another indicator is the share of foreign investment in GDP:

$$(FDI/GDP) \times 100$$

where  $FDI$  - foreign direct investment of the country for a certain period

$GDP$  - the volume of gross domestic product produced during the relevant period.

The main exporters and importers of capital, as already noted, are developed countries. In terms of direct investment, the United States ranks first, followed by the United Kingdom, Japan, Germany, France, the Netherlands and Canada. In terms of importing FDI, the United States is again the first, followed by the United

Kingdom, France, Germany, Canada. Japan is not among the top ten importers of capital.

Foreign economic operations of the country are reflected in its **balance of payments (BOP)**. It is a systematized record of all international economic operations of the state, of all transactions made between entities in one country and the rest of the world over a defined period of time. BOP shows the volume and ratio of the amount of payments made by a country abroad, and the amount of payments received from abroad for a certain amount time.

Structurally, the balance of payments consists of *three parts*: the current account, the capital account and the official reserve account.

The **current account** balances the movement of goods and services, incomes and investments, which are earned by residents and non-residents (but not the volume of investments themselves), unilateral remittances (transfers), for example, transfer of part of the wages of citizens which temporarily working abroad, to the country of destination. In other words it measures imports and exports of goods and services, payments to foreign holders of a country's investments and payments received from investments abroad, transfer such as foreign aid and remittances.

The **capital account** consists of direct and portfolio investments and credit. **Official reserves** are funds that are controlled by the state and are designed to regulate imbalances in the balance of payments. They consist of gold, hard currency, securities.

If the outflow of currency abroad exceeds its inflow into the country, a negative balance of payments is formed for current operations and for transactions with capital. In this case, the government covers the deficit at the expense of official reserves. In the event that the deficit takes place for a long time and there are not enough reserves, the government is forced to resort to external loans, which lead to the accumulation of an external debt. The problem of debt is very acute for developing countries and countries with a transitional economy.

### 1.3. Essence and directions of state economic policy

The government of each country pursues a policy aimed at regulation of economic development. The main goal of economic policy is to promote positive changes in the national economy, improvement of living standards, the strengthening of the country's position in international economic relations. Government has different objectives at different stages of development of the economy, so economic policy is not determined once and forever. However, its main parameters can be quite well established around certain principles which form economic models of development. Defining of own **model of economic development** is an important and necessary task of the government and political forces of the country. The current state of the economy, its resources potential (labor and natural resources, scientific and technical base), features of the social and political relations, the degree of participation in the international division of



labor and its geopolitical position, i.e. the possibilities of the country, should be taken into account in this decision. Based on this, the objective should be defined, which should be achieved by the state in its economic and social development. When the goal is formulated by the majority of the population (this is determined by, in particular, the support of certain political forces in the elections), and often fixed in the constitution, the government develops and carries measures to achieve it.

The economic policy of the state consists of macroeconomic and microeconomic policies. Macroeconomic policy is aimed at achieving internal and external balance of the economy. The objects of its regulation are the exchange rates, the budget, the balance of payments, national income, prices, etc. The main elements of microeconomic regulation are goods, services, capital, labor, technology, individual enterprises.

Economic policy can have short-term (1-2 years) and long-term period of implementation. Short-term policy is usually called the current, long-term – strategy of economic development. ***Strategy of economic development*** (economic strategy) of the country represents economic policy of the government for the long term, aimed at achieving the main goal of social and economic development.

Economic strategy is a long-term, the most fundamental and important installations, plans, intentions of the government concerning the production, income and expenditures of the budget, taxes, investments, prices and social security.

The development of economic strategy begins by defining ***the main development goal***. This is the most difficult and important element of the strategy. The goal should fulfill the following requirements:

1. It should be objectively real, i.e. one, which can be achieved at all. Otherwise, the goal is an illusion, utopia. An example is the representation of socialists–utopians about an ideal society. Majority of modern philosophers, economists, political scientists consider the construction of communist society as utopia.

2. Implementation of the goal is really possible in this country, that is, the goal should meet the objective possibilities of the country. For example, if a small developing country with low level of production and the extremely limited resources aims to conversion into the most powerful country in the world, the reality of achieving this goal is improbable.

3. The time frames for achieving the goal must be realistic. If the objectives of the strategy are not achieved in the declared term, it undermines the attractiveness of strategic ideas in the human masses. So, in 1961 in the Program of the CPSU it was proclaimed that communism will be generally built in the USSR already in the 80s of the past century. The unreality of this plan was obvious to experts, but the masses believed in it, twenty years later, a big disappointment seized a significant part of the population. Also incorrectly defined timetables for achieving goals and their artificial acceleration lead to the unsustainable use of resources, the efficiency of the economy as a whole was reduced. Significant

portion of material and human resources was transferred to zero for the victory of the communist system in quickest time in China, at a time of “big jump”.

4. The objectives and terms of the strategy should be realistic in relation to the country's available material, human and financial resources, as well as with possible involvement of loans, investments and financial assistance from other countries and international organizations.

5. The goal is not determined “once and forever”; it should not become a dogma. The main purpose and, consequently, the whole strategy of economic development of the country vary with significant change in internal and external circumstances.

6. The content of the goal should be clearly, concisely formulated and cover the most important areas of social and economic life of the country. The purpose determines what will be the country's economy at the end of the term of strategy. Essential parameters must be defined: the nature of economic relations, the structure of the economy, macroeconomic indicators, and the living standards of the population. Intermediate objectives, for example, membership in important international communities and organizations also can be defined in the strategic program. The priority objective of the economic strategy of a democratic state is a human, rising of his wealth, creation of decent conditions for comprehensive development of the individual.

**Strategic goal** is defined as overcoming of unfavorable (or not enough favorable) current state of the economy and the achievement of higher parameters of its development. Most often strategies are developed when the economy is in a difficult or even crisis situation.

The next stage of the development strategy after determining the main goal is the determination of **methods of achieving**. The set of measures applied by the government to achieve the strategic goal is a **strategic policy**.

Strategic policy starts with the definition of the necessary financial, production and human resources required for the implementation of the goals. Next, the **mechanism of realization** of the strategic goal should be developed, that is the government's measures concerning economic regulation in its main areas should be identified, the necessary institutions, funds should be created, foreign and international means for solving of one or another strategic objectives should be involved (in case of need).

Government solves a number of problems in the implementation of strategy. The main tasks at the macrolevel: full employment, price stability, economic growth, balance of payments equilibrium; at the microlevel - the efficient use of resources. **Priority goals** are allocated for each stage of the implementation of the strategy because the simultaneous solution of these and other problems is rarely possible.

Priority goals can be grouped generally in three directions: economic, social and environmental.

The implementation of the strategic goals is achieved using actions such as monitoring the level of prices and incomes, support for priority sectors and

companies; antimonopoly policy; regional policy; exchange rate regulation, tax policies and others.

Implementation of the strategy of economic development involves the formation of an appropriate legal framework that would ensure the implementation of the necessary measures to reform the economy and concerning the implementation of strategic policies. A necessary condition for effectively working mechanism of realization of strategy is the strengthening of the state credit and finance system, because strong economic transformations require significant budget expenditures and investments from firms, private banks, etc.

The implementation of each strategy is determined for long term but not forever. The action of this strategy ends after achieving the strategic goal and the new strategy should be developed according to new conditions that emerged in the country, and the objectives which society seeks to achieve.

According to the term of action economic policies are divided into medium-term (till 10 years) and long term (over 10 years). Most often medium-term strategies are developed for 5 years; a typical example of such strategies is the five-year economic development plan of the USSR, there are five-year plans in China and in other countries. Long-term strategies are usually developed for 10, 15, 20 years. Strategy, as a rule, is not designed for more long time, since it is difficult, almost impossible, to predict the situation inside and around the country for several decades in the rapidly changing world.

The medium-term strategies are usually aimed at quick and effective overcoming of the crisis, significant acceleration of economic development, its technical and structural reorganization. They are characterized by more detailed elaboration of parameters of development and activities to achieve them. The post-war strategies of European countries and Japan were the medium-term.

Often long-term and medium-term strategies are combined. In this case, the medium-term strategy is regarded as an intermediate stage of the long-term strategy.

The foreign trade policy is an important area, part of the national strategies; it directly involves the country into global space of international economic relations. But the domestic economic policy of the state indirectly forms the international aspect of the national strategy (for example, affecting rate of economic growth, industrial structure of the economy, the price level for goods and services, the capacity of the internal market, etc.).

Strategies on the macro-regional and global levels are realized, in addition to national strategies. Economic development strategies with a high degree of justification and specification in areas are developed by the European Union; less detailed strategies operate in other regional integration formations. Strategy is, therefore, an important form of economic policy. Later, in characterizing the economic policies of countries, mainly strategy of economic development will be discussed. But current policy is also important, especially in critical situations, such as the global financial crisis of 2008 -2009. Then attention is focused on the short term, but effective measures to overcome the negative phenomena.

Economic policy has a very extensive structure, covers a significant number of areas. The following priority areas can be defined generally: trade, manufacturing (industry, agriculture, transport and communications, etc.), the monetary and credit system, social services, and external economic relations.

#### **1.4. Ethnocultural features of national economies**

Among the factors that characterize the country's economy, there are those that can not be expressed in figures or formulas, nevertheless their accounting is important. These are the cultural and ethnopsychological characteristics of each people. The natural-geographical and historical circumstances affect the formation of a specific, inherent in this ethnos, pattern of behavior, mentality, response to those or other circumstances. This specificity is reflected also in economic relations both within the country, and in its foreign economic relations.

Ethnocultural features of peoples in the economic sphere are embodied in the material culture, the culture of production and the culture of business communication or business ethics.

**Material culture** (in the context of economic relations) is expressed in the traditions of everyday life, in preferences in the sphere of consumption of a certain groups of goods and services. This applies in particular to clothing, food, furniture, household appliances, etc.

The striking differences are found in the traditions of nutrition. For example, in countries where Islam dominates, the people do not consume pork, so there is no pig farming here, and pork trade. In countries with traditions of Hinduism and Buddhism (India, Sri Lanka, to a lesser extent Japan), consumption of beef is limited. In Europe, it is very rarely used to eat horse meat, whereas in the countries of Central Asia it is an ordinary food. Less expressive, but there are still discrepancies in providing benefits to individual beverages. For example, in the Mediterranean countries the main drink is wine, and in the Central, Eastern and Northern Europe - stronger alcoholic beverages and beer; most residents of Eastern Europe and Britain prefer tea, and Western Europe - coffee. The Slavic peoples, especially the Eastern and Southern Slavs, use much more bread than the peoples of the Romance and German groups. For the bulk of the inhabitants of South, South-East and East Asia, the main food is rice, for inhabitants of the equatorial and tropical zones of Africa and South America - yams, taro and sweet potato. Climatic features of the regions affect the character of clothing, as well as the consumption of energy for domestic purposes.

These features need to be taken into account not only when analyzing the domestic economy of the country, but also in the practice of foreign trade relations with it, in determining the export or import goods nomenclature.

**The culture of production** depends on many factors, among which in particular stand out: the level of development of the country, level of education of

the population, socio-economic organization of production, historical work traditions.

A high level of production culture is characteristic to developed states, in particular for the United States, Germany, Great Britain, Scandinavian countries, Japan. It should be noted that in the countries of Protestant culture (Germany, the Netherlands, Sweden, Norway, Denmark) good faith work is considered the most pious moral trait of man. For North Americans (USA, Canada), besides, significant incentives to work are the desire to get as much income as possible, which is regarded as a measure of a person's personal qualities, an indicator of his place in society.

Traditionally, conscientious attitude to work is inherent in the peoples of East Asia (Japanese, Chinese, Koreans). It was formed, in particular, under the influence of the Confucian doctrine of the need for domination of public order, hierarchy in relations between leaders and subordinates, honest performance of their duties by every person. The inhabitants of this region amaze with their zeal, endurance in the process of even the hardest work.

*The culture of business communication* is especially important in international economic relations, where representatives of different ethno-cultural types interact. Although the long-standing practice of international relations establishes generally accepted standards of business ethics, there are still differences in the ways, manners, and traditions of business communication that are manifestations of ethno-cultural features of different peoples. They need to be taken into account to avoid misunderstandings during business negotiations. For example, the Japanese and the Finns are quite silent, they listen to their interlocutor carefully, often without looking in the eyes, it seems that they are sitting with a missing view. Italians or Latinos perceive such behavior as a reluctance to enter into an agreement, as polite refusal from further negotiations. If, in response to the proposals of the partners, the Japanese nods and says yes, it means he understood you, but he does not necessarily accept these sentences. Europeans often are disorienting. Americans in business communication often behave with foreign partners as with close friends, clapping on the shoulder, switching to a short name, but at the same time can resolutely renounce the agreement, which becomes a complete surprise for the interlocutors

In the scientific literature, depending on the specifics of the business mentality the peoples of the world are divided into three types: mono-active, poly-active, re-active [20].

1. *Mono-active types of people are introverts oriented on the task (task-oriented)*. Participants in business communication clearly plan their activities, have a balanced character, are patient, committed to their work, systematically plan the future, adhere to a carefully developed procedure for carrying out individual stages of the case. They work in a tightly fixed time, are punctual, adhere to the given word, willingly obey the schedules and timetables, adhere to facts, prefer information from official sources (statistics, reference books, databases). At the same time, they are reluctant to compromise, insisting on their point of view

contrary to the interests of the partner. To this group of peoples belong Germans, Swiss, Scandinavians, Americans (white Anglo-Saxons-Protestants), Englishmen, Austrians, Canadians.

2. *Poly-active type oriented on people.* The representatives of this type of business culture are communicative people, extroverts who easily converse with their partners. For them, the process of business communication is sometimes more interesting than the ultimate purpose of the agreement. When discussing the problem, they speak loudly, gesticulate, approach their face to face, use nicknames (the latter habit do not like the representatives of a monoactive type). They are easy to make compromise, but do not always stick to their words. The representatives of this type do not attach much importance to clear regulation in negotiation, punctuality, scrupulousness in the conduct of the case, believing that the free form of business communication is more effective, since it takes into account the current change of circumstances; they tend to prefer oral information first-hand, use social connections, looking for patronage. To this type of business culture belong the representatives of the Mediterranean countries - Italians, Spaniards, Portuguese, Greeks, Turks, as well as Arabs and Hispanics.

3. *Cultures, focused on the preservation of respect (respect-oriented listeners).* Their representatives are introverts. They are calm, even phlegmatic in communication (especially Finns), able to listen well, follow a flexible schedule of work, punctual, attach great importance to the formal observance of business etiquette (especially the Japanese), avoid confrontation. They discuss matters gradually and cautiously, make decisions slowly. But, if the agreement is concluded, they adhere to its clear implementation, and expect the same behavior from a partner. The main problem during the negotiations with representatives of this type is to protect the reputation of partner, to prevent a "loss of face". In particular, this problem worries the Japanese and the Chinese, that's why they are negotiating with the underlined tolerance, expecting the reciprocity from the partners. To this type of business culture belong the Chinese, Japanese, Koreans, the peoples of some countries of Southeast Asia (Vietnam, Myanmar, Thailand, Singapore, Malaysia), as well as Finns and Estonians in Europe.

Here we considered the brightest groups of business cultures and their representatives. The rest of the peoples gravitate toward that or a different group or have a mixed culture. In more detail ethno-cultural characteristics of peoples, their business ethics will be considered when describing individual countries.

## **1.5. Globalization of modern international relations and integration processes in the world economy**

### ***1.2.1. World economy as the complex of national economies***

The start of creation of the modern world economy as a special organic integrated system on the basis of the world market was occurring in the end of

XIX - the beginning of XX centuries. It is possible to speak now about the global economy as a global economic system, which is based on the international and supranational world economic labor division, internationalization and integration of production and circulation. It also operates on the principles of market economy.

The modern world economy is a holistic system, but this integrity was creating gradually. It was forming with the evolution of the international division of labor, the process of internationalization of economic life of the world community, the integration of groups of countries into regional economic complexes (associations) with interstate regulation of social and economic processes and transnationalization of production.

History of the creation of world economy begins from the *international labor division (ILD)*, which is associated with the exchange of activities and their products between national states.

ILD, or the division of labor between the countries, is the degree of public territorial division of labor. It is based on a cost-effective specialization of production of individual countries and is manifested in the interchange of the results of specialized production in certain proportions.

The international division of labor exists in two main forms: international specialization and international industrial cooperation.

*International specialization* is a form of labor division between the countries where the increase in the concentration of homogeneous production takes place on the basis of the progressive differentiation of the national productions. Specialization within the ILD eventually provides the specialization of the countries and regions in the production of separate products and their parts for the world market.

*International industrial cooperation* is a result of specialization of national industries. They cooperate in the system of international division of labor. International industrial cooperation is based on subject specialization and acts as a form of particular and general division of labor in the world economy.

International industrial cooperation means the inclusion of the country in ILD within the so-called vertical model of international labor division. It must be provided under condition of preservation the autonomy of the production process within the national borders.

The theory of the international labor division has received its foundation and development in the classical school of political economy, first of all in the works of its founders - Adam Smith and David Ricardo. The main achievement of classics is considered to be theory of comparative costs. The basis of this theory is the idea of the existence of cross-country differences in the costs associated with the production of certain goods. This situation leads to the conclusion that it is more profitable to focus on the production of good that requires lowest costs, than to produce all commodities for which there is a demand. Specialization on the production of this good will give the opportunity to purchase the goods in the foreign market, production costs of which are higher inside the country than outside it. The specialization in the production of this good, which has maximum

advantage, will provide the greatest economic effect. There are some cases, when particular country cannot produce the goods with the costs that are lower than on the international level. Then the specialization in the production of the good, for which the exceeding of the international level of costs is the lowest, will be relatively effective in such situation.

The ideas of classics were embodied in life and they have been further developed at creation of modern international trade theories.

The international division of labor was the unifying element that created *the system of global economy as complex of national economies* that are its subsystems, which are interrelated by the international exchange.

Exit of trade relations beyond the national boundaries, i.e. the internationalization of the sphere of circulation (the commodity stage of capital movement) is the general active tendency for all countries seeking to gain economic benefit from the international division of labor and international trade in our time. But today trade, currency and credit relations between the countries form only primary level of integrity of the international relations, since the supranational level of the global economy was formed in the middle of XX century.

### ***1.2.2. World economy as the unified supranational space***

Qualitative shift occurred in the evolution of the international division of labor in the second half of XX century, the export of capital beyond the national boundaries was a result of this event. Internationalization has covered all stages of capital movement (monetary, industrial, commodity) by taking certain forms, namely:

- ***integration*** of national economies into regional economic complexes with the structure and proportions facing on consumption of the whole region, as well as with interstate regulation of economic relations;

- ***transnationalization***, i.e. the exit of the industrial and commercial activities of corporations (companies) in the form of branches and subsidiaries beyond the national borders. The subdivisions of transnational corporations (TNCs) that are on the territory of the national states, operate largely as an economically, organizationally and juridical independent organizations. Their relations with nation states are built on the specific contracts.

Internal moment of the process of integration and transnationalization is the emergence of a new phenomenon of the global economy - ***world economic division of labor***: a) intra- and interregional; b) global (transnational) division of labor.

In contrast to the international division of labor, this is not division of labor “between countries”, but “inside” transnational corporations, i.e. intra-corporate.

World economic division of labor is extraterritorial one by its nature. It cannot be represented (as an international division of labor) on the territorial principle and in the forms of general, particular and singular division of labor. In contrast to the international division of labor, it is the technological division of



labor in the production, based on the singular division of labor (i.e. internal for transnational corporations) in the form of transnational specialization and cooperation of production. The unified production process is divided into operations, carried out in the different countries. Partial product that is manufactured in the particular country, has no consumer cost outside the transnational organized production process.

Activities of TNCs, as one of the organizational forms of world economic division of labor, provide regular circulation of the goods, services, financial resources, raw materials, knowledge, technological and organizational management experience in the planetary scale. National economies have direct access to the world markets of goods and capital, new technologies and modern management, through the participation in the transnational division of labor.

Intercompany corporate specialization and intercompany industrial cooperation are the forms of the transnational division of labor.

**Intercompany specialization** is carried out not in the context of national economies but within the transnational economy, which does not recognize national boundaries and views the world as the unified world economic space. This is mainly the form of parts and technological division of labor. The good is produced by enterprises of one or several transnational corporations which tend to occupy a market niche and become the leading providers of highly specialized products that meet the total world demand. These corporations are usually called patients.

Cooperation in the field of R & D, cooperation of the industrial companies with “science parks” or technopolises, the implementation of common programs and creation of joint ventures are the features of **inter-corporate cooperation**.

World division of labor creates **the world economy as the unified supranational global economic space**, which forms the second level of world economic relations, which is more appropriate to the notion of “global economy”.

Unified world economic space is the supranational environment of entrepreneurship (business), where single economic, technological, legal and socio-cultural requirements for the subjects of industrial and commercial activities are operated.

The world economy is still in the beginning of formation of the unified world economic space. It is still graded by numerous degrees of unity.

From the very beginning the unified world economic space was claimed as the union of the groups of countries into regional associations (for example the European Union) at the regional level and as the activities of TNCs on a planetary scale - at the global level. Formed on the basis of the world division of labor, unified world economic space involves the national economies and their subsystems in its orbit, thereby laying the foundations of global economic integration of the countries of the world community. This occurs in the process of the creation of certain conditions in the countries: information technology, social market economy, the internationalization of the legal and socio-cultural norms, etc.

The main essential subsystems of the world economy in the second level are: technological; economic; legal; socio-cultural.

What are these subsystems?

**Technological subsystem** is the totality of requirements of scientific and technological revolution (STR), which provide the competitiveness on the world market. These technology requirements can be reduced to the following main parameters: information and computer nature of the technology; science linkage; resource saving, waste-free and ecologically clean type of technology; biotechnological effectiveness, that is the technology which is based on the natural processes.

These parameters provide maintaining the world level of efficiency, productivity, quality and originality of products, implementation of the principles of modern management. The implementation of these requirements is virtually impossible and ineffective in the framework of separate national technology spaces.

**Economic subsystem** is the common economic space of free movements of the goods and services, capital, workforce and information across the borders of nation-states, as well as the free interchange of national currencies.

The economic subsystem is formed as the development and realization of uniform requirements for the international trade, production and investment and currency and financial activities.

The unified economic space provides also the presence of the uniform norms and standards of the organization and management of international processes embodied in the principles of management.

Economic subsystem of the world economy as the mandatory infrastructure component should contain the unified scientific information space.

Regulation of the economic life of the world community takes place based on socially oriented market relations and corrective functions of TNCs, TNBs, intergovernmental and supranational institutions in the framework of the unified economic space.

**Legal subsystem** is the set of common rules of business law and norms of economic behavior. They are formed into the unified legal field in the process of the development of the norms of international private, civil and patent law.

The tendency of further convergence of the legal systems, which applies to human rights, lays the foundation of the world legal space.

**Socio-cultural subsystem** is formed much slower and more contradictory than other subsystems of the unified world economic space. The process of forming the unified social and cultural space includes:

- achieving a higher overall standard of living and reduce disparities between “rich” and “poor” countries. For this purpose the EU’s structural funds, various United Nations trust funds are created;
- common approach to social policy;
- formation of new mindset, breaking of the old way of thinking;

- development of unified standards of business conduct, business ethics and management;
- peaceful resolution of national and cross-national problems.

Each subsystem of the world economy as the unified world economic space (technological, economic, legal, social and cultural) is specific.

These subsystems have their own logic of development and their own subsystems, but they function as elements of the whole organism - the world economy of unified supranational world economic space. The imbalance in the functioning of any subsystem affects the state of system as a whole.

Technological, economic, legal, social and cultural subsystems are equal and equivalent in the interaction. There is no determinative and dominant subsystem in the development of the world economy once and for ever. This subsystem may be extracted depending on the concrete circumstances, that make one of the sides the main, or from the target setting, concrete task, point of view in the research of the metasystem of world economy. This is the essence of ***multidimensionality of system of the world economy***.

Analysis of the formation of the world economy as a whole system makes it possible to determine the classification of the countries in the world, to find out the main characteristics of globalization of the world economy.

### ***1.2.3. Regional integration structure of the world economy***

***Main features of international regional integration.*** The international regional integration consists in the close and organic interlacement of the national economies of the countries compactly situated in a certain space (region). At quite a high level of integration development the national economies form a single whole that is characterized by single industrial structure, common structure of regulation on the part of state and non-state institutions, free movement of industrial factors and even political unity. The regional integration in its own development passes the following ***five stages or levels***: preferential trade area; free trade area; customs union; common market and economic and monetary union.

The ***preferential trade area*** (based on preferential trade agreement, PTA) unites the states, which provide privileges to each other in the trade of some goods and services. These benefits are reduced customs duties, in limiting or canceling quotas on the import of certain goods. This initial stage of integration is characteristic for the overwhelming majority of regional associations of the world, including the CIS.

***Free trade area*** (based on free trade agreement, FTA) differs from the previous form in that it liberalizes trade in virtually all goods and services within the association: customs duties are abolished, some non-tariff restrictions are

abolished. Nevertheless, in relation to third countries that do not enter the area, each member of the association carries out its own customs policy: one country can establish a customs rate for the goods in 10%, another in 20%, etc. The European Free Trade Association (EFTA) and the North American Free Trade Agreement (NAFTA) can be the examples.

***The Customs Union*** is characterized by the fact that full liberalization of trade within the association is accompanied by the establishment of unified customs rates and other restrictions on third countries. One example of a customs union is the association of Russia, Belarus and Kazakhstan.

In ***the Common market***, not only trade, but also the movement of factors of production (capital, labor) is liberalized. At this stage of integration, production cooperation is significantly deepened, ties between enterprises of the participating countries are strengthened, and conditions for transition to a single currency system are being formed. A classic example of a common market was the European Economic Cooperation from 1958 to the early 1990s. It then acquired an informal, but popular name - "Common Market". Another example - MERCOSUR.

The ***Economic and Monetary Union*** is the highest of the stages reached in the development of integration processes. At this level, full liberalization of trade was realized, free movement of factors of production was ensured, and industrial cooperation reached significant development. The completion of economic integration is expressed in the introduction of a single currency system with a central bank and a single monetary unit. Currently only the European Union has achieved this stage. Economic integration in the EU is also accompanied by political integration: a common parliament has been formed, carefully the foreign policy of the participating countries is agreed upon (on many issues they act as a single state). The EU has a highly developed system of supranational governance bodies in economy and politics.

The largest and most developed regional integration associations of the world are the following.

#### ***In Europe***

- ***European Union (EU)***: Austria, Belgium, Bulgaria, Great Britain (*currently is in the process of secession from the EU*), Greece, Denmark, Estonia, Ireland, Italy, Spain, Cyprus, Latvia, Lithuania, Luxemburg, Malta, the Netherlands, Germany, Poland, Portugal, Rumania, Slovakia, Slovenia, Hungary, Finland, France, Czech Republic, Sweden and Croatia (28 states in all).

- ***European Free Trade Association (EFTA)***: Iceland, Norway, Switzerland and Liechtenstein.

- ***Commonwealth of Independent States (CIS)***: Azerbaijan, Belarus, Armenia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine (Georgia left the organization in 2008).

- ***Black Sea Economic Cooperation (BSEC)***: Azerbaijan, Albania, Bulgaria, Armenia, Greece, Georgia, Moldova, Russia, Rumania, Turkey, Ukraine and Serbia.

- **GUAM:** Georgia, Ukraine, Azerbaijan and Moldova.

#### ***Asia and Asian-Pacific region***

- ***Asia-Pacific Economic Cooperation (APEC):*** Australia, Brunei, Vietnam, Indonesia, Canada, China, Republic of Korea, Kiribati, Malaysia, Mexico, the Marshall Islands, New Zealand, Papua New Guinea, Peru, Russia, Singapore, the USA, Thailand, Taiwan, Philippines, Chile and Japan.

- ***Association of Southeast Asian Nations (ASEAN):*** Brunei, Vietnam, Indonesia, Cambodia, Laos, Malaysia, Myanmar, Philippines, Singapore and Thailand.

- ***“Colombo Plan” for Cooperative Economic and Social Development in Asia and the Pacific:*** Great Britain, the USA, Canada, Japan, Australia, New Zealand, India, Pakistan, Sri Lanka, Afghanistan, Iraq, Nepal, Myanmar, Republic of Maldives, Bhutan, Bangladesh, Laos, Cambodia, Malaysia, Thailand, Singapore, Papua New Guinea, Indonesia, Philippines, Fiji and Republic of Korea.

- ***Council of Arab Economic Unity (CAEU):*** Egypt, Iraq, Jordan, Yemen, Kuwait, Libya, Mauritania, United Arab Emirates, Palestine, Syria, Somali and the Sudan.

- ***The Shanghai Cooperation Organization (SCO):*** Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, China, Pakistan, India

#### ***North and South America***

- ***North American Free Trade Agreement (NAFTA):*** the USA, Canada and Mexico.

- ***Latin American Integration Association (LAIA):*** Argentina, Bolivia, Brazil, Venezuela, Columbia, Mexico, Paraguay, Peru, Uruguay, Chile and Ecuador.

- ***Southern Common Market (MERCOSUR):*** Argentina, Brazil, Paraguay and Uruguay.

#### ***Africa***

- ***Economic Community of West African States (ECOWAS):*** Benin, Burkina Faso, Côte d'Ivoire, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo.

- ***Customs and Economic Union of Central Africa (UDEAC):*** Gabon, Cameroun, Congo, Central African Republic, Chad and Equatorial Guinea.

### ***1.2.4. Globalization of the world economy***

Since the second half of the XX century the world economy has been developing under considerable influence of globalization process. The globalization is furthering the transformation of international relations (on bilateral and regional levels) into the integral system in planetary measurement.

The strengthening of interaction and interdependency in the contemporary society is a characteristic feature of globalization, owing to which “the world

community” is forming. The global economy functioning as a unified system in real-time operation and on the global scale is the kernel of this community.

The economy is usually determined as a basis of globalization. It is considered that the globalization is none other than a manifestation of modern post-industrial stage of development of the economy and society in the relationship between the countries in the world. It is a new degree of internationalization in social life: economic, political, socio-cultural, ecological and demographical relations between the peoples. The major globalization impulses are coming from the economy. The main argument confirming an objective character of globalization as an inevitable and progressive process in its basis, although contradictory, disappears without taking into account the economic component

The IMF determines the world trade, transnational financial flows, transfer of technologies, information networks and interaction of cultures as the main link of globalization. The UNCTAD accentuates attention to the globalization of production processes through the international industrial cooperation.

Except purely economic manifestations of globalization, we are also determining such its forms as a strengthening of interaction of different cultures, forming of global social interaction system as a basis of planetary society formation, increase in number of state and non state international organizations and destruction of administrative barriers between the countries. The globalization appeared before us as “the total social fact”, that is, as a number of transformations touching upon all the aspects of social life: economic, professional, legal, cultural, political and even geopolitical relations.

Among the main globalization features and indicators it is necessary to mention the growing interdependence of the economies of various countries and the greater integrity and unity of the world economy the basis of which is the strengthening of openness of national markets and intensification of international division and cooperation of labor.

Thus, summing up the above-mentioned globalization features, one can express the following generalization about its content.

The globalization is an acceleration process of development of correlations in all the spheres of human activity and its transformation into planetary metasystem. As a basis the globalization has internationalization of social activity, first of all, economic one but substantially differs from it. The principle difference consists in the following: if the internationalization is a strengthening of relations between the countries in the world when keeping absolute national sovereignty (interethnic level), the globalization means moving across the national boundaries (supranational level).

**The most important manifestations of globalization**, as a rule, include:

- rapid development of mass media system, forming of unified world information network and communication system;
- accelerated increase in importance of financial sphere in the international economic activity;

- distribution of TNC activity and strengthening of transnationalization of the world economy;
- forming of system of international organizations which form together with TNC a supranational mechanism of the world economy governance and increase in number of non-state subjects of international life;
- strengthening of «openness» of the national economies;
- the role of state in the national economy governance changes in the transformation process of ratio «national – supranational»;
- the tendency of uneven development of the most developed and the least developed countries appears;
- regionalization of the world economy;
- social transformation in planetary measurement which is expressed in the integration of individual elements of community into global world structures, in the weakening of traditional relations and in the orientation on standardized values;
- acceleration of interaction of cultures.

These characteristic manifestations of globalization influence the world economic processes and national economic policies in rather substantial way; it is necessary to consider them when elaborating strategies of economic development. That is why it is expedient to discuss more in detail the compound metasystems of globalization. We remember that each of the components is the system, which is dynamic.

**Progress in the system of information science and communications.** Why is it necessary to begin the analysis of mechanism of globalization just from this point, the world economic system is “the core”, you know? It deals that the modern transformation of economic processes would be impossible without information revolution and mastering of communication systems using new transport and communication facilities. Just the lightning speed at which the information, for example, on rates of exchange is being spread from any financial center to any part of the planet makes it possible the quick movement of enormous currency funds between countries and exchange markets. The modern communication facilities and Internet considerably increased the mass attraction of population of the planet to mutual contacts, including business ones. The development of motor transport and jet aircraft makes it possible to set up direct contacts between business partners from different countries with no considerable waste of time for movement in the space.

The revolution in the information science and telecommunications began in the last quarter of the XX century. Within thirty years of the past century the power of the total number of computers in the world has been doubling at the average for eighteen months. The volume of information on each square centimeter of disks, proceeding from 1991, increased at the average by 60% a year. The cost of information carry decreased in many times [11, p. 30].

Owing to the development of modern telecommunications facilities the actual destruction of national boundaries for spreading information takes place. The unified world information space is being formed within which there are

common cultural, worldview and ethical standards, which are seizing broad masses of the world's population (with positive and negative consequences). The world «cyberspace» is being formed where the information is stored and processed and its intensive exchange is going on. The efforts of some governments to block access to information are turning for their countries by considerable economic losses. This space is increasing at a brisk pace. According to some calculations, only for the first three years of the XXI century more information has been created than for the previous 300,000 years of human history [11, p. 30].

The information industry of the leading countries really turned into a special, qualitatively new field of common structure of economy. The production of a new type of commodity - global reusable commodity having new economic properties: infinite reproduction and accumulation, has begun here. So the question is already about the appearance of new nontraditional cost source which becomes its main source and which is connected with the realization of intellectual potential. Under the conditions of the information economy the cost is able to generate overvalue, as well as under the conditions of industrial economy the capital generated surplus value.

The improvement of economic situation in the world leads to the increase in expenditure for IT. According to experts, the world market of IT has grown by 5.3% and reached 3.4 trillion dollars for the last year, the biggest growth (6.4%) has been observed in the segment of equipment, 3.1% in software and 1.5% in service sector [11, p. 30].

In China and India the volume of investments into new technologies and services is increasing, it is necessary to maintain the growth in the industries working for export. In the USA the state stimulation of the economy contributes to the growth of investments for IT-equipment.

Western Europe on which about one third of world market of IT falls is a weak link: the financial crisis has made indefinite the prospects of the EU's economy for a short-term period. The IT-segment in the given region is being restored relatively slowly.

Another region where the analysts are not expecting the growth is Japan. In other countries of Asia there are good prospects of growth: up to 13.7% in China and 13.8% in India. But the analysts are still expecting a gradual restoration of markets in Europe and Japan and forecasting the growth of IT-segment by 7.1% in the nearest two years [11, p. 30].

The phenomenon which has been called «digital divide» that one can translate as “digital barrier” or “digital inequality” is connected with globalization of information technologies. This notion is used for describing a new division of states and national communities relative to the person who has an access to information and another one who has no such an opportunity because of financial reasons or lack of education.

It is better to consider the information revolution as not manifestation or consequence, but as precondition and factor of globalization. The globalization



process would be impossible without revolution in information and communicative technologies.

**The technological revolution** which is determined by the development of scientific and technological progress is closely connected with information revolution. The complete complex system automation of production, management, servicing, distribution and transportation which are based on electronics and information science is becoming a new technological base and the main technological structure of society. The essence and peculiarity of this complete technological base consists not only in the highest level of automation but also in that, firstly, that its technological structures will be already able to develop the auto-reproducing structures on the principles of extended reproduction and, secondly, it will be in fact, a globally integrated technological base connected from within by means of global technetronic informatization. So it is necessary to determine the post-industrial global economy as the global technetronic and information economy.

**Forming of world financial market.** The information revolution has just become its prerequisite. The new information technologies connected the main financial centers and considerably decreased the transaction costs of financial deals and time necessary for their execution.

The changes of activity conditions of financial institutions in the connection with deregulation of banking activities became the important globalization factor in the financial sphere. The obstacles in conducting various financial operations by the banks and other financial institutions were eliminated in the process of deregulation. The financial holdings offering the client any services in the field of financial mediation appeared in consequence of it. Just the holdings are dominating today on the world financial market.

The growth of uncertainty related to the rates of exchange and rates of securities became the peculiarity of financial markets in the context of globalization. The new kinds of securities such as derivatives that are derived from other securities appeared. This opened the opportunities for mass speculations and accelerated the process of isolating of monetary and financial sector from the real economy. Everyday volume of operations on monetary and financial markets tens of times exceed the real needs of financing of international trade; this volume almost equals to aggregate currency reserves of all the national banks in the world. The volume of secondary securities market a few times exceeds the world gross product [11, p. 32].

The following figures testify to a scale of development of world financial system. For the last 20 years everyday volume of transactions on the world currency markets has increased from 1 billion dollars to 1200 billion dollars (that is, 1200 times more) while the volume of world trade in goods and services has only increased by 50% [4, p. 1]. The capital in the growing volumes is not going into production but into speculation. The cross-border movement of capital prevails as short-term portfolio investments. This movement is getting out of control of governmental structures; even in the most developed countries only

30% of securities market is controlled by the state. The situation of «bubble» arises in the economy: nominal market value of securities exceeds its real filling and this provokes instability of economy and even the danger for the country.

There is a reason for considering that the forming on a scale of all the world of not simply financial or information market but the creation of financial and information space where not only commercial but the whole activity of man kind is being realized more and more.

**Transnationalization of the world economy.** The formation of transnational corporations and strengthening of their influence upon the world economic processes are one of the characteristic manifestations of globalization.

One can even affirm that the TNC system is the principal motive force of globalization as a metasystem. The openness of the national economies which is one of the key requirements according to Washington Consensus most of all responds exactly to the interests of TNC. The internationalization of production permits TNC to seize markets avoiding customs barriers. Transnational corporations are increasingly detached from the home country in their activities and less and less “national” and more and more «glo bal» remain in them. So for example, the American company “Exxon” obtains 75% of its income beyond the USA. The TNC withdraw from the care of their governments and become, practically speaking, independent subjects of economic activity.

The transnationalization is carried out at rapid paces. For the last year the cross-border mergers and absorptions increased by 53% and reached 526 billion dollars that had been stipulated by the growth in number of megadeals (to a value of over 3 billion dollars). This reflects as growing value of assets on the stock markets so the growth of financial opportunities of the buyers for realizing similar operations. The investments into new projects made 904 billion dollars. Over two thirds of the total value of investments into new projects was still accounted to the share of developing countries and countries with transition economies. By 2020 the value of goods produced in the foreign TNC subsidiaries will be 20 trillion dollars [4, p. 42].

In the world there are about 890,000 of the foreign branches which are in possession of over 103,000 mother companies. The network of branches is indefatigably developing. The foreign TNCs branches ensure the employment of approximately 69 million persons who generate yearly volume of sale at a rate of 28 trillion dollars and value added of 7 trillion dollars [Poverty Facts and Stats — Global Issues [43].

The movement of direct foreign investments can serve as an index of transnationalization. So, in 2013 compared to 2011 the volume of imported FDI increased by 20.6% and one of exported FDI increased by 20.0%; the growth (9.0% and 4.6%, correspondingly) and excess of its average pre-crisis values (**Table. 1.6**) are also observed according to the income from imported and exported FDI.

**Table. 1.6**

**Dynamics of main indicators of FDI in the world economy in 1990-2013**  
(value of current prices, billion dollars)

Indicator	Years				
	1990	2005-2007 (average pre-crisis indicator)	2011	2012	2013
<b>Inflow of FDI</b>	<b>208</b>	<b>1493</b>	<b>1700</b>	<b>1330</b>	<b>1452</b>
<b>Export of FDI</b>	<b>241</b>	<b>1532</b>	<b>1712</b>	<b>1347</b>	<b>1452</b>
<b>Volume of imported FDI</b>	<b>2078</b>	<b>14790</b>	<b>21117</b>	<b>23304</b>	<b>25464</b>
<b>Volume of exported FDI</b>	<b>2088</b>	<b>15884</b>	<b>21913</b>	<b>23913</b>	<b>26313</b>
<b>Income from imported FDI</b>	<b>79</b>	<b>1072</b>	<b>1603</b>	<b>1581</b>	<b>1748</b>
<b>Profitableness of imported FDI</b>	<b>3.8</b>	<b>7.3</b>	<b>6.9</b>	<b>7.6</b>	<b>6.8</b>
<b>Income from exported FDI</b>	<b>126</b>	<b>1135</b>	<b>1550</b>	<b>1509</b>	<b>1622</b>
<b>Profitableness of exported FDI</b>	<b>6.0</b>	<b>7.2</b>	<b>6.5</b>	<b>7.1</b>	<b>6.3</b>

Reference: [34]

In 2013 compared to the previous year the global inflow of FDI grew by 9.2%. According to the forecast of UNCTAD the world flows of FDI will increase by 1.75 trillion dollars in 2015 and by 1.85 trillion dollars in 2016. This growth will be mainly connected with the investments in developed countries because the economic development in these countries is gathering force and scale. At the same time, the unstable situation on some forming markets and risks connected with political uncertainty and regional conflicts can adversely affect the supposed reviving of FDI flows. The record cash holdings, which the TNCs have, ongoing corporative and industrial restructuration, growth of quotations on stock markets and gradual withdrawal of public funds from the capital of financial and nonfinancial companies the participation in which has been used as a support during the crisis, opens new investment opportunities for companies in the entire world.

At the same time, the post-crisis condition of business environment is connected with multiple factors of uncertainty. Such risk factors as the unpredictability of global system of economic control, possible wide-ranging crisis of sovereign debt and imbalances in the budgets and financial sectors of some developed countries as well as the growth of inflation rate and signs of economic «overheating» in the foremost countries having forming markets can still impede upsurge in the FDI sphere.

The successfulness with which the TNCs are advancing to the international markets is based on its competitive advantages, first of all - on the technological leadership. The TNCs have a chance to allocate substantial funds for maintenance of scientific-research institutions, high salary of qualified engineers and managers. The biggest companies in the world founded over 100 large research centers, including ones beyond home country.

The overwhelming majority of mother companies (79%) are situated in developed countries. Lately, they also began appearing in new industrial countries such as Singapore, Republic of Korea and Brazil as well as in China and Russia.

500 largest TNCs concentrate over 1/4 of world production of goods and services, 1/3 of export of industrial production and 3/4 of trade of technologies and management services [4, p. 43]. 84% of all-the-world export of FDI, 10% of world GDP and one third of world export are falling only on the TNCs of developed countries.

The influence of TNCs is based on the actual control of considerable part of transnational capital functioning on the international financial markets which in its majority have an oligopolistic structure. The opportunity to use the secluded intra-company market ensuring them the lesser dependence on the economic policy of governments as well as a successful overcoming of trade obstacles is one of the advantages of TNC. Over one third of world commodity flows is falling on the intra-company trade of TNC realized at transfer prices [4, p. 43].

The TNC positions are also strong in the economic policy. In home countries they form a powerful lobby which greatly influences the governments of developed countries. The TNC are often putting pressure in strict forms upon the governments of the states where their subsidiaries are located, requiring to carry on the economic policy in their own interest and often to the prejudice of national interests of receiving countries.

The transnationalization has both the negative and positive consequences. The weakening of regulating role of the state in economic processes is related, as it has already noted, to the negative consequences. Even in home countries of mother companies (these are mainly highly developed states) the economic control over the TNC activity is becoming less capable of functioning. One of the reasons of this situation is that the transnational corporation can avoid taxation in home country transferring industrial capacities to those countries where the taxation level is low. The positive side of transnationalization as a component of globalization process consists in the intensification of the flows of investment and financial resources, acceleration of rate of international trade and attraction of the more number of countries to the world economic space and to new technologies. Owing to the TNC not in the last place, so-called new industrial countries were formed which took a rather marked place in the world economy.

**Strengthening of the role of international organizations in the regulation of world economic processes.** The international organizations, in the first instance, economic ones, have begun to exert considerable influence upon the international economic relations from the second half of XX century; this influence is growing more and more. One should especially mark among the international economic regulators the activity of such organizations as the International Monetary Fund, World Bank Group, World Trade Organization, regional banks of development (in particular, EBRD) and some economic bodies of UNO such as UNCTAD, UNDP and ECOSOC.

The increase in the role of the IMF and the World Bank (WB) is caused by unprecedented development of world financial market and growth of external indebtedness of developing countries and countries with transition economies. The amount of indebtedness of developing countries is constantly increasing and in 2013 it reached 4.8 trillion dollars. The external debt makes a considerable interest from the GDP. So, in 2014 it equaled to 22% in Brazil, 23% in Argentina and India, 27% in Mexico, 36% in Republic of Korea and 44% in Turkey. This testifies to the greater drawing these countries into debt [48].

Under such conditions the IMF and the World Bank have advantageous positions for putting pressure upon the governments of countries debtors. The authority of these organizations in the international economic relations is so great that it applies to large international banks which lend the subjects of economic activity (including the governments) in different countries. The solution of the problem of debt restructuring and giving of the next credit to the countries - debtors depends, in the first instance, on the positions of the IMF and the WB. It gives them an opportunity to interfere in the economic policy of governments directly and to reinforce more their role as world economic regulators.

The IMF, World Bank as well as OECD develops special plans for the purpose of solving or softening the problem of international indebtedness. The leading role in their development belongs to the government of the USA. In 1985 "Baker Plan" was declared which had foreseen the realization of liberal economic reforms by countries-debtors as a basic condition for giving credits. In 1989 "Brady Plan" appeared according to which the restructuring and partial debt relief were stipulated by the realization of reforms approved by the IMF and under its strict control. In 1999 the countries of «Big Seven» took decision about the relief of 90% of debt of the poorest countries on condition that they would have realized the program of structural reforms within six years (it concerns only 2% of total indebtedness of developing countries) [4, p. 47].

Thus, the IMF, WB, OECD and WTO execute their activity not only on the international level but also in the national space of sovereign states. As the developed states play the leading part in the guidance of these organizations many statesmen and economists consider their policy as unbalanced. So, one of the experts of the EU Commission notes that the international financial institutions have turned into the bearers of hegemony of developed countries instead of being an instrument of market regulation in the interest of the whole world community. In the opinion of politicians of left orientation, the WTO is the brightest expression of all the system of global corporative management and it is necessary to stop escalation of its influence upon the sphere of international economic relations because the activity of this organization is directed at the protection of TNC interests at the expense of majority of countries in the world.

However, there is a point of view according to which it is necessary to strengthen the regulating role of international economic organizations. The leaders of these organizations are, in the first place, its adherents. So, M. Camdessus, the former director of the IMF, considers necessary to strengthen the policy of the

Fund. He expressed the confidence that the collective decisions taken under the aegis of international institutions should become obligatory. And A. Walters, one of the chief leaders of the IMF, affirmed that owing to the globalization of finances the world needed the central bank and the IMF was a natural basis for its creation. It is necessary to release the IMF from “strait-jacket” and to make it independent from governments.

Thus, there is the clear tendency to the transformation of international economic organizations into the structures completely independent from national governments which are executing regulation of world economy on the supranational level and obtaining the functions of world government. The sovereign rights of states are limited not only in the carrying out of their own economic policy but relatively to national property. The proposals related to introduction of a new instrument on debts: “debt-for-nature swaps” - exchange of debt for the right to carry on the ecological programs in the countries -debtors, i. e. the right to control their territory; “debt-for-equity swaps” - exchange of debt for property, are advanced in the American financial circles. A conception of application of norms of private commercial right on which basis the state-debtor can be declared bankrupt and relatively to it the external management of economy is introduced is being considered in the guidance of the IMF and the WB.

So, the international economic organizations together with the TNC and TNB form the global supranational space. The global orientation of transnational corporations and banks reduces the importance of national economies. They are making today “the economic weather”. The average and small subjects of international business are forced to pattern its behavior on the TNCs and adapt themselves to their policy.

Such a notion as *openness of national economy* is closely connected with the process of globalization. The openness means a degree of intensity with which the country “submerge” into the international economic relations. As it has been already said, the size of exports and imports of goods and services, export and import of capital and liberalization of legislation about the foreign economic activity of residents and nonresidents etc. are the characteristics of openness. The Global Enabling Trade Index which is calculated by the World Economic Forum is the most widespread index of openness.

According to this index the most “open” country in 2014 was Singapore (the index is equal to 5.9). Hong Kong was on the 2nd place - 5.5, Netherlands - on the third one- 5.3, index of New Zealand was 5.2, and in Finland it was 5.2. The United States were on the 15th place - 5.0, Russian Federation – 105th place (3.5). Chad was the least open country with index 2.5 in 2014 [49].

The degree of openness of national economy depends on the foreign economic policy of the country. Since the second half of the XX century the prolonged tendency towards the liberalization of foreign economic policy in the majority of countries in the world has been formed. This happened under the pressure of GATT/WTO which had been in succession implementing the principles of trade liberalization. Due to this, the tariff rates have considerably

decreased in the world trade; if in the early 50ties of the XX century they exceeded on the average 40%, by the XXI century they reduced to 3%.

The openness of national economies contributes to the intensification of international relations, deepening of international division of labor and growth of efficiency of world economy in total. The research carried out in the Michigan University (the USA) show that a one-third reduction of trade barriers in the field of agriculture, goods and services would lead to the growth of volume of world economy in 613 billion dollars [11, p. 40]. However, there are divergences of evaluations of openness influence upon the economic development of different groups of countries. The liberalization of international economic relations is undoubtedly advantageous to economically developed countries because it eliminates the obstacles to the promotion of their goods and capitals on the markets of other countries. So, the USA has obtained almost a one-third of increase of their GNP from the export growth within the 90ties of XX century [8, p. 97].

The situation for developing countries is more complicated. On the one side, the inflow of foreign investments contributes to the economic development of these countries; they get some privileges concerning export of their goods on the markets of the USA, EU and Japan. But, on the other side, when the barriers on the way of import of goods from developed countries have been removed, the national economy proves to be unprotected from competition and supremacy of foreign capital can destroy the optimum structure of economy and break national economic plans. The same problem is faced by the countries with transition economies.

The globalization is accompanied by the deepening of irregularity of economic development of different groups of countries. The developed states are extending their separation from the poorer countries; the contrast between the high-developed center where under 1/6 of population lives, and the outlying districts where the main mass of population of the planet is concentrated has been increasing.

According to the data of the World Development Report, prepared by the World Bank, 2.8 billion inhabitants from 6 billion of population in the planet live on below than 2 dollars a day and 1.2 billion inhabitants live on below than 1.0 dollar a day. The average income of 20 richest countries 37 times exceeds average income of 20 poorest ones. In the countries with transition economies the number of persons living on below than 1 dollar a day 20 times increased in the 90ties of the XX century. The income of 200 richest people of the globe exceeds aggregate income of 41% of population on the Earth [15].

The gap in the income between a one-fifth of world population in rich countries and a one-fifth of inhabitants in poor countries has increased from 32 to 78 times for the last 40 years. Only 1% of all inhabitants on the Earth possesses almost a half of all the property on the planet. The incomes of 0.01% of the richest people on the planet increased so much that if 30 years ago they exceeded the income of 90% of the poorest people almost 200 times, now they exceed their income over 37 times. The average income per capita in 20 richest countries in the

world 37 times exceeds the corresponding index in 20 poorest countries; this gap has been doubled for the last 40 years [4].

But, the first five of the most developed countries creates 86% of gross world product, gives 82% of world export and 68% of direct foreign investments and the first five of the poorest countries is not exceeding 1% in all indices [11, p.41].

The GDP per capita is a synthetic index of development level of the country (Tab. 1.7).

**Table 1.7**

GDP per capita in some countries in 2014, dollars (according to the PPP)

No	Country	No	Country
1	Qatar 143,427	46	Poland 25,105
2	Luxemburg 92,049	49	Russia 24,805
3	Singapore 82,762	61	Turkey 19,610
5	Kuwait 71,020	64	Belarus 18,161
10	The USA 54,597	74	Brazil 16,096
15	Australia 46,433	89	China 12,880
17	Sweden 45,986	105	Ukraine 8,668
18	Germany 45,888	124	India 5,855
24	France 40,375	129	Moldova 4,979
27	Great Britain 39,511	140	Yemen 3,774
28	Japan 37,390	153	Tajikistan 2,688
32	Spain 33,711	164	Afghanistan 1,937
34	Israel 32,691	173	Ethiopia 1,589
38	Czech Republic 29,925	183	Liberia 882
44	Greece 25,859	186	CAR 607

Reference: [43]

The developed countries concentrate the riches not only created by their own forces but also redistributed at the expense of world resources. So, 25% of used world resources fall on the USA having 5% of world population and up to 80% in all fall on the countries of “gold billion”. The question is about the natural resources such as fuel, ore, earth, water, and wood. The scantiness of resources on the planet creates the great problem for world economic development, including in the context of liquidation of gap in the economic levels. In order to raise the standard of living of the majority of the world's population to the current level of the Western countries, it would have to increase the volume of resource consumption by 20 times. And this exceeds the maximum environmental capacity [4, p. 50].

It should not be considered that the irregularity of development between the developed countries and developing ones is only a consequence of globalization process. There are more reasons and they are quite serious. It is also a difference in the initial and starting development levels: the former colonies were either absolutely non-industrialized or had only sprouts of industrialization in the



moment of finding the independence (mainly the 40-60ties of the last century). It is also “a population explosion” which peak has fallen for these countries on the 80ties of the XX century; population growth in many countries outpaced the rates of GDP growth. The lack of qualified personnel, social disturbances and regional wars lasted within decades and corruption of officialdom and ruling clique are other reasons.

At the same time, there are also positive tendencies observed in the economic environment of developing countries. The structure of their economy has improved. At present, a part of manufacturing industry in the material product increased up to 61% and a part of agriculture decreased up to 17%. The volume of industrial product of this group of countries has increased in 6.8 times while it has increased in the developed countries only in 3.5 times for the last 40 years. The volume of real GDP of developing countries has increased in 3.8 times and one of developed countries has increased in 1.9 times for twenty five years [4, p. 51].

The achievements of developing countries became possible in many respects due to the globalization. The foreign investments into the economy of these countries are accompanied by the implementation of advanced technologies. The TNCs transfer there considerable capacities of labor-intensive and resource - productions. The “new industrial countries (NIC)” took advantage of it most effectively. Taiwan, Singapore and China are ahead of developed countries in the rates of GDP growth per capita from 2.5 to 3.2 times and India, Vietnam and Philippines - from 1.8 to 2.1 times. However, the situation in the less developed countries (there are 49 countries having 10% population of the world) is much worse. The income per capita here is slowly growing or even reducing. They have neither natural resources being attractive for investors, nor qualified personnel who could master the modern technologies. These countries need a special assistance of world community, in particular, through the UNO structures and international organizations. The benefits in the external trade and soft loans are provided to them.

## CHAPTER II. CLASSIFICATION OF COUNTRIES IN THE WORLD ECONOMY

### 2.1. Variants of typological classification

The world economy is characterized by the structure that has different aspects, taking into account an analysis of its various components. Industrial, typological and regional structures are often allocated.

**Typological structure** of the world economy is manifested as a unified system of the countries with different level of socio-economic development. The blocks of related countries, which are similar on key socio-economical parameters, that form the specific **types** are allocated in this system. The typological structure is not formed once and forever, it is always dynamic, as the rates of economic, social and technological development of the countries of the world are not the same; the transition of the countries from one typical block to another one occurs from time to time. However, for a certain period that can be measured in decades, the typological structure of the world economy is characterized by sufficient stability, which makes it possible to study the characteristics of development of individual groups of countries, to identify common features that unite the country inside the type, and to understand what factors distinguish one type from the other one. **Typological classification** of the countries of the world is carried out for this purpose.

Perfect classification scheme of the countries of the world has the scientific, educational and practical value. Analyzing the country's economy, economic policy of its government, socio-economic relations inside the country, it is necessary first of all to identify its economic type in the world economy. The practical importance of determining the type of the country is, in particular, in the relation to this or that country by the international economic institutions. For example, the least developed countries use sufficiently large concessions in the international trade, receipt of the credit, solving the problems of public debt. On the other hand, highly developed countries are a kind of "donors" for the least developed countries in certain international organizations (such as the International Development Association).

Despite the importance of forming an orderly typological scheme of the countries, we should recognize that there is no clear approach to this problem. There are various schemes, which are prepared according to various criteria. The main criterion for the UN is considered the character of social and economic relations in the country, for the World Bank - the level of gross domestic product (GDP) per capita. There are other approaches, which will be discussed below. But deal is not only in the selected criteria. The world economy is always in a dynamic state. Not only GDP of countries can be changed, but also other economic and social parameters, which have unequal value as indicators in different periods of development. For example, if a heavy industry was considered as the main indicator of development of the country from the middle of the XIX century until

the middle of the XX century, now this is the service sector, especially computer science and finance. Consequently, there is currently no unified optimal classification scheme of the countries of the world. However, each scheme identifies certain typological features of the country, so you should know the most popular ones.

Let's consider existing schemes of typological classification of the countries of the world in order to identify their compliance with modern realities.

**The criterion of socio-economic relations** is taken as a basis in the **structural bodies of the UN**; also the common level of economic development is auxiliary indicator. According to this scheme, the following types of the countries can be determined:

- economically highly developed countries (sometimes, industrially developed ones);
- developing countries (distinguishing new industrial and the least developed countries);
- countries with transition economies (from planned to market one).

This scheme has existed a long time enough. But over time the features, characterizing marked types, were lost.

Firstly, here there are no precise and weighed criterions separating developed countries from developing ones. The division between them is mainly based on the responsiveness of historical (historical-economic) factor. By the middle of XX century developing countries in its great mass have been colonies and developed countries have been metropolitan countries (of course, not all of them). Traditionally, about 25 states including the majority of West European countries, the USA, Canada, Japan, Australia, New Zealand and Israel belong to the developed countries. It is a so-called "gold billion". But, if we disengage ourselves from historical factor and take into account only GDP volumes, it won't be easy to draw a boundary-line between these groups. So, in 2014 the GDP of India that is among the developing countries, made 1.9 trillion dollars and in Brazil made 2.3 trillion dollars, whereas Australia made 1.6 trillion dollars and Canada made 1.8 trillion dollars. The allocation of two groups such as new industrial countries and the least developed countries from the mass of developing countries slightly clarifies the classification; but a great number of countries being notable for a considerable variety of economic potentials and economic policies are still remaining.

Secondly, the notion of the countries with transition economies is already becoming an anachronism. The transition of the former socialist countries to market methods of economic management was completed basically in the late nineties of the past century. The fact that the majority of Central European countries such as Poland, Czech Republic, Slovakia, Hungary, Rumania, Bulgaria and Slovenia as well as Estonia, Latvia and Lithuania have been accepted to the European Union means that official community has recognized them as the countries with market economy. But also in the countries of East Europe the economy is already developing on the market principles. Russia exceeds each of

new EU's members. As for indicator per capita, Russia exceeds Rumania and Bulgaria, Belarus and Kazakhstan are a little behind them. The main thing is that the structural reorganization of the economy was practically completed in the countries of East Europe, Transcaucasia and Central Asia; the state sector occupies a subordinate place and it does not exceed, as a rule, 10% of the total production of goods and services. Thus, the existence of the term «countries with transition economies» in the scientific literature and in official sources is already unfounded today. That is why this group of countries belongs basically (in the international reports) to the developing countries nowadays.

In order to avoid the blurriness in the typology of the countries, **the World Bank** offered the **quantitative criterion**, namely: gross national income (GNI) per capita or “per capita income”. Last is calculated using the Atlas method (The method of calculation of the gross national income per capita used by the World Bank; it can partially eliminate the effect of exchange rate fluctuations)

In accordance with the quantitative criterion, there are four types of countries (as of 2014):

- high-income economies with a GNI per capita of \$12,737 or more;
- upper-middle-income economies with a GNI per capita of \$4,126 to \$12,736;
- lower-middle-income economies with a GNI per capita of \$1,046 to \$4,125;
- low-income economies with a GNI per capita of \$1,045 or less.

Parameters of typology of the World Bank change from time to time because the indicator of gross world product is gradually growing. The GNI and indicators per capita also increase practically in all the countries. Therefore, the classification of each country into one of four groups must be constantly adjusted.

This classification differs positively from the classification of the UN because it establishes precise boundaries, which can be measured, determining the type of the state. But it also has certain shortcomings. Deal is in the fact, that the countries which differ from each other very much, especially in their economic structures, labor productivity and other parameters, are often admitted to be in the same group.

The main disadvantage of World Bank scheme consists in the fact, that the branch structure is not considered in it and there is no evaluation of economic potential in general as well. This disadvantage is being overcome to a certain extent by scheme of «civilization stages of economic development». There are such stages: agrarian, industrial and post-industrial. Accordingly, the types of countries are determined. The type of the country depends on key sector in the economy: agrarian, industrial or service sector. The production in every sector is calculated in the percentage to GDP and the employment of employable population in the corresponding sector is also taken into the consideration. The poorest countries are related to the agrarian type according to this scheme of classification. So, for example, the agriculture in GDP structure of Ethiopia makes 43%, in Togo it makes 47%, in Myanmar – 43%, in Laos – 39% and in Guinea-Bissau –

62%. The employment in the agrarian sphere of the least developed countries is even more impressive. So, 90% of employable population is employed in the agriculture in Angola, Ethiopia and Afghanistan.

The industrial stage that is predominance of industrial goods in GDP structure has prevailed since the late XIX century till the middle of XX century. It is being considered as a higher stage in comparison with agrarian one. But today, if we are guided only by the figures, not many countries are on this stage. These are, for example, Algeria (63% of GDP), Azerbaijan (61%), Chile (51%), Gabon (57%), Kuwait (48%), Nigeria (34%), Qatar (66%), United Arab Emirates (49%), Saudi Arabia (60%) and China (49%). As we see, the countries building its industry almost solely on the exploitation of natural resources are mainly included in this group. China makes an exception. Somewhat increased share of industry is inherent in the group of new industrial countries (NIC), though it yields to service sector. Except Chile, we can call Indonesia (48%), South Korea (39%), Thailand (44%) and Malaysia (42%).

In the countries of the CIS the share of industry is also higher than the average indicator in the world that makes 31%. So, in Russia it equals to 37%, Belarus – 42%, Kazakhstan – 38%. But here it also yields to a share of service sector. It deals that as a result of long economic crisis in the nineties of the past century exactly the industry in this group of countries has experienced the most appreciable slump. However, on renewing the industrial potential the share of industrial sector will grow here, and the majority of countries of the CIS can be interpreted as such that are on the industrial stage of the development.

The developed countries belong to the post-industrial type. The service sector prevails, sometimes essentially, in its GDP structure. So, its specific gravity in GDP of the USA is 77%, Great Britain – 75%, Canada – 70% and France – 79%. Nevertheless, these figures also mislead to a certain extent. They obscure the enormous industrial potential of highly developed countries, especially the USA.

Thus, none of the typological classifications of the countries of the world is not without substantial flaws. It turned out that one criterion itself cannot form the integral system of typological classification. Moreover, as the world economy is in the continuous movement, the correlation between economic indices of the countries is permanently changing.

The rapprochement of countries in the world in the main economic parameters, in the first place, in GDP absolute index is a tendency of the last decades. The more dynamic development of the group of developing countries is the reason of that phenomenon. This character of development dynamics is washing out the boundaries which have existed between developed and developing countries. So, Brazil almost eight times exceeds the index of Portugal, its former mother country (245 billion dollars) by GDP absolute volume (2 trillion dollars). The difference in the indicators per capita remains but it is also gradually decreasing. In addition, Brazil has a much more developed branch structure of the economy. India surpasses Great Britain, its former mother country, in GDP volume. Thus, one can scarcely include these countries in essentially diverse

groups. GDP per capita that is insufficiently high in the new industrial countries is being compensated by the advantage of other parameters. Besides, in several countries of NIC group the index per capita is high enough: in the Republic of Korea it equals to 32,000 dollars, Singapore – 60,000 dollars and Taiwan – 38,000 dollars. That is, these countries can be referred to the group of developed ones by all the parameters but according to the traditional classification they remain in the group of developing countries, although called «new industrial countries». By the way, this name itself testifies to the transition of these countries, so to speak, to «the higher league».

What kind of approach to the typological classification of the countries in the world should be in this case? It is obviously, that the single criterion which would generalize all the factors of economic development of the country does not exist. The question can be either about eclectic combination of traditional schemes, or about a few schemes which answer individual purposes. The foreign and domestic experts who have comprehended the problem of the typological classification, more exactly «the crisis» of traditional methods of approach to it, are offering their own schemes.

Analyzing and combining the above-mentioned schemes of the typological classification, one can propose **the typology on the basis of joining of the key parameters of the economy**: GDP indicators (absolute and per capita); level of technological development; branch structure of the economy, and dynamics of economic development. Hence, the following groups and subgroups of the countries are allocated:

1. **High-technological countries with the stable economy.** This group is identical with the group of «developed countries» in the classical scheme. It includes the developed countries of Western Europe, the USA, Canada, Japan, Australia, New Zealand and Israel.

2. **Countries with dynamic development of the economy:**

- new industrial countries: Republic of Korea, Singapore, Thailand, Malaysia, Philippines, Indonesia, Brazil, Argentina, Chile, Mexico and India.
- countries on the final stage of technological restructuring of the economy : countries of Central Europe such as Poland, Czech Republic, Slovakia, Hungary, Rumania, Bulgaria, Croatia and Slovenia; countries of East Europe such as Ukraine, Russia, Belarus, Estonia, Latvia, Lithuania and Kazakhstan; China.
- oil-producing countries such as Saudi Arabia, Kuwait, UAE, Qatar, Iran, Iraq, Venezuela, Libya and Azerbaijan.

3. **Medium-technological countries with the moderate rate of economic growth.** These are the majority of developing countries, for example, Egypt, Algeria, Turkey, Pakistan, Peru, Uruguay as well as Serbia, Bosnia, Macedonia, Albania, Georgia, Armenia, Turkmenistan, Moldova and Kirghizstan.

4. **Low-technological countries of the agrarian stage of development.** The poorest countries of the world such as Ethiopia, Somali, Uganda, DPRK and other ones belong to this group.

This scheme has not yet elaborated in the scientific literature that is why the classical scheme of the UN with the amendments according to the classification proposed by us, will be used further in the training manual.

## 2.2. Regional classification of countries of the world

This kind of classification is much simpler and it does not provoke considerable divergences among the experts and international organizations. The question can be about the greater or the lesser detalization in the selection of the regions. The spatial compactness of countries of the region, commonality of historical development, ethno-cultural likeness of people and rapprochement of parameters of economic development were assumed as a basis of the regional classification. Proceeding from these criterions, the following regions are allocated:

- **Western Europe** which includes economically developed countries: Germany, France, Great Britain, Belgium, the Netherlands, Luxemburg, Ireland, Iceland, Norway, Sweden, Denmark, Finland, Austria, Switzerland, Italy, Spain, Greece, Portugal and Malta. This region is subdivided into Western Europe, Northern Europe and Southern Europe in the more detailed classification.

- **Central Europe** includes the former European socialist countries beyond the former USSR: Poland, Czech Republic, Slovakia, Hungary, Rumania, Bulgaria, Serbia, Montenegro, Croatia, Slovenia, Bosnia, Macedonia and Albania. In the detailed classification the part of this region is allocated as the South-East Europe.

- **Eastern Europe** consists of Ukraine, Russia, Belarus, Moldova, Estonia, Latvia and Lithuania.

- **South-West Asia** includes Turkey, Cyprus, Iran, Iraq, Syria, the Lebanon, Israel, Saudi Arabia, Kuwait, United Arab Emirates, Yemen, Qatar, Oman, Bahrain, Afghanistan, Georgia, Armenia and Azerbaijan.

- **Central Asia** has been detached on the territory of the former Asian Republics of the USSR: Kazakhstan, Uzbekistan, Kyrgyzstan, Turkmenistan and Tajikistan.

- **South Asia** is composed of India, Pakistan, Nepal, Bhutan, Bangladesh, Sri Lanka as well as a few small island states.

- **The Far East** is represented by China, Japan, DPRK, Republic of Korea and Mongolia.

- **Southeast Asia** consists of Vietnam, Laos, Cambodia, Thailand, Myanmar, Malaysia, Singapore, Indonesia, Philippines and Brunei.

- **Australia and Oceania** are Australia, New Zealand, Papua New Guinea and the great number of small island states.

- **North Africa** consolidates such Arab states as Egypt, Sudan, Libya, Tunisia, Algeria, Morocco, the Western Sahara and Mauritania.

- **West Africa** has a motley composition enough: Mali, Niger, Chad, Central African Republic, Senegal, Burkina Faso, Guinea, Ghana, Côte d'Ivoire, Sierra Leone, Togo, Nigeria, Cameroun, Gabon, Congo, Democratic Republic Congo (Zaire) and Angola are the largest countries in this region.

- **East Africa:** Zambia, Zimbabwe, Mozambique, Madagascar, Malawi, Republic of South Africa, Botswana, Namibia and Lesotho.

- **North America:** the USA, Canada and Mexico. According to another classification, Mexico is related to the region “Latin America” with which it is more closely bound up with in linguistic and cultural and historical features.

- **Latin America** consolidates the countries which overwhelming majority has once been in colonial dependence on Spain and Portugal. The composition of the region: Argentina, Brazil, Uruguay, Paraguay, Chile, Peru, Bolivia, Ecuador, Columbia, Venezuela, Guyana, Surinam and French Guiana. The Caribbean and Central America, the largest countries of which are Cuba, Haiti, Jamaica, the Dominican Republic, Guatemala, Salvador, Nicaragua, Honduras and Panama form the separate subgroup in this region.

This scheme is the most widespread but not the only one. Often the **Asian-Pacific region** is allocated, the enormous space including East and Southeast Asia, Australia and Oceania, eastern regions of Russia and the countries in North and South America that gravitate towards the Pacific Ocean. This region is characterized by accelerated dynamism of economic development.

We can also classify countries on the basis of their *participation in regional integration associations*. See section 1.5.3. See section 1.5.3.



## **CHAPTER III. ECONOMY OF DEVELOPED COUNTRIES**

Each of more than two hundred countries of the world has its own unique character, differs from others in political, economic, demographic, cultural, and other signs. A variety of the world in national structure, social and cultural characteristics enriches it as the total holistic system. However, the certain countries can be united on some important general characteristics. It is even necessary for implementation of the scientific analysis of world economy in general and economy of the certain country.

There are some ways of classification of the countries depending on the chosen criterion. It is possible to allocate the groups of the countries according to the territory sizes (big, small, the states -dwarfs), according to population, socio-political organization (monarchies, republics), according to the level of economic development and geographical position. As we have already found out in the first part it is advisable to use two schemes: typological and regional. First of all, we will consider typological structure of world economy, according to which all countries of the world are divided into three main groups: developed countries; developing countries; countries with transition economies.

The group of developed countries embodies the achievements of world economy. These countries have the greatest volumes of GDP, especially per capita, high labor productivity level, the difficult production technology. According to the classical scheme this group consists of 24 countries. They control the most part of world flows of the capital together.

Despite a small share in the world population (14.9%), the developed countries focus 51.1% of world GDP, export 52% of goods and 78% of services in international trade. The developed countries, first of all Group of Seven, take key positions in such influential international organizations as the IMF, the World Bank, the World Trade Organization, the majority of regional development banks, various funds of development. This group of the countries is a nutrient medium for the creation of TNCs and TNBs. The developed countries, based on their economic and political power, the international authority, form and embody the mechanism of a modern world economic order into the international relations. They are “legislators of fashion” on the latest economic models and technologies. They are the samples, which less developed countries seek to reach. More often the group of the developed countries is called the “Golden billion” in mass media - not only because the number of their population makes about one billion people, but because of primary consumption of natural resources (60%) [ 2, p. 44].

### **3.1. Most important characteristics that distinguish developed countries**

Attention to the fact that in group of the developed countries (as well as in other groups) there are considerable differences in the levels of development has drawn in the previous part. It is enough to compare the economic potentials of the first three (the USA, Japan, Germany) with the three of outsiders (Portugal,

Greece, Israel); a gap on per capita indicators of GDP between them is double. However there are such peculiar features which unite these countries in integral group of the developed.

The main formal indicator separating the developed countries from others is the *size of GDP per capita*. It averages (on purchasing power parity) 40 thousand dollars at the average world size of 11.5 thousand dollars. Except for small group of oil-producing countries and “East Asian Tigers” any of developing countries doesn't reach on this indicator of level even the Greece where it makes 25.8 thousand dollars.

The high rate of GDP is a consequence of long development of the economic relations which stages outpaced the stages of development of other countries in time. On a way of production the developed countries are ahead already more the half-millennium. Such situation is caused by *historical and economic circumstances*. In the XIII-XIV centuries in Northern Italy (Genoa, Venice, Florence) external, so-called Levantine, trade in the Mediterranean Sea considerably quickened. The Italian merchants were resellers between the Arab - Byzantine East, which was rich at that time and feudal Europe. Venetians, in particular, bought up spices and expensive fabrics in Constantinople and sold them to the European barons, and even to the kings. They traded also salt, wine. Trade very enriched the Italian merchants and caused a push to economic boost to the Northern Italian cities and further development of the economic relations. The first exchange in the world arose in Venice; there was also developed technique of banking and commercial exchange. Venetians developed modern system of account (simple and double) and system of a public debt.

The heyday of Northern European trade, so-called hanseatic trade, was in the XIV-XV centuries. The German cities which gravitated to the Baltic Sea, especially Lubeck, Hamburg, Bremen, formed the trade union - Hansa which carried out successful trade with the internal German states, the Scandinavian countries, Novgorod and London. The Hanseatic traded in furs, resin, wood, iron, fish, honey, wax, hides, and flax. From the inventory of goods it is visible that Hanseatic trade had bigger economic value, than Levantine, because it covered not only luxury goods, but also consumer goods, and also producer goods.

The third trade way went along Rhine; it connected Hanseatic and Levantine trade. The cities of Bruges, Cologne and other gained a fast development on this way. Fair activity was developed. Goods from all Europe, and also from the East arrived to them. Champagne fairs in the northern France had the greatest value. The French merchants brought there cloth and wines, Italian - spices and silk, German - furs, cloth and metal products; wool, tin and lead arrived there from England.

Thus, the heyday of trade paved the way for further development of the economic relations in feudal Europe. Trans-European trade relations gradually pulled together the people of this region, formed the national markets. Parts of these markets already constantly were focused on the foreign trade. Trade traditions and standards of the all-European value were formed. Strengthening of

trade relations was promoted, in a certain degree, by confessional proximity between the people, as the Christianity captured almost all Europe.

Trade development, growth of the cities as trade and craft centers accelerated emergence and distribution of capitalist manufactory. It was the next important stage in development of productive forces of Western Europe which strengthened its economy very significantly after trade. The manufactory took root in cloth and metallurgical branches especially successfully in the XIII-XV centuries. Northwest Europe - Flanders, Brabant, part of Northern France entering the Netherlands - was the most developed industrial region in those days. Flemish cloth was spread across all Europe. It didn't have competitors on quality for a long time. Gradually manufactory production of cloth was extended also in England, Florence. Iron, silver, bronze were made on manufactories in the German principalities and in Czech Republic.

Disintegration of the feudal relations which has intensified in the XVI century, strengthening of absolutism and especially great geographical discoveries gave a new push to development of productive forces of the European countries. The economic powers of the Netherlands, Spain, Portugal and England grew with transfer of trade ways on oceanic spaces. Volumes of trade were increased many times over; there were powerful trading companies for trade with India (The Dutch and English East Indian Company) and other eastern regions, and the American colonies. There was a commodity and stock exchange in Antwerp in the XVI century, at which was carried out the international operations with bills, bonds of the state loans, colonial goods and currency. Amsterdam becomes the trade capital of the world in the XVII century, the trade role of London were grown in the second half of the XVII century and in the XVIII century.

Monarchs of the countries of Europe, especially France, Spain and England encouraged development of the industry, supported manufactories and the trading companies, rendered them various privileges in line with mercantilist policy in the age of absolutism. Manufactory production was the dominating form of the industry in Western Europe to the middle of the XVIII century, whereas production was at the craft stage in the East. At this time economic advantage of the West over the East was already obvious, it was embodied in political and military superiority that led to formation of huge colonial empires.

The acceleration of economic development of Western Europe was increased by transformations in the spiritual sphere; Renaissance and the Reformation had particular importance in this respect. The Renaissance (XIV century - XVI century) promoted the disclosure of creative opportunities of the person, belief in his will and intellect. Ideas of the Renaissance objectively met requirements of the arising bourgeois society. Reformation (XVI c.) had the distribution of Protestantism in Northern Germany, the Netherlands, England, and in the Scandinavian countries, as its consequence. An important feature of this confession was encouragement of "enterprise spirit" in the person, underlining of honest work, thrift. These ideas of Protestantism caused considerable influence on

the further course of economic history of Europe and not only Europe. Natives of the Protestant countries (first of all British but also Dutches and Germans) formed colonies of resettlement type which turned into the developed countries then - the USA, Canada, Australia, New Zealand and in a certain degree the Republic of South Africa. The immigrants brought the European culture of production with themselves that was the most advanced in those days.

The industrial revolution which began in England in the middle of the XVIII century and soon thrown to France, the Netherlands, Belgium, Austro-Hungary, and other countries of Europe and North America belongs to the major events which accelerated the economic development of the Western European countries. Transition from the manufactory to mechanical production in tens times increased labor productivity for rather short period of time. It had crucial importance for the statement of economic superiority over other countries of the world.

Technical re-equipment of economy happened unevenly among the countries of Europe, however it came to the end in the last quarter of the XIX century in the majority of them, whereas complex introduction of machine means of production began only with the middle of the XX century in the countries of Africa, the majority of the Asian countries and in some Latin American countries. Thus, the developed countries outstripped “the third world” technically almost for century.

Industrial revolution thanks to intensive development of communications (the railroads, cars, communication) promoted still bigger economic rapprochement of the countries and also Europe with Northern America, Australia (in particular with development of air transport). Thus, conditions for economic integration of the developed countries and distribution of a uniform way of production were developed. The USA, Great Britain, Germany, France, Austro-Hungary, “the small capitalist states of Europe” - the Netherlands, Belgium, Switzerland, the Scandinavian countries were the most developed countries of the world at the beginning of the XX century. Spain, Italy, Portugal, Greece were slightly behind. As for Bulgaria, Romania, Serbia, their lag was essential; technical re-equipment began there with delay and the market relations were developed poorly, therefore their accessory to the “club of developed” was under a big question.

Industrial revolution in Russia was finished at the end of the XIX century. The agrarian reform of 1861 and Stolypin’s reform promoted fast capitalization of economy. The Russian Empire had the highest indicators of growth of an industrial output in Europe in 1900-1913. It took the fifth place in the world on GDP volume and though per capita indicators of the Russian economy were much lower than in the Western European countries (GDP per capita in the Russian Empire was 1220 dollars in 1900, whereas in the USA – 4100, Germany – 3135, Great Britain – 4600, France – 2850, Spain – 2040; however in Italy it was not much higher – 1715, and in Japan even lower – 1135 dollars), nevertheless the Russian Empire was in the group of developed countries [8, p. 46]. After revolution of 1917 the basic change of the way of production was carried out, and the economy of the USSR was developing in other way.

The only country which became developed on its own basis is Japan. The defining event for its economic development was “Meiji's revolution” in 1868 which cancelled feudal orders, cleared away ways to the market relations. Despite traditional centuries-old suspiciousness of Japanese to foreigners, the Japanese bourgeoisie quickly mastered advanced technology of the USA and Europe and Japan turned into the industrial state at the beginning of the XX century, though industrial revolution finally ended here only after World War I.

The economic superiority of the developed countries in a certain degree was fed by the resources of their colonies. Colonial empires were created by Great Britain, France, Spain, Portugal, Italy, the Netherlands, Japan, Belgium, Germany, the USA. Thanks to colonies the developed countries had cheap raw materials and monopolistic positions on sales markets of the goods. However, probably, we shouldn't only negatively interpret the economic policy of mother countries concerning their colonial possession. Objective course of the development of world economy demanded the construction of industrial facilities, creation of production infrastructure on the territory of the dependent countries for the purpose of more effective use of resources. So, for example, quite wide railway system, locomotives, cars, rails, other metal production were made, power plants were constructed in the first half of the XX century in India which was a colony of England. Gradually the effect from the exploitation of colonies was decreased. Consumption of raw materials was relatively reduced and their value for production significantly fell under the influence of scientific and technical revolution. Expenditures on the creation of administrative apparatus and the troop in the colonies became less and less covered by benefits from the exploitation of local resources. Therefore the colonial empires collapsed not only because of the liberation movement of the oppressed people, not only under the influence of intensification of the democratic forces in mother countries, but also because the exploitation of the colonies became economically unprofitable.

Scientific and technical revolution gave a new impulse for economic development of the developed countries. Scientific and technical progress comes out and extends from these countries as they have for this purpose both necessary material resources and the developed scientific potential. There is even more accurate differentiation of the developed countries and outsiders under the influence of scientific and technical progress. If in general the distinctions sometimes are smoothed out on the indicators of GDP and industrial production, the technological gap increases. It has crucial importance during an era of transition to a post-industrial stage of development.

Integration processes, particularly among the industrialized states has greatly increased since the second half of the twentieth century. Successful evolution of the Western European countries within the European Union testifies that economic integration is effective among the developed countries. Experience of the EU showed that rapprochement, alignment of the key economic parameters of member countries are carried out in the process of integration. Especially it is visible on the example of Greece, Portugal, Spain and Ireland which were

considerably behind the “classical” industrial states both on absolute, and on per capita indicators in the 1950s. Their belonging to group of the developed countries doesn't raise doubts in our time.

Historical and economic features of formation of group of industrially developed countries explain why these states create the specified group, what circumstances caused its structure. Along with economically common features the group of the developed states was united also by political and even by traditional factors. So Greece and Portugal couldn't be compared with other Western European states by the level of economic development at the beginning of the XX century, however they were united by a community of historical and cultural development.

The commonality of historical and economic development is an outer environment where the group of developed countries has been formed. The inner environment is stipulated by the *mode of production*. The high level of development of commodity production and market relations is inherent in all the countries of this group. The commodity relations also apply to labor force. The absence of non-economic compulsion is an important feature of this mode of production which is traditionally called a capitalist one by many researchers and politicians. The economic processes are regulated by commodity- money relations. The main purpose of production becomes profit.

These features characterize the market relations as a whole. The market economy is reigning today in the majority of the countries in the world and is functioning according to the mechanism which principles have been laid down as early as XV-XVI centuries. However, the developed countries are notable for a high degree of maturity of market relations. As it has been noted, the process of production and capital concentration, supremacy of oligopolies, development of national monopolies into the transnational ones and formation of transnational banks takes place in their economy.

The overwhelming majority of TNCs has their own headquarters in developed countries. Over 800,000 foreign subsidiaries of TNCs which belong to 63,000 mother companies are numbering in the world today; 79% of mother companies are located in developed countries. The TNCs provide about 50% of world industrial production, over 70% of world trade are inherent in them, 40% of this trade occur within the TNCs at transfer prices. Over 80% of registered patents as well as about 80% of financing of research and development are inherent in the TNCs [8, p. 48].

Developed countries practically control *global financial markets*. They are also the *main creditors*. Headquarters of the largest TNBs are located in developed countries

The intensive development of *information systems* has an importance for the post-industrial stage of economic development. The part of investments into information and communicative technologies of developed states is growing every year and makes from 5% to the GDP in Japan and Italy to 7.7% in Sweden.

The high level of development of *social sphere* that is expressed in high average income of population, substantial expenses for provision of pensions, education, public health and protection of the environment is a defining feature of developed countries distinguishing them from other ones. It is important that the tendency of increase in expenses for social needs and in the income level of population has become rather considerable for the last decades.

The so-called *human development index (HDI)* can serve as a generalizing criterion of social security level of population in the country. It is calculated as a weighted aggregate of the average per capita of income, salary, purchasing capacity (“consumer basket”), level of education, medical care etc. The maximum value of HDI equals to 1.0. According to this index, the developed countries are in the lead. The top ten leaders include Iceland, Norway, Australia, Canada, Ireland, Sweden, Japan, the Netherlands and France. For comparison: Russia occupies the 67th place, Belarus – 64th, Georgia – 70th, Ukraine – 76th, Moldova – 111th one. Guinea-Bissau (175th place), Burkina Faso (176th place) and Sierra Leone (177th place) take the last places [8, p. 50].

The high living standard in the developed countries is stipulated by powerful development of economy as a whole and social policy that is carried out.

### **3.2. Dynamics of economic development of developed countries**

Within all the period of existence of developed countries their economy has unevenly developed. One state, then another state occupied the leading positions. Since the middle of the XVII century to the first half of the XIX century the indubitable leadership has belonged to Great Britain that has been considered “workshop of the world” for a long time. Since the middle of the XIX century the USA, that occupy the leading place till present, have come out in first place in the global economy. The positions of Great Britain were gradually weakening. Germany has been coming to the fore in Europe in the last quarter of the XIX century, France has been doing the same since the sixties and then Japan is appearing there.

The United States reached the highest share in the world economy after the World War II. Then they produced 51% of industrial production of non-socialist world. This situation was established under the influence of many reasons, which will be discussed further. But one of the major causes is that on the territory of USA the military operations have not carried on for any of world wars; the American companies were enriching themselves in military supplies to the warring countries. The USA concentrated a considerable mass of world gold stock. The transition to the gold exchange currency system (according to the decisions, firstly, of Genoa Conference and, then, of Bretton Woods Conference) equated the dollar to gold in the international monetary relations. This consolidated even more the positions of the USA in the world economy.

However, the share of the USA in the world production was gradually beginning to reduce under the influence of competition of Western European

countries and Japan. The Western Europe has been restored after the World War II by the middle of the 50ties already. On one hand, it was a consequence of the American assistance according to the “Marshall Plan” (allocation of credits and investing into the economy of European states) and, on the other hand, it was an efficient economic policy of state leaders in these countries. Ludwig Erhard, chancellor of FRG, is called the father of “German miracle” which has become apparent in the unexpected spurt of the country on the way of economic development in the sixties. Robert Schumann, the French Prime Minister, and Jean Monnet, Chairman of the Commissariat on Planning and Administration in the government of France, developed and realized the idea of foundation of the European Coal and Steel Community (ECSC) which afterwards was changed into the European Union.

The incredibly high rate of development of Japan in the 1970s became the even greater “economic wonder” that soon put it on the second place in the world. Here one can also detach two main factors among the factors of rapid development: the American investments and internal policy of the government. The USA “fed” the economy of Japan, especially in the 1950s, during the war in Korea when they placed military orders at the Japanese enterprises. The home policy of government of Japan was rather flexible and efficient. Particularly, the government actively encouraged the purchase of foreign licenses and «know how» by the Japanese companies that permitted Japan not to lose its speed in the technological development.

In the past two decades the definite equalization of positions of developed countries and rapprochement of their rates of development have been observed. It is especially characteristic for the 1990s. The economic cycles periodically contributing to the increase and decrease in rate of economic growth exert a certain influence on the development dynamics. The phase of decrease often results in the crisis. The deepest crisis in the history of developed countries was observed in 1929-1932 when their aggregate GDP fell in 17.7% and export did in 25.3%. There was a deep crisis in 1945-1946 which influenced the decrease of GDP in 11% [8, p. 52]. In the post-war period the economy of developed countries was developing more quietly: the crises have no longer been so deep. The crisis in 1974-1975 connected with sharp rise in prices for petroleum as a result of purposeful action of countries of OPEC was appreciable. At that time the industrial production of industrial countries reduced to 5%. In 1981-1982 the regular crisis decreased the output of industrial production in 4% [6, p. 52]. The posterior crisis was in 1997-1998 but it mainly stroked the countries of Southeast Asia and touched little of developed countries of Europe and South America.

In the 1990s the economy of developed countries was developing more slowly than in the previous decades. The peculiarity of this period is a resolute movement of economy of the USA (except 1991) and braking of the rate of economic growth in Japan (**Tab. 3.1**).



**Table 3.1****GDP Growth Rate (in % to the previous year)**

	1991-2000	2001-2005	2008	2009	2010	2011	2014	2015	2016	2017
<b>World</b>	...	<b>3.8</b>	<b>3.2</b>	<b>-1.0</b>	<b>4.6</b>	<b>3.7</b>	<b>4.8</b>	<b>3.5</b>	<b>3.2</b>	<b>3.8</b>
<b>Developed countries</b>	<b>2.2</b>	<b>2.1</b>	<b>1.6</b>	<b>-3.9</b>	<b>2.3</b>	<b>2.8</b>	<b>2.8</b>	<b>2.3</b>	<b>1.7</b>	<b>2.3</b>
The USA	3.1	2.6	1.3	-2.4	2.8	2.2	3.9	2.9	1.5	2.3
Canada	...	2.5	0.6	-2.5	3.0	3.0	4.0	1.0	1.4	3.0
Great Britain	...	2.4	0.7	-4.3	1.6	2.8	4.0	2.3	1.9	1.8
Germany	...	0.7	1.3	-5.0	3.3	4.5	3.1	1.5	1.9	2.5
France	...	1.6	0.7	-2.1	1.6	2.5	1.8	1.1	1.2	1.8
Italy	...	0.7	-0.7	-5.0	1.1	2.5	1.0	1.0	0.9	1.5
Japan	0.9	1.2	-0.4	-5.7	3.0	1.2	1.4	1.4	0.9	1.7

Reference: [2; 60]

Since 2002 the situation in the economy of developed countries has been somewhat leveled, the development rate have been growing and they are still under the average world one. The globalization mechanism is acting in such a way that the decrease of economic activity in one of world centers of economy is negatively reflected on other ones. So, the 1% reduction of growth rate of GDP in the USA provokes braking rate of the GDP by 0.2-0.4% in Western Europe.

In 2008 the world economic crisis began, which was conditioned (except the recurrence of economic development) by high prices for hydrocarbon feedstock and food-stuffs; mortgage crisis in 2007 in the USA and some other countries which had entailed bankruptcy or nationalization of a few large bank institutions and increase in unemployment. The crisis spread very soon all over the world. However, it became the most appreciable for developed countries and countries with transition economies. If the average world decrease in the GDP in 2009 made 1.0%, it was 2.4% in the USA, 5.0% in Germany and Italy and 5.7% in Japan. Since 2010 the world economy has been gradually coming out of the crisis but the economic restoration rate of developed countries is not high. In 2014 the signs of deceleration appeared again in the economy of this group of countries.

In spite of slowing down of economic growth rate at the turn of two centuries, the positions of developed countries remain rather firm in the world economy. Their gap with other countries in the main economic indices is very big. The dynamism of the economy of developed countries is stipulated by certain development factors among which the expansion of markets of direct and portfolio investments takes a determining part that, in its turn, is due to the growth of consumers' and industrial demand in these countries. The international movement of investments the main mass of which just belongs to the developed countries is of particular importance.

The peculiarities of development dynamics of economy of developed countries in the second half of the XX century, as it has already noted, resulted in the reduction in the share of the USA in the world production and increase in

the share of Japan as well as of the countries in the Western Europe. However, there was no fundamental change in positions. The USA remains the leading state in the world in almost all major absolute economic indices. And if the EU is considered as a common economic center, it leaves behind the USA in the volume of external trade. If even one excludes the mutual trade of the EU countries, then its part in the world export will also exceed the export of the USA: 18.8% and 16.4%, correspondingly. The integration of Western European countries within the EU gave an impulse to their economic development. The abolishment of customs taxation in the mutual trade, free movement of capital and manpower, substantial strengthening of industrial cooperation and, at last, political amalgamation, contributed to the expansion of internal market in the Western Europe. The openness degree of the EU economy is higher than one in the USA and Japan. If in 2014 the export quota made 9.4% in the USA and 14.9% in Japan, it was 22.8% in France, 33.0% in Great Britain and 41.4% in Germany.

The USA is in the lead in the industrial development. Its part in world industrial production makes 16.6% while it is 6.9% of Japan and 5.4% of Germany.

Thus, the developed countries form three centers of world economy: the USA, Western Europe and Japan.

### **3.3. Features of economic structure of developed countries**

The post-industrial phase of economic development which the developed countries have achieved is notable for, as it has been noted, outstripping growth rate of sphere of services while substantially slowing down the production rate in the agriculture and mining industry, i. e. in the primary sector. The share of manufacturing industry also decreased, but the role of this branch remains leading, despite the fact that it yields to the services in cost volume in the GDP structure.

The **Table 3.2** is giving an idea of economic structure of developed countries in 2014.

**Table 3.2**

#### **Structure of the economy by sectors in 2017, % to the GDP**

<b>Country</b>	<b>Agriculture</b>	<b>Industry</b>	<b>Services</b>
<b>The USA</b>	<b>0,9</b>	<b>18,9</b>	<b>80,2</b>
<b>Japan</b>	<b>1.0</b>	<b>29,7</b>	<b>69,3</b>
<b>Germany</b>	<b>0.6</b>	<b>30.1</b>	<b>69,3</b>
<b>Great Britain</b>	<b>0.6</b>	<b>19,0</b>	<b>80,4</b>
<b>France</b>	<b>1.6</b>	<b>19.4</b>	<b>78.9</b>
<b>Italy</b>	<b>2.1</b>	<b>24.0</b>	<b>73.9</b>
<b>Canada</b>	<b>1.7</b>	<b>28.1</b>	<b>70.2</b>
<b>Sweden</b>	<b>1.6</b>	<b>33.0</b>	<b>65.4</b>
<b>Portugal</b>	<b>2.2</b>	<b>22.1</b>	<b>75.7</b>
<b>Spain</b>	<b>2.6</b>	<b>23.2</b>	<b>74.2</b>

Reference: [2; 63]

Despite a small part of *agriculture* in the economy, this branch is high-industrialized in the developed countries and provides the needs of that group of countries in foodstuffs and raw material. The USA, for example, occupies the second place in the world (after China) in the production of cotton, sugar-cane and beet. The USA and Canada are as the largest grain exporters; Australia – wool and meat; France – grain, sugar and wine; the Netherlands, New Zealand and Denmark – dairy produce and Italy, Portugal, Greece and Spain – citrus plants, olive oil and wine. The productivity of agriculture in the developed countries is few times higher than in other countries. At the same time, the developed countries are the largest importers of agricultural output such as meat, cotton, hides and skins, coffee, tea, cacao and other produce of tropical farming that is conditioned by the wide internal consumers' market and high purchasing capacity of population.

The developed countries are the major producers of *industrial production*. The branches of manufacturing industry are developing at an outstripping rate and the development of extractive branches has been considerably slowed up. For a period of 1956-1999 the volume of world production of finished products increased by 7.8 times and the volume of world production of product of mining industry increased only by 3.3 times. In the aggregate value of industrial production of the USA the share of extractive branches makes 6.4%, Japan – 8.8% and Great Britain – 8.7% [2, p. 48]. The well-being growth of population of these countries increased the demand for industrial product of consumers' nature about complex production, especially domestic electronics. If in the 60s-80s the demand for televisions sets, radio receivers, and washing machines was quickly growing, since the 90s the personal computers have been coming into the life even more and telephonization has been impetuously developing.

The mechanical engineering is the leading branch in the manufacturing industry of production direction. The equipment for industrially developed countries is the major item of export and import. So, in the export of the USA its part makes 49%, in the import – 46%; in ones of Germany – 49% and 34%, correspondingly; France – 36% and 36%, Great Britain – 41% and 38% and Japan – 71% and 20%. The electro-technical and electronic production such as electric motors, electronic equipment, communications units etc. are especially actively developing today in the mechanical engineering industry. In the EU countries 10% of all the manufacturing industry in the region is inherent in the electro-technical and electronic equipment. “Siemens” (FRG) and “Philips” (the Netherlands) are the famous companies in the field of electronics. However, the Western Europe yields to the USA and Japan in the development level of electronics. Even on the European market the key positions in deliveries of data processing equipment and domestic electronic equipment belong to the American companies and ones in deliveries of electronic components and domestic electrical appliances do to the Japanese companies.

The traditional branches of mechanical engineering such as machine-tool construction and production of means of transport and power equipment are

developing at somewhat slower rates; however, their importance in the economy of developed countries remains significant. Germany occupies the first place in the world in the export of metal-working machine-tools. Japan, the USA and Germany occupy the first places in the world production of automobiles. The great share in the economy of the USA belongs to military industrial complex (MIC) with which the production of space technology, arms, aircraft construction and electronics are connected. In particular, the American companies “IBM (International Business Machines)”, “Microsoft” and “General Electric” play the leading part in the world production of electronic equipment which is also used in the MIC.

The forming of communications network is an obvious example of the development of *service sector*. There were 51 million telephones in the world in 1950. And now their number exceeds 1 billion telephones. Over 1 billion persons in the world use Internet today.

The high dynamic development of the service sector is supported by the considerable inflow of investments (it is sent at it over 50% of all the volume of investments).

The sphere of services subdivides into the consumers and industrial sectors. The public utilities, urban transport and communications, tourism, hotel industry, entertainment industry etc. are related to the consumers sector. The services of credit and financial institutions, marketing, leasing, insurance, construction, transport network as a whole, telecommunications and services of scientific-research companies are related to the industrial sector, or business services.

The credit and financial services are especially quickly developing in the industrial sector. The American and Japanese banks are leading ones. Such famous banks as “Chase Manhattan Bank” and “Citicorp” are controlling a considerable part of world loan capital market. There are also many famous banks in the world community among the European banks.

The stock exchanges mainly located in the developed countries are actively functioning. The quick development of such a kind of services as research and development and information science is a characteristic feature of economy of developed countries in the last decades. The investments into scientific-research and experimental-design developments (research and development) grow every year and reach significant sums in the leading industrial states. Each solid company of the USA, Japan or any European country has a science laboratory or the entire network of research institutions. The changes concerning the sources of investments took place in the investments into the scientific developments. If in the 60s-70s the initiative regarding the support of science and technology came from the governments, since the late 90s the private companies became the main investors. Their part in the financing of research developments in the industry makes 74.5% investments into this sphere in the USA, 98.6% ones in Japan and 90.1% investments in Germany. The investments into the scientific sphere became a very profitable thing and obtained international character (80% of financing of research and development, for example, is inherent in the TNCs).

So, the structural changes in the economy of developed countries are stipulated by the course of scientific and technical progress and deepening of international division of labor. The share of old and traditional branches such as agriculture, extractive, light and food industries decreases in the structure of their national economies. At the same time, the share of high-technology and capital-intensive industries grows and the role of information science and scientific research strengthens. The developed countries have exclusively big superiority in the personnel of scientists and qualified engineers, workers, in the capital compared to other countries in the world, so their role in the world economy will be also considerable in the perspective.

Let us consider the economic policies of the groups of states and international integration groupings.

### **3.4. Economic policy of developed countries**

#### ***Models of economic development***

Economic policies, especially strategies for economic development of the country, are largely based on the model of economic development, which is inherent to a given country. Despite the close community of socio-economic structures of developed countries, which were the results of general historical and economic conditions of development, several typical models can be defined. The common in models of developed countries is the fact that their mechanism of action is developed market economy; they differ in some features of economic relations, based on national traditions or originated from a particular socio-political situation in the country.

Each model of development is not something settled for a long time. The models become more similar in their content depending on the prevailing trends of world or national economic development. Any country may change the usual model of development to another for the same reasons. The following models are distinguished in the group of developed countries: the liberal, corporatist and social- market one. The policy of economic regulation, called dirigisme was used in certain periods of development.

***The liberal model*** of development is inherent to the US, Canada, in a smaller measure – in the United Kingdom and Ireland. It is characterized by minimal government interference into the mechanism of interaction between employers and workers. The role of trade unions is much weakened in comparison with other countries. Entrepreneurs sign contracts with mercenaries, based on the specific situation in the labor market and often do not coordinate their actions with the trade unions. An entrepreneur may dismiss an employee without agreement of trade union organization. It gives the flexibility of behavior in situations, when the economic conjuncture requires prompt staff reductions. Relations between employers and employees are based, primarily, on the professional qualities of the employees: qualifications, education, and conscientious attitude to work. This, however, does not mean that the trade unions do not play any role in these

countries. In the USA, for example, trade union association “American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)” acts and counts more than 13 million of participants (16% of the total number of workers). However, it solves social problems and protects workers at higher levels of the socio-economic structure of the country: affect the adoption by Congress legislation concerning labor, control of immigration movement, etc. The trade unions in the USA closely link their actions with the government institutions and business associations. The government regulates the social and economic processes mainly at the macro level; the law affects the level of prices in the country, banking discount rate, employment, etc.

In general, the liberal model has shown its effectiveness. High levels of income and wages (higher than in most other countries) reconciles American workers with some limitations of their rights in labor relations with the employers. U.S. legislation gives to owners of firms the freedom of action in a fairly wide limits and it stimulates their entrepreneurial initiative. The private sector is the foundation of the economy in the United States and Canada; state-owned enterprises take a small share.

***Corporatist model*** suggests an active role of the state in the regulation of social and economic relations and a high level of social partnership between workers and employers. This model has two versions: democratic corporatism and hierarchical one.

Model of ***democratic corporatism*** is most widespread in the Scandinavian countries, particularly in Sweden. The idea of social partnership is the basis of this model. Strong trade unions make a great influence on labor legislation and labor relations. High level of the minimum wage, which must be strictly observed by entrepreneurs, is set due to them. Hiring and firing of workers can be carried out only by agreement with the union. Government spends more money on pension coverage, education and professional training of workers, on health care. Social expenditures are large enough in this group of countries; for example, they make up 29% of the income of the working population in Sweden. The poverty rate is the lowest in the Scandinavian countries among developed countries.

The positive side of democratic corporatism or the Swedish model is the high level of protection of workers and the poor, as well as economically inactive groups of the population (pensioners, children, the disabled, and students). At the same time significant funds for social needs fall on entrepreneurs as very tangible burden, due to the increase in tax rates, deductions to the pension fund. Entrepreneurs are limited in their actions in conditions of economic downturn and worsening of market situation. They can not reduce staff of workers only at will, even if the situation requires it: the consent of the trade union is necessary, but it is given reluctantly. But on the whole, agreement between employers and employees can be achieved on the basis of consensus through mutual concessions; social conflicts are rare.

Democratic corporatism provides a solid social stability in the country, but it could lead to a slight deceleration in economic growth. Thus, the share of Sweden

in the world economy gradually decreases. Nevertheless, due to the high level of social security, model of democratic corporatism is an example for many other countries, particularly for transition economies.

***Hierarchical corporatism*** is used in Japan, that's why it is also named the Japanese model. Its characteristic feature is the active intervention of the government in economic regulation with little share of state ownership in the economy. Government develops and implements the programs of economic development, regulates investment activities in the country and the financial markets, carries out an active social policy, stimulates business activity, particularly, by methods of tax policy.

Another characteristic feature of the Japanese model is the system of lifetime employment of workers. If a worker or an employee works conscientiously, the company keeps him at work until his retirement; businessman tries to keep the contingent of regular workers, even in difficult situations for the company, by translating them, for example, to a shorter workweek. Labor relations are paternalistic: the worker is dedicated to his company and especially to its boss; boss, in turn, takes care of his workers, even delving into the affairs of worker's personal life. The company operates on the principle of stiff subordination. Subordinate is subordinated only to his immediate superior; he cannot address to someone, who is on a higher step in the hierarchical structure of management "over the head" of boss. That is why this model is called a hierarchical corporatism.

The third feature of this model is a constant care about continuous professional development of workers. The institutions, "self-education circles" exist for realization of mentioned actions. States and companies spend significant funds on this process, but this form of labor organization promotes the growth of its productivity.

***Social market model of development*** is most common in Germany. Its important feature is the support of disadvantaged population and in general of those people, who need social support. These are: small farmers and enterprises, youth, aged people, unemployed and immigrants. The state plays an active role in this respect; it distracts the budgetary and extra -budgetary funds for social spending. Among the 28 EU countries the lowest level of unemployment fixed in Germany, where it reached 4.7% in the first half of 2015 (in the EU - 9.8%) and the lowest level of unemployment among young people - 7,2%.

Model of "***dirigisme***" was typical for France and Italy in the period between the two world wars and in the early postwar years. The essence of dirigisme is in the rather active state intervention into economic processes. It is expressed primarily by the creation of a strong public sector in the national economy. So, most of the industry, infrastructure, energy, companies of aviation and automotive industry were in state ownership of France after World War II. Even major banks and industrial groups moved under the control of the state in the 1980s. Large parapublic organization - Institute for Industrial Reconstruction was created in

Italy in the 1930s. A number of large public entities, including, for example, the National Petroleum Association, arose after the war.

Dirigisme includes another kind of economic regulation, namely indicative planning, in addition to the existence of the public sector. Public authorities make predictions about the future development of the national economy as a whole, and individual industries, provide proposals for the use of production capacities and for redistribution of investments.

Other developed countries tend to any of these models, although the basic features of each model can be seen here not so clear. Liberal model of economic development has become more popular in the last quarter of the XX century. However, some scientists believe that the liberal model has already outlived its usefulness. The slowdown in the economic development of the leading countries and the rise of newly industrialized countries confirm this conclusion. The global economic crisis of 2008-2009 was the one more argument, which puts into question the effectiveness of the liberal model. But the ***concept of sustainable development*** of the economy is spreading.

There are several definitions of the notion of sustainable development. Following is considered as the most complete and accurate: sustainable development is a notion that reflects the regulation of conditions of life on the basis of four principles:

- satisfaction of basic needs of all people, which are living nowadays;
- equal standards of this satisfaction for the entire world's population;
- careful and sparing use of natural resources;
- saving of opportunities to realize the basic needs for future generations [8, p.194].

According to the definition of G. Daley, “sustainable development is the development without growth of scale of economy over the volume, which is within the supporting capacity of the environment” [8, p.194]. Stable economy means the quality development and not the quantitative growth. Now, scientists have concluded that sustainable development is the development without growth, i.e., without leaving of flows of resources beyond the capacity of the environment. Its purpose is sufficient, but not the maximum per capita wealth. Development should not be based on the quantitative capacity of recycled materials and release of the mass of commodities but on the improvement of technologies and the harmonization of social needs. The transition to the principles of sustainable development must take place within the framework of a rational combination of market system and state regulation of economic relations, improved coordination of all institutions of the state [8, p. 194].

### **3.5. The economy of the United States of America**

***Place in the world economy.*** The United States of America is the most developed country in the world, one of the largest in territory and number of population. The area of its territory is 9.4 million km<sup>2</sup> (the fourth place after



Russia, Canada and China) and the number of population is 313.85 million persons (the third place after China and India). The GDP of the USA equaled to 17,419 billion dollars in 2014 (the second place after China). The share of the USA in the gross world product (GWP) reaches 19% based on PPP; if one counts at the current rate of exchange, it reaches 21.5%. The specific gravity of the USA in the world industry is 18%.

These figures, though abstractly, characterize the enormous power of economic potential of the USA. Its influence on the world economy is so considerable that even small recessions in the American economy adversely affect the economies of many countries in the world. And, on the contrary, the economic recession of the USA means the expansion of its market, including one for import that contributes to the reviving of conjuncture of many commodity markets. The part of the USA in the world commodity export makes 8.4% (the third place after China and the EU) and 13.2% in the import (the first place among world importers). Thus, the internal market of the USA is very attractive for businessmen from other countries. The American market is an important factor of development of national economy for some even developed countries, for example, over 30% of commodity export from Japan is directed to the USA. The part of the USA in the external trade of services is also substantial: 15% in the export and 13% in the import [2, p. 50].

The huge economic potential of the USA determines its political might which is also expressed in the international economic relations. The influence of the USA on the activity of such organizations as OECD, the World Bank, IMF, Economic and Social Council of UNO and WTO is indisputable. So, the admission or non-admission of any states to the WTO just depends, in the first instance, on the position of the USA. They initiate the policy of economic blockade of states which, in opinion of the American government, threaten the national security of the USA or break the international principles of democracy (Libya, Iraq, Yugoslavia, Afghanistan and Syria are among the latest examples) through the mechanism of NATO where the USA are also a leader.

The USA has the biggest part of installments in the funds of authoritative international organizations: in many organizations of UNO system, in the World Bank and IMF. In some cases the number of votes which the state has in the course of taking of important decisions depends on the part of deposits. For instance, in the IMF the USA has 18% votes, while Japan and Germany have 5.5% and France and Great Britain have 5.0%. There is also a similar situation in the International Bank for Reconstruction and Development where the quota of the USA makes 17%. And though the USA cannot blockade the adoption of decision undesirable for itself alone, the weight of its vote considerably influences the voting. The activity of some organizations of the UNO system appreciably depends on deposits into their funds, so the position of the USA with the largest contributions is of great importance for them.

***The economic structure*** of the USA is a typical demonstration of post-industrial stage of state development: the services which share makes 76.7% of GDP are the leading sphere.

***The service sector*** covers transport and communications, trade, finances and credit, insurance, public catering, industrial and domestic services, tourism, education and public health, science and state administrative apparatus.

Over 25% of sphere of services are inherent to the financial services, insurance and real estate business, 22% – to trade, 26% – to business, legal and social services, 8.3% – to transport and communications and 18.5% – to public administration [8, p. 61]. Lately, the development of consulting, marketing and management services as well as new information technologies gained in a priority importance. The service sector provides 80% of the whole increase in employment in the country.

***The finance and credit*** are one of dynamically developing trends of services in the USA. New York is the leading financial center of the world economy. The New York stock exchange is the largest in the world. The role of this city is especially great in the emission of shares and bonds as well as in the trade of securities. The share of market capitalization of listing companies of the USA makes 31.4% on the world market of shares.

The United States has a very capacious internal capital market absorbing not only national but also foreign capital. The inflow of FDI is considerably fluctuating from year to year: in 2003 the minimum volume of FDI into the economy of country has been marked – 64 billion dollars; the volume of FDI reached the maximum value in 2008 (328 billion dollars). In 2010 the volume of received FDI made 194.5 billion dollars and in 2014 it was 188 billion dollars. Switzerland, Great Britain, Japan, France, Germany, Luxemburg, the Netherlands and Canada are the most active investors into the economy of the USA. 84% of FDI are inherent in them. A considerable part of FDI which have come is directed to the manufacturing industry in the USA, particularly, 41% of total volume of FDI is coming to the industrial sector. The wholesale and retail trade (21%) is on the second place. A low percentage of investments are coming to the construction and transport [2, p. 52].

The volume of received portfolio investments also changes every year. If in 2009 it made 220.9 billion dollars, in 2010 – 172.4 billion dollars and in 2014 – 164 billion dollars.9 [64].

The USA is the largest creditor on the world capital market. Such famous banks as “JP Morgan Chase”, “Wells Fargo”, “Bank of America”, “Citigroup” and “US Bancorp” form the leading cohort of the largest world banks.

***The external trade*** is one of the main motive powers of economic development of the USA. In 2013 the USA occupied the second place in the volume of exports of goods after China (1.6 trillion dollars) and the first place in the volume of imports (2.3 trillion dollars). The passive trade balance is being formed at the expense of negative balance in the trade in raw material and fuel and also finished goods. The USA has an active balance only in the advanced

technology trade. The balance of trade in services has been active within 20 years (in 2013 the USA exported services by 687 billion dollars and imported them by 462 billion dollars).

Though *the industry* of the USA yields in the part in the GDP, it is the powerful one in the world. 20% of the world production of industrial goods is inherent to the USA. The productivity of labor in the American industry substantially exceeds the corresponding index in the main competitors. The statistics of the USA divides the industry into extractive and manufacturing ones and power engineering. The share of manufacturing industry makes over 80%. At the same time, the USA occupy the first place in the world in the production of electric power and is also a member of the leading group of countries in the output of coal, oil, gas and ores of ferrous and non-ferrous metals. The provision of the American industry with its own source of raw materials strengthens its «rears». However, the major factor of development of industry of the USA is the following: wide internal market, high-quality competitiveness of the American goods; leadership in research and development and stable positions of the American TNCs on the world markets of industrial goods.

Practically all the branches and types of production entering the industrial spectrum of modern economy are highly developed in the USA. But the specific gravity of individual branches has notably changed for the last decades of the XX century. The role of such old industries as textile and metallurgical ones has reduced. The USA yielded its positions in the production of ferrous metals to China and Japan. Even such a traditionally «American» industry as automotive industry which has symbolized America is not already priority one in its development rate, the Japanese also left the Americans behind in this industry.

At the same time, the aerospace and electronics industry, production of new materials, laser technology and robotics are rapidly developing. The highest income is obtained in the electronic and electro technical industry. Just investments into the newest technologies provoke a high growth rate of the American economy. More than a half of all the investments into the industry are spent on the purchase of computers and informatics tools.

The share of investments into information and telecommunication technologies makes 3.2% of the GDP. According to “FT Global 500”, the companies “Apple”, “Microsoft”, “IBM”, “Oracle” and “Google” are the leading ones in these industries. Every decade the expenditure for research and development in the USA are doubled.

*The agriculture* of the USA makes the largest volumes of output in the world. The country occupies the second place in grain and meat production (after China). The share of the USA on the world food market makes 15%. They supply 50% of corn, 20% of beef and a one-third of wheat to the world market. They are the largest producers of soy-beans and citrus plants and belong to the leading countries in cotton and sugar-cane picking. The USA is a net exporter of foodstuffs.

The agriculture of the USA is rather industrialized, equipped with modern machinery and appliances and has a high productivity. The scientific and technical progress also penetrates rather successfully in this sphere of the American economy; the achievements of biotechnology, up-to-date agricultural engineering and progressive methods of management are being implemented. At the same time, the agriculture is under the special protection of the government, farmers receive the grants from the budget; they have tax incentives and subsidies for export. The productivity of labor in the agriculture is constantly growing (in 1947 one worker of agriculture in the USA provided 14 persons with foodstuffs and at present he provides 98 persons).

The economy of the USA is characterized by high dynamic development. Though the USA are not deprived of the influence of the economic cycle as all the countries having the market economy, its economic development is relatively more stable compared to some other countries.

Since the middle of the 1980s the economic reforms carried on by the government have led to the substantial turn in the development of the American economy. The quickly growing importance in the world economy of science intensive and high-tech industries of production in which the USA have an indisputable advantage has favored the acceleration of its development and steady raising of estrangement from competitors. The 1990s proved to be especially favorable for the development of economy.

The **Table 3.3** is giving an idea of economic development of the USA for the last several years.

**Table 3.3**

**Economic development rate of the USA, %**

<b>Indicator</b>	2000	2006	2008	2009	2010	2011	2013	2016	2017
<b>GDP increase</b>	4.1	3.4	1.3	-3.5	3.0	1.5	2.5	1.49	2.27
<b>Increase in the production</b>	2.0	4.2	0.2	0.2	3.0	4.1	2.5	2.1	1.8

[2,p.54; 63]

Since 2008 the economic crisis which, according to experts, can be comparable with the deepest in the history of country crisis of 1929 -1933 has been beginning. Especially it affected the financial sector and it influenced particularly on the temporary drop of USD rate. The industrial production has reduced and the unemployment has increased. In 2009 the greatest drop of development rate (3.5%) was observed in the economy of the USA but it was lesser than one in the European countries. Since 2010 the development rate of the USA has become to increase gradually and they reached 3.9% in 2014. This testifies to the fact that the American economy has proved to be rather stable compared to the European one which experienced the financial shocks.

***Economic policy of the USA***

The leading position of the USA in the world economy determines its geopolitical position as a whole. After the disappearance of the Soviet Union the United States turned to the only superpower, which has no serious competitors on

the planet either economically or militarily or political ally. This situation causes the main goal of US strategy: the whole planet is declared a sphere of US interests, including economic ones. American politicians openly declare it. US foreign policy is formed according to this purpose. The United States is a leader in the globalization process, guiding it in a certain direction and activating this process.

The current economic strategy of the United States is based on the liberal model; according to it government implements economic policy, the theoretical basis of which is monetarism, and which is embodied in practice most consistently since the second half of the 1970s.

The economic strategies of the USA were formed on the basis of Keynesianism before 1970. The crisis of 1973-1975 identified the need to move to other methods of economic regulation. The US had already lost almost unchallenged positions in the global economy, their share in world production declined under the pressure of European countries and Japan, the dollar lost its strength and inflation increased. In these circumstances, President Ronald Reagan (1981) proposed a new program that was based on the monetarist theory of the American economist Milton Friedman. The Government of Reagan proposed and implemented the program "New foundations for America". It was based on the support of private entrepreneurship, while reducing government intervention in microeconomic processes. This economic policy received the informal name of "Reaganomics".

In contrast with the Keynesian theory, which proclaimed the priority of stimulating the demand, a new policy was based on stimulating the supply. The main tool of economic regulation was determined tax policy. Corporate taxes have been significantly reduced; it was proposed to abandon the progressive taxation. In 1981 the Tax Act was passed, which provided gradual reduction of income tax by 23%, reduction of maximum tax rate on capital gains from 70 to 50%. In 1986 a new law was passed under which the maximum personal income tax rate was reduced from 50 to 28%, and corporate income tax – from 46 to 34%. The poorest citizens were exempt from taxes.

The use of monetary measures gave new impetus to the US economy. Real GDP growth rate rose to 3-4% per year, inflation and unemployment reduced. In the 80s there were created 18 million new jobs – twice more than were created during this time in the countries of Western Europe and Japan together. Investments in information technology have been growing in average by 13% annually.

"Reaganomics" functioned effectively almost until the end of the 1980s, when there another recession occurred in the US economy. Output growth rate fell sharply. The National budget had a significant deficit not least of all it was due to lower receipt of taxes); a large negative balance of current account transactions was formed. The situation of the poor and vulnerable segments of the population became worse due to the reduction in social spending. Investment activity has fallen noticeably in the country.

The Government of Bill Clinton turned from monetarism to politics, which is called “Neo-Keynesianism”. It does not provide such strict regulation of economic activities as classical Keynesianism, but activates the role of government in the economic sphere. The main aim of the government was determined as promotion of the investment into the economy. The volume of public investment in fixed capital of the country increased. Particular attention was paid to the promotion of investment in new industries that define the scientific and technological progress. Social expenditures of government, especially on health and education, increased. However, the taxes also increased.

The success of the Neo-Keynesian policy was demonstrated by the dynamics of the main indicators of the economy in 1990s. At the end of the decade for the first time the tendency of reduction of US debt appeared – from 3.8 trillion dollars to 3.4 trillion dollars in 2000 [6, p.196]. However, some experts and politicians have expressed concerns about the prospects of further cloudless development of the US economy. Its rise in 1990s, as many of them believed, was based on the unprecedented “boom” of investment into information technology. When this “boom” will pass away because of the saturation of the market by the information technology, the rate of the US economy should slow down. The events of the 11th of September 2001 (the act of terrorism) added hassle and uncertainty into its development.

The next US President, George W. Bush – junior, returned to the concepts of economic policy of his father, who was a proponent of monetarism. His program, “New principles” firstly assumed reduction of taxes, the abolition of inheritance tax, the rates of which reached 50%. There tax concessions for scientific research and development were established. Budget program provided thorough retrenchment for the purpose of further reduction of public debt. In contrast to the “Reaganomics” the administration of Bush viewed reduction of social spending with caution. The pension system and the system of medical services for the elderly “Medicare” received support. Program of education for children from poor families was developed, 70% of mentioned children cannot read even in the fourth grade.

However, the economic programs of J. Bush government were implemented not completely. Due to the active participation of the US in the wars in Afghanistan and Iraq budget expenditures on army have risen sharply. In 2004 financial year (finished in September), the US budget deficit reached a record figure - 413 billion dollars (under the government of Bill Clinton there was a surplus). In 2006, however, the deficit was reduced and amounted to 250 billion dollars. In 2014 the deficit reached 2.3 trillion dollars. Unfavorable for the further development of the US economy became the demographic factor: the time is approaching to the mass retirement of generation of so -called “baby boom” – people born in the early postwar years that amount to large number. They will not pay taxes any more, but they require social benefits.

Since the end of the last century in the US the decisive restructuring of economy occurs. There is vigorously accelerated the development of information

technologies and software products. There is a shift to the “information industry”; at the same time regarding US economy the terms “de-industrialization” and “de-localization” are used. On the one hand, the demand for brainworkers is growing, on the other hand, a problem of mass retraining of workers of processing industry appears. So, in 1950s every third employed American worked in the manufacturing industry, and today – only every ninth. In 2007, the US industry had 20.6% share of GDP, while services – 78.5%. There is a fear among American economists and politicians that the industry will gradually withdraw from the United States (“de-localization”) to countries that are developing more dynamically (NIC, BRIC), and the Americans will provide informational services to someone else's economy.

Foreign-economic policy of the United States is aimed at strengthening of their position in the world economy. It is carried out both through the mechanism of activity of TNCs and defending the interests of US by representatives in international organizations. In particular, the USA constantly defends the policy of open trade, free-trade with the purpose of providing access of their products to international markets. However, US (contrary to the principles of this policy) introduced protectionist barriers to limit the internal market from products of their competitors. Often such restriction takes the form of anti-dumping measures, incentive of trading partners to “voluntary” export restraints. This policy is explained by the huge deficit of foreign trade balance. For example, in 2008 the deficit amounted to 813 billion dollars – more than in any other country. US attach great importance to participation in integration processes.

New US President Barack Obama had to start his governing in conditions of very deep global economic crisis that began with the US financial sector. A number of large banks and insurance companies became bankrupts (in particular, “Fannie Mae”, “Freddie Mac”); automobile industry giants – “General Motors”, “Ford” appeared under the threat of bankruptcy. One of the main directions out of the crisis the new government sees the strengthening of the role of the government in management of the economy. The significant investments of public funds to rescue the “sick” banks and firms were made.

The government of Barack Obama defines the goal as the implementation of a more balanced economic policy, in particular tries to reduce the budget deficit, to improve the social orientation of economic strategy of the US.

### ***Features of business ethics***

American enterpraneurs in terms of business qualities are characterised by purposefulness, resoluteness and perseverance. These traits began to form back in those days when the first settlers had to overcome the difficulties of mastering unknown territories. Protestant religion, which prevails in American society, treats conscientious work as one of the main vocations of a person. In the course of work the North Americans support such a high rate and tension, which are unusual and often unbearable for many other peoples. The expression "Time is money", which was formulated by Benjamin Franklin as far back as the 18th century, is today the leading slogan of an American businessman whose main goal is to maximize

income in the shortest possible time, through persistent work, speed of action and the power of money.

Americans are by their nature individualists, they like to act independently, but also are ready to take risks and assume responsibility. In business relations they are not sentimental, they are able to control their emotions, at the same time they show openness and friendliness towards their partner. They are indifferent to external formalities (clothing, ritual, etc.), but are picky about each point of the contract. American businessmen seek already at the first business meeting obtain from the partner the principle consent to the contract (of course on his conditions), and the details of the contract can be clarified later. Thrifty attitude towards time makes them impatient, and they often pressurize the partners who hesitate in making a decision [20, p. 234–243].

American businessmen persistently and vigorously defend their point of view during the negotiations, not wanting to lose positions that provide benefits. Nevertheless, they are rationalistic and ready to compromise if it is impossible to achieve the best option for them. Having concluded the agreement, they honestly adhere to its implementation and require the same from the partner. If the partner starts to cheat, does not fulfill at least one of the contract points, the American businessman acts ruthlessly and immediately brings the matter to court. The American businessman in the partner appreciates first of all professionalism and competence. The drawbacks of Americans, which make it difficult for them to negotiate with foreigners, is their belief that America is the best country in the world, and the dollar is a powerful force that surpasses all evidences. Therefore, they are often disregard the foreign culture and customs, rarely bother to learn the language of a foreign partner (most of the talks are conducted in English).

The concept of business ethics in the United States has significantly enriched over the past two decades. On the one hand, businessmen did not depart from the desire to profit, on the other hand, they began to feel the shakiness of the profit absolutization as the only goal and begun to accept the social responsibility of business. Thus, there is a transformation of business mentality in the direction of social orientation. Increasingly, the media is popularizing the idea of balancing the interests of business and the common man, ensuring environmental well-being, and so on.

The government and the US Congress react to such statements by setting stricter standards with regard to product quality, seeking to eliminate environmental pollution from production waste, and so on. For violation of the law corporations paid tens of millions of dollars in fines, many of the direct perpetrators were even brought to criminal responsibility. The defect in products proved in court results in immediate prohibition of its sale in the American market.

Many American corporations are actively declaring their devotion to high ethical principles. When hiring, each employee is given a memo about the rules of conduct, the importance of supporting the honor of the company in society.



### **3.6. The economy and economic policy of Japan**

Japan belongs to the most developed countries in the world. In 2014 Japan was the fourth-largest economy in the GDP volume (in PPP) in the world after China, the USA and India (4751 billion dollars). The share of Japan in the GWP makes 5.56% and 8.1% in the world industrial production. Japan is among the world leaders in the production of ferrous metals, electric power, automobiles, ships and especially computer equipment. The part of Japan in the world production of TV sets makes 60%, 14% in steel production and 12% in the production of chemical fibers. It takes second place in the world in tonnage of merchant marine and first place in fish catching. Japan is the leading capital exporter and the largest creditor in the world and its banks are the most powerful on the world credit and financial market. The Japanese finished goods, in the first instance, electronics, are winning the markets of many countries in the world owing to the high quality and reliability. At the same time, Japan absorbs the large volumes of energy carriers, mineral and agricultural raw materials and foodstuffs importing them from other countries. The Japanese foreign trade balance has been reduced with significant positive for the last decades. But in the late XX century the economic development of the country became slower and its rate is notably lower than in other developed countries. Japan found itself before the necessity to carry on the serious economic reforms.

The main share of production in the economy of Japan of pre-war period was inherent in the heavy industry: metallurgy, power engineering, heavy engineering, basic chemistry and petroleum refining. This structure has mainly been remained up to the 1970s of the last century. As in those times the prolonged tendency of price drop for raw material, including mineral one, had formed on the world markets, Japan increased powers in the branches of heavy industry on the imported ores of metals, oil and gas and chemical raw material. Practically not having iron and manganese ores and extracting only copper from non-ferrous metals, Japan has taken second place in the world in melting of steel, aluminum, copper and other non-ferrous metals within almost all the last half a century. It only yields to the USA in capacity of oil-processing plants, though all its oil is coming from other countries.

The mechanical engineering developed at an especially fast rate. If the output in the manufacturing industry has increased as a whole in 11 times for 1953-1971, one in the mechanical engineering has increased in 25 times [6, p. 66]. The relatively cheap manpower generalized the competitiveness of also labor-intensive production: automotive industry, radio and television equipment and light industry. In the late 60ties Japan took first place in the world in the production of automobiles, transistor radio and television sets and later on in the production of metal-cutting lathes. Since the 70ties the external economic situation for Japan has been substantially changing. Firstly, the prices for oil as well as for some other natural resources sharply increase that have had a morbid effect on the Japanese economy; the power- and metal consuming types of production lost the incentive

of further development. In 1973-1974 the import prices increased by 2.1 times and by 86% in 1979-1980 [8, p. 66]. Secondly, the developed countries entered into the stage of post-industrial development when the traditional industries, especially metallurgy, heavy engineering and basic chemistry no longer played the leading part. Thirdly, the salary of the Japanese worker increased and reached the level of one in other developed countries and this liquidated the advantage of Japan in the cost price of product at an expense of cheap manpower.

Under these conditions the radical reorganization of the structure of the Japanese economy was required. The energy crisis induced to implement energy-saving technologies. The specific fuel consumption for production of unit of commodity has considerably reduced. The production rate of electric energy and ferrous metals has sharply slowed down. The rise in price of manpower led to the substantial decrease in the share of product of light industry. At the same time, the high-technology types of production, especially electronics and robotics, developed at a fast rate. In 2014 the GDP structure in the major sectors of the economy of Japan was divided in the following manner: agriculture – 1.4%, industry – 24.0% and services – 74.6%.

The employment in sectors differs not much from the GDP structure: 3.9% are inherent in the agriculture, 26.2% in the industry and 69.8% in the services [2, p. 56].

The share of industry decreased compared to the 50s-60s, but it is still higher than in the USA or in Western European countries and the share of services is somewhat lower.

Despite the shortage of crop areas, the agriculture of Japan provides 70% of the country's needs in food. The main cultures are the following: rice, potatoes, sugar-cane and sugar-beet, and citrus plants. The considerable portion of vegetable cultures is grown in the artificial environment. The agriculture is notable for high intensity and crop capacity, high level of chemicalization.

The small farms prevail in the agriculture. The government protects the agrarian sector by the protectionist measures. Only in 1994 the ban on the rice import was removed, in spite of the fact that the Japanese rice is 2.5 times more expensive than the American one and Thai rice is 5 times more expensive.

The industry of Japan is increasingly focused on the science intensity industries. The share of mechanical engineering in the structure of manufacturing industry grew from 30% in the 60ties almost to 60% in the 90ties. The electronics, aerospace machinery, telecommunication facilities and robotics became the priority industries. The share of Japan in the world production of color television sets makes over 60%, robots – 50% and semiconductors – 40%. Moreover, Japan takes first place in the world in the production of ships (52% of world volume), automobiles (30%), tractors and metal-working equipment. Despite the decrease in the role of traditional industries, the positions of Japan are stable enough in the world production of steel (14%), synthetic fibers (12%), rubber, refrigerators and washing-machines.

In the 70s-80s the government supported the depressed industries by rehabilitation: the perspective enterprises were given credits and privileges and hopeless ones were closed. The situation was the most complicated in the following industries: smelting of aluminum and open-hearth steel, production of chemical fertilizers and fibers, shipbuilding, textile and clothing industry. In the 90ties the state refused from the care of non-competitive industries; its products became replaced by imports. To a considerable degree this import consists of goods made in the subsidiaries of the Japanese corporations abroad.

The amalgamation of private enterprises into different associations, cooperatives and unions is a peculiarity of the Japanese economy. Some of these enterprises turn into the TNCs (**Table. 3.3**).

**Table 3.3**

**The leading industrial corporations of Japan, in accordance with the data of “FT Global 500”**

Corporation	Net profit, billion dollars	Number of employees, thou. pers.
“Toyota Motor”	22,510	369,124
“Honda Motor”	9,561	215,000
«Canon»	3,0	197,386
«Mitsubishi»	2.9	58,583
«Nissan Motor»	0.5	157,624
«Komatsu»	0.5	38,518
«Mitsui»	1.6	41,454

Reference: [2, p. 57; 65]

The trade, financial and banking services, information science, communications and tourism obtained the great importance in the service sector. The role of services connected with the maintenance of production such as consulting, engineering and marketing is growing. Since the middle of the 80s Japan has become the largest creditor in the world, the total sum of its foreign assets exceeds 1 trillion dollars. Japan had no external debts for a long time; there was positive offset balance. However, since the 90ties of the last century the economic situation in the country has become worse. In 2014 its external debt made 2.8 trillion dollars (57.2% of the GDP) [66]. At the same time, Japan takes first place in gold and foreign currency reserves which sum makes 1.246 trillion dollars among the developed countries and second place in the world (after China) (as for 1.06.2015).

In the 80ties of the last century Japan took first place in export of direct investments, in the 90ties it yielded to the USA and France and in 2014 it takes second place among the world investors after the USA. In 2014 the volume of FDI outflow from the economy of Japan made 136 billion dollars. The main part of investments is sent to the USA (12.73%), to the countries of West Europe (33.88%) and to the Asian countries (34.12%). The most part of the Japanese investments flows into the chemical and pharmaceutical industry (17.0%), finances and insurance (16.5%), extraction of minerals (14.2%) and wholesale and retail

trade (10.7%). 10.6% of the Japanese investments are coming to the world mechanical engineering industry where 6.3% of total investments are inherent in the production of electric machines.

In 2014 the country is still not among the top twenty countries with the highest indicator of FDI inflows [34].

According to the data of “Bloomberg”, the companies “Asia Alliance Holdings Co Ltd”, “Privee Turnaround Group Co Ltd” and “Sun Investment LLC” are the largest Japanese investors. The latter bought 49% of shares of the Swedish company-producer of motor cars “Saab Automobile AB” in 2012 [2, p.58].

The credit and financial system of Japan is represented by private and state banks. The Central Bank of Japan and the Development Bank of Japan and a few social financial organizations are directly subordinated to the state. There is a group of the largest banks in the world among the private banks of Japan (**Tab.3.4**)

**Tab.3.4**

**Indicators of the Japanese largest banks and financial holding companies**

Name of TNB	Net profit, billion dollars	Number of employees, pers.
«Mitsubishi UFJ Financial»	4.16	84,260
«Mizuho Financial Group»	2.56	57,014
«Sumitomo Mitsui Financial Group»	2.91	57,888

**Reference: [2, p. 58]**

The dynamics of economic development of Japan in the second half of the XX century is characterized by change of rhythm depending on the character of economic processes carrying on both within Japan and in the world space. Three periods can be distinguished, which are clearly visible by the rates of economic growth.

The first period covers the 50s-60s which are characterized by very high development rate. In the 50ties the average GDP increase made 15%. It was the time of restoration of the Japanese economy, supply the production with the newest equipment and substantial investments into the industry and agriculture. In the 60ties the accretion slightly reduced but still remained high enough, 11% as an average.

The second period (the 70ties-80ties) is characterized by moderate rate: 3.8%-4.5%. It was already the period of stabilization of mature economy. The low rate in this period is also explained by appearance of the previously mentioned problems: energy crisis and necessity of structural reconstruction of industry.

The third period began in the 90ties and it is noted by extremely low rate of the GDP increase, 1.4% a year as an average, it is considerably lower than development rates of other developed states, competitors of Japan on the world markets (**Table 3.6**).

**Table 3.6**

**Dynamics of GDP and unemployment growth in Japan, %**

Indicator	1990	1995	2000	2007	2008	2009	2010	2011	2014	2017
GDP growth	5.6	1.9	2.9	2.4	-1.2	-6.3	4.0	-0.5	1,4	1,7
Level of unemployment	2.1	3.2	4.7	3.8	4.0	5.1	5.1	4.9	4,0	2,8

Reference: [2, p. 59; 67].

It seemed that in 2000 the Japanese economy has been already coming out of the stagnation. However, just in the last quarter of that year it showed a regular slump which was also continuing in 2001. The economy was also developing limply in 2002, after that the development rate of economy accelerated and at last the Japanese economy went out of prolonged stagnation. However, the world economic crisis which began in 2008 broke development rate of economy of Japan again.

The unemployment is growing owing to the reduction of volumes of production. Though the unemployment level in Japan is lower than in the majority of other developed states, it has a disturbed tendency of growth. Since 2000, for the first time in the last decades, the unemployment level started to approach 5% of all the able-bodied population.

The economic situation in Japan is characterized by recession due to the sharp slump of investment activity in the late 2008. The government increases state expenses trying to stimulate the economy. The state subsidies helped to improve the situation in the late 2009 and in 2010. But the economic situation was shaken because of strong earthquake and tsunami in 2011. The supplies of power energy became strained because Japan temporarily closed almost all its nuclear power stations. The evaluations of direct expenses for restoration of buildings, plants and infrastructure vary in the range of 235 billion dollars to 310 billion dollars. In 2011 the GDP (in PPP) decreased almost in 0.5%. However, in 2012 Japan began to go out of economic drop and in 2013 it became leader of developed world in economic growth rate (7.9%).

### ***Economic policy of Japan***

The active intervention of government into economic processes has been the characteristic feature of the economic development of Japan for a long time. After the Meiji Revolution the government administers protectionist policy, strongly supporting private entrepreneurship. There are widely practiced state subsidies to private entrepreneurs, tax incentives. The state becomes an active investor. The large state-owned enterprises appear: in particular, all railways were state-owned. Considerable amount of funds is spent on the development of military-industrial complex. In the 1920s the state entrepreneurship reaches a wide scope. Almost two-thirds of all investments in the economy were provided by government.

Besides government, the control of the economy in the pre-war Japan was executed by large monopolistic associations, corporations, led by family holdings, the so-called “zaibatsu”. They received the largest military orders and it was they who were the most active supporters of Japan's participation in the war. “Mitsui”,

“Mitsubishi”, “Sumitomo”, “Yasuda”, “Okura” were the powerful corporations. Concern “Mitsui” included banks, insurance companies, enterprises of mining, chemical and electrical industries; it has played a significant role in foreign trade. Concern “Mitsubishi” controlled the extraction of copper ore, the production of mineral fertilizers, oil refining industry and shipping. Concern “Sumitomo” controlled ferrous metallurgy, “Yasuda” owned the largest banks, insurance and industrial companies.

Disbalance in the economic structure and excessive monopolization were disadvantages during the war. Japan not only defeated, but also was in an incredibly ruined state. Industrial production in the end of 1945 amounted to only 10% of the pre-war level, its export share in world trade – only 0.5%. Japan lost its colonies and was occupied by American troops.

In this situation, in Japan completely different strategic objectives arose in the economy. The main goal was to restore the economy as soon as possible and to eliminate the lagging with its American and European competitors, not only in quantitative indicators, but also – and most importantly – in the technological level. It was necessary to rebuild the industry structure of economy in accordance with the requirements of scientific and technological progress.

The role of the government in post-war reconstruction of the Japanese economy was not only not diminished, but also increased. Keynesian theory was taken as the basis of the economic development model; it envisaged the active role of the government in economy regulation. The planning of economic development was introduced, the plans had indicative nature. The program of economic recovery was based on three plans: 1949-1952, 1949-1953, 1951-1953; these plans corrected and complemented each other. The most meaningful were “Five-year plan of self-sufficiency” (1955-1959) and “The new long-term economic development plan” (1957-1960). The aim of these plans was to accelerate the pace of economic development and improvement of its industrial structure.

The external-economic orientation of the Japanese economy became an important direction of economic strategy. The government controlled foreign trade transactions and distributed the funds for payment for imports according to the limit. The basis of foreign economic policy was the protectionism; the inflow of foreign capital in Japan was limited.

The post-war economic reform improved the Japanese economy, it has become the springboard from which began the rapid rise of Japan in the global economic space. In 50s–60s of the XX century the Japanese economy has been developing very rapidly, the annual GDP growth in average amounted to 15%. It was a time of economic recovery, production equipment with the latest technology, significant investment in industry and agriculture. In the second half of the 1960s the growth reduced slightly, but was still relatively high, in average 11%.

In the 90s there was a significant slowdown of the Japanese economy. Rates of GDP growth reduced, even to negative rates in some years. The setback in production was accompanied by rise of unemployment. If in the 80s the share of unemployed in the employable population did not exceed 3%, in 1999-2001 it was

4.7 - 5%. The stock market reacted to the economic downturn. The main stock index of Japan, Nikkei - 225 decreased from 1990 till 2001 by 64%, while its American analogue, the Dow Jones rose by 321%. A wave of bankruptcies rose in Japan. Only in 2000, it went bankrupt more than 19 thousand companies. Trying to stimulate the economy, the government increases public spending. Japan had a huge public debt (in 2000 – 5.6 trillion dollars or 130% of GDP).

Japan's economic troubles of the 1990s were connected with macroeconomic distortions. For a long time, Japan had a trade surplus. Japanese banks used capital inflows from the export not so much for investment in industry (due to high labor costs), as for speculative operations with stocks and real estate. Stock prices and land prices were artificially overstated; shares were bought for further resale. This process was called “bubble”. In 1990, the “bubble” burst and the market price of the shares and the land began to go down. This led to the formation and accumulation of debts by banks from corporations that invested surplus funds in these assets. In 1995, firstly in the post-war period, a wave of bank bankruptcies rose.

The crisis of financial system has affected the real sectors of Japanese economy as well. The rates of capital investment reduced, the property (real estate) depreciated, which is a pledge for bank loans. Bank bankruptcy and difficulties in obtaining loans (due to the depreciation of pledge) provoked a mass bankruptcy of Japanese companies. Capital and production increasingly were removing abroad to subsidiaries of Japanese corporations and joint ventures, since the domestic market has shrunk.

The downturn in the Japanese economy was also caused by external factors. In 1998 there was an economic crisis in Southeast Asia – the region where Japan has always had a priority position. This has led both to a reduction of Japanese exports, and to a drop in the production of numerous branches of Japanese corporations, which were located in the region.

It was a task to develop and implement a new strategy of economic development under conditions of lasting stagnation in front of the government of Japan. Keynesian principles of economic model gave way to neo-liberal policy. The role of government in economy regulation got narrow, focusing mainly on the macroeconomic sphere.

In 1999 the financial reform was introduced, which was called the “big bang”. The obstacles to access to financial markets were eliminated. Banks, brokerage and insurance companies got the ability to deal with all kinds of financial transactions. The ban for access of non-financial companies to the financial markets was cancelled. The trade in securities outside the stock exchange was permitted. The government intervention in the operational activities of economic entities significantly decreased, the value of market leverages of regulation rose, i.e. there began the deregulation of the economy.

Deregulation of the economy, its deliverance from uncollectible debts and tight control of public deficits were the main priorities of the new economic policy of Japanese government. It was necessary to exempt the banks from a large amount

of so-called “bad loans”, which were formed as a result of the collapse of the “bubble”. These debts have been cancelled. The corporate income tax was reduced. The inflow of foreign investment in the Japanese economy became more brisk as a result of the liberalization of foreign economic activity.

Economic reformation that began in the end of the 1990-s, began to show positive results in 2004, when GDP growth rate amounted to 2.7%. External debt declined to 1,495 trillion dollars. The rate of inflation in the country was quite low (1.8% in 2008); it was somewhat connected with the weak dynamics of the Japanese economy. Anti-deflation drive was one of the most important directions of economic policy of the government. The unemployment rate was more than 4%, which was considered quite high for Japan.

So, since 2004 the economic growth of Japan was resumed after a long stagnation. The revival began from branches serving mainly the domestic market. Internal economic policy of the Japanese government was characterized by an emphasis on solving social problems. In contrast with the “hard” American model, in Japan the “friendly” capitalism was cultivated, when the preference was given to the economic stability, security, preservation of social equilibrium.

Since 2012 the government of Japan conducts economic policy that is called “Abenomics”. Abenomics is aimed to revive the stagnant Japanese economy, which during the 1990-s, 2000-s and 2010-s was prone to deflation. The artificial devaluation of the yen by doubling the money supply in the country is the main method of abenomics.

To overcome the crisis the “Three Arrows” program was proposed and it is successfully implemented: firstly, achievement of goals regarding increase in prices; secondly, the implementation of measures regarding budget stimulus of various programs aimed at the development of infrastructure and the provision of assistance to regions suffered from natural disasters; third ly, the development of measures regarding carrying out reforms in the public sector, which would attract investment and consumption growth.

In foreign economic policy Japan has two main priorities: close cooperation with partners in the OECD, especially in the framework of the Group of Seven, and strengthening its position in the Asia -Pacific region. Japan is a member of APEC, where plays an important role, takes part in most of the regional development banks. The particular importance for Japan is played b y its relations with the USA, which market is attractive for Japanese exporters of commodities and investors.

### ***Features of japanees business ethics***

Business ethics of the Japanese quite noticeably different from European or American, and this must be taken into account in negotiations with them in order to avoid misunderstandings and achieve success.

A characteristic feature of Japanese society is the strong dependence of the individual on the social group to which he belongs (family, school, university, firm). In the West, such a system was called a web society [20, p. 351]. At the talks, representatives of the Japanese firm do not make decisions independently, as



they must coordinate the details of the contract with other specialists of the firm, which to some extent drags out the negotiations.

The Japanese painfully experience a so-called loss of face, so the negotiations should not lead to belittle their significance, one can not break the rules of politeness, exert pressure on them in an attempt to sign a profitable contract. Japanese businessmen do not like to say "no" during the negotiations, believing that direct refusal will offend the partner. They express their disagreement indirectly, through hints. If Japanese businessman, after listening to the partner's suggestions, says "yes", it does not necessarily mean that he agrees, rather it means: "Yes, I listened to you." This is often misleading for western partners.

The negotiations Japanese usually conduct as a team, in which everyone has his own competence. They listen attentively to the counterparty, but decisions are not taken immediately. No matter how strong the team is, its members will necessarily turn to the central office for instructions. They are very careful, scrupulously study their partners, are very polite, do not like the unceremonious manner of communication, are able to listen, and demand the same in relation to themselves.

The Japanese attach great importance to the rank of the partner - the higher his rank, the higher the chances for the success of the negotiations. During the negotiations, it is not customary to show emotions.

The negotiating partners who immediately switch to a name, slap the interlocutors upon the shoulder, are joking, cause displeasure of Japanese. The Japanese even try to avoid a handshake, considering it unhygienic. In general, the Japanese are very careful about foreigners, but in their dealings with them behave honestly and correctly.

The Japanese reluctantly come into contact with new people. Therefore, it is better to get acquainted with them through an intermediary, which should be well known to the two sides of the future negotiations. In the practice of business communication in Japan, the use of business cards is very important. In addition to the name and surname, as well as the position held, the most important thing for the Japanese is that they belong to a particular firm or organization, which ultimately determines his position in the society. If, in response to an extended business card, he does not receive a response card, then this can bewilder and even offend the Japanese businessman. Hand over and take business cards better with both hands, and as a sign of respect, the received card should be carefully read.

In business relations with the Japanese it is necessary to be punctual - delay is considered as a serious manifestation of disrespect. It is necessary to avoid disputes on religious and philosophical themes and at the same time to show interest in the history and culture of Japan.

### **3.7. The economy and economic policy of Germany**

Germany is one of the most developed countries; it belongs to the “Group of Seven” of economically powerful and influential states. In 2014 the FRG takes fifth place in the GDP rate (in PPP – 3,722 trillion dollars) (after China, the USA, India and Japan), its share in the GWP makes 3.8%. Germany is the most developed country in Europe. It is the EU «locomotive»; the development rate of the integration association depends largely on the state of its economy. One can assert with confidence that the EU achievements, in the first instance, are based on economic stability of Germany. It has a powerful industry; the FRG takes first or second place in the world in some products of electro-technical engineering industry, machine tools, chemical, optical and mechanical industry.

The FRG depends to a greater extent than the USA and Japan from the state of world market. In 2014 its share in the world export and import made 7.7%. The share of export in the GNP of Germany makes over 20% that is one of the highest indices among the states of the “Group of Seven”.

Germany has a developed scientific and technical base, the expenditure for research and development makes 3% of GDP; but the FRG yields to the USA and Japan in scientific and technical potential.

Germany has a system of social protection of population, one of the best in the world, and high average level of salary. At the same time, in 2014 it took 18th place in GDP per capita (45,900 dollars) but it has a high productivity of labor (68,840 dollars of GDP per one employed) but lesser than in the USA (97,920 dollars), France (74,770 dollars), Canada (74,400 dollars), Japan (66,570 dollars) and Italy (72,650 dollars), though 4.85 times more than in China (14,190 dollars) [2, p.61]. The high quality of German product to a certain extent compensates its rather high cost price on the world markets.

Germany is a large capital exporter, it is the fifth creditor in volume in the world and in 2014 it took seventh place in FDI export (58 billion dollars) and fifteenth place in FDI import (27 billion dollars) [67].

Germany is playing an important geopolitical part, especially in Europe. Being situated in the center of Europe, it has been taking the key positions in the policy and economy in this part of the world for almost one and a half century. Since the second half of the XX century its geopolitical role has been strengthened. It became apparent, most of all, in the leading position of Germany within the EU. Since the 90ties the geopolitical influence of FRG on the countries of the Central and Eastern Europe for which it has been gradually becoming one of the major trade partners and investors has increased. The development perspectives of Eastern European countries depend on the position of Germany in many respects.

Germany is notable for its high share of industry among the most developed countries. The main sectors of the economy have such positions in the GDP structure (%): industry – 28.1, agriculture – 0.8 and services – 71.1.

For a long time the heavy industry has been a basis for industry of Germany. In 1955 its share in all the industrial production made over 73%. The structure of

industry began to become transformed gradually, under the influence of scientific and technical progress. The share of coal industry and ferrous metallurgy reduced; at the same time, the electronics, instrument-making, automotive and aerospace industry were developing at a high rate. However, even today Germany is detached in the world economy as one of the leading producers of products of heavy engineering industry and the largest exporter of metalworking machinery and chemical product.

The most competitive industries in Germany are the following: automotive industry, aircraft construction, production of locomotives and carriages, machine - tool construction, instrument-making, electro technical industry, precision mechanics and optics, chemical and pharmaceutical industry, ferrous metallurgy. The mining industry takes secondary place but at one time the coal and potash salts were an important factor of industrial and agricultural development. After the World War II a lot of mines were closed down under pressure of oil and gas competition. The famous Ruhr Basin has gradually lost its value of the «black heart» of Germany. The reconstruction of ferrous metallurgy was carried out, the output of ordinary brands of metal decreased and the part of alloy steels increased. The heavy engineering industry gave up its place to nonmetal-consuming and high-technology mechanical engineering.

After the reunion of Western Germany and Eastern Germany the further structural changes continued in the industry. In the East the overwhelming majority of enterprises of ferrous metallurgy and heavy engineering industry were closed down. The funds were invested into the development of precision mechanics and optics and food industry. The greatest number of employed in the industry is inherent to the sector of general mechanical engineering and machine-tool construction while the automotive industry, chemical, food and electro technical industries are in the background. The traditional industries of country such as brewing and wine-making are widely known ones. In the FRG 4,000 sorts of beer are produced and each German consumes as an average 150 liters of beer a year.

The industry of Germany is notable for high level of production concentration. The large enterprises making only 2% of total number cover 30% of all the employed in the industry and produce a half of product. 100 largest companies concentrate 60% of total turnover and over 50% of the total number of employed persons in the manufacturing industry. In the early 90ties 7 among 50 largest industrial companies in the world were German ones. The corporations “Daimler”, «Volkswagen», «BMW», “Siemens”, and others given in the **Table 3.7** are the largest and the most famous ones.

Table 3.7

**The largest industrial corporations of Germany in 2016**

<b>Corporation</b>	<b>Profit, billion dollars</b>	<b>Number of employees, th. pers.</b>	<b>Industry of activity</b>
«Siemens»	6.5	360,000	electrical engineering, electronics and power
«BASF»	4.4	113,830	chemical industry
«Daimler»	9.3	284,482	motor-car industry
«Volkswagen»	7.1	626,715	motor-car industry
«Bayer»	4.5	115,200	chemical industry
«BMW»	7.1	124,729	motor-car industry
«Fresenius»	1.5	109,319	medical company

Reference: [2, p. 63; 69]

19 corporations among the largest 500 are German ones. The FRG takes seventh place on this index after the USA (158), Japan (34), Brazil (34), Great Britain (33), China (27) and France (24).

The industrial policy of the government is directed toward the increase in production competitiveness and stimulation of the development of high-technology industries. The state creates favorable conditions for cooperation of economy and science and supports small and medium-sized enterprises in the field of implementation of new technologies and innovation measures. The demonstration centers where the representatives of medium-sized and small business can get to know information about the latest technological level.

**The agriculture**, though it has a small part in the GDP and in the number of employed persons, meets the requirements in food in 80% and entirely in consumption of wheat, sugar, beef, cheese and butter. The production concentration takes place both in the industry and in the agriculture. If in 1950 there were 1.6 million farms, then by the middle of the 90ties 550 thousand farms remained. The productivity of labor increased. In 1950 one farmer «fed» 10 persons and over 80 persons in the 90ties. However, till now the agricultural enterprise average in size has been remaining typical for Germany. Almost 90% of all the farms have an area of 50 ha each. The livestock farming is a basis of agriculture. It gives four fifths of all agricultural products. The average milk yield from one cow is over 4,786 liters a year. The FRG takes first place in the EU in the development of pig-breeding.

The following data testify high industrial level of agriculture in the FRG: here the number of tractors per unit of area is 4 times more than in the USA; the fertilizers per each hectare are applied in the greater amount than in England, France and the USA.

The agricultural industry of Germany is characterized by the greater cost price of product than other EU countries, especially France, the Netherlands and Denmark. That is why a great attention is paid to the protection of agrarian sector from external competition. The state realizes an active policy providing tax

incentives to the farmers, establishing higher tariffs for import of agricultural output from beyond the EU as well as regulating prices in the farmers' interest. The agrarian reform in the EU countries (1992) determined the allocation of direct subsidies as the main point of support of agriculture.

Despite the success in agriculture, Germany remains the largest importer of agricultural product in the world.

Germany somewhat yields to other highly developed countries in the development of *service sector*. The trade, transport, banking and financial services as well as public administration are the major industries of this sector. About 10% of created gross value is inherent to the trade, 4 million persons work at its enterprises.

Germany has a developed banking system. The German Federal Bank is a bank of issue. The EU Council of Central Banks heads the Federal Bank. According to the rating of «Global 2000», in 2010 among the private banks in Germany the most powerful ones were the following: «Deutsche Bank» (39.75 billion dollars), «Commerzbank» (8.72 billion dollars), «DVB Bank» (1.56 billion dollars), «Aareal Bank» (0.90 billion dollars) and «IKB» (market capitalization of 0.69 billion dollars) [2, p. 65].

The lesser number of financial groups is the peculiarity of FRG not only compared to the USA but also to Japan, France and Great Britain where the number of such groups makes 15-20 ones and which does not reach 10 ones in the FRG. It is explained by the enormous concentration of banking capital in the hands of the first three above-mentioned large banks which control about four fifths of share capital in the country. The substantial role of unions of employers is an important feature of financial capital in the FRG. As a rule, the representatives of the largest concerns and banks are at the head of these unions.

The activity of all credit institutions in the FRG is controlled by the Federal Agency on Oversight of Credit Activities. If the credit establishment gets into difficult situation, tools saving deposits start to act indemnifying for losses of depositors.

The operations with securities in the stock exchanges are growing at a high rate. There are eight exchanges in Germany which are located in Berlin, Bremen, Stuttgart, Frankfurt am Main, Dusseldorf, Hamburg, Hannover and Munich. The exchange in Frankfurt is the largest one; it takes in importance fourth place in the world after New York, Tokyo and London exchanges.

The post-war economy of FRG is notable for instability in the *development dynamics* which has reflected merits and demerits of economic model and have been a reason of change in economic policy of the government. The economy of FRG achieved the highest development rate in the 50ties when the neoliberal model had been implemented. The GDP increase made as an average 15%-20%. But in the 60ties the positive factors of swift economic development have already settled themselves in many respects. The high level of social expenses required the increase of taxes from corporations and state budget was taken down with deficit. In the first half of the 60ties the state expenses grew

twice as fast as the GDP. In 1966 the economic crisis broke out, the first one in the post-war period, though it was not long and deep.

In 1968 a new upsurge of the economy began, its growth rate made 5%-7% annually. But the crisis in 1974-1975 was graver. It has been strengthened by the world fuel and energy crisis: let take into account that Germany is a considerable oil and gas importer. The level of consumer prices in the country achieved a steep rise of up to 7% a year and the inflation gathered rate. The GDP decreased by 5%, industrial production – by 12% and volume of internal private investments – by 18.5%. The mass unemployment has been growing. The way out of this crisis has been carrying on very slowly and in 1980 -1982 a new crisis occurred which was accompanied by mass bankruptcy and decline in living standards of population.

Since 1982 the economic growth has begun which has been lasting for almost ten years. For this period the radical reconstruction of technical base of the economy has been carrying out. The companies sent up to 50% of industrial investments into the production modernization and rationalization. The GDP growth rate fluctuated from 1.5% in 1987 to 5.7% in 1990. The inflation lasted on the level of below 3% but the unemployment was still remaining high. The early 90ties coincided with the unification of Western Germany and Eastern Germany into the single state. It represented a powerful incentive of further economic growth, though the first years of reunion yield a lot of problems. The economy of the former GDR proved to be not adapted to the needs of world market. A great number of enterprises have been closed down because of it. The state had to astate substantial funds for industry modernization and compensation to the unemployed. It provoked the economic crisis in 1992-1993. However, for this once the drop in the economy has lasted not for a long time. The investments which had been put into the renewal of eastern lands started to work at last. In 1994 the GDP increase on the «new lands» made 10% that was a record for Europe.

After 1995 the growth rate of economy of Eastern Germany notably dropped and became lower than in the western lands of FRG. So, in 1997 the GDP increase made 2.4% in the West and only 1.8% in the East; in 2000 the gap became even more: 3.2% and 1.1%, correspondingly. The economic modernization in the East is carried out not so fast, as hoped. There the labor productivity is growing slower than the salary. So, the salary of the Eastern German workers compared to the Western German ones made 49.3% in 1991 and 77.1% in 2000; the productivity of labor in the same years made 41.9% and 63.3%, correspondingly. In 1996 the GDP per capita in the eastern lands made 60% of western level. Over 1 trillion marks were transferred to the East which went mainly not to make industrial investments, but to satisfy the social support of the population that adversely affected the general economic development of country and especially its financial position. The GDP growth rate in the 90ties were moderate (average annual – 1.77%), lower than in the USA, but higher than in Japan (**Table 3.8**).

**Table 3.8**

**Dynamics of GDP and unemployment in Germany, %**

Indicators	2000	2001-2006 (average annual)	2007	2008	2009	2010	2011	2014	2015	2016	2017
<b>GDP increase</b>	3.3	1.1	3.4	0.8	-5.1	3.6	2.7	1.6	1.7	1.9	2.2
<b>Level of unemployment</b>	8.0	9.7	8.8	7.6	7.7	7.1	6.0	5.5	4.6	4.1	3.74

Reference: [2, p. 67; 67]

The beginning of the new century was characterized for the German economy by a low development rate (**Table 3.8**). The crisis in 2008-2009 complicated even more the situation. Since 2011 the slowdown in GDP growth has been observed in Germany that one can explain by decrease in orders in the industrial sector. In 2014 it has already made 1.2%, i.e. the risk of repeated recession is rising. The reduction of the GDP growth is explained by social generosity of government and geopolitical challenges as well.

#### ***Economic policy of Germany***

Germany's economy was in a state of destruction as a result of the Second World War. In 1946, the industry accounted for only 34% of the pre-war level. The national debt increased by 14 times during the war, inflation reached 600%. Mark was devalued; trading operations were often carried out on the basis of barter. Agriculture was launched. The living standards of the Germans declined significantly, millions of them were starving, and there were a large number of unemployed.

A fundamentally new economic policy was needed in such difficult conditions, to stop the ambitions of totalitarianism and it was targeted at social priorities. This policy was established in Germany in the late 1940s - early 1950s; its effectiveness is proven by successes of the German economy for over half a century. The cardinal positive changes in the economy of Germany are connected with “Marshall Plan” and economic reforms of the Minister of Economy, and then Chancellor Ludwig Erhard.

According to the “Marshall Plan”, the USA provided economic assistance to Germany and some other Western European countries. Financial assistance of West Germany accounted for more than US \$ 3 billion - it was a large sum in those days. A large number of American food and light industry products were received by Germany. Investments and loans were above all. Investments were directed mainly in the heavy industries - power engineering, metallurgy, heavy engineering, and chemical industry.

US financial aid helped economic recovery of Germany. However, its full recovery and then an unprecedented rise, “economic miracle” are connected with the policy of Ludwig Erhard. This policy was based on the idea of “Freiburg

School" (W. Eucken, W. Röpke), which promoted the free market economy and the theory of the "social market economy" (A. Mueller -Armack, L. Erhard). These ideas formed the basis of neo -liberal economic policy. German government introduced a neoliberal direction, unlike the United States, Japan and most Western European countries, which were under the influence of Keynesianism in the early postwar decades.

According to the neo-liberal policy the state's role should be limited by regulation of the economy at the macro level, it should not interfere in the operational activities of the subjects of the national economy. The essence of this policy was expressed by the slogan: "So few state as possible, so much state as necessary" [8, p.203].

Neoliberal policy brought the effect over ten years. The well-being of the population and purchasing power of citizens were increased, contributing to the expansion of the internal market. Low tax rates encourage producers to increase investment in production. Germany turned into a prosperous country with high rates of economic development and high social protection of the population. At the end of the 1950s it took the second place among developed countries in terms of GDP.

It was later determined that the bet on the "free play" of market regulators cannot be combined with growing government spending on social needs for a long time. Excessive economic and social demands have caused a rapid growth of public expenditures and the continuous growth of wages led to higher prices and inflation. Ludwig Erhard, who was chancellor in the 1960s, warned about the need to restrain the growth of social expenses and to restrict consumption, but in terms of the euphoria that prevailed in society in that time, people frivolously perceived his appeal.

The crisis of 1966-1967 was the signal for the formation of a new strategy and a new economic policy. If the first post-war strategy emphasizes on the rapid economic development, the new strategy emphasizes on the stabilization of the economy. Policy of neo-keynesianism replaced the neoliberal approach. It means strengthening of the role of government at the macroeconomic level of regulation. This policy was carried out by the Social Democrats, who had a power.

Keynesian concept of regulation of aggregate demand, which must be integrated into the system of social market economy, was a base of the policy of stabilization by financial assets. In the 70ties government of Social Democrats, headed by Helmut Schmidt, took over control of investments that undermined the foundations of the market economy. Economic measures of government evolved into a system that became known as "global regulation". This system was efficient for a while. The average GDP growth rate was at the level 5-7% since the late 1960s to the mid-1970s. The unemployment rate was reduced.

However, a new economic crisis was more severe than the previous one; it took place in 1974-1975. It was exacerbated by a global energy crisis. The level of consumer prices in the country was increased dramatically - up to 7% a year, inflation gained its pace. GDP was declined by 5%, industrial production - by



12%, the volume of domestic private investments - by 18.5%. Mass unemployment was increased. The yield from this crisis was very slow. Another crisis happened in 1980-1982. It was accompanied by massive bankruptcies and a decrease in living standards.

The Christian Democrats, headed by Helmut Kohl took the reign in 1982. The new government returned to the neoliberal approach. Erhard model was taken as the basis. But the government has not refused the positive achievements of the experience of "global regulation". Turn from stimulation of aggregate demand to the economy of supply was the main in economic policy of Helmut Kohl. Containment of cost was one of the main points in the new policy. Government expenditures should not have been ahead of production in terms of growth. The state's role in the redistribution of GDP was gradually decreased.

Stimulating of scientific and technological progress was another important direction of economic policy of Helmut Kohl. Great attention was paid to the creation of modern means of communication and informatics. The State allocated substantial resources to scientific researches and developmental workings. The high technical level of production caused the high competitiveness of German goods on the world market. Germany was ahead of all countries of the world in the export of engineering products in that period.

Economic growth, which began in 1982, continued for almost ten years. In the 90ties and in the early years of the next decade, the dynamics of economic development in Germany was characterized by extremely low rates. In 1993, the decline in the economy of Germany amounted to 1.3%, which was the lowest figure in the entire post-war history of the country. In the same year the number of unemployed was 2.2 million people, and in 1996 it reached 3.1 million people. In 1993, the budget deficit amounted to 69 billion marks, and the national debt increased to 1,850 billion marks. In 1999, Kohl's government was resigned and replaced by a coalition of Social Democrats and the "green", which were headed by Schroeder. Despite fundamental political differences with the Christian Democrats, the Schroeder government kept in general the direction of neo-liberal economic policies. However, there were some changes in the methods of its implementation.

The strategic objective of the Social Democrats was a significant rise in living standards; their main focus was on the social sphere. This applies to the fight against unemployment, which reached a dangerous level 10.5% in 1999. Schroeder relied on the creation of favorable conditions for entrepreneurs to open new businesses, leading to the creation of new jobs, unlike previous governments, which helped unemployed by increased costs for their maintenance (which did not stimulate them to find work). The Social Democrats particularly tried to support small and medium businesses.

However, the Social Democratic government could not realize the strategic goal; economic growth rates were very low, and unemployment was not substantially reduced.

Christian Democrats, headed by Angela Merkel returned to power in Germany in 2005; coalition government was formed, it includes representatives of the Social Democrats. The problems, which rose against the new government, are very difficult to solve in the short term. High social commitments are heavy burdens in the state budget. The negative balance of budget amounted to 67 billion dollars in 2006. 31% of GDP is spent on social goals by the government sector. About 41% of the adult population lives primarily on government subsidies in the form of pensions, stipends, unemployment benefits, disability pensions, etc. The filling of budget is carried out by the hard fiscal pressure. At the same time 10% of the subjects of economic assistance pay more than 50% of their income, 20% pay about 80%, and 40% of those who have incomes do not pay taxes at all [71]. Such a tax system does not encourage economic initiative.

The first task on the mind of Merkel's government was stopping the growth of budget deficit. Reduction of budget credits from 38 billion euro in 2006 to 20 billion euro in 2009 was predicted. It was expected that there will be changes in taxation; in particular, the decrease in the cost of employers' social security payments. By 2009 it was planned to raise the retirement age from 65 to 67 years (the same for men and women), thus pension liabilities may be slightly reduced. [71].

The first steps of the new government gave positive results. In 2006-2007 GDP growth rate exceeded 2% after a prolonged stagnation. Inflation was 2.8% in 2008. But the unemployment rate stayed high (7.9% in 2008), the external debt (\$ 4489 trillion). The decline occurs in the German economy due to the global economic crisis.

The country began to gradually emerge from the crisis in 2010: GDP increased by 3.3%, and it was the best result among developed countries. In 2014 - 2015 high rates of economic growth and the lowest inflation rate among EU countries were stable. This is contributed, in opinion of minister of Finance, by sustainable fiscal policies in Germany, according to the rules, which are described in the "Stability and Growth Pact". Germany plans to increase investments by more than 40 billion euro during 2014-2018. As a result, the level of total public investment will reach about 1.3% of GDP it is much above the middle value for Europe [70].

The participation of Germany in European integration processes is one of the most important strategic directions of its economic development.

### ***Features of german business ethics***

The characteristic features of German businessmen in business relations are professionalism, competence and honesty. They value time very much, therefore accuracy, compliance with regulations is one of the features of German businessmen in the process of business negotiations.

They do not allow delays and require the same from a partner. Negotiations lead in an open manner, directly express their vision of the problem and their disagreement with the partner's position is often expressed in a harsh manner. They are not inclined to exchange courtesies during negotiations, do not like to talk and

listen to anecdotes in business conversations or discuss facts of each other's family life.

German business etiquette is characterized by a strict hierarchy. The distance between the leader and the subordinate is quite noticeable and, unlike the Americans, the unceremonious manner of communication is unacceptable. When communicating with the German partner, especially with the leader of the group, one should call him only by last name and necessarily to add the academic title if he has it (for example, "Dr. Schmidt").

The Germans come to a business meeting well-dressed, and expect the same from a partner. They are well prepared for negotiations in advance, study the strengths and weaknesses of counterparties. The main method of negotiation is "iron" logic and facts. In the process of agreeing a contract and its implementation, the Germans tend to consistently and methodically perform each stage. In this they differ from Americans or representatives of Mediterranean culture, who try to do "all at once", having not completed one stage, to move on to the next.

German businessmen do not like the rush in the process of negotiations, they carefully discuss all the details of the agreement. If the contract is signed, they fulfill it honestly, qualitatively and on time. They are law-abiding, open to communication, do not like frivolous approach to serious business.

A sign of a bad tone is defiant clothing and extravagant behavior.

To the shortcomings of the business ethics of Germans from the point of view of a foreigner is excessive restraint, severity during negotiations, lack of sense of humor, sharpness in assessments of the partner's positions. Often foreigners are annoyed by the picky predilection of the Germans to the external attributes of etiquette: strict clothing, strict observance of the rules of negotiations, emphasized hierarchy among colleagues of different ranks, appeal only by surname, etc. Nevertheless, the Germans regard formality in behavior as a sign of respect for a partner. They have they have a very developed a penchant for order in everything, and this applies even to the arrangement of furniture in the office (each item must have its place, for example, there is no need to rearrange the chair, as some visitors do).

Germans like thoroughness in all, not only in behavior, but also in the goods they produce, which are characterized by quality, reliability and duration in use.

The Germans do not easily establish friendly relations with foreigners, but in case of their establishment they show fidelity and reliability [20, p. 290–300].

The practice of commercial cooperation with the Federal Republic of Germany testifies to the impeccable fulfillment of the obligations assumed by the German side. It should be borne in mind that in the work on the German market, all information relating to the agreement, the course of its implementation, is confidential. Under certain conditions, it can be granted only to state and judicial bodies.

### **3.8. The economy and economic policy of Great Britain**

Great Britain belongs to the group of most developed countries in the world. In 2014 it took tenth place (based on PPP) in the GDP size. In the same 2014 Great Britain held 17th place in the world (19 billion dollars) in FDI volume into other economies and 11th place in received FDI volume (37 billion dollars).

London is one of the largest financial centers; it takes first place in number of functioning foreign banks. The stock exchange is situated here; it is third in volume of operations in the world (after New York and Tokyo). London is a large currency center through which one third of currency operations as well as the greatest volume of insurance operations in the world are being conducted. London is controlling a considerable share of world exchange market of metal, oil and other strategic goods.

Great Britain played a particular part in the world economy. It was one of the first countries to carry out the bourgeois revolution and to pass from feudalism to developed market relations. The industrial revolution has begun for the first time in Great Britain and at one time it was producing much more industrial product than any other country in the world. England was named as the «workshop of the world». For a long time Great Britain has been the major exporter of goods and capital. It was one of founders of international insurance system (office, and eventually Lloyd Corporation). The British colonial empire was the largest one in the world; the English administration and the English capital left noticeable traces (both negative and positive) on the economy of many developing countries. For a long time the English pound of sterling has been the most reliable currency on the world currency market.

However, Great Britain begins to lose gradually its leading positions. The USA in the 60ties of the XIX century and Germany in the last quarter of the same century left it behind in volume of industrial production and GDP. Great Britain proved to be on the third place. After the World War I Great Britain which had suffered from hostilities less than the countries of continental Europe (including Germany) recovered its second place (after the USA) in volumes of GDP and industrial production not for long. But already in the 30ties of the XX century Germany left it behind again. The situation repeated after the World War II when Great Britain for the same reasons takes second place again and not for long again. Germany in the 50ties, Japan in the 60ties and France in the 70ties leave it behind. As a result, Great Britain proves to be on the fifth place (among OECD countries) in the GDP volume. It is already overtaken by Italy in some economic indices. So, in the second half of the XX century the positions of Great Britain in the world economy are steadily weakening.

But in the 90ties the specific gravity drop of Great Britain is stopping. The GDP increase rate becomes stable: the recession afflicting the majority of developed countries in 1991-1992 was not so deep here. The unemployment level was not high either.

Despite the relative lag of Great Britain from its major competitors, its role in the world economy remains greatly important to date, especially in the financial and credit sector. Its political authority in the world community is also great. Great Britain was among the first founders of UNO (it is a permanent member of Security Council), OECD and NATO. It occupies a special and non-standard position in the EU (about what the question will be further), but its influence is greatly considerable even here.

*The branch structure* of the British economy in the post-war period underwent substantial changes. First of all, it became apparent in the reduced share of «old» industries such as textile, metallurgy and shipbuilding. The competition strengthened on the side of new industrial countries and led to the exclusion of textile industry, the former pride of England, from the world markets. As a whole, the role of light industry in Great Britain has considerably reduced. The reason also was in a greater transference of ferrous metallurgy to developing countries. In the 60s-70s production increase in the above-mentioned industries was negative, especially in shipbuilding. The production rates of locomotives, carriages, automobiles and motor cycles considerably decreased.

At the same time, electrical engineering and electronics, chemical industry quickly developed which annual increase rate in the 60ties reached 6% and even 8% in machine-tool construction. If in the domestic electrical engineering the positions of Great Britain are weaker than ones of its competitors, then it is among the leaders in the production of large electronic computers and in the aerospace machinery (it yields in the output of space engineering only to the USA and France). The company «International Computers Limited» (ICL) in electronic industry, «Rolls Royce» in the aerospace and military industry and «British Telecom» (BT) in the production of communication facilities play an important role.

Great Britain loses the leading positions in the motor industry which it had in the early XX century. A considerable part of motor -car production in the country is controlled by the American capital. The company «British Leyland» carries out the main output of automobiles in Britain and the corporation «Rolls Royce» reoriented itself for production of motors and aerospace engineering.

The production of organic synthesis such as plastics and synthetic fibers, petroleum chemistry and pharmacy are developing in the chemical industry at an outstripping rate. In the last industry Great Britain scored particular success (by the way, as early as in 1929 just A. Fleming, the English scientist, discovered penicillin for what he was rewarded with Nobel Prize).

As a whole, the part of manufacturing industry in Great Britain as in the economy of other developed countries has been steadily decreasing. If in 1950 it made 30%, then it was already only 18.8% in 2000. As to the mining industry and power engineering, in the first post-war decades they decreased volumes of production. It was connected with prolonged recession in the coal and iron ore industry. However, the situation sharply changed when opened and developed oil and gas fields on the shelf of the North Sea. The oil production in the British sector

of shelf began in 1975 and soon the country not only provided itself in full with its own oil but also became its exporter. However, the cost price of the English oil is high enough because of complex conditions of its production and its competitiveness essentially depends on the level of world prices for energy carriers. «Ekofisk» is a well-known oil-field. The pipelines are laid from oil and gas boreholes to the British coast. The greater part of oil and gas is produced and processed by the English-Dutch company «Royal Dutch Shell» and the English one «British Petroleum».

Oil and gas make 70% of all the energy carriers consumed in Great Britain. Despite the rather large coal deposits, its share in the consumption has substantially dropped. The atomic power producing a quarter of all power energy in the country is building capacities; but the share of nuclear power stations (NPS) in the British power engineering is much lower than in the French one.

**The agriculture** in Great Britain is one of the most productive ones in the world. Despite the fact that its share in the GDP makes only 1.0% and 0.9% of employed population work in this industry, it meets in full the requirements of the British in wheat, barley, oats and pork and in considerable measure in potatoes, beef, mutton, wool, sugar and eggs. As a whole, the agriculture satisfies in 80% the needs of population in Great Britain in food. Its growth rate is pretty fast (average annual index is 3%). The livestock-raising (70% of all products) is the leading branch of agriculture. The agriculture enjoys the effective support on the side of the British government.

Like in other developed countries, the main share in the GDP pattern belongs to the **service sector** (77.7%).

The leading role belongs to the credit institutions in the service sector. The share of London banks makes 20% in the international crediting. The most powerful banks according to the rating of magazine Forbes are the following: «HSBC Bank» (profit – 5.83 billion dollars), «Barclays Bank» (15.17 billion dollars), «Lloyds Banking Group» (4.57 billion dollars) and «Standard Chartered Group» (profit – 3.38 billion dollars).

The Bank of England carries out control and regulating functions in the credit and financial sector. The City is a quarter in London where the English banks and branches of foreign banks, commodity and stock exchanges and insurance companies are concentrated; it is a center of business activity in Great Britain. Among the British insurance companies the largest ones according to the rating of magazine Forbes are as follows: «Aviva» (profit – 1.75 billion dollars), «Prudential» (1.11 billion dollars) and «Legal and General Group» (profit – 1.39 billion dollars).

The banks of Great Britain are widely known due to the highly qualified consultations in law and book-keeping and services in privatization. The similar services provide a considerable profit from external economic operations to Great Britain.

The development dynamics of the economy of Great Britain in the post-war times is characterized by a lower rate than one in France, FRG and Japan, its

competitors. It became the reason of relative lag and loss of positions in the world economy. At the same time, the dynamics of the English economy is more stable than in other countries. The production drop during the crises was not so deep because there were not any peak splashes observed during the upsurge (as, for example, in Germany or Japan). Such a uniformity of development rate is explained to a substantial extent by the policy «stop -forward» which the government of Great Britain tried to carry on in order not to allow «overheating» of the economy (**Tab. 3.9**).

**Table 3.9**

**Dynamics of main indicators of the development of the economy of  
Great Britain, %**

Indicators	Average Annual Values					2008	2009	2010	2016	2017
	1970-1980	1980-1990	1990-1995	1995-1999	2000-2007					
GDP increase	1,9	3,2	1,4	2,6	2,8	-0,5	-4,2	1,7	3,1	1,8
Growth of the industry	1,5	0,87	0,79	1,3	0,19	-2,9	-10,2	2,1	1,5	3,1

Reference: [2, p. 71; 67; 71]

The decrease in GDP growth rate in 1970-1980 and in 1990-1995 attracts attention. It is a consequence of fuel and energy crisis of 1973 -1975 in the first case and also one of unhealthy adaptation of the economy of Great Britain to the EU pattern because of a later entry into that organization. In the second case it was an influence of world economic crisis in 1991. On other hand, relatively high development rate of the economy have been observed in the 80ties and since the second half of the 90ties. Proceeding from the late 70ties, the development of oil and gas deposits in the North Sea exerted positive influence on economic indicators of Great Britain.

The growth has begun in the economy of Great Britain since the second half of the 90ties. The increase in consumers' demand from the part of population of the country became the major motive force of economic development in this period that was a consequence of their income growth. For example, in 2001 the consumers' expenses of population grew by 3.5%, expenditure for durable goods and product of high-technological industries and sale of mobiles fast increased. Every year over 20 million Englishmen spend their holidays abroad. The employment growth of population is a factor favoring the expansion of demand. Since 1995 till 2000 the number of working places has increased by 1.6 million pers. In 2000 the real salary raised by 5% and unemployment reduced to 5.3% of the number of economically active population.

The service sector developed most dynamically which rate exceeded 4%. At the same time, the industry developed unevenly. In the nineties the investments into the economy, mainly into the private sector, have been growing. The high growth rate in the industry is inherent to electronics, pharmacy and instrumental

production. However, growth rate of industry as a whole remains rather low. The development rate of agriculture decreased; this industry incurred sizeable losses because of the cattle falling ill with encephalitis («mad cow disease») and then with foot-and-mouth disease. The EU prohibited import of all kinds of meat and dairy products and livestock from Great Britain.

The expansion of external demand for goods and services from Great Britain exerted positive influence on development dynamics of the British economy in the 90ties. The increase of world prices for oil which Great Britain is exporting has had a favorable effect in this direction.

Despite the economic growth, the inflation level in the country remained low enough, 2.5% as an average. Since 2008 the situation in the economy of Great Britain has substantially become worse. The world crisis which, in particular, was accompanied by considerable drop in prices for oil led to the reduction of industrial production and weakened the British positions on the world commodity markets.

At present we can speak about the stable restoration of the British economy after recession. The experts of the IMF predict that the economy of Great Britain will become the faster developed one among the countries of “Group of Seven”. A number of countries have been able to recover from the crisis faster. The German economy returned to its previous level as early as 2010, while the United States and France - in 2011.

### ***Economic policy of Great Britain***

The economic policy of the British government was based on the economic theory of Keynes in the early postwar years. The labourists, which came to power in 1945, carried out the nationalization of a large number of companies and entire industries. The first wave of nationalization (1946 -1951) covered mainly capital-intensive basic industries: coal, electricity, iron and steel industry, transport, communications.

Also, the Bank of England was nationalized. The labourists relied on Keynesian concept of the need for a centralized state control and a significant expansion of economic and social functions of government. National Investment Council, which was a planning authority, was established to stimulate investment. It oversaw capital investments in nationalized enterprises. The drop in purchasing power of the pound forced the government to implement its devaluation; value of the pound decreased from 4.03 to 2.8 dollars for 1 pound.

Conservatives at the head of Winston Churchill came to power in 1951. The strategic goal of this government was the return of the UK leadership role in world politics and economics. Unlike the labourists, conservatives adhered neoliberal economic policies. Denationalization of part enterprises was carried out. However, the Conservatives were unable to substantially change the economic situation to the best.

The labourists returned to power in 1964. Their government introduced indicative and regional planning. Partial re-nationalization of the steel industry, which returned to state control 90% of capacities from this industry, was made. In



addition, coal, natural gas industry, electric power, transport, civil aviation, communications and the Bank of England were remained in the public sector.

But the labourists' government did not solve the problem of accelerating the pace of economic development and did not reach a significant improvement in the living conditions of the population. In 1970, the conservatives came to power; they headed for the denationalization of economy and reduction of government interference in the activities of companies. They also dismissed ministries, which were created by their predecessors (the Ministry of Economy, the Ministry of employment and productivity, the Ministry of Technology). The labourists considered that it is necessary to stimulate demand first of all, as the main factor of economic growth, the conservatives carried out neo-liberal policy, the essence of which was to stimulate the supply, to provide all possible support to producers.

Attempts to achieve better balance of payments and economic growth through a policy of "stop-go ahead" were common to the labourists and the conservatives. It meant that all the structural units of economy should be arranged before the accelerating pace of development. The main objective of this policy was the fight against inflation. However, deflationary measures, which were held by conservatives particularly active, worsened the situation the domestic market, limited demand for goods and services. As a result, economic growth rates were slowed and unemployment was increased.

The economic crisis of 1973-1974 accelerated fall of the conservative's government, the labourists regained power again. A new wave of nationalization started in economy (1974-1977). This time, shipbuilding, aerospace manufacturing, automotive industry, a number of enterprises of machine tool industry and electronics, etc. were attached to the public sector. One of the directions of labourists' policy of this period was the purchase of controlling blocks of shares of promising enterprises by the State. Holding company "National Directorate by enterprises" was created for this purpose. A much greater role than in other developed countries belongs to the state regulation of the economy in the UK. This is reflected, particularly, in the high specific weight of the state in national investments, in share of public enterprises, in number of employees and gross production, in high share of budget expenditures in GDP. More than 10% of GDP was produced in the nationalized industries and a quarter of all investments carried out in the industry in the late 70ties. The depth of government intervention into the economy largely depends on the party in power: Labour Party or the Conservatives.

The economic situation in the UK worsened, growth rates slowed down in the late 1970s. Keynesian theory was regarded as unable to solve the economic problems in new conditions. All this contributed to the coming to power of conservatives, headed by Margaret Thatcher in 1979, which strongly rejected Keynesianism and gave preference to Monetarist policy. Number of state-owned enterprises was nationalized, oil and gas fields, controlling stakes in companies "British Aerospace", "British Airways", "British Freight Corporation", "British Telecom", "Rolls-Royce" were sold to private business. About 100 of public

companies were privatized, resulting in a reduction of the public sector by two-thirds.

The state system of health care, insurance, pensions turned into a mixed-state system. The conservative's government reduced the tax rates on profits; it managed to tame inflation, which dropped from 16% in 1980 to 3% in 1988. The upward trend in the rate of economic development was outlined. If annual GDP growth averaged 1.9% in 1970-1980, it rose to 3.2% in 1980-1990. The government of Margaret Thatcher made considerable efforts to stimulate the development of private businesses. The tax rate on the profits of large corporations was lowered to 35%, soft loans were granted by domestic banks to these corporations. Attention was paid also to small and medium enterprises.

An important task of the government was fight against inflation (one of the main tenets of monetarism). Money supply growth was rigidly controlled. Government expenditures to a number of sectors of the economy, including industry, public utilities, transport, culture and education were significantly limited for this purpose.

At the same time there were the social problems. Reduction of social expenditures and control over rising wages intensified differentiation in society; dissatisfaction of the poorest segments of population was provoked. Average annual economic growth rates declined to 1.4% in the first half of the 1990s.

Labour Party, headed by Tony Blair, came to power in 1997. The new government, in contrast to the preceding, did not renew wave of nationalization of enterprises. Its program was based on the combination of social values of Labourism and development of the market economy. Focus on providing direct assistance to poor people was accentuated in the previous programs of the Labour Party, and the "new" Labour Party preferred to ensure better conditions for education, vocational training, promotion of labor, the creation of new jobs.

Although the labourists' government did not implement the new deprivatization, the state continued to control entire sectors of the economy, including privatized objects. This primarily concerned the electricity and gas supply, telecommunications. Special regulatory authorities were created in these sectors. They controlled, in particular the tariffs for communal services, preventing excessive price increases. The involvement of private companies in financing of government projects was a new event in the labourists' policy.

The labourists continued the policy of restricting the growth of prices and inflation, which was previously held by conservatives. Much attention was paid to the reduction of public deficits. Expenditures on education, vocational training, especially for young people were identified as priority budgetary expenditures. Like the conservatives, labourists reduced the rates of direct taxes to stimulate the economy. Today the level of taxation in the United Kingdom is lower than in most developed countries. The budget of the UK, despite the tax reduction became surplus. In 2000, the government raised the minimum wage and pensions.

The labourists were able to revive the economy after the stagnation of the first half of the 1990s. Although the GDP growth rates are not very high, but they are higher than in France and Germany.

But Britain faced with new serious problems in the final stage the reign of Blair. The budget had a deficit (in 2006 revenues - 973 billion dollars, the costs - 1.04 trillion dollars). The balance of payments was also negative (-58 billion dollars). The rate of inflation was 3.0%, which is a critical point for the European Union. External debt reached the level of 8.28 trillion dollars. The negative balance of foreign trade increased steadily and amounted to - 150 billion dollars in 2007. GDP growth fell to 0.7% in 2008.

These negative effects in the economy gradually reduced the popularity of Tony Blair; in addition, a significant number of the population was dissatisfied with his support of the Iraq war. Given all this, Blair stepped down in 2007. Labour Gordon Brown, former Minister of Finance took his place. More tight fiscal policy, the elimination of the budget deficit, reduction of external debt and increasing the pace of economic development were expected from the new prime minister.

The global economic crisis did not allow the government of Mr. Brown to realize all tasks. The new Prime Minister of Great Britain - D. Cameron, the representative of conservatives, was elected in 2010. Priority direction of the new government was the fight against the state budget deficit and external debt.

Rapid technological change and stiff competition in the global markets create new realities for all sectors of the British economy. Business continually faces the challenge of survival. British government considers next points as essential attributes of national economic policies in these conditions: the creation of flexible and dynamic markets for labor, goods and capital, able to quickly and efficiently adapt to the changing environment that affects the profitability and competitiveness of enterprises.

The Conservatives and Labour Party oppose the total integration of the UK into the European structures; they are opposed to the transformation of the EU into a supranational organization. In this the government is supported by majority of the population. Britain did not join the European Monetary Union, and kept the pound as the national currency.

### ***Features of business ethics***

English business is characterized by a very strong social conservatism, a penchant to ideas that have a centuries-old history. An English businessman is an erudite person who is highly professional. For him, human factors are more important than it is for European or Japanese colleagues. He does not close himself in his work, has a wide range of interests connected not only with the economy, but also with sports, literature, art. An English businessman is a good psychologist, very observant, does not accept one's falsehood and when someone hides weak professional training.

Theoretical and practical training of English businessmen takes place mainly in colleges and specialized commercial schools, whose prestige in the world is quite high [20].

In business communication, the Britons are supporters of business traditions, including business lunches, symposiums, congresses, seminars, exhibitions, the specifics of telephone conversations and manners. In business negotiations, they behave first formally, but after several meetings, their manners become more free, they turn to partners by name, etc.

Englishmen appreciate humor and often use it during negotiations. They are able to tell and listen to witty anecdotes, which often leads to detente in a tense situation. They can laugh at themselves, at English traditions, but are offended when such critique comes from a foreign partner.

British businessmen, unlike the American, are more cautious and do not like to make decisions at once. Like Japanese businessmen, they rarely express a resolute disagreement with the position of the partner, they try to do it with restraint, in a soft, and sometimes in an uncertain form.

The British attach great importance to the reputation of the partner firm, the volume of its capital and operations. They also take into account the partner's social status, his belonging to prestigious clubs and organizations. The peculiarity of English businessmen is their close ties with colleagues in school and college, which they successfully use at the level of ministries and business circles, where they have "their people". This strengthens their position in the negotiations.

### **3.9. The economy and economic policy of France**

France is a highly developed country which has a considerable influence both on international economic relations and on world policy. It is a member of the «Group of Seven», enters into NATO, OECD and takes second place in the EU in economic potential. In 2014 France took ninth place in the world in GDP volume (2,581 trillion dollars in PPP) after China, the USA, India, Japan, Germany, Russia, Brazil, and Indonesia. It is a large capital exporter and takes third place in the world in volume of banking activity. In Europe France is the third state by area (after Russia and Ukraine) and in number of population (after Russia and Germany). France has a developed aerospace industry, nuclear power, chemical industry and service sector. France takes fourth place in the world in agricultural output (after China, India and the USA) and second place in its export (after the USA).

France has the fifth volume of commodity circulation of external trade (after the USA, Germany, China and Japan). It actively exports tourist services attracting a lot of tourists from all over the world. The development of scientific industries has a great importance for the French economy. France takes fourth place in the world in aggregate expenses for research and development. It has a rather

developed military complex. France is one of few countries capable to put into orbit civil and military satellites by own funds.

However, France notably is behind the USA, Japan and Germany in level of scientific developments and introduction of its results in the economy. It yields to the same countries and also to the European countries of northern region in GDP per capita.

As a result of long orientation of the French economy toward the financial and credit activity *the structure of the economy* of France was not balanced enough. It has become especially apparent for a period between two world wars and after the finishing of the World War II. The industry of France fell behind the American, German and English ones not only in volume of production but also in technical equipment of industry with modern machinery and appliances. The state policy was directed toward the termination of industrialization of the economy, modernization of industry and reorganization in the agriculture in the 50ties-60ties of the past century.

The quick development of industry became a consequence of activation process. The average growth rate of industrial production made 7.6% in the 60ties and the share of industry in all the production increased from 33% in 1960 to 38% in 1970. The share of agriculture, on the contrary, has decreased for the same period from 12.5% to 8%, despite the growth in productivity of labor in this field. In the 70ties the situation changed the appearance a little: in 1980 the specific gravity of industry made 37.6% and one of agriculture was 6%. But in this period the important structural changes came about inside the industrial production. The production of machines and equipment, precision mechanical engineering, shipbuilding, aerospace and military industry and automotive industry grew at faster pace. The electro-technical mechanical engineering and production of means of transport, especially aircraft and motor industry, came to the fore in the structure of industry where positions of France were traditionally rather strong.

In the 80ties and especially in the 90ties the specific gravity of electronics and aerospace engineering increased even more and the share of metallurgy and heavy engineering industry decreased. But the significant decrease of the share of industry in the GDP and growth in service sector were the determining tendency. France entered the post-industrial development stage of the economy.

In 2014 the overall structure of the economy of France was the following (in % to the GDP): industry – 18.5, agriculture – 1.7 and services – 79.8.

In the structure of *industry* of France the leading role belongs to the manufacturing industries, especially connected with the movement of scientific and technical progress. France is among the leading countries in the world in output of rockets, aircraft, locomotives and equipment for atomic power (the second place after the USA). It possesses advanced technologies in the working of rare-earth and other metals such as germanium, radium, chromium and titanium and has weighty achievements in robotics, communication facilities, and production of new materials, biotechnology and microelectronics. Among the branches of the French industry the following branches have a paramount

importance in the world market: aerospace industry; arms production; general mechanical engineering; automotive industry; non-ferrous and ferrous metallurgy; electronic and electro-technical industry; atomic power; pharmacy and perfumery; chemical industry; railway engineering.

The aerospace industry of France is one of the most dynamic in the world. It is closely connected with development of military industrial complex. At one time France created «Caravelle», one of the best civilian medium-range aircraft; «Concord», supersonic aircraft (jointly with Great Britain); «Aerobus», passenger liner. «Aerolia», «Aircelle», «Safran» and «Zodiac» occupy the leading stands in the aerospace industry.

The positions of France in the automotive industry decreased compared to the early XX century. It yields to Japan, the USA, Germany and China in output of automobiles. But the French coaches are traditionally notable for its quality and find a quite wide market. The automotive industry of France is characterized by a great degree of concentration; the overwhelming majority of coaches is produced by «Renault» and «Peugeot-Citroen». Its shares in the world motor-car production make 3.5% and 4.6%, correspondingly; they produce almost all the automobiles in the country and provide its 100% export.

In the field of metallurgical industry of France the leading part belongs to companies producing aluminum. The industrial group «Pechiney-Ugine-Kuhlmann» and company «Imetal» have strong positions in non-ferrous metallurgy. The company «Pechiney» is also one of the leading in chemical industry. France takes third place in the world after the USA and Germany in export of chemical products.

The concern «Thomson» taking first place in the world in output of navigation equipment for aircraft and in electronic production in Europe leads in the electrotechnical industry.

Energy of France is based on nuclear power plants. The country has no significant oil or gas, and coal use for electricity production is not efficient enough. Therefore, the share of electricity produced in nuclear power plants reaches 76% in France. It is one of the highest rates in the world.

France has a developed food industry, which inferior production in Europe only to the German. In the structure of industry sugar, wine, oil, flour, meat and dairy production stands out especially.

Light industry, which in the XIX century praised France for its silk fabrics, knits, lace, sewing items, has a small share in total production today. However, the light industry of France is specialized in the production of expensive clothes, fine perfumes, and jewelry. Paris is the world center of high fashion.

French industry is characterized by a high level of production concentration. Concentration is accompanied by the formation of large industrial groups. About one hundred of such groups focus more than half of employed people in industry. The largest and most important groups are: «Compagnie française de petrol», «Peugeot-Citroen», «Renault», «Thomson-Brandt», «Saint-Gobain-Pont-à-Mousson», «Pechiney Ugine Kuhlman», «Compagnie Generale de electricite»,

«Rhône-Poulenc», «Denne-Nord-est-in Longwy», «Michelin», «BSN-Gervais-Danone». Most of these groups were created by merging two or three large firms or by the absorption of one firm to the other. For example, “Peugeot” absorbed company “Citroën”, and then also the European branches of the American company Chrysler. The group “Pechiney Ugine Kuhlman” was formed after the merger of companies “Pechiney” and “Ugine Kuhlman”.

*Agriculture of France* is one of the most developed in the world. It produces one fourth of the agricultural products of the EU. Production and export of agricultural products of France rank first places in Western Europe. France has a fairly wide range of specialization in agriculture; it produces large volumes of wheat, barley, sugar beets, wine, milk, butter, meat, eggs, fruits and vegetables. The feature of the structure of agricultural production in France is high share of agronomy, compared with other Western European countries. Agronomy accounted for 46% of all agricultural products in 1980; today it accounts for one third, and the leading sector is the cattle.

Medium (10-50 ha) and small (less than 10 ha) farms are predominated in agriculture of France. The concentration of production here is not as high as in other EU countries. However, large farms, which comprise only 17% of the total, produce 52% of the production. French village is characterized by a sharp distinction between the two types of households: family and commercial. Family farms are characterized by semi natural character and commercial - provide the bulk of the products. Large enterprises have better land, use modern machinery and hired labor, and often have their own facilities for the processing and marketing of agricultural products.

A characteristic feature of French agriculture became the association of peasants into cooperatives in various forms. About 30% of farmers are merged in the agricultural cooperatives. The cooperatives collect 70% of grain, produce almost half of milk and 40% of dairy products. In total there are about 4 thousand cooperatives in the country, which are united to the French Confederation of agricultural cooperatives. They also have the main volume of production of meat, wine, tobacco, sugar beet.

The agricultural sector of France is most benefited from European integration. Protected by external protectionist barriers against competition from the USA, Canada and some developing countries, French agriculture has got free and duty-free access, to the markets of partners in the EU, where its competitiveness is higher than in other countries of the union. In addition, the French government gives its agriculture subsidies and other benefits.

Financial and credit systems are the most important *in the service sector* of France. Although the role of loan capital in the economy is declined, but the value of entrepreneurial capital is increased. France is already not a main exporter of capital, but its role on the international capital markets is large enough. Banks have always had strong positions in the French economy. The largest of these was formed in the mid-nineteenth century. The level of concentration of the banking

sector of France is ahead of the USA, Japan and Germany. There are 6 French banks among the 50 largest banks in the world.

All France credit institutions (banks, mutual credit unions, finance companies, etc.) are combined into a single professional organization - the French Association of Credit Institutions. The banking sector, which accounts for about 70% of the total balance of credit institutions, takes the leading place in the modern structure of the credit system.

The main part of banking operations is accounted for three banks: “The Banque Nationale de Paris”, “Credit Lienne” and the “Société zhenе morality”. In addition to these giants, big banks also are “Indosuez”, “Paribas”, “Credit commercial de France”, “Credit industrial et commercial”. Particular importance has the co-operative Bank “Credit Agricole”, which caters to a predominantly agrarian economy, it is (as “Credit Lienne”) in the top ten banks in the world. Merger of banks “Societe Generale” and “Paribas” happened in the late 90s, the largest French banking group was formed in such a way.

French leaders of the banking sector are shown in **Table 3.10**.

**Table 3.10.**

**The leading banks of France**

<b>Rank of S&amp;P (2018 on size of assets)</b>	<b>Name of the bank</b>	<b>Profit, billion US\$ (2016)</b>	<b>The number of employed, thousands of people (2016)</b>
<b>8</b>	<b>«BNP Paribas SA»</b>	<b>9,2</b>	<b>192,000</b>
<b>19</b>	<b>«Societe Generale»</b>	<b>5,2</b>	<b>146,000</b>
<b>10</b>	<b>«Credit Agricole»</b>	<b>4,2</b>	<b>138,000</b>
<b>20</b>	<b>“BPCE”</b>	<b>4,7</b>	<b>117,000</b>
<b>39</b>	<b>“Groupe Credit Mutuel-CIC”</b>	<b>3,0</b>	<b>65,900</b>

Reference: [2,p.77]

Dynamics of growth of the economy of France in the postwar period was characterized by irregularity of rhythm. Almost a quarter of a century after the war, economic growth rates were high enough. The average annual growth of GDP for 1950–1973 was 5.1%, which increased the volume of gross domestic product almost in three times. High growth rates of development were caused by restore of the war-shattered economy, foreign investments according to “The Marshall Plan”, by the restructuring of the national economy according to the trends of scientific and technological progress, and economic policy of the state.

During this period France had the largest gains in the economy. There was done a wide inflow of resources to the industry and increasing of production of its goods. The share of advanced industries was increased in the structure of the industry, uprating export of their products. The share of industry in GDP increased significantly. Productivity of the industry also increased. If the gap in labor productivity between the USA and France was in two times in 1950, it was only 37% in 1973 [8, p.87]. The GDP growth rate was above the normal figures for Western European countries (4.6%) in that time. France was only after to



Germany and Japan by the pace of development in the group of developed countries. Share of France in total world GDP has increased (by 1%) and it took, as was already noted, the fourth place among non-socialist countries. However, weaknesses of the French economy emerged at the end of the period of prosperity: lower level of concentration of industrial production, compared to major competitors; higher share of the agricultural sector in the economy; very high materials and energy intensity of industrial production; chronic inflation that has devalued the national currency - franc. These deficiencies were gradually accumulated and affected particularly acute in times of global economic crisis 1973-1975, which became a turning point from which the economic development of France dramatically slowed down (**Tab. 3.11**).

**Table 3.11**  
**Dynamics of GDP and industrial production of France, %**

Indicator	Annual averages				2008	2009	2010	2014	2016	2017
	1971-1980	1981-1990	1991-1996	2000 - 2007						
<b>GDP growth</b>	<b>2,3</b>	<b>3,3</b>	<b>1,1</b>	<b>2,1</b>	<b>-0,1</b>	<b>-2,6</b>	<b>1,5</b>	<b>1,8</b>	<b>1,2</b>	<b>2,2</b>
<b>The growth of industry</b>	<b>3,2</b>	<b>1,2</b>	<b>0,9</b>	<b>0,7</b>	<b>-2,5</b>	<b>-12,8</b>	<b>5,5</b>	<b>-1,0</b>	<b>0,3</b>	<b>2,4</b>

Reference: [ 1,p.8; 73]

The economic crisis of the early 70s literally shocked France.

Unemployment has tripled, and the profitability of companies decreased in three times. The next decade was also difficult for France because its economy was influenced by the “debt crisis” in developing countries. France invested this group of countries intensively, but the debts were returned untimely or were not returned at all. The public debt of France grew quickly too. Investment in national industry was decreasing; negative balance of foreign trade was growing. Since the second half of the 80s, the economy picked up somewhat. World prices for traditional French products increased, and decreased for energy resources. The foreign trade balance became positive. However, the dynamics of domestic investments remained rather weak.

The economic recovery was short, and France was faced with new challenges - decline in industrial production, increased unemployment, decreased volume of investments in the early 90s.

The period 1974-1996 is called “bitter thirty years” in France. Especially unprecedented was falling of investments. The share of industry in GDP was decreased. However, such processes were implemented in French economy in these years, which gave positive results in the second half of 90 ties: consumption of materials and energy intensity of industrial production were decreased; the share of advanced industries were increased, as some traditional industries (metallurgy, heavy machinery) had to be reduced because of their lack of competitiveness. At the same time, the growth of labor productivity (France takes one of the first places

in the world by this indicator) influenced the decline in employment. The share of the agricultural sector was decreased. Since 1997 the rise of the French economy started particularly in high growth of industry and foreign trade, the pace of investment dramatically increased after a long decline and the unemployment rate has decreased.

It seemed that the “bitter years” for the economy of France was left behind. However, the crisis (2008-2009), dramatically worsened the economic situation of the country again: in 2009 the real GDP decreased by 2.6%. The unemployment rate increased from 7.4% in 2008 to 11% in 2014. The increase in the unemployment rate caused a decrease in state revenue and the increase in the value of the payment obligations that have affected the state of public finances in France. The state budget deficit rose sharply from 3.4% of GDP in 2008 to 4% of GDP in 2014, the public debt of France has increased from 68% of GDP to 96.1% over the same period [2, p. 79; 74].

### *Economic policy of France*

The priority model of French economic policy was “dirigisme” long time after the First World War.

The strategic objective of the policy of “dirigisme” was the industrialization of the country in order to keep the status of France as a great power. Social market economy was, as in Germany, economic model in French. One-third of the state property, many banks, air transport, large insurance companies, broadcasting were owned by the state in 50ties-60ties. 30% of all investments carried out by the state.

Proponents of economic liberalization came to power in the late 1960s and in 1970s, and state intervention in economy was slightly decreased, although it was not substantially eliminated; transition from dirigisme to neo-Keynesian model happened. Balancing of the state budget was an important goal during presidency of Georges Pompidou. Domestic consumption was declined, fiscal policy was streamlined. These measures stabilized the economy for some time. However, the deep crisis of 1973-1974 shocked the French economy. Unemployment was increased in three times, and the company's profitability was decreased in three times. Annual GDP growth was on average 5.1% in 1950 - 1973, and it was on the level 2.3% in 1971-1980.

The crisis provoked a new parish of the left forces headed by Mitterrand to power in 1981, which meant a new wave of nationalization. The law on the nationalization of the large private banks and several industrial groups was adopted in 1982. Thus, the industrial group “Compagnie Generale d'Electricite”, “Pechiney Ugine Kuhlmann”, “Saint-Gobain”, “Thomson-Brandt”, “Rhone-Poulenc” passed into the hands of the state, company “Renault” belonged to state too. The state also acquired a controlling stakes in such companies as “Usinor”, “Sacilor”, “Dassault”, “Matra”. The share of state-owned enterprises in the industry grew from 18% to 32%. The public sector provided 75% deposit and credit operations of banking. 3.5 thousands of companies were under control of state. Even such powerful financial companies as “Paribas” and “Suez” were nationalized. The public sector accounted

for 23% of employees, 29% of value added and 30% of exports in 1983. Active price controls, high taxes on large fortunes were introduced.

Some social reforms were carried out: the minimum wage was raised, amounts of pensions were increased, and the working week was slightly declined.

Considerable attention was paid to indicative planning, Planning Reform Act was adopted, the method of development and organization to execute plans was determined. Strategic directions and goals of economic development were defined in the plans for the five-year period.

The reform had also a negative impact. Companies that had dire financial indicators were primarily subjected to nationalization. A lot of money from the state budget was spent on their reorganization. The budget could not bear such a load.

The Right forces, which introduced the privatization of enterprises, returned to power in 1986. France's economy was somewhat improved since the second half of 80ties. World prices of traditional French products increased, while energy prices declined. Foreign trade balance became positive. However, the economic recovery was impermanent. France faced with a new recession in the early 90ties. Industrial production was declined, unemployment was increased, and the volume of investments was declined too. The period of 1974 -1996 was named the “thirty bitter years” in France. Fall of investments was especially unprecedented. The share of industry in GDP was dropped.

The Conservative government, headed by Jacques Chirac, left the Keynesian policy and returned to promotion of the private sector. According to the law “On measures for the privatization” a large number of companies fell into the hands of private entrepreneurs. First of all it concerned the companies, where the number of staff was over one thousand people. Such major corporations as “Thomson” (electrical and electronics), “Pechiney” (non-ferrous metals), “Usinor-Sacilor” (ferrous metallurgy) were reprivatized in the 90ties. State share in employment decreased to 10%, and in value added - to 16%.

However, companies of electric power, gas supply and communications were in state ownership. Yet the regulatory role of the state was slightly narrowed. The level of taxation was reduced; the liberalization of prices was realized. “Banque Nationale de Paris”, and chemical plant “Rhône-Poulenc” were denationalized in the mid-1990s. Control over foreign exchange transactions and capital movements was abolished in the monetary sphere; restrictions on the activities of the inter-bank, stock exchange and mortgage markets were lifted. All state-owned enterprises were transferred to the independent functioning of the budget and started to work in tough market conditions.

Politics has always been an important component of the economic development strategy of the French government. Social expenditures accounts for 60% of all budget expenditures; they are significantly higher than the same costs of the main rivals of France, and this fact has a relatively negative impact on the competitiveness of the French economy. Despite the priority of social objectives, France is characterized by high unemployment, which reached unprecedented

dimensions - 12.5% of the active population. This high level is not so much a consequence of the government's inattention to social problems, as lack of effective economic policy in general. Thus, anti-market measures of government lead to a reduction of investments into the country and mass ex port of capital abroad.

At the turn of the millennium the French economy was not on the best positions. GDP growth rates were lower than the European average. Industrial production growth was only 0.2% in 2006. Unemployment in the same year reached 8.7%. The balance of payments was negative, foreign debt amounted to \$ 3.5 trillion [4, p. 209].

In such circumstances, center -right government significantly changes the economic policy and economic model in general. Thus, the public sector in the economy is almost completely eliminated: the state's share in value added was reduced to 5%. Government abandoned the policy of dirigisme, which had been the basis for economic strategies for a long time. The role of indicative planning decreased, it almost is not applicable. Radical changes occur in social policy. The purpose of the new policy is to increase the competitiveness of national business. To do this, the tax burden on companies was weakened. Companies receive subsidies from the state for each new job in the fight against unemployment. Retirement age was increased from 60 years to 63-65 years.

Nicolas Sarkozy became the President of France in 2007. He tries to connect positive achievements of dirigisme with strengthening of market relations, the liberal model. The core of the reform should be a set of tax measures aimed at implementing the main slogan of his program: “work more - earn more”

N. Sarkozy had intended to carry out more flexible social policies. So, if the unemployed refuses of the work offered to him twice, then he loses the right on social assistance. It was supposed to provide more rights to employers of hiring and firing workers. The law on the reduction of the apparatus of state administration was also adopted.

Crisis grasped the French economy, as well as other European countries in 2008-2009. However, the economic recession was not as deep as in some EU member states.

In 2012 Presidential elections took place in France. The representative of the Socialist Party, Francois Hollande became the new President.

The strategic direction of France in international economic relations is an active role in European integration processes. It stood at the origins of the EU and has been the most active supporter of its creation.

### *Features of business ethics*

The French style of conducting business negotiations was formed under the influence of the historical and cultural development of the nation, the central role of this country in the European and world space. French businessmen believe that the culture of their country is one of the most developed in the world, and France is the birthplace of democracy. At the talks, they are extremely polite, show exquisite manners. In conversations with French partners, informal style of communication

is unacceptable. They come to business meetings well-dressed and demand the same from a foreign partner. The French consider themselves to be a unique nation, but this does not stop them from treating a foreign partner with respect, if they deserve it by their business qualities and manners.

The strong point of the French in the negotiations is the logic of thinking. They quickly notice the inconsistency in the partner's position and this is used to their advantage. In contrast to the Germans, who also like logic, the French are negotiating more flexibly and more patiently.

If a German businessman, having stated his arguments, which seem to him "iron", immediately demands a decision from a partner, the Frenchman negotiates for a long time, again and again, arguing his position. However, he does not insist on an early decision-making [20].

During a business meeting, French businessmen first try to get to learn the position of the foreign partner, its strengths and weaknesses. They do not rush to voice their position. Business relations are not limited solely to office rooms. In France, many important decisions are made not only at the work table, but also at the dinner table. During a business lunch about business, talk is taken only after the coffee is served. The French highly value in their interlocutors the ability to navigate in matters of culture and art. During the conversation, one should beware of topics that are related to religion, personal position at work, income, illness, marital status and political preferences.

The French are negotiating politely and outwardly friendly. Nevertheless, if they are confident in their logic, they will not make compromises, but will explain their position once again. If they fail to convince a partner, they interrupt the negotiations, but do so tactfully.

The French try always to be exact, even in small things. In this they resemble the Germans. By nature, they are extroverts and communicate easily with partners, they are interesting interlocutors. They are often emotional, yet but it does not violate the logic of reasoning.

In negotiations with French businessmen, one should show officiality and address the partner only by last name. It should be taken into account that the French consider their nation aristocratic. From their point of view it is impolite by using traditional greeting not to add the surname of the partner or the necessary words of courtesy (monsieur, madame). An indispensable attribute of a business person is his business card, where it is recommended to indicate the higher education institution, which he graduated from.

In French firms, decisions are made by a limited number of high-ranking individuals. According to this it is very important that business relations with French companies be established at the appropriate hierarchical level. It is necessary to be afraid of bureaucratic obstacles, especially characteristic at the conclusion of contracts with the state enterprises of France. At the same time, when negotiating with representatives of small and medium-sized enterprises, this problem is removed, since the CEO or the owner make decisions himself. During the negotiations, the focus is not so much on price aspects, as on the technical

characteristics and longevity of the products offered. The success of the talks will depend on the extent to which the partners managed to convince the French businessmen of the real benefits of the contract. The contracts signed by the French are extremely specific, precise in wording and do not allow misunderstanding.

### 3.10. The economy and economic policy of Italy

Italy is a highly developed post -industrial country. According to the level of economic development, it is on the tenth place in the world; according to some economic parameters, it is already ahead of the UK and France. Italy has a slightly higher rate of post-war economic development, late industrialization, a higher proportion of light industry and agriculture, the exclusive role of tourism compared with other developed countries. A distinctive feature of Italy is much greater participation of the state in regulating the economy, than in other developed countries. The public sector accounted for 20% of added value, 24% of investments and 15% of employment. The unemployment rate in Italy is higher than in most EU countries. The peculiarity of the Italian economy is the considerable share of the “shadow economy”, which is not typical for Western European countries. Another feature is the rapid development of small and medium business in the late twentieth century.

Italy is a member of the OECD, the European Union and NATO.

On global markets Italy is known as manufacturer of ferrous metal (second place in the EU), railway rolling stock (second place in the world), road construction machinery, textile machinery (third in the world), cars (especially racing cars “Ferrari”), office equipment, personal computers (firm «Olivetti»), refrigerators, washing machines, garments, footwear, furniture (second place in the world), building materials, as well as citrus fruits, wine, olives and olive oil.

The organic coexistence of three sectors: large corporations, state enterprises and cooperative sector is inherent for *the economic structure* of modern Italy. In addition, “informal sector” of the economy is widespread.

The powerful corporations, mostly of "family" type, are on the “top floor” of the Italian economy. About 60% of the value of securities is in the sole ownership of the majority shareholding; in the ownership of the top five shareholders (for each firm) - about 90%, while only 2% of the shares are in the ownership of small holders [8, p. 92]. Financial-industrial groups of Italy have a holding structure. They unite one third of all Italian firms with half of all employed in the economy under their control. The Italian companies widely use practice of mutual agreements, joint participation in capital (joint participation covers 85% of all companies in the country).

*State sector* maintains a fairly strong position despite the measures of denationalization, which were implemented in the 90s. It accounts for 19% of added value, 24% of investments and 15% of employed persons (excluding agriculture). The management of state property, as it was already mentioned, is

in the hands of the Institute for Industrial Reconstruction (IRI). A feature of regulation of activity of the enterprises subordinated to IRI is to cover the losses of some enterprises at the expense of redistribution of income of other businesses.

**The cooperative sector** is an important component of the economic system of Italy. There are about 90 thousand cooperatives with 8 million of shareholders. This sector includes 107 “national banks”, 715 rural craft & savings banks, which account for respectively 12 and 14% of the assets of the national banking system [8, p. 92]. Geographically, the cooperatives are divided into industrial districts, the constellations, groups, networks. The constellation is the cooperation of a small number of enterprises (5-10). There is one important thing among them, to which all other ones orient their production. The network is an association of independent, but technologically related enterprises. Often networks operate on the principle of franchising, and then they depend on large companies (such as “Fiat”, “Benetton”). The specifics of the districts activity is extensive use of local resources, including labor and local traditions of production.

Small business, united in the cooperative movement, do great economic activity, including on foreign markets. The most significant role of small and medium enterprises is in the production of textiles, fashion clothes and footwear, household appliances, food products. Especially large share of cooperatives is in the ceramic industry; Italy produces 30% and exports 60% of world ceramics.

The government supports small and medium enterprises, encouraging in particular the timely purchase of new equipment. But the main reason for the success of this sector lies in the flexibility of entrepreneurs, their ability to adapt to market conditions, providing proper attention to the design in production. The result of the activation of the cooperative sector is the relatively large share of small and medium enterprises in foreign trade: 40% of exports are accounted for enterprises with number of employees less than 300 people, while the share of large corporations is 20%. The interests of the cooperators are defended by the Confederation of Industrialists (Confindustria).

The concentration of economic power in the hands of the state is not always accompanied by the efficiency of state management. The corruption among the representatives of the administrative apparatus is fairly common. This is accompanied by massive evasion of entrepreneurs from paying the appropriate taxes resulting in significant budget deficits. In addition, it has become a source of proliferation of “shadow economy”, which controls a quarter of the GDP of Italy.

The “shadow” sector of the economy uses the labor of illegal immigrants. In the South, especially in Sicily, some people are engaged in criminal business.

**Sectoral structure** of the Italian economy matches the type of the post-industrial stage, which are inherent to the predominance of the service sector. However there is a slightly higher share of industry in Italy, especially light, compared with other leading countries. Branches of the economy of Italy occupy such positions in the GDP structure in 2014: agriculture – 1.9%, industry – 25.2%, service sector – 72.9%.

The peculiarity of the Italian *industry* is extremely limited local resource base, significant energy imports. Accordingly, the main production share is in the manufacturing industry. Compared with other countries of “Group of Seven” the proportion of heavy industry is small, and the share of light industry is much higher. Another feature is the lag of Italy in the production of science-intensive, technically complex products due to insufficient investments in research and development.

Leading industry of Italy is mechanical engineering, where two-fifths of all industrial workers are employed, and a third of the total value of industrial production and a third of exports are created. A leading position in mechanical engineering is occupied by the production of vehicles and computer equipment. The car companies “FIAT”, “Alfa Romeo”, “Ferrari”, “Maserati” are very important in the world. In 1986 FIAT acquired a controlling stake of the company “Alfa Romeo”. FIAT is a huge concern, which has in its subordination automobile factories for the production of aircraft engines, locomotives, rail cars, trolley buses and trams, construction companies, metal manufacturing, trucking and shipping companies, hotels and newspapers. By the way, Italy is the birthplace of scooters.

For a long time the shipbuilding has been one of the leading branches of the Italian mechanical industry but the protracted crisis in the world navigation made considerably worse the situation in this industry. «Italcantieri» is the Italian main shipbuilding company.

The electro-technical and electronic industry of Italy is developing fast enough, but it is mainly concentrated in the output of household appliances. For a long time Italy has taken first place in the world in production of washing machines and refrigerators. It is also famous for its office equipment and computer engineering. The company «Olivetti», once famous for its type-writers, is producing today personal computers and other electronics as well.

The chemical industry is the second most important one of Italy. It is mainly specialized in output of organic chemical products such as plastics, chemical fibers, car tires and pharmaceutical goods. Nearly a quarter of chemical industry is controlled by the company «Montedison». It has been formed by consolidating of one of the Italian oldest companies «Montecatini» with «Edison» in 1965. «Montedison» is controlling petroleum refining and petroleum chemistry, production of plastics and by-product coke industry; numerous plants of silicate-ceramic, textile and food industries, some popular newspapers and enterprises of movie industry also belong to it. The company «SNIA Viscosa» has the strongest stands in the output of synthetic fibers and the company «Pirelli» has the same positions in the production of car tires.

Italy is the second (after Germany) producer of ferrous metals in the EU. The metallurgical industry of the country almost entirely works on imported raw materials.

The company «Benetton» specializing in making of high-quality finished clothes and knitwear goods is the most famous in the light industry, it has its own



shops in 110 countries in the world. Italy takes third place (after China and the USA) in shoe making and first place in its export in the world.

The food industry of Italy occupies the third place after mechanical engineering and chemical industry in product cost. The Italian wines, canned fruit, olive oil as well as macaroni in which production Italy takes first place in the world are especially well-known. The output of sugar and cheese has a great share in product of food industry.

The production of building materials which mainly works on local raw materials occupies an important place in the structure of the economy of Italy. Italy is known as a large producer of cement (company «Italcementi»), art glass, faience, cut glass, special glass for vehicles, for optical examples and laboratory ware.

«IRI» controls the significant part of industrial enterprises in the country. It amalgamates over 150 plants in various industries such as mechanical engineering, shipbuilding and ferrous metallurgy. «ENI» is also a state holding which is mainly controlling chemical and petroleum refining industries. FIAT is a private corporation like «Montedison», but the latter has a share of state capital.

**The agriculture** of Italy has an agricultural area. Plant growing gives 58% of agricultural output and livestock farming does 42%. Despite the favorable climatic conditions, Italy ensures food self-sufficiency only by 75%-80%. The cereal crops occupy more than a half of arable land but the areas under grain have been gradually reducing under pressure of competition of other EU countries. Italy three times yields to France in grain harvests and the main cultures are wheat, corn and rice. Every year Italy gathers 6 million tons of fruits and 15 million tons of vegetables (including 5 million tons of tomatoes). In Europe Italy yields only to Spain in harvest of citrus plants (3 million tons) and olives. Grapes harvest is 10 million tons a year and over 90% of it is processed into wine in which output Italy takes first place in the world.

The livestock farming plays a secondary part, firstly, because of insufficient fodder supplies and, secondly, because of competition of cheap animal products from other EU countries. Dairy cattle production develops mainly in the north of the country where the best pastures and stock of forage are concentrated and sheep breeding is in the south, especially on the Island of Sardinia where they also produce the best cheese.

In the post-war period the agriculture of Italy underwent technical reconstruction. The strong commodity farms have been created, especially in the North. The productivity of labor in the agriculture substantially left behind this index in other industries and in the economy as a whole.

However, at present the agriculture of Italy yields to the majority of other EU countries in level of the productivity of labor. The considerable fragmentation of farms is one of the reasons of this position. The large latifundia in the South are often granted on lease by small parts and have a low profitableness.

**Service sector** in Italy is greatly various in structure but tourism and banking activity are particularly detached.

Tourism for Italy is an important source of inflow of foreign currency. According to various estimates, every year from 30 million to 50 million tourists visit Italy, who leave 6-8 billion dollars in this country. Italy takes first place in the world in number of places in hotels and campings (3 million pers.). The tourism provides work for over 1 million Italians. Three quarters of business turnover from tourism are inherent in three cities such as Rome, Venice and Florence. The tourists visit necessarily Vatican City State and San Marino, independent states which are closely connected with Italy in economical respects. The tourists are seeking to see numerous castles, cloisters, picture-galleries, famous cathedrals and other architectural structures. The seaside and mountain-skiing resorts are also attractive for them. Lately, the so-called «shopping tourism» has been developing attracting to Italy wholesalers of goods produced by small and medium-sized enterprises as well as individual consumers of Italian shoes and clothes.

Unlike the industrial monopolies in Italy which rather notably yield to foreign competitors, a great number of Italian banks reached significant dimensions and take sound stands in the world credit and banking system. The following banks enter the first hundred of the largest in the world: «Banco di Roma» («Roman Bank»), «Banco nazionale del Lavoro», «Banco commerciale Italiana» («Commercial Bank»), «Credit italiano» («Italian credit»), «Camera di risparmio lombarda», «Istituto bancario San-Paolo di Torino» and others. Besides, the special state credit institutions such as «Mediobanca», «IMI» and «Mediocredito» are large credit establishments. «Banco Italiano» («Italian Bank») which is also a central bank of issue exercises control of all the credit and banking system.

Like in other developed countries, financial groups have been formed in Italy, which are controlled by large banks. One of these largest groups is «Fininvest», private union with the number of employees of 26,000 pers. and turnover of over 7 billion dollars. The major lines of activity of the union are as follows: television, publishing, advertising business, production and distribution of TV products and films and insurance; it has a network of department stores. «Fininvest» belongs to Silvio Berlusconi, the former president of Italy.

The dynamics of economic development of Italy is characterized by a higher rate in the first post-war years and gradual drop in the 70ties-90ties. In the first decades after the finishing of the World War II Italy left behind the USA, Great Britain and Germany in development rate yielding only to Japan and Canada. The growth rate was especially high in the industry that was explained by considerably lower salary level of Italian workers compared to this level in other developed countries. It increased the competitiveness of Italian goods on external markets. In the 50ties the annual increase in industrial production in Italy made 8% -9%. In 1961-1970 the average accession rate of industrial production in Italy made 7.2% while it was only 4.4% in the USA, 2.4% in Great Britain, 6.7% in France, 5.8% in the FRG and 15% solely in Japan. The GDP growth in this period was equal to 5.3%.

The spurt in the economic development of Italy in the 50ties-60ties strengthened its positions in the group of developed countries. These were the years of not only high rate of industrial production but also ones of capital accumulation, growth of the productivity of labor and financial power, expansion of external economic relations and consolidation of political positions of Italy in the world. But in the posterior decades the conditions of economic development for Italy somewhat changed. After the long struggle of trade unions for welfare of workers, proceeding from the seventies, the wage level of Italian workers has substantially increased and almost reached one of other countries in Western Europe. However, it adversely affected the competitiveness of Italian goods and eliminated one of factors contributing to fast rate of economic growth. The world energy crisis which had fallen on the middle of the seventies was another reason of drop in rate. For Italy which almost entirely depends on the import of oil the sharp increase in its prices has been a very severe blow. The GDP growth in the period of 1971-1980 has already made 31%.

The economy of Italy has been unevenly developing after the energy crisis in the middle of the 70ties; the short-term raises of development are alternating with deep slumps in the production. The deficit of state budget and balance of payments increased in the country and the number of unemployed persons increased. Italy has entered a period of short-term reviving after which the stagnation came since the middle of the 80ties till 1990. In the early 90ties Italy dropped behind other countries of the «Group of Seven» in level of the productivity of labor and in GDP indices per capita.

In the 90ties the economy of Italy has been developing at a slow rate being dropped in 1993 and 1999. The GDP growth in Italy was lower than one in the majority of other developed countries. So, if in 1991-2000 average annual growth rate in Italy made 1%, then it was 3.5% in Japan, 2.9% in the USA, 2.6% in Great Britain and 1.8% in Germany. The unemployment level made 12% in 1997 and it slightly decreased by the early 2002; the number of unemployed persons made 2.2 million pers. [2, p. 98].

Development rate of the Italian economy remains low in 2000-2006. The crisis of 2008-2009 made even worse the state of the economy of Italy. In 2008 the GDP growth made 0.7%, the growth of industry made -1.5%, in 2012 it was -2.4% and -4.2%, correspondingly [11]. According to the data of the Research Centre of Confederation of Italian Industry Centro Studi Confindustria, GDP of the country has decreased by 9.1% for years of crisis (2007-2013). Because of negative growth rate of the national economy the losses for the said period have made 200 billion euro (nearly 3,500 euro in per capita terms). The experts predict a partial recovery of lost positions only by 2019. In 2014 the GDP growth ceased to be negative and made 1.0%.

The maintenance of budgetary discipline and strengthening of the role of Italy in the development of common European policy in the overcoming of consequences of financial and economic crisis became the main priorities of government.

### *Economic policy of Italy*

Italian Government was adhered clearly by defined Keynesian policies that include active state intervention in economic processes, after the Second World War and up to the 70ties. The state assumed the operational functions of the enterprise's activity; such a policy is called "dirigisme". All the leading banks in the country, the branch of industrial credit, and 80% of national savings were remained under state control after 1945.

The main role in the management of the economy was owned by Institute for Industrial Reconstruction (IRI). The government provides centralized management of public and mixed enterprises with the help of this authority. Most public investments in the economy are carried out through the Institute for Industrial Reconstruction. Volume of public investments is quite significant; it was 20% of all investments in the Italian economy at the beginning of the 70ties and 15% - at the beginning of the 80ties. Most public investments went into energy sector (38%), transport (20%) and communications (27%), i.e. the state cared primarily for strengthening of the economic infrastructure. In addition to IRI, such public groups as ENI and EFIM played an active role in regulation of the economy. Overall, the share of public sector (central and local authorities, social welfare and security systems, and other government agencies) in the use of national income grew from 29% in 1951 to 58% in 1981 [8, p. 215].

One of the components in the mechanism of regulation of the economy is the development of various programs of economic development. For example, "Vanoni Plan" was developed in 1956 to overcome the chronic backwardness of the economy of the South. Sections in programs, developed in the 1960s -1970s, were devoted to problems of the South. These were such programs as "Plan of Saraceno", "Plan of Giolitti", "Plan of Perachchini". Medium-term programs of economic growth of the country were included into the "Plan of Pandolfo" and "La Malfa Plan" (names of plans are derived from the names of Ministers, under the leadership of which they were developed). The cost-effectiveness of these programs was low, as a rule, they were not implemented in full. It concerns, especially plans for development of the South: the share of this region in the structure of unemployment was more than 50%, and its level in the South had a tendency to increase, despite the positive general declining trend in Italy in the late 1990s.

It was clear at the end of the 1970s that the policy of state dirigisme in Italy almost exhausted its productive capabilities. The growth rate of the economy slowed down, the state budget deficit reached large size, inflation reigned in country, and the rate of national currency fell. It should be noted that the Italian lira was the weakest among the currencies of the EU until mid-1990s.

The size of public debt was 125% of GDP in 1995, the idea of change in economic policy in favor of neo-liberalism appeared in the Italian government and political circles.

In 1990 antimonopoly legislation was adopted, which suspended the process of cartel formation through mergers and acquisitions. Since 1992 a series of

economic reforms begins in Italy, which still continues up till now. The reforms in the social welfare system, tax system, in the labor market, as well as the implementation of the privatization program became the key directions of reformation. Namely privatization was considered as the main lever in the mechanism of the reforms. According to the program of privatization of state holdings IRI, ENI, IMI, ENEL and some others were the subject to corporatization. At the same time profitable companies, banks and insurance companies were the subject to immediate privatization, and unprofitable was assumed firstly to restructure. In the largest holdings, the government retained the control stock. The government owned enterprises of the defense industry, telecommunications, transport and energy. These companies also were incorporated, but the government had key positions.

In 1994 the legislation was introduced, according to which specialized governmental credit institutions (IMI, “Mediocredito Centrale”, “Mediobanca”) were transformed into a joint stock companies with the sale of 49% of their capital on the open market.

The reform was intended to ease the tax burden for corporations and firms. There was reduced the corporate tax from 36% to 20%. Special attention was paid to small and medium enterprises, as well as measures intended to increase their capital, encourage R&D, acquisition of modern equipment. Significantly were reduced tax rates for newly established firms – the “newcomers”.

The transformation took place also in the system of operational management of the economy. Young specialists who implemented modern management concept, aimed at applying new technology and improving management efficiency came to enterprises management.

The social policy of the government was aimed at increasing employment and reducing unemployment. Italy lagged behind other developed countries in the field of personnel training, as the result in the labor market there was a mismatch of supply and demand. In the mid-1990s, structural unemployment was 80% that was significantly higher than in other countries. The unemployment rate in whole amounted to 10-12% in the 1990s. Behind the poverty line there were 2 million people. At the end of 1990s the situation began to come around. The unemployment rate in the beginning of 2002 was 9.2%, in 2005 – 7.7%, in 2008 6.8% [4, p. 216].

Economic reform also included the improvement of the financial situation in the country. The main focus was on reducing the budget deficit. The budget expenditures (including social spending) were reduced, tougher measures against those who evade taxes were introduced. The direct taxes rates were reduced, but the share of indirect taxes increased. Costs for maintenance of the state apparatus were also reduced.

These measures have had some positive results. The size of the budget deficit decreased from 12.1% of GDP in 1992 to 2.8% in 1998, the annual inflation rate fell to 2%, the national debt – to 123% of GDP. In 2005 the national debt of Italy amounted to 1.7 trillion dollars; external debt amounted to 922.5 billion

dollars. However, the rise was short-term. Already in 2008, the external debt of Italy rose to 1060 billion dollars, industrial production decreased by 0.2%, the GDP decreased by 0.7%. Italy was plunged into economic crisis, the consequences of which the country overcomes until now.

In February 2014 the Italian government was headed by M. Renzi. During the year it was planned to solve such urgent issues for the economy as liberalization of labor market, reduction of taxes and fees, implementation of a reform of the parliament as a necessary precondition in the implementation of economic reforms. However, as of 01.07.2015 we can say that the government did not manage to carry out comprehensive structural reforms in the economy. One of the most important of the unsolved problems is not enough competitiveness of Italian goods and services, conditioned by the high labor cost per unit and relatively low labor productivity. It will be not easy to implement the adopted Stability Pact that provides the reduction of public expenditures (the EU requires to reduce it by 6.3 billion euro) [75].

### *Features of business ethics*

By their nature, the Italians are extroverts. They are very sociable, frank in communication. They are characterized by heightened emotionality during the negotiations, they actively use the gestures, facial expressions. They value humor and do not take offense at jokes in their address. At first glance, the Italians seem frivolous, but in fact they are smart businessmen and good partners.

A feature of the business ethics of the Italians, which distinguishes them from the northern Europeans, is some non-binding in the observance of formalities in negotiations and the lack of punctuality. An Italian businessman may be late for a business meeting for half an hour and will not see anything special in this. During communication the Italian tries to keep as close as possible to the interlocutor, face to face. If the interlocutor (a foreigner) moves away, the Italian can be offended and take this as disrespect.

Italians are very fond of talks on topics that are not directly related to the subject of a business meeting: about the family, politics, culture, sports. They can spend a lot of time on such communication. They should be supported in this in order to establish closer and more trusting contacts.

In business, and in business negotiations, the Italians exhibit extraordinary flexibility. They do not insist on their position rigidly (like, for example, German partners), they seek compromise solutions to the problem. But the Italians can change the "rules of the game" in the negotiation process. They know how to "circumvent" laws, to the extent that it does not turn into crime. Such actions they do not consider dishonest, because they see this as a manifestation of common sense, since reality does not always, in their opinion, coincide with the norms of the law.

Italians, as a rule, fulfill all the points of the concluded agreement, but they are not obligatory regarding the stipulated terms. Time for them does not have such magical power as for the Germans or Americans. Italian businessmen like to conduct long negotiations.

Despite their expressiveness, the Italians are very polite people, they try not to offend the interlocutor, they say a lot of compliments, and after a long business relationship they even may to kiss him when they meet, and sincerely.

At the talks, the Italians act as one cohesive team. They like to bargain. Nevertheless, they readily agree to a reasonable compromise. It is important for them to feel that they did not lose at the conclusion of the agreement. A well-known expert of business cultures the English scholar R.D. Lewis recommends to build business contacts with Italians as follows: "It is best if businessmen ... will treat negotiations with Italians as a kind of interesting game that should be conducted according to numerous Italian rules, but which leads to a serious and profitable (for both parties) results" [20, p. 306].

## CHAPTER IV. COUNTRIES WITH TRANSITION ECONOMIES

### *Countries with transition economies*

Most of the former socialist countries, making the transition from socialist to market methods of management belong to countries with the transitional economy. The former republics of the USSR: Ukraine, Russia, Belarus, Moldova, Latvia, Lithuania, Estonia, Georgia, Azerbaijan, Armenia, Kazakhstan, Uzbekistan, Kyrgyzstan, Turkmenistan, Tajikistan; former socialist countries of the Central Europe: Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Serbia, Montenegro, Croatia, Slovenia, Bosnia and Herzegovina, Macedonia, Albania; the Asian countries - China, Mongolia and Vietnam are countries with transition economies. Socialist orientation was kept by North Korea (DPRK) and Cuba for the purpose of creation of communism.

Countries with transition economies can be divided into three groups by the geographical feature and by the features of social and economic transformations:

- countries of the Central and Eastern Europe, and also Baltic countries (Lithuania, Latvia, Estonia);
- CIS countries and Georgia;
- China, Mongolia and Vietnam.

#### **4.1. Prerequisites of formation of the transition economy system**

The concept “transitional economy” means the transformation of the centralized non-market model of economic development with rigid command and administrative methods of management in open economy in which the market mechanism of functioning is combined with flexible methods of state regulation. The socialist model of economy, as we know, started to be realized since 1917. At first Russia (since 1922 - the USSR), and then Mongolia (since 1921) were the only countries which applied this model before World War II. A number of the countries of “national democracy” which began to be called as the socialist countries subsequently were formed after World War II. German Democratic Republic (GDR), Poland, Czechoslovakia, Hungary, Romania, Bulgaria, Albania, Yugoslavia was examples of this type of countries in Europe and China, the North Korea (DPRK), Vietnam – in Asia. Cuba has taken the path of socialism in 1961. About two tens of developing countries chose socialist orientation in the 1960s and the 1970s, but the methods of socialist managing in their economies didn't gain broad development.

Let us consider some typical moments of the command system of economy. Total centralization of management of economy can give short-term effect in the most intense situations connected with deep social and economic crisis. So, it was succeeded to carry out industrialization in short terms by the extraordinary tension of forces, excessive use of human and natural resources in the 30ties in the USSR. In the same way the economy, which was destroyed during the Great Patriotic War, was quickly enough restored. Concentration of resources in hands



of the state promoted the creation of strong base of the heavy industry and development of research and production capacity of the country in post-war years. The advancing development of the Soviet Union in the field of astronautics and nuclear power in the 1950s and the 1960s is confirmation of this conclusion.

However internal contradictions of system of socialist economy interfered with long development of the positive tendencies stated above. Elimination of a private property, monopoly of the state for means of production, lack of the normal competition didn't stimulate labor productivity growth. High growth rates of the industry were based mainly on enthusiasm of toilers who sincerely believed in reality of a victory of communism in the 1930s and the 1950s. Subsequently the enthusiasm started dying away, and the system couldn't develop methods of effective work incentives. So, proceeding from the second half of the 1960ties, the growth rate of the economy of the USSR and other socialist countries has been slowing down and its aggregate specific gravity in the world economy has been decreasing. The socialist states left considerably behind the developed countries in the level of productivity of labor and quality of product (excluding a narrow field of aerospace and military-technical production).

The administrative-command system of economic management showed inflexibility in mastering of possessions of scientific and technical progress. According to the predominant theory of priority of production of means of production, the emphasis was laid on even more rising of potential in heavy industry. It led not only to the drop in service sector but also provoked the destruction of the economy in total. Despite the rather large infusions of funds into research and development, the socialist countries were even more significantly left behind the western countries in the development of high-technology production. None of the socialist countries passed to the post-industrial development stage.

It should be noted that even positive elements of centralized system of economic management (for example, accelerated industrialization) were unequally realized in different countries. They brought the greatest effect in the countries having a previous low development level of industry and of the economy in total such as the USSR, China, Rumania, Bulgaria, Yugoslavia, Albania and DPRK. At the same time, the positive consequences of centralized industrialization in Poland, Czechoslovakia and Hungary were less apparent and the GDR appreciably lost before the FRG in the economic development.

The socialist system of management was being introduced into the economies of different countries in different degrees. It was most deeply and consistently realized in the USSR that was also conditioned by longer duration of existence of the state. By the early 1990-ties the views of many people were anti-market ones that became apparent under the conditions of transition period.

The administrative-command system acquired the most distorted form in China in the 1960ties, period of so-called «big jump». The collectivization took the form of the creation of communes where the socialization was applied not only to the means of production but also to paraphernalia of peasants. The commune was considered a «self-sufficient» economic unit capable to provide its members with

everything required. And what is more, the primitive agricultural enterprises which had nothing in common with agro-industrial complex were propagated in agricultural communes. The domestic smelting of cast iron is the most striking example. The production of these enterprises was utterly low-quality and, in the main, of little use. Thus, the resources were wasted for nothing and adequate returns were not provided. The productivity of labor was very low in all the sectors of the economy. The distribution system of common foods existed in the country. In the external economic policy the government kept to the autarchy, i. e. self-reliance when reducing at most the volumes of external trade. This policy led, after all, to the famine on an unprecedented scale which involved tens of millions of people.

In the socialist countries of Central Europe (also in Lithuania, Latvia and Estonia) the introduction of socialist economic system took place much later and in most of countries was not so deep and comprehensive as in the USSR. So, in Poland and Yugoslavia there was no collectivization of agriculture realized, small private property prevailed in this sector. The land was not nationalized in Czechoslovakia and Hungary and, a private sector also existed together with collective farming. In these countries it was also permitted to practice small private business in service sector such as trade enterprises, hairdressings, coffee-houses etc. In Yugoslavia the nationalized enterprises had a considerable degree of self-government and free determination of nomenclature of manufactured products, its sale and pricing. The competition of enterprises existed in the country and centralization of control of the economy was not so strict as in the USSR. On the other hand, in Yugoslavia the unemployment (phenomenon not typical of the socialist system) and inflation grew.

The bipolarity of economic models was stipulated by incompatibility of command- administrative and market methods of management. The world socialist system was formed which developed on a scheduled basis. The Council for Mutual Economic Assistance (CMEA) which had been founded in 1949 became the organizational form of this system. Its members were the USSR, the GDR, Poland, Czechoslovakia, Hungary, Rumania, Bulgaria, Albania (it has terminated membership since 1962), Mongolia, Vietnam and Cuba; Yugoslavia participated in some structures of CMEA.

Within CMEA the socialist countries succeeded in achieving some coordination of external economic activity. The predominant share of external trade in each country was inherent in the CMEA and quite a lot of common objects of the economy were constructed. However, the effectiveness of CMEA as a whole was low. The volumes of mutual trade of countries members of CMEA substantially yielded to the indices of countries of European Economic Community. The integration in the monetary and credit sector and in the interstate movement of manpower was even less efficient. It deals that the CMEA was, first of all, the political organization. The economic integration was being considered as a subordinate process which must contribute to the achievement of political goals. Besides, in the conditions of strict centralized planning the integration process

acquired unnatural character, in fact, was broken. When disintegrating the socialist system the CMEA also ceased to exist that its artificial character had demonstrated.

The braking of economic development in the socialist countries began as early as the 1960ties, despite the fact that the quantitative raising of industrial capacities in the industry and growth of general macroeconomic indices were observed. But the detailed analysis allowed to detect structural disproportions. The absence of market regulator led to the fact that a great number of product not sold well was manufactured. At the same time, the acute shortage of many kinds of product is felt. The industry became ever more resource- and energy-consuming, return of investment funds into basic funds decreased and productivity of labor reduced. The growth rate of national income declined.

The lowest rates were fixed in the countries which had been already industrially developed before the World War II. So, if for a period of 1960 -1986 the national income has four times increased in the USSR, 5.2 ones in Bulgaria, 7.2 times in Rumania, then it increased only in 3.2 times in the GDR, 3.1 times in Poland, 2.8 times in Hungary and 2.7 ones in Czechoslovakia [8, p. 133].

In the 1980ties the crisis of economic system of socialism has already become apparent. The main macroeconomic indices began to drop swiftly [8, p. 133].

The gap with developed countries in the use of achievements of scientific and technical progress became ever greater. So, for example, in 1990 only 12% of electric power was produced in atomic power stations in the USSR, whereas there were 19% in the USA, 33% in the FRG, 74% in France and 20% in Great Britain. The specific gravity of output of electric steel and oxygen steel made 48% in the USSR while it was 100% in Great Britain, Italy, France, FRG and Japan. The specific gravity of cement production by progressive «dry» method made 17% in the total volume of output of cement in the USSR, 60% in the USA, 78% in Japan and 90% in the FRG [6, p. 137].

It became clear that those positive factors which stimulated the extensive development of economic system of socialism had been exhausted already. The transition to market system of management became objective and inevitable.

#### **4.2. Economic reforms of transition period**

The attempts to prevent the total crisis of economic system of socialism were taken as early as the 1960ties. In the USSR the idea of «market socialism» was proclaimed which had to be embodied into the economic reform of 1965. The reform envisaged the allocation to the enterprises a more free hand in the planning of production nomenclature, disposition of wage fund, independence in the choice of partners relative to cooperation and sale of product when coming to external markets. It actually was the model similar to the Yugoslavian one which has already existed in fact. If the reforms were realized, then the crisis of socialist system would be delayed and in case of intensification of reforms the Soviet economy would smoothly evolve into market one. But it did not occur because of

sharp opposition of conservative political circles which predominated in the leadership of communist party and government of the USSR. The reform has been curtailed in the late 60ties already.

In the socialist countries of Central Europe the reformatory attempts proved to be successful, though they also were far from being radical ones. So, in Hungary the enterprises got the right to sell independently its products; within payroll they could determine the number of employed persons and when releasing any number of workers the rest received higher salaries. The price reform was carried out as a result of which the prices of internal market were determined with regard for world ones. The price reform was also executed in Czechoslovakia, the prices for resources increased and ones for consumer goods reduced. In Poland the zone, where market (and not directive) prices acted, was expanded in the 1980ties, the private property was admitted not only in the agriculture but also in the industry. The system of centralized planning was gradually substituted by system of governmental orders to the enterprises. The foreign exchange market was legalized.

So, in the European socialist countries the reforms were carried out which had been developed as an analogue of the Soviet economic reform of 1965 (unfortunately, not realized in full). This in many respects explains that fact that in the given group of countries the transition to the market economy in the nineties has realized much faster and more efficiently than in the former republics of the USSR.

*China* was the first, which begin a properly deep reform of the economy on market principles. In 1978 the Chinese government under the leadership of Deng Xiaoping proclaimed the beginning of long and successive reform of the economy. Originally, the reform of the economy of 1965 in the USSR became a model for it. But afterwards the leaders of China run bold and radical reorganizations. The reform began from the agriculture where it was allowed to have personal plots (after the total socialization in the communes it was a really decisive step). The small private business in the industry and service sector was also legalized. It gave an appreciable impetus to the increase in volumes of output and salary growth as well as to the expansion of internal market.

The fact that the market economy has been formed and developed under the leadership of communist party when retaining the main social and administrative structures and rule of communist ideology both in the governmental circles and among the wide mass of population is a specific feature of economic reforms in China. It stipulated phasing in the reforms realized without cardinal destruction of existing social system. This way of reforms is «evolutional».

At first the market regulation was considered by the Chinese government as an auxiliary one to the planned economy. In the late 1970ties the reform became apparent in the permission of negotiated prices, development of private sector, introduction of family contract as well as foundation of joint ventures (having official and private capital) under the strict governmental control.

In the 1980ties the course for building up of system of the socialist commodity economy was proclaimed, the planned economy was also retained but its scope got somewhat narrow. The pricing reform took place on this stage. The nomenclature of goods with the centrally established prices decreased and the list of commodities (ones of consumer nature in general) with market-regulated prices was expanded. The price liberalization was gradually enlarged.

By the early 1990s the creation of «the socialist market economy» has been proclaimed as the main direction of economic reforming of China. Predominance of common ownership while simultaneously developing of the multi-level economy was its basis. The mixed joint-stock companies were actively founded where the state had a major shareholder holding. The enterprises of defense industry, up-to-date technologies and other subjects of management falling under the influence of state monopoly were not subject to corporatization. The attraction of foreign capital was allowed in other industries. The offices of foreign banks (there are over 100 of them) were opened in the country.

The economic reforms in China yielded impressive results. China is fast advancing to the group of developed countries from the country which population has balanced on the brink of starvation. In the 1980s and in the first half of the 1990s the average growth rate of its GDP made 11%-12%, output of gross industrial product – 12%, agricultural output – 7.5%, export – 8% and import – 32%. Today China has already taken second place in the world in GDP volume (based on PPP).

Unlike China, in the countries of *Central Europe and of the CIS* (except Belarus) the reforms in the economy were carried out in the «shock» version, i. e. it was focused on the economic reorganizations at the early possible date to radically transform the socialist economic structures.

Let's consider the peculiarities of reforms in the countries of CEE. The radical economic reforms in these countries began in 1989-1991. The main directions of economic reorganizations became the following:

- macroeconomic stability and control of economic situation;
- price reform and introduction of market mechanisms;
- development of private sector, privatization and reforms in industrial structure;
- revision of role of government in the economy.

At first these transformations led to the chaos in the economy but in a few years the situation was stabilized and the stabilization programs gave positive results.

The development program of private sector, privatizations and reforms of industrial structure meant the realization of structural reconstruction of the economy in the countries of Central Europe, changes in ownership, introduction of bankruptcy procedure, liquidation of monopolies and trade and industrial reforms.

The revision program of the state's role in the economy envisaged the transition from command-administrative system to the regulation carrying out in the whole civilized world. With this purpose the reform of legislation has been

implemented assigning to the competency of the state tax and budgetary management of the economy and pursuit of credit and monetary policy. The adequate amendments have been also introduced in the social programs.

The goal of economic transformations in the countries of Central Europe came to the fact that at its first stage the macroeconomic stabilization, that is, stoppage of production slump and resolution of the problem of external and internal debt would take place. Later on, the price and trade reform took place, convertibility of national currency was provided and prices were brought to conformity with production costs and level of world prices. And only then there was reform of tax and social sectors conducted, employers got tax incentives and the population defended themselves from the threat of unemployment.

However, the consequences of reform proved to be slightly worse than it had been supposed. So, the slump in production was found to be very high in the first years of reforms, free pricing provoked a considerable growth in prices when simultaneously reducing the income, the mass unemployment appeared and all the old relations were destroyed within the CMEA. So it was necessary to adapt to the new conditions of management as soon as possible.

It's fair to say that at first the reforms have been specified to be prolonged, gradual and evolutionary which were being conducted owing to the mixed economy and with the support of the West. Actually, the reforms proved to be more dynamic and almost everywhere the way of entering the market using «shock therapy» was chosen.

The deceit of public expectations turned out to be the most negative consequence of the reforms in Central and Eastern Europe: the rapid and significant increase in the standard of living had not occurred.

The stage of «shock therapy» finished mainly in the middle of the 1990s after which the economy of countries in Central Europe became stable and process of dynamic development began. Poland reached a pre-reform level of output in 1996 and other countries of this group did it in the late 1990s. In 2000 the annual GDP growth made 5.0% in Poland, 2.6% in Czech Republic and 5.6% in Hungary. The countries of Central Europe become attractive for investors. The direct foreign investments for 7500 million dollars came to Poland, for 5108 million dollars to Czech Republic and for 1944 million dollars to Hungary [8, p. 138].

In the *countries of the CIS* the reforms were being realized under more complicated conditions: the transition to market methods of management has collided with grave difficulties and terminated later. The question about peculiarities of reforms in the CIS will be in more detail considered below.

The relatively deeper and more decisive economic transformations took place in Russia, Georgia, Armenia, Kazakhstan and Kyrgyzstan which had chosen the «shock» version. The reforms in Belarus are being promoted slower, in an «evolutional» way and with the lesser social losses.

### 4.3. Development dynamics and structure of the economy

As it has been noted, the radical break of economic foundations in the first phase of reforms was accompanied by deep drop in volumes of output and socio-economic crisis. The withdrawal from the crisis was not simultaneously performed in different countries; ones which had earlier begun reforming were the first to go out of it. The monetary and financial crisis in August of 1998 which had begun in Southeast Asia had a negative influence on economic development in the countries of the CIS, especially Russia and Ukraine. The dynamics of economic development in some countries with transition economies in the 1990s is shown in the **Table 4.1**.

The Table shows that the countries of so-called «Visegrad Four» (Poland and Hungary) have already had a positive GDP increase in the 1990s having overcome the difficulties of transitional period as early as 1989 -1992. The economy of other countries in the region of Southeast Europe (Bulgaria and Rumania) developed slower and unevenly. In these countries the conditions of reconstruction of the economy and problems bound up with them are the same as ones in the countries of the CIS. The Asian republics in South Caucasus and Central Asia have gradually aligned their economy after deep drop in volumes of output in 1991-1993, proceeding from the second half of the 1990s. However, they have not yet reached pre-reform level of output.

**Table 4.1.**  
**GDP dynamics in percent to the previous year**

	1993	1994	1995	1996	1997	1998	1999	2000
Ukraine	-11	-17	-6	-5	-1	-1	0	6
Russia	-9	-13	-4	-3	1	-5	3	8
China	17	17	17	10	9	8	7	8
Poland	4	5	8	6	8	6	6	5
Bulgaria	-1	0	2	-9	-6	4	...	5
Rumania	2	3	6	3	-6	-6	...	2
Hungary	0	2	5	1	4	5	5	6
Kazakhstan	-5	...	-8	1	2	-2	2	10
Belarus	-10	...	-10	3	11	8	3	6
Azerbaijan	-23	...	-12	1	6	10	7	11
Armenia	-42	...	7	6	3	7	3	6
Georgia	-45	...	3	11	11	3	3	2
Uzbekistan	-21	...	-1	2	5	4	4	4
Moldova	...	...	-3	-6	2	-6	-5	2
Kyrgyzstan	-4	...	-5	7	10	2	4	5
Tajikistan	...	...	-12	-17	2	5	4	8

Reference: [8, p. 139]

The difficult situation with the restoration of the economy was observed in Moldova and Ukraine; the change for the better has begun only since 2000. The GDP increase rate in the first years of new century is given in the **Table 4.2**.

**Table 4.2**

**GDP growth rate in 2001-2014**

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2014
Ukraine	10.8	5.3	9.1	12.0	2.9	7.5	7.5	1.9	-14.5	4.2	-5.4
Russia	5.1	4.7	7.3	7.2	6.4	8.2	8.5	6.4	-7.8	4.0	2.1
Belarus	4.7	5.0	7.0	11.5	9.4	10.0	8.6	10.2	0	7.6	3.0
Moldova	6.1	7.8	6.6	7.4	7.5	4.8	3.0	7.8	-6.0	7.4	6.0
Kazakhstan	13.5	9.8	9.3	9.6	9.7	10.7	8.9	3.2	1.2	7.3	5.8
Poland	1.2	1.4	3.9	5.3	3.6	6.2	6.8	5.1	1.6	3.8	4.7
Hungary	3.8	4.1	4.0	4.5	3.2	3.6	0.8	0.8	-6.7	1.2	5.1
China	8.3	9.1	10.0	10.1	11.3	12.7	14.2	9.6	9.2	10.3	8.9
Bulgaria	4.2	4.7	5.5	6.7	6.4	6.5	6.4	6.2	-5.5	0.2	3.2

Reference: [4, p. 81 ]

The substantial drop in absolute size of GDP in all the countries except China became the consequence of economic changes in the beginning of transitional period. The reconstruction of the pre -reforming level took place in Poland in 1994 and slightly later it occurred in Czech Republic, Slovakia, Hungary and Slovenia. Other countries, except Russia, did not reach the GDP level which was on the eve of reforms. So, in 2000 the aggregate GDP in the countries of the CIS made 66% in total and industrial product was 60% of the level of 1992. The adequate values for agriculture were 72%, retail commodity turnover – 76%, payment services – 32% and freight traffic – 24%. The investments into fixed capital reduced to 33% of the level of 1991 [6, p. 140]. At present the GDP volume and its index per capita are greatly polarized in the countries with transition economies (**Table 4.3**)

**Table 4.3**

**GDP indicators (PPP) in the countries with transition economies in 2017**

Country	GDP, billion US dollars	GDP per capita, thousand dollars	Country	GDP, billion dollars	GDP per capita, thousand dollars
China	23,200	16,6	Bulgaria	153.1	21,6
Russia	4,000	27,9	Lithuania	91.2	31,9
Poland	1,100	29,3	Croatia	101.3	24,1
Ukraine	368,8	8,7	Azerbaijan	171.8	17,4
Romania	481.5	24,0	Georgia	40.0	10,6
Vietnam	647.4	6,9	Slovenia	71.1	34,1
Czech Republic	375.7	35,2	Latvia	54.0	27,3
Belarus	178.9	18,6	Estonia	41.6	31,5
Kazakhstan	477.6	26,1	Kyrgyzstan	23.0	3,7
Hungary	289.0	28,9	Moldova	20.1	5,7
Uzbekistan	222.6	7,0	Turkmenistan	103.5	18,7
Slovakia	179.4	32,8	Armenia	28.3	9,1
Tajikistan	28.4	3,1			



Reference: [4, p. 82; 76]

The given figures testify rather low level of GDP index per capita in the countries with transition economies that is a feature of underdevelopment of the economy and low living standard of population. It can be compared the following: Portugal has the lowest GDP index per capita among the developed countries (22.0 thousand dollars) and only Slovenia, Czech Republic, Slovakia and Lithuania leave it behind a little among the countries with transition economies; other countries has lower indices. Thus, even relatively successful post-socialist countries did not haul up to the level of «the poorest» developed country.

According to economic potential, character of reformation and relative level of development, the foreign countries with transition economies can be divided in the following groups:

1. China and Russia as the countries with enormous natural resources and manpower, significant industrial potential and absolute GDP indicators;
2. Poland, Czech Republic, Slovakia, Hungary and Slovenia as the countries in Central Europe which have advanced farther than other ones in the direction of reformation; they have a relatively high GDP level per capita;
3. Estonia, Latvia and Lithuania as the post-Soviet republics which have already entered the EU and have the most positive results of reformation and average level of GDP per capita among the former republics of the USSR;
4. Rumania, Bulgaria, Croatia, Serbia, Bosnia and Herzegovina, Macedonia and Albania as the countries in Southeast Europe having lesser developed economy and low level of GDP per capita;
5. Belarus, Azerbaijan and Kazakhstan as the countries of the CIS having an average economic potential and level of GDP per capita near the average world level;
6. Georgia, Armenia, Uzbekistan, Turkmenistan, Kyrgyzstan, Tajikistan and Moldova as the countries of the CIS having a low level of economic development and low index of GDP per capita;
7. Vietnam and Mongolia as Asian countries having substantial natural resources but very low index of GDP per capita.

#### **4.4. Features of reforming the economy in post-socialist countries**

Widespread deployment of economic reforms began in the former socialist countries in the 1990s, after the collapse of the political and economic system of socialism. The strategic goal of reforming was reaching the level of economic development of the leading countries; the transition to market economic relations was defined as the mechanism for achieving the goal. That is, the market acts not as a goal, but as a mean.

The question of methods and paces of economic reform was one of the main problems of reforming. Two ways appeared: strong break of socialist economic relations and the transition to a market mechanism as soon as possible (so-called

“shock therapy”) – this way was chosen by most countries; a gradual, evolutionary method of formation, preserving strong position of the government administration – in this way the reforms are carried out in China and (with some reservations) in Belarus.

Most emphatically “shock therapy” was applied in Poland, which is one of the first countries in Central Europe moved on the path of deep market reforms. Shock method is accompanied by painful social phenomena, decrease in production, inflation, active increase in prices, rising unemployment, declining of living standards, worsening of state of poor segments of population. These phenomena are characteristic for the first stage of the reform according to this method. Then, after a few years, the situation is leveled and reforms show a positive result. The first countries which went out of the “state of shock” was relatively well-developed group of countries of Central Europe – Poland, Czech Republic, Slovakia, Hungary, Slovenia, while the other countries of Central and Eastern Europe began to emerge from the crisis only at the end of the 90s.

Reforms in Poland, which were carried out according to plan of Finance Minister L. Balcerowicz, included, particularly, the following measures: a sharp decline in inflation due to the termination of funding of the state budget by the Central Bank of the country; introduction of convertibility of the national currency (zloty); liberalization of prices and foreign trade; receiving IMF loans to stabilize the economy; rapid restructuring of the economy through accelerated privatization; adoption of new economic legislation; opening of national economy for foreign investors.

Decisive actions of the Polish government on economic reforming began in 1990, when the prices of 90% of goods and services were “released”, i.e. price liberalization was carried out. Autonomy in financial questions, in the procurement of raw materials and sales was provided to companies. However, these actions have led to inflation and increase of prices; in 1990 the inflation rate rose by 69%. Industrial production declined, unemployment grew. Since 1991 the government introduced more stringent fiscal policy, inflation has declined substantially. The interest rate for a loan was raised up to 50%, and then even to 80%. However, this high rate did not encourage economic initiative of enterprises, so at the end of 1991 it was significantly reduced. The privatization of enterprises began. Foreign capital began to flow into the country.

After completion of the “shock phase” of reforming the Polish economy stabilized and began its dynamic development. Positive growth rates of GDP and industrial production were recorded in 1992, and in 1996 Poland has reached the pre-reform production level.

Reforms in Czechoslovakia (in 1993 it split into the Czech Republic and Slovakia) started in 1990 with the mass privatization of state-owned enterprises. Since the beginning of 1991 the liberalization of prices was implemented. Like in Poland, here the first phase of reforms was accompanied by inflation and a drop in production. However, inflation has not acquired such character as in Poland, prices rose only by 59% in 1991. Later the inflation was curbed; it has not exceeded 10%.

The reforms in Hungary have been more gradual, since they started earlier, as it has been mentioned. So they passed with the least losses. The independence of state-owned enterprises has been provided in full measure in the 1980s; in the 1990s their privatization began. At the beginning of this decade foreign capital quickly went to Hungary; foreign direct investments in Hungary amounted to a half of the volume of all investments from Western countries to Central and Eastern Europe at the end of 1993.

The positive results of the reforms in the countries of Central Europe are: disappearance of deficit of goods in the market; gradual increase of population incomes; restructuring of the economy in the direction of a significant increase in the share of the private sector; increase of foreign trade; growth of labor productivity; gradual growth of GDP.

However, not all problems were solved successfully. High level of unemployment remains in these countries. In 2002 it was 9.8% in the Czech Republic, in Hungary – 5.8%, in Slovakia – 17.2%, in Slovenia – 11%, in Poland – 18.1%. GDP growth rate slowed after 2000. Factors that have contributed to strong economic growth in the 1990s (privatization, foreign capital inflow, etc.) were substantially exhausted.

However, as it is well-known, Poland, Czech Republic, Slovakia, Slovenia, and Estonia, Latvia and Lithuania became the members of the EU in 2004. This meant that they were recognized as market economies, i.e. the transitional stage for these countries has finished.

Reforms were carried out more difficult and the positive effect was taken later in the CIS countries. In practice only since 2000 the rate of economic development began to increase, during the 1990s the production in the former Soviet republics fell almost by a half. Entire industries have been disappearing, especially in the sphere of high technologies. The unemployment appeared and grew. The standard of living of main mass of population has plummeted. Compared to 1990, the GDP of Russia amounted to 50%, Ukraine – 41% in 1999 [4, p.231].

This situation appeared due to a failed, reckless application of “shock Therapy”, for which the conditions were less favorable than in the countries of Central Europe. Before the beginning of the process of reforming the government had a total monopoly in all sectors of production. The private sector has not yet been formed. Price setting was strictly regulated. Economic operators had no experience of working in market conditions.

At first, the denationalization of property and price liberalization were the main directions of reformation. Privatization of state property in the CIS countries was a form of “voucherization”, when every citizen received a voucher (privatization check), i.e. a document for right of possession of part of government property; then he had the right to invest this voucher in any enterprise that was subject to privatization. In fact, a division of government property into smaller pieces took place there. The main form of ownership in the process of decentralization has become a collective one, subsequently the share of the

privatesector increased. State property was not more than 8% in most of the CIS countries in the late 1990s.

Price liberalization carried out without taking into account the real state of the economy led to inflation of unprecedented dimensions. Thus, during the 1992-1996 consumer price index increased in Moldova in 1500 times, in Belarus – 39.6 thousand times, in Ukraine – 42.5 thousand times. Only in the second half of the 1990s, the inflation was slowed by implementation of monetary reforms.

Since 2000 in most countries of the region inflation is moderate, although its level is higher than in developed countries.

The liberalization of foreign trade was also a hasty decision. Foreign goods, which were cheaper and of higher quality, crushed the national production of many sectors of light and food industries, the automotive industry.

Since the second half of the 1990s economic reforms in the CIS countries have received a more systematic and consistent character. Currency reform was completed, legislation on foreign economic activity was ordered, and generally the process of denationalization was approaching the completion. A number of countries have begun agrarian reforms, due to which farmers received land ownership. Gradually the inflow of foreign investment grew, although its rate was inferior to rates in the countries of Central Europe. All this paved the way firstly to stop falling and then to economic growth. Since 2000 GDP growth rate was higher in most CIS countries than in Central Europe.

However, not all problems have been solved. Not all countries even at the beginning of 2008 have reached the level of economy of 1990 (Russia managed to do it only in 2007). Far from optimal the branch structure of the economy remains: in Russia, both in the structure of GDP and in exports fuel and energy complex dominates; in Ukraine – metallurgy, the share of mechanical engineering remains low. The technological restructuring of the economy is being implemented very slowly, not enough funds are assigned for research activity. The standard of living of the main mass of population is inferior to countries of Western European.

Thus, the strategic goal of countries of Eastern Europe at the present stage is to accelerate the pace of economic development and technological restructuring of the industry. In terms of foreign trade it is the revitalization of activity in foreign markets, finding stable niches for their products and services, diversification of foreign trade partners. Strategy for economic integration in the different countries of the CIS is not the same. Ukraine has clearly defined its direction – the European Union, Georgia has leaved CIS in 2008; Russia, Belarus and Kazakhstan stand for deeper integration in the CIS.

It is useful to consider the features of the economic policy of the countries with transition economies taking as the example the largest countries of this group – Russia and China.

#### **4.5. The economy and economic policy of Russian Federation**

The Russian Federation (RF) is the largest by the territory state in the world and takes sixth place by the number of population (after China, India, the USA, Indonesia and Brazil). It disposes of the biggest total reserves of natural resources, especially fuel and energy ones.

Russia is the official successor of the former USSR as in the part of its assets so about its international debts.

After the disintegration of the USSR the main part of potential of the former common economic complex proved to be in Russia. The share of Russia makes over 60% of national income of the former Union, 76% of its territory and more than a half of population. Among other countries formed on the territory of the former USSR the favorable conditions for development of the national economy having the lowest level of dependency on external factors arose in the Russian Federation. These prerequisites are the following:

- availability of practically almost all minerals on its territory;
- availability of diversified industrial potential in all branches of heavy and light industry;
- availability of powerful scientific and technical potential.

Russia entered the third century with a great number of problems which solution in many respects will determine the place of this country in the world economy. First of all the question is about the problems of market reformation on which the fortune of Russia will depend.

The most powerful natural-resource potential and actual leadership among the countries members of the CIS can be related to the distinctive features of the RF. These features cannot affect the perspectives of development and growth of role of this country in the world. At the same time, we should not forget that the common principles of market relations in themselves do not give anybody of participants of international division of labor any privileges and, on the contrary, they put everybody in more or less equal conditions and require the recognition of common «rules of the game».

The peculiarity of initial level of construction of the national economy of Russia consists in the existence of considerable differences in the structure of economic potential of separate regions. So, the main part of manufacturing industry is in the European part of the RF and in Urals, whereas the extractive industries are concentrated in Western and Eastern Siberia. The industries of the maritime economy prevail in the Far East but there is no a clear specialization of industry in mining and manufacturing ones.

Russia occupies the substantial part of territory of Europe and Asia that opens opportunities for it to play an enormous and active part not only on these two continents but also in the whole world. So, Russia occupies an exclusively advantageous geopolitical position. Now, when the question is about wide inclusion of Russia in the common world economy this truth becomes quite intelligible. After all, one should most effectively use an advantageous geopolitical

position of the country, on the one hand, and contribute to the development of the Russian regions, on the other hand.

Speaking about the place of Russia in the world economy, it should be noted that its entrails contain practically all the elements of the Mendeleev table. The possession of significant energy resources gives especial stability to the economy of Russia. So, the share of Russia makes 4.1% in the world oil reserves and 24.3% of natural gas [1, p. 95]. Russia has the longest extent of coastline in the world (almost 38,000 km). It means that the country disposes of considerable area and submarine resources of continental shelf. In particular, the advanced marine reserves of carbohydrates of only the Far North are comparable with analogous reserves of the Persian Gulf zone and Caspian basin.

According to the experts, the potential of Russia has not been claimed in the meantime. And then, the great reserves of further intensification of growth of the economy exist in the country. In 2014 Russia took sixth place in the world in GDP volume (based on PPP) after China, the USA, India, Japan and Germany. The Russian indicator of GDP per capita is 15 times less than the American one. Brazil is near to Russia in GDP volume. So now the question of assuring its competitiveness in the world level is very topical for Russia.

Russia continues to be the leading state in the field of space technologies and possesses a powerful military and industrial complex. The human potential is an important factor of economic one of Russia. According to the foreign experts' confession, the level of education and vocational training of the Russian citizens makes them to be capable of solving any technical and economic problems. The system of training of specialists of all the levels corresponds to the world norms owing to which there is a great demand for them practically in all the developed countries. However, there is no mechanism of efficient use of human and economic potential in the country for the present which is typical for the society having a developed market system.

Russia relates to the countries having a wide trade structure of the economy. It was notable both for developed manufacturing industry and industries of raw materials in the structure of the USSR. As it has been already noted, the highly specialized kinds of industry were mainly concentrated in Russia. In the 1990s the economic structure of the country underwent appreciable changes. In the GDP the share of manufacturing industries, in the first instance, mechanical engineering, reduced but the role of manufacturing industry, especially fuel and energy one, considerably increased.

In 2014 in the GDP structure of Russia, 4.2% were inherent in agriculture, 37.0% in industry and 58.8% in services.

In the 1990s the painful changes took place in *the industry* of Russia. The volumes of output in mechanical engineering and chemical industry dropped and sector of defense industry reduced as a whole. The output decreased in wood-working and wood-pulp and paper industry. In the light industry the production four times reduced under the influence of competition on the side of imported goods and also as a result of slump in purchasing power of population.

The fuel and energy complex of Russia has suffered less from the structural reconstruction that is connected with the favorable conjuncture on the world market of energy carriers. The gas production did not reduce compared to 1990. Russia is the first country in the world not only in gas reserves and production but also in its export. The broad network of gas pipelines unites Russia with all the countries of the CIS, Baltic, CEE and several countries of West Europe. Gas is the main «trump» of Russia in the talks with European partners, especially with ones from the Near Abroad.

Russia takes eighth place in the world in oil reserves. Its share in the world production makes 11.9%. The Russian oil comes to the countries of the CIS, Baltic, Central and East Europe and also to Western Europe in a great number. About 70% of oil of Russia is produced in Western Siberia. “Gazprom”, “Rosneft”, “Lukoil”, “Surgutneftegaz” and “Novatech” are the leading Russian oil and gas companies.

Russia yields only to China in coal reserves but its main part is located in the poorly developed regions in Siberia and in the Far East. 60% of coal is extracted by open pit method. The coal of Russia has a lesser export importance than gas or oil, however, it's some quantity is being still exported, for example, to Japan.

Russia is also one of the largest exporters of electric power. It takes fourth place in the world in its generation after the USA, China and Japan. Over 70% of electric power is produced by thermal power stations, 20% – by hydro power stations and 10% – by nuclear power stations.

In the 2000s the stable growth occurs in the manufacturing industry of the RF which has been interrupted only for a period of world economic crisis in 2008-2009. Since 1999 till 2013 the indicator of manufacturing works in Russia increased by 82%, including food industry – 80%, production of machines and equipment – 74%, production of electric, electronic and optical equipment – 31%, production of means of transport and equipment – 29%, metallurgy – 67% and chemical industry – 62%. Thanks to the growth rate outstripping the average world one, Russia raised its share in the world added value of manufacturing industry from 0.9% in 2002 to 2.1% in 2013. The growth in productivity of labor is also observed. The RF enters the number of 60 countries having the best indicators and surpasses such countries as China, Thailand, Brazil and all countries of the CIS in the common world rating in indicator of value added in per capita but it yields to developed countries in the West.

Metallurgy is the following industry after fuel and energy complex with which the export hopes of Russia are connected. Despite the essential reduction of output of finished rolled products of ferrous metals, Russia continues to be on the fourth place in the world (after China, Japan and the USA). 60%-75% of products of ferrous metallurgy are export-directed. Unlike the ferrous metallurgy, the volumes of output in nonferrous metallurgy reduced less. The aluminum industry became the leading industry. Such plants as Bratskiy and Krasnoyarskiy ones are the largest in the world. Russia takes second place in the world after the USA in production of primary aluminum. Over 80% of produced aluminum is exported

(second place after the USA). The production of nonferrous metals considerably reduced because of strong narrowing of internal market. However, Russia is the largest exporter of nickel. As a whole the Russian metallurgy is oriented toward export. Russia competes, in particular, with Ukraine on the markets of ferrous metals.

The mechanical engineering continues to be the leading branch of manufacturing industry of Russia which growth rate of production made 12% in 2014 [77]. This result is stipulated by prolonged post-crisis renovation of industry, significant investment demand for some types of equipment (at an expense of realization of infrastructural state projects and state support of agriculture) and growth of consumer demand for domestic equipment, electronics and motor cars. After the crisis of 2008-2009 the production of large power-generating plants, railway, agricultural and construction engineering increases at an expense of it at a higher rate.

The chemical industry became one of the first branches of manufacturing sector which approached to the pre-crisis level of output (after the crisis of 2008 - 2009). In 2011 the growth rate of chemical production almost three times reduced but in this, the volumes of production of fertilizers and plastics reached record values. Such a slow growth is explained by slump of external demand for fertilizers. The production of basic chemicals (basic chemistry) is the key branch of chemical industry. Almost three quarters of total output of chemical product is inherent in its share.

The light industry is the most problematic one. In the Soviet era the light industry was concentrated in the Central region of Russia and the great number of fabrics, clothes and shoes were sent from there to other republics. The gap of economic relations with the former republics and foreign competition provoked a sharp reduction in the production of goods in the light industry of Russia. In the first half of the 1990s the output of cloths decreased in 3.8 times, knitted wear – 4 times and shoes – 5 times.

At present the situation in the light industry has become sharp: China, the countries of Central and Southeast Asia as well as the countries of South America are the leaders in that industry. Nearly 80% of goods of light industry being sold in the country are imported ones and only 20% fall to the share of the Russian producers. The «grey» import and small demand for home finished product are its main problem.

The slump in the production did not pass over the *agro-industrial complex (AIC)* of Russia as well, though here the drop was not so deep as one in the industry. In 1994 the production of grain reduced in 1.7 times compared to 1990, sugar beet – 2.7 times, potatoes – 3.5 times and meat – halved. The output of vegetable oil decreased in 1.3 times and sugar – 1.4 times. At present the production of meat increased by 14.2% and fish and fish products – 2.9%, but the production of flour from cereals, vegetable and other cultures reduced by 2.1% and sugar – 16.4%. But despite the decrease in production, Russia continues to be one of the largest food producers in the world. It takes fourth place in output of cereals



and leguminous plants (after China, the USA and India) and it is on the first place in the world in production of barley, oats and rye. It also occupies the first place in output of flax and second place in one of potatoes.

The concentration of production is a peculiarity of the Russian AIC. 80% of commodity poultry, 60% of pork, eggs and vegetables of open soil and 40% of potatoes fall on the integrated farms [1, p. 99].

The livestock farming is the principal branch of agriculture of Russia. 60% of commodity output and 70% of all basic production assets fall on it.

The *service sector* experienced slump in the course of structural reconstruction in the 1990s. In the first half of decade the reduction occurred almost in all the kinds of services such as transport, trade and domestic services. So, in 1994 compared to 1990 the freight traffic by all the means of transport decreased in 1.7 times, including one halved by railway and by air – 3.6 times.

However, since the second half of the 1990s the service sector has begun to revive. The quantity of trade outlets and domestic companies increases and the number of telephone subscribers and users of Internet grows. For the last 15 years the freight traffic by railway, pipeline and air transport increased by 27.6%, 35.5% and 45.5%, correspondingly.

The *development dynamics of the economy* of Russia is characterized by sharp slump of many macroeconomic and microeconomic indicators in the first half of the 1990s, stagnation in the middle of decade which has been interrupted by the crisis in 1998; upsurge since 1999 and stably high rate at the beginning of new century. After the world crisis of 2008-2009 the positive dynamics has been observed since 2010, though the GDP growth rates are not so great as to approach to the level of developed countries (**Table 4.4**).

**Table 4.4**

**Dynamics of GDP and unemployment in Russia (% to the previous year)**

Indicators	Average annual			2008	2009	2010	2014	2015	2016	2017
	1993-1997	1998-2002	2003-2007							
<b>GDP increase</b>	-5.5	4.2	7.8	5.2	-7.8	4.4	0.74	-2.8	-0.2	1.5
<b>Unemployment</b>	8.3	10.5	7.5	6.4	8.4	7.5	5.2	5.6	5.4	5.2

Reference: [4, p. 100; 78]

Among the factors contributing to the development of the economy of Russia its reformation and also stable positive rest of foreign trade balance achieved at an expense of export of energy carriers should be noted. But since 2013 the GDP growth rate begins to drop. The low investment demand stipulated by grave structural problems in the economy of the RF became the significant reason of slowdown of growth rate; in the late 2014 the sharp deterioration of foreign trade conditions, slump of prices for oil, uncertainty of geopolitical position and economic sanctions aggravated the situation.

In these conditions the government of Russia tries to strengthen the regulating role of the state, in particular, by infusion of great funds from the budget for support of important objects of the national economy.

### ***Economic policy of Russian Federation***

Reforms in Russia were based on the model of “shock therapy”. The most important components of economic policy in the first half of the 1990s were: price liberalization, foreign trade liberalization, and privatization. The reforms were developed under the leadership of Yegor Gaidar, who was a proponent of the monetarist theory of economic regulation. A course on divestment of government property and restriction of government intervention in the economy was laid out, called deregulation.

It was believed that the liberalization of price policy (“letting go for prices”) should improve the economy in the short term. The deal was in fact that prices were set by administrative order and generally did not meet the real values of the goods in a non-market economy that existed in Soviet times. The lack of consistency of supply and demand led to the fact that some products were not in demand “glut”), while others were in deficit. This caused the accumulation of significant material and financial losses and hampered the economy. Proponents of liberalization of prices expected that some products had to be more expensive, others - had to be cheaper; thus, it was hoped, the structural balance in the economy had to be established. But the reality did not live up to these expectations. The Russian economy was not ready for such a “readjustment”. Prices of almost all goods and services increased repeatedly in the absence of state regulation.

The researchers traced several stages of evolution of the economic policy of the Russian government in the reform process. The first phase lasted from 1992 to 1995. The main objectives of the economic policy during this period were: liberalization of the economy (prices, economic relations, foreign economic relations); macroeconomic stabilization, reduction of inflation; privatization.

The currency reform was carried out in 1992; impaired banknotes were replaced by new ones, the rate of which was fixed in relation to foreign currencies, the ruble was freely convertible in currency markets. Banking system based on the joint-stock commercial banks headed by the Central Bank of the Russian Federation was created. The stock market has been formed in the country. Receipts of foreign investments into Russia grew gradually, especially in 1995. However, capital outflow abroad from Russia was provided at the same time, which exceeded FDI inflows. Capital account had a negative balance in the structure of balance of payments in Russia during the 1990s.

The first half of the 1990s was characterized by deep economic recession in Russia. Misguided a policy of “non-interference” of the state into economic processes was one of its main causes. Disadvantages of this policy became apparent in mid-90s. However, certain goals, set by the developers of the strategy, were implemented in the first phase of reform. Price liberalization was completed; privatization was carried out, resulting in fact that 70% of the GDP, was produced in the private sector; inflation was halted. The main positive result of the mid-90s was the restoration of the system of state economic regulation; this meant the end of the policy of “deregulation” and the beginning of a new stage of reform.

The second stage of reforms took place from 1996 to 1998. Its objectives were defined in program “Structural adjustment and economic growth in 1997-2000”. The provision on strengthening the role of state in economy was the fundamentally important point of this program. The liberal theories of development gave way to neo-Keynesianism at this stage. The new policy brought positive results. The fall of the economy stopped and GDP showed an increase in 1997 for the first time since the beginning of reform. However, the crisis occurred in 1998, it was largely provoked by external factors; it threw the Russian economy back again for a while.

The third stage began from autumn in 1998 and was completed in late 1999. The objectives of this period were formed by the decision of the State Duma “On the main directions of socio-economic development of the Russian Federation”. The need to strengthen the regulatory role of the state in economy was the leading thesis of this document.

The main objectives of economic policy on this phase were: recovery and development of production, preservation and activation of scientific and technical potential, improvement in the pricing of natural, including commodity monopolies, improvement of public finances and the normalization of monetary circulation; the concentration of resources for priority sectors; strengthening of state order’s role and purchase of food for state needs, improvement of social policy effectiveness, protection of owner’s rights, and provision of other legal conditions for the efficient functioning of the market economy, the protection of national interests in foreign economic and in foreign policy spheres.

This period is characterized by the recognition of “dirigisme” as a priority in the economic policy of the state. State functions were formulated as follows: adjustment of the negative manifestations of the market; forecasting of development of market processes; purposefully and systematically creation of conditions and incentives for the development of strategically important areas for the state and society; provision of reliable protection of citizens against excessive social expenditures of reforms.

The policy of this stage was justified. Since 1999, Russia's economy recovery began, which continued at the beginning of the new decade. And only the global crisis of 2008-2009 interrupted this favorable trend. Some changes in the economic policy of the government were on the fourth stage, which started in 2000. Since the market mechanism had already earned generally, the government focused its efforts primarily on macroeconomic regulation. The information that the government's efforts will be concentrated on ensuring for equal conditions of competition, protection of property rights, the abolition of excessive administrative barriers to business and investment, increase of financial transparency of businesses and organizations was noted in the “Action Plan of the government of the Russian Federation in the field of social policy and modernization of the economy for 2000-2001”.

Customs reform was carried out in 2001, the number of items, subjected to the customs taxation of imports decreased in the amount of 5%; the number of

positions that were taxed with high rate (over 20%) increased. Taxation of some important exported products was introduced, primarily of oil and gas. Last action significantly fills the state budget of Russia; thus, protectionist tendencies were strengthened in external economic policy.

In the future, the government's strategy was formulated in the “Program of Socioeconomic Development of the Russian Federation for the medium term (2002-2004)”. It included modernization of the economy at a certain reduction of state intervention in economic activity and further liberalization of markets.

The creation of a favorable investment and business climate was determined as the basic direction of economic modernization. Such measures were proposed for this purpose: the protection of property rights and improvement of corporate governance; the development of the institution of bankruptcy and protection of creditors' rights; alignment of conditions of competition and an effective antimonopoly policy; de-bureaucratization of the economy; improving the efficiency of state property management; development of financial infrastructure.

Budget becomes in the order and negative balance of payments decreases in Russia during the last 15 years. Country gradually decreases its external debt, stops to borrow money from the International Monetary Fund. These measures bring a certain effect. The pace of economic growth is stable with the beginning of the new decade.

The Russian government has a policy of centralizing in management of country since 2004. This is reflected in the appointment of governors by the president, in more careful oversight of oligarchic structures and others. There is the reason to believe that the government will return to the basics of Keynesianis after a short period of liberalization (the fourth stage).

Shaping the economic policy, President Putin justified the thesis about the necessity of GDP doubling in 10 years. Structural renewal of the economy is highlighted; development of the concept for accelerated growth is the first task. Two models - dirigisme and institutional one dominate in the discussions about the methods of such concept.

The government prefers the institutional model in recent years. The reform of natural monopolies and budget legislation, pension reform, etc. are carried out according to this model. The government refused the definition of clear branch priorities. This failure is linked to the peculiarities of the present stage of technological development, when it is extremely difficult to determine promising sectors in practice and thus to provide them with the financial resources in administrative order. At the same time an important task is the diversification of production and exports, accelerated development of sectors of the “new economy”.

In 2005, Russian president announced the identification of priority national projects for the immediate future. Health; education; affordable housing; the development of agriculture were recognized as the most urgent among them.

Thus, the emphasis is on the solution of social problems, first of all, that create the necessary conditions for the development of human capital. The

economic model, based on knowledge and intellectual potential, is going to be formed in Russia.

In 2007 "The concept of long-term socio-economic development of the Russian Federation" was adopted, until 2020. The concept is based on three fundamental factors.

The first factor is strengthening of global competition that would cover not only the markets of goods, but also the capital market, technology and labor ones. Russia's dependence on fuel and energy component in the structure of production and exports should be eliminated, and the economy must be diversified.

The second factor is the increased role of human capital in the socioeconomic development. It is necessary to dramatically increase labor productivity.

The third factor is the increase in capacity for the production of products characterized by a high technological level.

The concept defines the transformation of Russia into one of the global leaders of the world economy, its output to the level of socio-economic development of highly industrialized countries as strategic goals. It is predicted that Russia must enter the top five countries in the world economic power by 2020 [79].

The crisis that began in 2008 hit Russian economy hard. A sharp drop in energy prices in the global markets highlighted imbalance of Russian economic development. Production of most sectors significantly dropped, especially in industry. The government was forced to abandon a number of ambitious projects in such circumstances. However, as the Russian President and the Prime Minister noted, the social costs should be kept in the planned volumes.

Economic reforms started to be implemented sequentially, comprehensively and consistently in recent years. Russia is ahead of other CIS countries in the depth of economic reforms.

### *Features of business ethics*

Russian entrepreneurship has deep roots in its development. In the XIX century, and in the early twentieth century, the word of the Russian businessman had a strong moral strength and creditworthiness, especially among the merchants of the 1st Guild. However, the business ethics of businessmen of modern Russia, in fact, is in the stage of formation, since in the Soviet times all actions of agents of economic activity were strictly regulated by centralized power, and the boundaries of the initiative at the micro level were very narrow. Russia's entrance into the open world market space was accompanied by the effect of "psychological shock" for a large number of Russian businessmen. A similar situation is typical for other post-Soviet countries.

The liberalization of economic relations, particularly in the foreign trade sphere, was perceived by many entrepreneurs as a signal of permissiveness. Criminal structures intensified their activity.

In 2000, with the assistance of UNESCO, the Chamber of Commerce and Industry of the Russian Federation held a thematic conference "Business and

culture of peace: the reputation of domestic entrepreneurship and the image of Russia". In the report of the president of this organization S. Smirnov it was noted that among Russian businessmen it is not always accepted to be guided by the ethical standards of business, and only a small part of business people has the reputation of honest and reliable partners.

In the practice of many entrepreneurs of that time, a low level of business culture prevailed, so often Russian businessmen were perceived abroad as scammers, dishonest, unscrupulous "new Russians" who were deceiving their partners.

According to S. Smirnov, and with him agrees the director of the Moscow Bureau of UNESCO V. Reuter, this result is explained by the process of primary accumulation of capital, within the framework of which a number of illegal and even criminal methods were used that also was characteristic of the initial stages of capitalist development in the present industrialized countries (for example, in the USA). This had a devastating effect on the many entrepreneurs and distorted the notion of a business culture. In ordinary business practice, Russian business was often not necessarily compliant with agreements, there was unfair competition. The corruption among officials also contributed to the formation of a negative attitude towards Russian businessmen.

Lately, the government of the Russian Federation has implemented a number of measures to overcome negative trends in the development of large, medium and small businesses and the fight against corruption. Over time, honest businessmen came to the place of dishonest ones. They could earn money through the power of their minds, knowledge of the laws and principles of the generally recognized world business ethics.

Regarding the national characteristics of Russian business people, it should be noted that they tend to start several deals at once, sometimes without completing one of the stages, go on to the next stage, and later return to the previous one. In this they are similar to representatives of Mediterranean cultures. A characteristic feature of a Russians, which has been noticed for a long time, is the unjustifiably long time spent on "swinging", and at the end - hard work in an emergency mode. The Russians themselves like the saying: "a Russian man harnesses the horse slowly but drives fast". The ultimate goal, as a rule, is successfully achieved, but this manner of working surprises foreigners and they do not like them, especially to representatives of mono-active cultures. A negative feature of Russian businessmen is the frequent reluctance to adhere to the exact term of the agreement, and neglect of "trifles".

Russians are predominantly extroverts, appreciate communication in informal settings and friendly conversations, try to show themselves hospitable hosts if negotiations go on their territory. Strong point is the perseverance and will to achieve goals, which are especially manifested in extreme situations.

#### **4.6. The economy and economic policy of the People's Republic of China**

China is the largest country in the world in number of population and the third one in territory. In the last quarter of the past century China showed an extremely high development rate and approached swiftly to the most powerful countries in economic respects. Its geopolitical role increased on the international scene. In 2014 China came to the first place (17617 billion dollars) in GDP size (based on PPP) having left behind the USA by 198 billion dollars. The share of China in the gross world product makes 14.5%. In 2014 China took fifth place (11.33%) after Kazakhstan (3.8%), the USA (2.93%), India (2.93%) and Russia (2.37%) in growth rate of industrial production [80].

China takes first place in the world in coal production, production of ferrous metals, cement, bicycles, grain (including rice), cotton, meat, fertilizers, cotton fabrics, clothes, shoes, heads of pigs and fish. It occupies the second place in output of electric power, chemical fibers and wool fabrics. Its third place is in production of silk cloths, soy-bean and freight turnover of railway transport. China is also among the leaders in production of metal-cutting machine tools, equipment for mining and metallurgy industry, locomotives and vans, sugar and tea.

At the same time China is characterized by very low economic indicators per capita. In 2014 the rate of GDP per capita made 12900 dollars (it is the 89th position), output of GDP per person employed (based on PPP) – 10200 dollars (the USA – 83300 dollars, Japan – 57400 dollars and Russia – 19500 dollars) that is an evidence of low productivity of labor.

8% of population or 167 million pers. live below the poverty line in China. Over a half of population has income per capita of no more than 2 dollars a day.

The interest to China on the part of businessmen from the leading countries is activated by great potential capacity of the Chinese market; according to the experts, in the middle of the 1990s it made 300 billion dollars. By today China attracts the great number of direct foreign investments. In 2014 the volume of FDI involved into the Chinese economy made 119.6 billion dollars and outflow of FDI from China was 101.0 billion dollars [81; 82]

China is a strong country in military respects, has nuclear arms and possesses the powerful military and industrial complex. In this, it has not joined any military bloc and carries on quite independent external and internal policy. The political authority of China is rather high and goes on growing. Since the 1960s the communist party and government of China try to form and strengthen an image of state as a leader of «the third world», i. e. developing countries. However, it is clear that China does not relate to this group of countries neither in socio-economic respects (it is the country having the transitional economy), nor in political ones (because it is the country having the communist regime). Nevertheless, according to the classification of some international organizations, China relates to this group; the criterion here is the low index of GDP per capita.

In the 1960s-1980s the authority of China among the developing countries was based on its independency and spacing from two «superpowers» in the world. The significant number of the ethnic Chinese, so-called «huaqiao», living here also contributes to the expansion of political influence of China on the region of Southeast Asia.

The government of the PRC officially considers Taiwan its own territory; it is nominally recognized by almost all states (including the USA) and international organizations. In fact, Taiwan is an independent state with its government and peculiarities of socio-economic structure.

The administrative region Siangan (Hong Kong) has a special status within China. Before 1997 it was the British colony after what it was officially passed under the Chinese jurisdiction. A high degree of self-government is given to Siangan: right to carry out administrative control, legislative and legal activity and independent immigration and tax policy. Siangan is guaranteed the invariability of its socio-economic order by 2047. It has an important value because the economy of Siangan is developing on purely capitalist bases, unlike the socialist economy of China. The preservation of special status of Siangan is advantageous to the Chinese government because of extraordinary deepening this little enclave into the world market.

China relates to the number of countries with the diversified economy. The leading role belongs to the industry which share in the GDP makes 46.8%, share of agriculture – 10.1% and services – 43.1%.

The traditional «old» industries such as textile, coal and metallurgy are united with new ones such as petroleum refining, chemistry, aircraft, space industries and electronic machine building in the industry of China. Over 60% of all the industrial workers are in the heavy industry, a half of industrial production is made here.

The basis of energy is coal, reserves of which make China fully self-sufficient. China takes first place in the world in coal production, 80% of coal is extracted by mining method. The greater part of the coal is consumed by industry, especially light and food industries. It means that coal is mainly burned in the factory furnaces but not at power plants. The dominance of coal in fuel and energy complex provokes a strong environmental contamination. Lately, the oil production is growing.

China came to the first place in the world in production of electric power (5397 billion kWh were generated in 2013). The steam-power stations generate 80% of electric power, hydro power stations – 19% and nuclear power stations – 1%. They are not yet enough for needs of the economy, in spite of high absolute volumes of output of electric power.

The ferrous metallurgy of China is provided for all the kinds of its own raw materials. China takes the first place in the world in production of ferrous metals. However, the ordinary sorts of metal are produced; high-quality steel and finished rolled alloying metals are imported in a great number. The technical level of metallurgical works in China is not high for the time being.



The nonferrous metallurgy is developing at a high rate but the country is hard pressed for aluminum, copper, lead and zinc so they are imported. More than a half of produced lead, mercury, antimony and tungsten is exported.

The mechanical engineering is characterized by the great number of enterprises among which very small and semi cottage plants represent the significant part. As a whole, China provides itself with the main product of mechanical engineering. However, the quality level in the machine-tool construction, electrical engineering, instrument-making and aircraft building remains low. Many types of this machinery are imported. It also concerns some types of equipment. Lately, the production of electronic engineering is fast growing, both industrial and domestic ones. China takes first place in the world in production of radio and television sets. The great number of electronic computers and calculators is produced. China is among the leading countries in production of washing machines and refrigerators. 820 million users of telephone communications number in China, including 547 million persons who have cell phones; 253 million persons use Internet.

The production of fertilizers in which the first place in the world belongs to China is marked in the chemical industry; manufacture of nitrogen fertilizers (about 80%) prevails in it. The product of organic chemistry (polymers etc.) does not cover the needs of industry in China. Nevertheless, the country occupies the fourth place in the world in production of plastics and synthetic resins as well as it is one of the largest world producers of pharmaceutical products.

The light industry is oriented both toward the wide internal market and external one. It is well provided with its own raw materials and cheap manpower. The cotton branch occupies the dominant position in the textile industry. China produces cotton fabrics more than India, the USA and Japan taken together. China takes third place in the world in output of silk cloths from natural and synthetic raw materials and first place in making of real silk. China is the world exporter of cheap and handy clothes and shoes.

The rice mills and flour-grinding industries which are the largest ones in the world in volume of output play the leading part in food industry of China. China came to the first place in production of meat having left the USA behind. It passed ahead of Japan in taking of fish and also occupied the first place in the world.

The significant attention is paid to the involving of achievements of scientific and technical progress in the economy, particularly, into the industry. The expenses for R & D make 1.4% of the GDP (in this indicator China is on the second place in the world after the USA) [2, p. 112].

The agriculture of China, as it has been already noted, has no equals today in the world in volume of industrial production. The farming on which more than a half of all production falls in this industry continues to be the leading one. The growing of cereals prevails in the farming: 35% of cost of products is inherent to rice, 19% to wheat and 20% to corn. China takes first place in the world in the production of rice and wheat and second one in the production of corn (after the USA).

China produces the largest volume of cotton in the world. It is one of the largest producers of soy-bean (the third place in the world) and pea -nuts. The beet and cane are cultivated from sugar cultures. China takes the first place in the world in production of tobacco and the second one in production of tea (after India).

As for livestock farming, the PRC took the great lead over other countries in heads of pigs and entered the leading group in number of cattle, sheep and goats. However, the productivity of cattle breeding is not high.

The structure of China's agricultural sector includes industry, trade, transport, services and others. For example, in 1995 the specific gravity of non-agricultural branches in it reached 80%. The so-called «rural industry» of China is one of the main suppliers of not only consumer goods but also energy carriers, parts and assemblies for manufacturing industry, chemical fertilizers and pesticides for agriculture. The share of «rural industry» makes over 50% in the production of silk goods and knitted fabrics, 95% – output of brick, tile and agricultural implements, 35% – sewing of leather shoes and 40% – production of cement and coal.

It is clear that there is an aggravation of contradictions between changed structure of social demand for agricultural products and existing industrial one of agriculture. In other words, the tendency of reduction in consumption of low-grade sorts of grain and increase in demand for high-quality rice and wheat and product of livestock farming as well. The problem of improvement of industrial structure of agriculture in concordance with the real market demand becomes actual.

***The service sector***, in particular, business services, play a growing part in the conditions of reformation of the economy of China. The volume of adequate services is growing and new trade services and markets are appearing in the everyday life of citizens of China at an expense of private and cooperative organizations. So, the volume of retail turnover has grown in more than 9 times for 1973-1997.

The economic reforms also touched the financial sector because it as a component of the pre-reform economy of China fell behind the factors of international standards due to the underdevelopment of financial and credit mechanisms. As a result, the raising of volumes of credit and monetary operations, its filling by qualitatively new instruments and mechanisms, operations and services which have not been used earlier took place.

As a result, the stock market with two main exchanges in Shanghai and Shenzhen has occupied a notable place in the economy of China during the 1990s. At present the trust investment companies and investment funds are functioning and the state specialized banks have appeared that are being transformed into the commercial ones. The new kinds of credit and monetary operations, in particular, securities market and market of short-term and inter branch lending and trust operations are developing and credit cards are widely used when calculating. The securities market lost its peripheral importance and changed into the center of economic processes in the economy.

The financial status of China became strong enough. It disposes of a half of the world currency reserves. For 2012 China has got revenue of 2 trillion dollars and, at the same time, the state expenditure also increased. In 2014 China considerably reduced a rate of accumulation of dollars in its reserves and reduced the rate of growth of reserves, significantly increasing investments worldwide. The Central Bank of the PRC informed about the plans of full refusal from the dollar in the international payments. The PRC and other countries announced the establishment of Development Bank as an alternative of IMB in autumn of 2014.

The banking system of the PRC mainly finances the state sector. In recent years a low process of denationalization of banking sector has been going on: the State Council of the PRC approved the program for founding 5 completely private commercial banks in the early 2014 (in Shanghai, Tianjin and in the provinces Zhejiang and Guangdong).

*The dynamics of economic development* of China is marked by positive macroeconomic indices as a whole (**Table 4.5**). But they not always reflect the qualitative state of the economy. So, even in the years of economic dislocation during the times of the «big jump» the dynamics of industrial development was positive, however, the similar tendency formed at an expense of output growth of products practically unusable such as metals and machines.

**Table 4.5**

**GDP growth rate of China, %**

Average Annual										
Indicator	1981-1985	1986-1990	1991-1995	1996-2000	2001-2005	2006-2010	2014	2015	2016	2017
<b>GDP Increase</b>	13.2	9.2	15.1	9.8	8.8	11.2	7.3	6.9	6.7	6.9
<b>Level of Unemployment</b>	2.6	2.2	2.6	3.1	3.2	4.2	4.09	4.05	4.02	3.9

Reference: [4, p. 114; 83]

As we see, the highest growth rates in the economy of China were achieved in the first half of the 1990s. In the second half of this decade the rate was slowed down that was, in particular, the consequence of deterrence of economic growth in order to prevent «overheating of the economy».

The world crisis in 2008-2009 has not practically touched upon the economy of China and its rates remain rather high. The great number of exported goods returned to the internal market, which capacity had been permanently broadening. The successful regulatory policy of government contributes to this fact.

***Economic policy of the People's Republic of China***

Modern economic policies of China originated since 1978, when course for economic reform, which is based on the restructuring of property relations and the formation of a socialist market, was proclaimed. Reform must be long term and implemented in three phases:

- by 2000 it was planned to increase the gross output of industry and agriculture by 4 times to achieve middle-class life of the people;

- up to 2021 - to raise China to the level of moderately developed countries;
- up to 2049 - to turn China into a highly developed state.

The main objective of the strategy is the building of communism in the country after a hundred years after the victory of the socialist revolution in China (1949).

Transformations started with the reform of agrarian relations in the 1980s. Communes were liquidated, land (0.4 hectares per farm) were transferred to the peasants for long term rent on the rights of family contract. Rights to be engaged in subsidiary farming and handicrafts, to sell extra products on the markets were given to the peasants. However, the land was in state ownership, it did not become the object of sale. The production teams, acting in the communes, were disbanded and the transition of the peasants to sole management was completed in 1983; 94% of all the peasant's households worked according to the form family contract at the end of that year.

"The law about the volost and village enterprises" was adopted in 1997. It established the rights of rural industrial entrepreneurs. However, the law provided necessity of rational planning, management and control of the state in relation to these companies.

Private enterprises, attracting hired labor, were created afterwards. Mutual enterprises, especially large, started to develop rapidly in the mid-1990s; their commercial interests went beyond the villages and volosts. About 25% of GDP, 50% of the added value of industrial output, 30% of foreign exchange earnings from exports, 30% of farmers' incomes fell on all those companies in 1997 [6, p.238].

Government extended the mechanism of economic transformations on other sectors after getting of first positive results from implemented reform of agrarian relations. Resolution —On the reform of the economic system‖ was adopted in 1984. It included the expansion of economic independence of enterprises, reduction of the scope of directive planning, the transition to trade in means of production. Systems of prices, labor and wages were subjected to reforms. The feasibility of the use of various forms of ownership was officially declared, namely the state, collective and private.

Industrial enterprises got enough broad opportunities for independent activity. They could choose between different forms of ownership, independently solve operational issues (production, supply, sales), carry out HR policy, establish a system of wages and, within certain limits (which were determined by the state) to fix prices for their products independently. Market pricing system was gradually developed.

A feature of China's economic system is a combination of planned control levers (directive planning) with the market ones. The state regulates on a macro level, the market - on the micro level. The principle of distribution according to work (the socialist principle) combines with the principle of distribution according to invested capital (the capitalist principle). This concept is called the model of "socialist market economy".

Attention was paid to the reform of the public sector in the second half of the 1990s. The deal is in the fact that state-owned enterprises increased their volumes of production, often due to non-competitive products, which were unsalable in the markets. As a result, in some areas about half of the state-owned enterprises were unprofitable and could not play the role of social stabilizer. Usually, culprit of such a situation is management staff, who could not (or didn't want) to adapt to the market conditions of management. The profitability of the public sector was constantly declining; share of unprofitable enterprises increased from 27% to 43% in 1990-1995 [8, p.239].

Aggravation of the situation in the real sector of the economy had a negative impact on the state of the banking and credit system. The volume of overdue debts amounted to 25% of all extended loans. This prompted the banks to refuse crediting of state-owned enterprises, which further worsened the situation of the public sector.

The new leadership came to power in China in 2003. It preferred more resolute economic reforms. The strategic objectives of the new economic policy were: support for private ownership and liberalization of foreign economic relations.

If in 1988 the position about private sector was included in the constitution of the country as a complement to the public, the amendment to the Constitution, which contains a provision on the immunity of "lawfully acquired" private property of Chinese citizens, was introduced in March 2004. The permission the private owners and even the oligarchs to join the Communist Party was the important point. Many rich people used this opportunity. It was a sign of the gradual blurring of the socialist system under the nominal administrative leadership of the CPC.

Privatization of unprofitable public enterprises and restructuring of public finance and the banking sector on the principles of variety of forms of ownership of financial institutions are the main problems of modern China's economic strategy [8, p.240].

At the Third Plenary Session of the CPC Central Committee (October 2003), the following landmarks of Strategy in the economic field were defined: reform of the constitution to support pluralism of ownership; strengthening the rule of law and the creation of fair conditions for the start in the economy; development of self-government in the villages.

The main direction is the legalization of pluralism of ownership.

The Chinese government increasingly takes into account the global factor, forming the strategic goals of economic development. An important event was the entry of China into the WTO in November 2001. After that, China immediately intensified economic rapprochement with Japan and South Korea. China tries to become a powerful factor in the development of the international economy in the Asia-Pacific region. The Chinese government actively uses the special status of Hong Kong to achieve this goal. The marked area belongs to China, but has

extremely favorable conditions for trade and other economic transactions with foreigners. More than 18% of China's exports pass through Hong Kong.

At the beginning of the new millennium, China intensified its participation in the Asia-Pacific Economic Cooperation (APEC). The possibility of strengthening contacts within the regional contacts “PSA-3” (Northeast Asia, involving China, Japan and South Korea), the ASEAN + 3 (plus China, Japan, South Korea), Shanghai Cooperation Organization (SCO). Dialogue with the “Group of Eight” was successfully developed.

Economic reforms and balanced government policy promoted the stable development of the economy. China was the only country among the major countries the economy of which was not amazed by the crisis of 2008-2009, and even gave a nice increase in the first half of 2009.

Restrictive fiscal and monetary policy is carried out in China since 2010.

In 2015 main efforts of the Chinese government were focused on the continuation of the liberalization and opening of the individual segments of national economy. These processes, which are aimed at increase in competition and improving the efficiency of Chinese business and state corporations, remain the backbone of China's development. There are some assumptions: gradually to reduce the powers of the state in macroeconomic regulation; to develop and implement scheme of partial privatization of public companies in order to increase their effectiveness; to increase the share of small and medium enterprises in total volume of credits; actively to encourage the export of Chinese capital abroad in the form of FDI.

The rejection of “GDP growth at any price” to equalize the imbalances, which were established in the time of rapid economic growth, was one of the main goals for 2015. Priority was given to the creation of sufficient jobs in the cities [84].

### *Features of business ethics*

Specific features of business ethics of Chinese businessmen were formed under the influence of three factors: ethical norms of Confucianism, communist ideology and world standards of business communication.

Recognition of their involvement in the great Chinese civilization gives entrepreneurs feeling an advantage over representatives of other cultures. The long imperialist aggression towards China has led to the formation of distrust and hostility towards foreigners among the population. Nevertheless, in business communication, Chinese government members and businessmen are able to conceal these feelings. In this they are helped by the principles of Confucian ethics. In accordance with Confucian philosophy, modesty, tolerance, courtesy, respect for elders, sincerity, devotion, good faith, a sense of responsibility, recognition for services are emphasized among the most important values that a person should strive for [20, c. 372].

As the main principle in business relations, Chinese businessmen consider the inadmissibility of "loss of face."

During communication, the Chinese are polite and reserved. The style of negotiating is marked by much less dynamism than the Western style. The negotiation process can last from several days to several months and even more, often breaks, which annoys partners who value their time. The Chinese never make decisions without thoroughly studying all aspects and consequences of their counteragents' proposals and are seeking detailed information on the future agreement. In negotiations with representatives of China, one should keep in mind that decision-making on important issues is carried out collectively. Moreover, this decision must necessarily be agreed with the state-owned foreign trade companies of all levels, starting with the provincial level and ending with the Ministry of Foreign Economic Relations and Trade of the PRC. Naturally, any such solution passes numerous approvals and requires a long time.

In order to improve the level of efficiency of possible negotiations, it is necessary to take these factors into account and try to provide our partner with concrete proposals on prices and payment methods, prospectuses for offered goods, etc.

The delegation participating in the negotiations should be quite representative and include highly qualified specialists, impeccable translators, which will speed up the negotiations and get the desired result.

It should be well remembered that business relations are not limited to the scope of office rooms. So, for example Chinese businessmen, using the dignity of national cuisine, prefer to solve certain issues in an informal atmosphere. Invitation to such events is carried out in advance orally during negotiations or by phone.

The guest should arrive without delay. At the beginning of dinner, the owner proclaims a toast, and after a while it is necessary to be ready to say a toast in response. It should be borne in mind that many Chinese families do not accept alcohol at all, so abuse is not welcomed, despite the number of toasts .

During the greeting, as a rule, it is accepted to exchange a handshake. And first of all they shake hands with the most senior person. In the course of business acquaintance, you must give your business card to the partner. It is necessary to remember, that the degree of trust increases if the details on one of the sides are printed in Chinese.

During communication, one should not be embarrassed if a partner from China asks a personal question. For example, you may be asked about age, marital status, about children, grandchildren, etc. Questions of this nature can be interpreted by the Chinese partner as being entirely within the framework of traditional manifestations of sincere interest to you. In general, it should be borne in mind that Chinese businessmen attach special importance to the establishment of friendly, informal relations with foreign partners.

Entrepreneurs who interact with Chinese businessmen or intend to establish business relationships with them should be aware that personal gifts are often not welcomed. Therefore, foreigners should be as cautious and prudent as possible if there is a desire to give something to hospitable hosts. If the Chinese partner is embarrassed, you should not insist that he accept the gift. It is more desirable for

Chinese that you demonstrate friendly feelings and interest in further cooperation with representatives of business circles in China [21, c. 173–175].

#### **4.7. The economy and economic policy of the Republic of Moldova**

The economy of Moldova, which became an independent state in 1991, is an *open transitive economy of an industrial-agrarian type*. The population of the country is 3,551 million people (2017). Able-bodied population is 1.259 million, of them 1.503 million (or about 46%) account for the urban population [85].

**Geographic location and natural resources.** The total territory of the country is 33, 851 square km. Moldova is located in Eastern Europe, having no access to the sea, and bordering in the west with Romania and with Ukraine in the North, East and South. Most of the country is located between the Dniester and Prut rivers. Moldova has access to the Danube on a small stretch of the border. The main river running through the country from the north to the south is the Dniester.

**The main natural wealth** of the country is its soil and climatic resources. Moldova has mainly a flat relief, which is an alternation of plains and hills, a temperate continental climate with hot summers, mild winters, and fertile black earth soils. The country does not practically have mineral resources. For example, thermal power plants operate exclusively on imported energy carriers (oil, oil products and coal). Of the minerals there are mainly building materials (lime stones, clays, cement raw materials).

The main *macroeconomic indicators* of the Republic of Moldova are following. The *nominal* size of Moldova's GDP in 2017 was \$ 8.845 billion, (about 0.01 world economy), and per capita - \$ 2,290 [<https://tradingeconomics.com/moldova/gdp>; <http://www.moldova.org/ru/ВВП-молдовы>]. The size of GDP *at purchasing power parity* in 2017 was \$ 20.226 billion, per capita - \$ 5.698 (143rd place in the world) [86]. The Human Development Index (NDI) is 0.691 (107th in the world) [87].

**Economic reforms.** After gaining independence, the Republic of Moldova has made significant progress in reforming the planned economy towards creating market institutions. In 1993, a convertible national currency, the Moldovan leu, was introduced, which provided the conditions for an independent monetary policy and tax reform, and a two-tiered banking system was created - the National Bank and commercial banks. Privatization, liberalization of foreign trade, radical reform in agriculture, as a result of which farmers became owners of the land, were carried out. An important part of the reforms was the release of prices, the cessation of preferential lending to state enterprises, etc. Amnesty and legalization of capital were implemented, a zero rate of tax on reinvested profits was introduced.

For Moldova is characteristic a fairly liberal currency regime that stimulates the growth of foreign investment. So, it is allowed to exchange cash foreign currency for Moldovan leu and, conversely, without any restrictions; the receipt and storage of the profit formed as a result of export on the foreign currency accounts of exporters is allowed; there is no mandatory sale of foreign currency to



the state; for foreign investors is guaranteed the right to repatriate the profits from investments, as well as the investments themselves.

There are, in addition, a number of other benefits that stimulate the investment flow:

- the material values imported as a property contribution when forming or increasing the authorized capital of the enterprise are exempt from customs duties;
- an enterprise with foreign investment is exempted from payment of customs duties on goods (raw materials and semi-finished products) imported for the production of products for export;
- enterprises with foreign investments in which the share of foreign investments exceeds the equivalent of 250 thousand US dollars, and more than 50% of their gross income is generated from the sale of products (works, services) of their own production, have the right for reduction by 50% the income tax for five years;
- enterprises in the authorized capital of which the share of foreign investments exceeds the amount equivalent to US \$ 1 million is exempt from income tax for three years.

In addition, Moldovan legislation does not impose restrictions on the establishment of banks with foreign capital or branches of foreign banks on the territory of Moldova. Relative stability of the national currency and low inflation are also a positive factor for attracting foreign investment.

As one of the main directions of the market reform of the Moldovan economy has become *the liberalization of foreign trade*. Customs duties vary from 0% to 15%.

As a result of the accomplished reforms, according to the World Bank, Moldova ranks 44th in the world in terms of ease of doing business [88]. In accordance with the Economic Freedom Index, Moldova ranks 105th in the world [89].

For a long time, the development of the Moldovan economy was experiencing certain difficulties related to political uncertainty, corruption, weak governance and bureaucratic obstacles, a strong dependence on energy imports, and agricultural exports, external economic and political pressure, and unresolved territorial problem. However, in recent years, after periods of recession and instability, the economy of Moldova has regained its stability and returned on the trajectory of growth, stable development. So, in 2016 GDP grew by 4.3%, and in 2017 - by 4.5%, amounting to 150 billion 369 million lei (\$ 9.08 billion) [85].

The Republic of Moldova is *an industrial and agrarian* country. In 2017, the share of industry was 21% of GDP, agriculture - 14.2%, 64.8% - services (including transport and communication services, trade, construction).

The main products of *mechanical engineering* are electrical equipment, machines, electric motors, pumps, foundry equipment, refrigerators and refrigerators, appliances, agricultural machinery, washing machines. The most important result of the implementation of the program "The Strategy of the Republic of Moldova on attracting foreign investments and promoting exports for

the period 2006-2015" became the development in the field of *information and communication technologies*. Their share in GDP in 2015 reached about 8%. The development of the electronic communications infrastructure has a positive impact on ICT entrepreneurship. In 2015, according to the Global Report on the Development of the Information Society, the Republic of Moldova ranked 66th among 167 countries. However, the part of the ICT that creates the greatest added value - the production of a *software product* or *electronic components* - accounts yet for a small part of GDP (2% in 2015). In general, the ICT sector is a fast-growing sector of the Moldovan economy, the development of which is connected with the investments of foreign companies. The *chemical industry* produces plastics, synthetic fibers, paints and varnishes; *light industry* - mainly fabric, knitwear, shoes, clothes, carpets. The production of *building materials* from local raw materials (cement, concrete) is developing.

The volumes of the main spheres of industrial production of Moldova in 2016 are reflected in the **Table 4.6**.

Table **Table 4.6**.

**Volumes of production in the main spheres of industry  
(2016, million lei, current prices)**

Type of product	Volume of production
Metallurgical industry	82,1
Manufacture of metal structures and parts	1 331,6
Manufacture of machinery and equipment	606,6
Manufacture of electrical equipment	1 150,1
Manufacture of computers, electronic and optical products	486,1
Manufacture of chemicals and chemical products	1 596,0
Manufacture of pharmaceutical products	595,1
Manufacture of rubber and plastic products	1 763,4
Manufacture of building materials	3 399,5
Wood processing and production of wood products products	362,7
Manufacture of leather and fur and articles thereof	503,2
Manufacture of textiles	2 343,0
Manufacture of clothes	2 257,2

Reference: [90]

**Agriculture.** Of 3,384.6 thousand hectares of land - 2,028.3 thousand hectares - agricultural land. The latter are distributed as follows: 73.1% - arable land .... 11.5% - perennial plants, 13.8% - hayfields and pastures, 1.6% - fallow land. The forest occupies 451 thousand hectares. 75% of the country's territory is black-earth soil. A mild climate and fertile soils allow the cultivation of a large number of crops. The leading role belongs to plant growing, and in the structure of plant growing - to the growing of *grain, viticulture, gardening, vegetable growing*. An important commercial culture is tobacco. Sugar beet, sunflower, ether-oil crops

are grown everywhere. Agriculture in the southern regions requires constant irrigation. *Livestock* is represented by pig breeding, meat and dairy cattle breeding, sheep breeding, poultry farming, fishing.

*The volume of agricultural products* in 2016 amounted to 30 362 million lei, including plant growing - 21.098 million lei and livestock production - 8 768 million lei. The structure of agricultural products by farm categories (as a percentage of total output) was following: agricultural enterprises - 43.8%, peasant (farmer) farms - 17.8%, households - 38.4%. The volumes of crop production are presented in **Table 4.7**.

**Table 4.7.**

**Gross crop yield in 2016**

<b>Agricultural crop</b>	<b>Volume of production (thousand tons)</b>
Cereals (wheat and corn) and legumes	2993,2
Sunflower	677,1
Soybean	42,1
Colza	43,2
Sugar beet	664,8
Tobacco	0,9
Potatoes	214,0
Melons	66,5
Fodder root crops	21,0
Corn for silage and green fodder	112,8
Fruits and berries	595,7
Grapes	615,7

Reference: [90]

**Table 4.8.**

**Production of the main types of livestock products in 2016**

<b>Type of product</b>	<b>Volume of production</b>
Meat of livestock and poultry (live weight)	184,3 thousand tons
Milk	504,3 thousand tons
Eggs	673,5 million pcs.
Wool	1 709,5 tons

Reference: [90]

On the basis of intensive agricultural production in Moldova, a powerful processing complex is developed, represented by winemaking, flour-grinding, bakery, tobacco-fermentation, perfume and cosmetics industries. The volume of food production in 2016 amounted to 14 664.4 million lei, in that the production of wine from grapes - 2 764.5 million lei, the production of tobacco products 221.8 million lei [90].

**Energy production.** The country's energy resources are provided mainly by thermal power plants operating on imported energy carriers. Electricity production

in 2015 was 5.741 billion. quarterly [91]. In the conditions of insufficient natural energy resources, Moldova imports the bulk of energy carriers from Russia, Ukraine and Romania. In particular, the import of natural gas in 2016 amounted to 2.72 billion cubic meters, the import of oil products in 2017 - 809.3 thousand tons, of gasoline - 168 thousand tons, of liquefied gas - 72.4 thousand tons, of diesel fuel 568.9 thousand tons, of coal - about 250 thousand tons [91; 92].

The most important task for the country is *to diversify* energy supplies and develop *alternative* sources of renewable energy. Moldova and Romania put into operation the 43-kilometer Ungheni-Iasi gas pipeline, which allows importing a certain amount of gas from Romania. The construction of the Ungheni-Chisinau gas pipeline is planned. Moldova aims to connect to the European energy network by 2022.

In order to improve the energy situation in the country, the government is implementing measures to use *alternative renewable* energy sources and improve energy efficiency. The capacity for the use of renewable energy is gradually increasing. In 2016, the capacity of various renewable energy technologies (totaling 7430 kW) was distributed as follows: of biomass - 2805 kW, of winds - 2335 kW, of solar energy 2290.9 kW [93].

Moldova's dependence on energy imports is gradually decreasing. If in 2011 the country depended on the import of electricity and heat energy by 98%, then in 2017 the share of energy consumption produced in Moldova from renewable sources reached 15%, and imports decreased to 85% [94].

**Transport.** Moldova has a developed transport infrastructure. The main means of transportation are railways and roads, navigable river transport (Dniester and Prut rivers), air transport. Moldova has 1,157 km of railways, 9,352 km of highways. The total freight turnover in 2016 amounted to approximately 5 484.3 million tons/km. Of them the railway transport accounted for 789.9 million tons/km, road transport - 4 693.4 million tons/km, river transport - 0.3 million tons/km, aviation - 0.7 million tons/km. *Passenger turnover* amounted to 5 397.1 million passengers/km., including 121.5 - on the railway transport, 3 106.4 - on the bus transport, 102.6 on taxi, 0.33 - on the river transport, 415.5, on the trolleybus - 1 651.3 [85]. Moldova has 1,916 km. *gas pipelines*. There are 7 airports. The *merchant fleet* consists of 172 ships, including 5 bulker carriers, 2 container ships, 130 general cargo ships, 8 oil tankers and others ne [91].

**International economic relations.** The economy of Moldova is successfully integrating into the world economic space. Moldova has adopted a policy of *European integration*. Moldova took important steps towards expanding access to the EU market by signing and ratifying in 2014 an *Association Agreement (AA)* with the European Union which fully entered into force in July 2016 after its ratification by all members of the European Union. Also, Moldova has signed *the Deep and Comprehensive Free Trade Area Agreement* with the European Union (DCFTA), which links it to the world's largest market. All this contributed to the growth of exports to the countries of the European Union. This export in 2017

accounted for 65% of all exports of Moldova [91]. At the same time, the negative balance of trade balance of the Republic of Moldova with the EU still remains.

In addition, Moldova has signed free trade agreements (FTA) with other countries and associations of countries (total with 43 countries). In addition to the EU, Moldova has FTA with CIS countries, Turkey, GUAM countries CEFTA (Moldova, Macedonia, Albania, Serbia, Montenegro, Bosnia and Herzegovina, Kosovo). Negotiations are under way to establish a free trade zone with China.

In 2017, *imports* of goods to Moldova totaled \$ 4.831 billion. Over the last 5 years, imports have declined every year by more than 5% per year (from \$ 5.22 billion in 2011) [95]. These are primarily energy resources (oil, oil products, coal, gas), chemicals, ferrous metals, cars, machinery and equipment, textiles. The main import items (2016) were refined oil (\$ 370 million), medicines (\$ 174 million), cars (\$ 124 million), cable (\$ 76.1 million), lightweight rubberized knitted fabrics (\$ 62 million) [95]. The main import partners in 2017 were Romania (15.5%), Ukraine (11.4%), Russia (10.6%), China (10.4%), Germany (8.9%), Italy (6.9%), Turkey (6.1%) [91].

In 2016, Moldova *exported* goods worth \$ 2.43 billion (129th in the world). The main export items for Moldova were: insulated wire (\$ 232 million), sunflower seeds (\$ 184 million), wheat (\$ 140 million), wine (\$ 107 million). The main exporting countries are Romania (\$ 568 million), Russia (\$ 256 million), Italy (\$ 254 million), Germany (\$ 159 million) and Great Britain (\$ 120 million) [91].

In general, the *EU* has become the main trading partner and main investor of Moldova in recent years, accounting for 55% of total trade. In 2017, the volume of mutual trade between Moldova and the European Union amounted to € 4 billion. The volume of exports to the EU countries in 2017 was € 1.6 billion, including agricultural products - € 621 million, and machinery and transportation equipment - € 327 million [96].

Moldova has a *negative trade balance*: in 2016 - \$ 1.52 billion [95]. At the end of 2017, *external debt* amounted to \$ 1.7 billion or 19.3% of GDP (2% less than in 2016). The largest creditors in 2017: Romania (lent \$ 100 million), the IMF - \$ 25 million, International Development Association - \$ 20, 7 million, International Bank for Reconstruction and Development - \$ 19.4 million [85].

*Investments.* Since 1992, Moldova is a member of the International Investment Guarantee Agency, which allows foreign investors to be insured against political and economic risks. The *largest investors* in 2017 are the Netherlands, Spain, France, Cyprus, Romania, Russia, Turkey, USA. In general, the largest investor in Moldova is the EU. On the territory of Moldova there are about 7 thousand *foreign enterprises*. These enterprises function in various sectors of the economy: in the field of international and domestic cargo transportation, production and processing of agricultural products, food products, in the wine industry, construction, provision of services and many others.

*Labor market.* The able-bodied population is distributed unevenly across the economic sectors. The main part of the population is engaged in agriculture -

45.7% (338 thousand), as well as in services - 39.7%. In industry, approximately 14.6% of the working-age population of Moldova (142 thousand people) work. The average monthly salary in the country is about 3766 lei. In agriculture, the amount of such payment is 2475 lei, in industry - 4044 lei. There is significant labor migration. In this regard, a significant role in the economy is played by *remittances* of people who are on earnings outside the country. Annual transfers from around one million Moldovan citizens working in Europe, Israel, Russia and other post-Soviet countries make up about \$ 1.5 billion - that is about 20% of GDP [91].

Integration of the Moldovan economy into the world economic space finds vivid expression in the country's participation in *international economic associations* of global and regional levels.

A special place belongs to the relations of the Republic of Moldova with the European Union, Moldova's aspiration for integration into the EU. In 2005, the Republic of Moldova signed an *Action Plan* with the European Union, which established strategic goals for cooperation between the parties, including harmonization of legislation for the implementation of European standards and norms, reform of the economy and infrastructure, etc. In 2009, Moldova joined the *Eastern Partnership* program - the project of the European Union for the development of integration ties with six former countries (Ukraine, Moldova, Azerbaijan, Armenia, Georgia and Belarus). The implementation of this program provides for gradual bringing different spheres of life and activities of the Eastern European states in line with European norms, i.e. the implementation of democratic values, the construction of a rule-of-law state, of a market economy, and the exercise of free trade etc. As a result of the implementation of this EU program, the Republic of Moldova received quite substantial additional financial assistance from the EU (only for 2012-2014 it was 93 million euros).

As already mentioned in 2014 was signed and on July 1, 2016 the *Association Agreement* between Moldova and the EU entered into force [97]. This Agreement ensures the deepening of political and economic relations between the EU and the Republic of Moldova. It includes the initiative to create a *Deep and Comprehensive Free Trade Area* (DCFTA), which has already been discussed above. The agreement contains a reform plan in areas of vital importance for effective governance and economic development, and strengthens cooperation in a number of industries. It provides Moldova with a basis for developing trade and economic growth through *facilitated access to the EU market* for its products and services, as well as by approaching EU laws, rules and standards. Being fully implemented, it will simplify Moldova's developing integration with a single European market. The implementation of this agreement is supported by significant programs of financial support from the EU. As early as 2016, imports to the European Union from Moldova increased by 7.7% to € 1.3 billion, which is 13% more than in 2014, when the Agreement was only signed.

The European Union became the main trading partner of Moldova and its main investor. It accounts for 66% of total exports from Moldova and 55% of total

foreign trade. Thus, the import of agricultural products from Moldova increased by 21% in 2016, its value was 456 million euros. Statistics for the first half of 2017 confirms the positive dynamics of the growth of exports from Moldova to the EU countries of some products: of sunflower seeds, nuts, grapes, dried fruits, wheat, barley, sugar, some types of paper, clothing and bedding. The overall trade turnover between the EU and Moldova increased by 21% in 2016. and amounted to 3.3 billion euros [98].

Access to European markets and the opportunities to benefit from DCFTA will be further extended when Moldova brings its food safety and food safety standards in line with similar EU standards. In general, it is expected that after the completion of these reforms, under the influence of the DCFTA, Moldova's GDP will be growing by 5.4% annually.

The European Union and its member countries are jointly developing plans for financial support for Moldova for 2017-2020. EU support will depend on how successfully Moldova would implement the reform program. The European Union has resumed the transfer of funds for budgetary support following the conclusion in late 2016 between the Republic of Moldova and the IMF of an agreement aimed at stabilizing the banking sector in Moldova and taking into account the compliance of Moldova with the necessary conditions (for example, progress in public financial management). The EU's support has resulted in improving infrastructure (in particular, water supply system), diversifying resources for energy supply, improving public transport in cities, creating business incubators, stimulating civil and entrepreneurial activity, preserving cultural heritage and developing economic potential.

The Republic of Moldova participates in a number of programs of the European Union. These are: *Partnership for Mobility* [99]; *COSME* - European program to improve the competitiveness of small and medium-sized enterprises, of internationalization the small and medium-sized businesses, of support entrepreneurship; [100]; *Horizon 2020*, which aims to support research and innovation [101]. In September 2017, the European Parliament and the Council approved a program of macro-financial assistance to Moldova in the amount of € 100 million, aimed at economic stabilization and the implementation of major reforms.

Moldova also participates in the European regional programs targeted at the Eastern Partnership countries supporting the development of small and medium-sized businesses, energy, transport, the environment, and the business climate in general. In particular, Moldova participates in the Transboundary Cooperation Program, the regional Black Sea program, the cross-border cooperation program through the ENPI Romania-Ukraine-Moldova and the Danube program (INTERREG).

The important place take the involvement in the work of the global universal institution - the *United Nations*, of which it became a member in 1992 [102]. The Republic of Moldova participates in the activities of both the main organs of the United Nations, as well as in the activities of its specialized agencies, agencies,

funds and economic programs included in the UN system. These are: the United Nations Development Program (UNDP); International Labor Organization (ILO); The Food and Agriculture Organization of the United Nations (FAO); International Organization for Migration; United Nations Industrial Development Organization (UNIDO); United Nations Economic Commission for Europe (UNECE); United Nations Conference on Trade and Development (UNCTAD); World Bank (World Bank); International Monetary Fund (IMF). In 1993, Moldova applied for membership in a specialized UN organization, the *World Trade Organization*, and, after the completion of the relevant negotiations, became a WTO member in 2001. In June 2016, Moldova became a full member of the WTO Treaty on Public Procurement. All this allows Moldova to accelerate the integration of the national economy into the international trading system, to foster the adaptation of the national trade policy to the parameters of international markets, to improve the investment climate, simplify administrative procedures, and reduce corruption and bureaucracy. Since 1996, Moldova is a member of the *International Fund for Agricultural Development* (IFAD). The Fund has financed 6 projects in Moldova (the last one is under implementation, with the end in 2020) to support the village, develop small and rural entrepreneurship, financial services and marketing in the village, agribusiness, etc. for a total of \$ 100,980,000. Along with funding, it is supposed to teach agricultural skills in a changing climate.

In 1992, Moldova became a member of the *World Bank* (WB). In subsequent years, it joined other WB structures: the International Investment Guarantee Agency (1993), the International Development Association (1994), the International Finance Corporation (1995), the International Center for the Settlement of Investment Disputes (2011). By 2012, when the 20th anniversary of cooperation between Moldova and the World Bank was celebrated, more than 400 Moldovan companies have used World Bank grants, WB services to promote their business. More than 50 export companies have access to long-term financing. WB assistance allowed to create in the period from 2007 to 2012 more than 1,700 new private enterprises in the field of agriculture and livestock. More than 400,000 farmers use the services of another WB structure - the Rural Development Agency. The World Bank plans to allocate more than 80 million dollars for the construction of roads in Moldova. The World Bank's agricultural projects in previous years allowed 111 farmers to get gratuitous help for 19.5 million lei, and only in the period from 2007 to 2012 to purchase 47 units of equipment, etc. Today they are aimed at supporting those agricultural entrepreneurs who carry out long-term management to ensure high productivity, to compensate them the costs of purchasing agricultural equipment. WB funds projects to conserve biodiversity in a changing climate, and to restore degraded forests are being funded. In the field of information technology and communications, the WB financially participates in the creation of a broad Internet infrastructure in rural areas and increasing its speed, expanding the list of electronic services provided to the population, etc.

Also in 1992, Moldova became a member of the *European Bank for Reconstruction and Development* (EBRD). In 2010, the EBRD adopted a strategy



for Moldova: a program of large-scale reforms needed to overcome the consequences of the global economic crisis, improving corporate governance and transparency in the financial sector, expanding the scope of financial services and improving their accessibility. The EBRD invested \$ 1.09 billion in Moldova. Currently, the EBRD is implementing 48 projects in Moldova for 447 million euros, of them 74% in infrastructure, 11% in financial institutions, 10% in industry, trade and agribusiness, and 5% in the energy sector. Thanks to the reforms implemented, it was possible to reduce tariffs for electricity and gas, to index pensions, etc.

In the same year 1992, Moldova became a member of the International Monetary Fund. Since joining the IMF, Moldova has used the economic assistance of Fund, for implementation of structural reforms, in the struggle to reduce poverty and ensure economic growth. The IMF annually provides Moldova with advice in the field of economic and financial policy, technical assistance in the field of monetary policy, banking supervision and in other areas. 2016 was signed a new loan agreement with the IMF - a three-year loan program of \$ 179 million, aimed at improving the banking and financial environment.

The Republic of Moldova represented by its first President M. Snegur was among the signatories of the main constituent document of the *Commonwealth of Independent States* in 1991, and in 1994 the main part of the constituent documents of the CIS (except for that part, which concerns military cooperation) was ratified by the Parliament of Moldova. From the very beginning of its membership in the CIS, Moldova supported the economic integration, in every way rejecting initiatives to deepen political and military cooperation. Cooperation with the CIS is also carried out at the parliamentary level - between the Parliament of Moldova and the CIS Interparliamentary Assembly.

Moldova is a member of GUAM (Georgia, Ukraine, Azerbaijan and Moldova), as well as the BSEC - a regional economic cooperation structure - participating in projects on the development of transport and tourism in the Black Sea basin, on the preserving of the ecology in the region.

## CHAPTER V. THE ECONOMY OF DEVELOPING COUNTRIES

### 5.1. General characteristics of the economy and economic policy of developing countries

The boundary between developed and developing countries is rather relative. The GDP index per capita is commonly used as a criterion; the classification on the parities of purchasing power of the currencies has been carried out. Besides, the historical and political conditions of development of the countries are taken into account.

The developing countries are sometimes considered within individual geographical regions. So, there are 22 developing countries detached in the Asia-Pacific Region (APR), 34 ones in Latin America and in the Caribbean, 16 in the Middle and Near East, 8 in South Asia and 52 in Africa.

The developing countries are economically notable for significant variety. The long-term strategic aim as an economic development which has given a common name to this group consolidates them in a large group.

83.6% of population in the world lives in developing countries. They produce 30.4% of the world GDP; 30.5% of the world export and 29.0% of the world import, 30.9% of the world FDI and 34.5% are inherent in them. The specific gravity of industrial goods in common world export of goods from developing countries makes 59.0% while the share of high-technology product is only 20%. 28% of population, 6.8% of world export, 7.3% of world import and 13.5% of world GDP (in PPP) are inherent in six largest countries such as Mexico, Pakistan, India, Indonesia, Brazil and Argentina [2, p. 124].

The industrial production is gradually moving from northern regions to south ones. In this, the number of employed persons in the industry and agriculture is decreasing in the group of northern countries at an expense of mobility of labor in non-material production and the number of employed persons in the industry is increasing in the group of southern countries. A higher rate of economic growth has been characteristic for developing countries for the last 50 years compared to developed countries (average excess makes 2.5 times)

#### **Factors of economic development of developing countries**

The improvement of economic situation in developing countries has been provoked by a few reasons.

- *Transference of some industries from developed countries to developing countries.* Many labor-intensive industries such as clothing, textile, shoe industries, instrument-making and electronics were oriented toward cheap and numerous manpower of developing countries. Resource -production and power-consuming industries such as smelting of non-ferrous metals, petroleum refining, electric power and woodworking depend on the sources of raw materials. Environmentally harmful industries such as petroleum refining, manufacture of mineral fertilizers, pulp and paper industry and chemistry of organic synthesis

were excluded into the countries of «the third world» because of high expenses for environmental measures in developed countries.

In turn, developing countries created favorable investment climate, the preferential taxation as within the country, and in zones of joint business for attraction of investments.

- *Stabilization of political situation.* Nationalization of economy after obtaining independence by the countries, elimination of dictatorships, the terminations of the military conflicts and civil wars increased appeal of the countries to foreign investors. The governments of developing countries promised steadily high profits, inviolability of the invested capitals and the acquired property. However some countries are characterized by instability of a political situation (Tropical Africa, Afghanistan, Iraq, etc.).

- *The general favorable economic situation in the world* caused by growth of a social production both in developed, and in NIC and the oil-exporting countries. It caused increase of demand for raw materials and fuel that recovered a consumer demand in developing countries. Strengthening of a role of multinational corporations in the world and in the markets of developing countries led to inflow of foreign investments, improved state of the economy, promoted industrialization of earlier traditionally agrarian countries, expanded crediting of developing countries from the developed. The capitals of the oil-exporting countries which accumulated from export of energy carriers, and income from export of finished products of NIC also became one of investment sources.

- *Carrying out structural reforms in economy of developing countries as a result of the industrialization, which was begun earlier.* There was a reorientation from the extracting productions on processing (labor-consuming and even knowledge-intensive). With high rates the engineering and social infrastructure, a services sector, tourism, banking, insurance, communication developed. Forms of property changed: the state property was privatized, the private sector of economy was comprehensively supported at the state level by investments, legislative and tax base. The tough financial policy for decrease in a rate of inflation, fight against corruption, and the shadow capital was carried out.

- *Reorientation of production from import-substituting strategy of development on the export-oriented.* Many developing countries were earlier very dependent on an environment of world export as made the limited list of export goods, and at the same time rigidly depended on import of numerous groups of goods. Now they considerably expanded the nomenclature offered on export of goods, having passed from the category of monofunctional to multifunctional that allowed, in particular, for some of them to resist during Asian financial and economic crisis of 1997-1998, and also world crisis of 2008-2009.

The economic recovery in the countries of “the third world” promoted to increase in production of absolute and average per capita GDP that stimulated internal investments and domestic market.

High rates of GDP of a number of developing countries, imbalance of branch structure, supply and demand in the world market provoked the crisis of

1997-1998 which in particular influenced economies of the countries of Southeast Asia and which negatively influenced on rates of development practically of all developing countries. Recession of monetary crisis in the middle of 1999 recovered rates of development of world economy and economy of developing countries.

Progressive changes in the countries of the East and South considerably are defined by an intensification of the international division of labor, reindustrialization, a modulation of a number of labor-consuming and high technologies from the developed countries in the developing. However for the last are characterized disproportions in the economic device and “focality” of development of the advanced forms of production. Transition of developing countries to industrial development led to decrease in specific weight occupied in agriculture from 75% in 1950 to 50% in 1998.

The agriculture share in structure of GDP depends on the level of development of national economy. So, in Brazil it is 5.8%, in India – 17.2, Egypt – 14.5, the Republic Korea - 23%. In the least developed countries it is higher: Ethiopia – 41%, Malawi – 30.3%, Togo - 46%.

The role of export-oriented productions as guarantor of currency receipts and economic recovery increased in developing countries. Thus in creation of such productions the major role is played by branches of TNCs.

The TNCs and their branches control considerable part of export of developing countries. The largest TNCs monopolized the world market and divided it into the separate segments controlled by the countries of “gold one billion” - the USA, Japan, Great Britain and Germany.

Process of accumulation of internal and external investments became more active after attainment of independence in the 1950s and 1960s and nationalization of production in developing countries. At an initial stage the foreign capital went generally to export-oriented raw branches, but over time for it became more attractive import-substituting productions, so the tendency of industrialization of the countries of this group began to be shown.

The share of developing countries in foreign investments increased from 38.2% in 2000 to 45.0% in 2011. The countries with dynamically developing economy - Brazil, Mexico, India are the most attractive to foreign investors.

The role of the state and public sector in economy was essential. In many countries of “the third world” the concept of etatism - large-scale intervention of the state in economy, nationalization of the industry and infrastructure, government control of the prices, exchange rate, foreign trade, and the industry - was realized.

At the initial stage of development of national economies it was the justified measure directed on concentration of economic resources in one hands. For smoothing of social, economic and political problems the government constantly manipulated by prices for products of the state enterprises. For decrease in unemployment rate, the number of occupied at these enterprises was artificially overestimated. Sometimes in political goals (contrary to economic interests) signed

contracts for delivery of raw materials, a consignment of goods or providing concessions to the concrete supplier or foreign firm.

This model of development justified itself in the countries where in power there was an erudite elite, which managed to consolidate forces and means in interests of society. Examples of that are Singapore, the United Arab Emirates, Taiwan and Kuwait. The model of etatism led to corruption in a number of large by the sizes territories of developing countries, owning considerable natural, economic and financial opportunities for economic development. Therefore countries which quickly develop, generally realize another - neoliberal model of development at the present stage.

This model of development was widely applied in the countries of the Latin America (LA). The last 20-30 years all countries of LA used the model developed in the 50ties by experts of the Economic commission for Latin America and Caribbean Region. Authors of model of "peripheral economy" suggested carrying out structural transformations on formation of import-substituting industrialization. Thus the special part was assigned to development of economic integration and regional cooperation.

The state as the regulator of macroeconomic policy had to play a major role in realization of this model. The import-substituting policy gave the chance to develop new productions and to maintain rather high rates of economic growth in LA.

Since 70ties, the countries carried out attempts of overcoming of a depression and ensuring economic growth, but they weren't directed on cardinal changes, and had character of adjustments for the purpose of stabilization of an economic situation and control of decline in production.

In the 90ties the new model – "The Washington Consensus" which was supported by the IMF was offered and recommended also to all countries with transition economies. In relation to the countries of LA this model was as follows:

1. *Budgetary discipline.* The budget deficit shouldn't exceed the reserves allowing financing it without inflation growth. Deficiency under the current articles (without percent of payment for debts) should be kept at the level of 3% of GDP no more.

2. *Priorities of the public expenditures.* Expenses have to be reoriented from the political sphere (management, defense, ambitious projects) to the economic sphere - key branches, health care, education, and infrastructure.

3. *Tax reform.* Reduction of tax rates and expansion of tax base with application of an ascending scale of the taxation.

4. *Financial liberalization.* Refusal of preferential treatment of crediting of "exclusive" borrowers. Development of market mechanisms of regulation of interest rates.

5. *Exchange rates.* Application of a uniform exchange rate, its level has to stimulate a rapid growth of nonconventional export.

6. *Trade liberalization.* Reduction of customs tariffs to 10%.

7. *Direct foreign investments.* Elimination of barriers to attraction of DFI, creation of conditions for the competition in domestic market between foreign and national firms.

8. *Privatization.* The state enterprises have to be privatized.

9. *Deregulation.* The government has to revise laws and resolutions which rigidly limit the competition or activity of new economic subjects.

10. *The property rights* have to be protected legislatively and extend including on informal sector.

The first positive results of introduction of this model were received in Argentina and Brazil. In other countries (Bolivia, Guyana, Guatemala, Honduras, Paraguay, Peru) during implementation of the stabilization programs in a varying degree based on more rigid regulation of an exchange rate at first revival of economy was noted, crediting volumes extended, but it was connected with short - term consumer boom, first of all, on a commodity market of long use. Uncertainty in stabilization of economic development and expectation of the next round of inflation promoted redistribution of the income on consumption to the detriment of investment.

Having created model of relative stabilization at the first stage, the countries of LA started forming model of social and economic development. The sizes of direct taxes decreased and the sizes of the indirect increased. If in the countries of OECD they were 65% of the total amount of taxes, in LA - 25%.

The public expenditures decreased. The paradoxical situation is characterized for the countries of LA when, on the one hand, the state had excessive impact on all spheres of economy, and with another - was extremely weak and couldn't realize effectively the functions as was under the influence of various political and economic elite. Thus it was compelled to assume functions not peculiar to it and impracticable obligations, rolling in corruption and tightening the country in a debt hole.

Fast liberalization of external sector of economy and foreign trade became one of the main positive results. Level of customs tariffs was decreased, the number of levels of customs protection decreased too.

In parallel there was a process of liberalization of process of inflow of the foreign capital. The national private and state capital prevailed to the middle of the 90ties in LA. Equal conditions were provided also to the foreign capital to the middle of the 90ties in LA.

Hierarchy of developing countries can be presented in the form of pyramid, which top is made by NIC with high rates of economic development and the highest (as among developing, and many developed countries) GDP per capita. They are followed by the countries of the average level of development which keep in the last decades high rates of economic development with dynamics on their acceleration. Underdeveloped and poorest countries are closer to the basis of the pyramid - the most numerous group. It is also inhomogeneous and is followed by a positive tendency of transition of the certain states to higher level of a pyramid.

India, Bangladesh, Nigeria, Pakistan and other countries are the example of it; they left the lowest group and passed one step above over the past few years.

Developing countries differ on labor productivity level quite significantly. The highest labor productivity level is in the new industrial countries, the lowest - in the countries of Tropical Africa. But even in some countries with dynamic economy, for example, in India it is still far from world-class productivities.

### ***Main economic problems of developing countries***

In developing countries the model of the “catching-up” development which has apparent defects is realized. The aspiration to provide the economy with one industrial goods inevitably causes the necessity of import of other goods and means of their production. To satisfy these escalating requirements, it is necessary to increase export or to attract the loans constantly. Since 50ties export expansion was problematic as the world prices for raw materials and agricultural production constantly decreased due to application in the developed countries power - and the material-saving technologies. It led to growth of external debt of developing countries, and increase of their dependence on new articles of import (**Table 5.1**).

**Table 5.1**

#### **External debt in 2014 (one billion dollars)**

<b>Countries</b>	<b>External debt</b>
Argentina	111,5
Brazil	475,9
India	412,2
Republic of Korea	430,9
Mexico	354,9
Philippines	72,8
Thailand	86,1
Indonesia	223,8
Turkey	359,5

Reference: [4].

Chronic lag of export of developing countries from needs for import was especially sharply shown during an energy crisis of the 70ties. Due to multiple growths of prices for oil in the countries, which aren't provided with these raw materials, import of other types of goods was sharply reduced, industrial outputs decreased, commodity and monetary deficiency grew. It caused ***inflation, decline in production*** and growth of external debt. When prices of oil were stabilized in the world market, the accumulated debts and economic problems began to constrain rates of development of the countries.

Only those countries which managed to diversify the economy due to industrial production till this time avoided economic recession. These include South Korea, Taiwan, Singapore and Hong Kong. Rates of their industrial growth from 1970s were higher not only among all developing countries, but also the

majority developed, in this connection they began to be called as four “dragons” of Southeast Asia. Thailand, Malaysia, Indonesia recovered from the crisis relatively quickly; their cheap labor force was used by the “dragons” of Southeast Asia (SEA) from 1970s.

In the international division of labor another rather heterogeneous group of countries was detached at a high development rate which economy had been developing under influence of various reasons: India – at an expense of significant natural resource potential and accent on development of national heavy industry; Turkey – at an expense of timely use of production slump in the countries of the CIS; Pakistan – at an expense of economic assistance of the USA which considerably increased during the presence of Soviet troops in neighboring Afghanistan and Sri Lanka – at an expense of expansion of tea export.

The execution of decolonization of the economy, agrarian reforms, import - substituting and export-oriented industrialization, creation of economic and social infrastructures, adjustment and improvement of models of macroeconomic regulation, mobilization of national resources as well as wide attraction of capital, experience and high technologies of developed countries contributed to the modernization of socio-economic structures of outlying countries. This process involved not only the «tigers» of SEA but also several large countries such as Mexico, India, Brazil, Indonesia etc. It substantially accelerated development dynamics of underdeveloped countries. If in 1900-1938 its GDP growth per capita made 0.4-0.6%, then in 1950-1999 it was 2.6-2.8%. In 2014 GDP growth per capita, in particular, in Indonesia, the Dominican Republic, Malawi and Ecuador was equal to 5.0%, 6.9%, 7.0% and 3.5%, correspondingly.

Since the 1980ties *the tendency of gap reduction between developed and developing countries* has become apparent for the first time in the history of world economic development. The annual GDP growth rate for 1991-2000 made 2.2% in developed countries and 5.0% in developing ones. At the same time, if in the post-war period the processes of convergence (rapprochement of development levels) were strengthened in developed countries, then in developing ones the stratification of countries continued in development levels: 27 countries approached to developing ones and 50 countries began to be considered as underdeveloped ones.

The economic growth was provoked by withdrawal from the financial crisis in the NIC for the majority of countries of Asia. In Latin America the slowdown of development rate is connected with the consequences of monetary crisis in Brazil and industrial slump in Argentina. At present this slump to a certain extent has been overcome at an expense of external trade, improvement in common conjuncture of market and revival of tourism.

The saving of reputation of «raw appendage» or «banana republics» for developing countries will more critically affect afterwards the decrease in its growth rate because of *unfavorable conjuncture* on the world market. The excess of supply over demand is stable way on the agricultural market and further this tendency will be remaining. The subsequent introduction of material- and energy-saving technologies reduces demand for raw materials for industry.



The developing countries feel *a shortfall for carrying out scientific researches and introduction of the latest achievements of science and technology*. They are obliged either to buy not quite new technologies, or permanently remain in position of the overtaking persons that also does not contribute to its development and reduction in the gap between developed and developing countries.

The level of scientific and technical progress in these countries is restrained by scanty level of human potential development which is characterized by *low qualification*, high level of illiteracy, including functional one; that impedes a fast assimilation of advanced technologies. We should note that population growth in many states pass ahead of dynamics of production volumes that leads to the reduction of GDP index per capita and also adequately testifies the drop of living standard. 5 billion persons live in developing countries and 7.8 billion persons are forecasted by 2025.

*The low level of technical equipment* of agricultural industry as one of the main employment sectors and source of population livelihood in the majority of developing countries as well as high dependence of this industry on weather conditions, substantially restrains its development.

The poor development level of engineering, social and market infrastructure, low level of education and health protection, lack of development or poor development of transport, telecommunication and financial infrastructure and rudimentary level of computerization restrain the inflow of foreign investments as one of growth sources.

The constantly appearing *internal and external conflicts*, prosperity of the narcotics business, trafficking in arms and human beings, support of world terrorism, flourishing of underground economy and «money laundering» reduce the attractiveness of countries for long-term investors of large and medium-sized business, which are substituted by small businessmen seeking to «make quick money» at an expense of doubtful financial operations to the detriment of national interests of developing countries.

## **5.2. Economics and economic policy of the newly industrialized countries**

The term "newly industrialized countries" (NIC) arose in the 1980s in connection with the development of the so-called "dragons" of Southeast Asia - of Hong Kong (the special administrative region of the PRC), the Republic of Korea, Singapore and of Taiwan. These countries were the first among developing countries to start industrialization and over time, in many respects, caught up to and outstripped the developed countries, so some specialists rightly are including them in a group of developed countries. Later, the so-called "tigers" - Indonesia, the Philippines, Malaysia and Thailand - joined the NIC of Southeast and East Asia. In Latin America, to the group of new industrial countries belong Argentina, Chile, Brazil and Mexico.

Newly industrialized countries changed the traditional notions about developing countries. In the structure of their exports predominate not raw materials, but consumer goods. For their imports raw materials (as well as for developed countries) are characteristic. In some periods of time, the growth rates of their GDP were higher than in developed countries. The governing bodies of the NIS were headed by a highly educated elite. The rate of growth in the number of population, unlike in other developing countries, was not high, and in Singapore even measures were taken to increase the fertility rate.

**Place in the world economy.** In total, on 12 newly industrialized countries account 13% of the world's population, 13.4% of the DWP, 18% of world exports. GDP per capita on PPP averages \$ 23,000, with the highest in Singapore (\$ 60,500), and the lowest in the Philippines (\$ 4,100) [103].

In terms of the average annual growth rate of the gross domestic product, NIS of Latin America were ahead of the developed and developing countries in the 1970s, and the NIS of South-East Asia - in the 1960-1990s. At present, the growth rate has slowed somewhat, but exceeds the world average by 1.2-2.4 times.

NIC of South-East Asia are represented by the states of four "dragons" and four "tigers". They were the first in the region to successfully increase the volume of industrial production, developing not extractive industry (because they are poor in minerals) but processing industries that create science-intensive export-oriented products. Successful reforms were made in agriculture, and state programs were directed to the training of national cadres at all levels of management and of various qualifications.

The important factor that ensured the economic "leap" of the countries of the region became special mentality and cultural traditions of the peoples, manifested in inclination to obedience to the authorities, the social norms, in high discipline and work ethic, in the spirit of cooperation and collectivism. This was also promoted by the high level of educational standards as well.

Of great significance for the countries of this region was that they had such a neighbor as Japan with its practical experience, the development of advanced technologies and investment potential. In the 1950s, the NIC countries were underdeveloped agrarian countries. They grew rice, tea and mined a small amount of useful minerals. As a result of the reforms in agriculture, large estates were confiscated; the land was divided between peasants, the free labor resources become to be used in the process of industrialization. At the same time, the infrastructure of agriculture was modernized; irrigation works were carried out to improve the quality of soils.

The basis of industrialization was the textile and footwear industry, which produced low-cost and high-quality products designed for buyers with low and medium incomes. This niche in the world market at that time was not occupied by other countries and the positions of newly industrialized countries became stronger in it. This created an opportunity to generate revenues which was directed both at the modernization of existing production facilities and the development of knowledge-intensive industries - electronics and of production of instrumentation.

The leading role in the development of the economy of NIC was played by the state, which implemented the policy of mercantilism, based on austerity, on protectionism in relation to domestic producers and on strict customs barriers for foreign products, through restricting imports and encouraging exports. At the same time, the most favorable conditions were created for attracting FDI, initially directed at the development of labor-intensive, and later high technology industries, as well as attracting the latest technologies. The state, through a deliberate policy of preferential taxation, suspended the development of unpromising industries and assisted in the formation of priority industries.

An important direction of the state foreign economic policy was currency regulation. The appreciation of the national currencies was restricted, which was important for increasing the competitiveness of national goods in the world market. Much attention was paid to stimulating the inflow of long-term capital.

The policy of import substitution was implemented according to the following scheme. Initially, import was replaced in the industries that produce consumer goods (textile, shoe, food industry). Subsequently, with the accumulation of the necessary capital, import substitution spread to industrial products (ferrous metals, machine parts, equipment, chemical and petrochemical products).

The state constantly controlled the redistribution of funds between priority and auxiliary industries. Thus, the manufacturing industry was mainly financed from the resources of agriculture and extractive industries, as well as from the inflow of FDI.

Priorities in the economy have been constantly transformed. So, in the 1950s it was textile and glass production, in the 1960s - the production of cement, mineral fertilizers, oil refining, ferrous metallurgy, organic synthesis chemistry, in the 1970s - shipbuilding and automotive industry, in the 1980s - computer science, electrical engineering, since the 1990s - production of new materials and creation of new technologies, the electronics and the products of aerospace industry.

Despite the high level of internal accumulation, significant FDI was required to develop the new industries. For their active attraction, such forms as joint venture, loans from foreign banks, technical assistance and consulting services were used. During this time, Taiwan has become a state with large amounts of gold and foreign exchange reserves, and a potential investor in Asian countries. The inflows of foreign direct investment in the economy of some newly industrialized countries are characterized by the data of **Table 5.2**.

**Table 5.2**  
**FDI in the economy of some NIC in 2011, billions of dollars**

Country	FDI volume
Developing countries - total	684,4
Brazil	66,7
Singapore	64,0
Mexico	19,6
Thailand	9,6
Argentina	7,2
The Republic of Korea	4,7

Reference [53].

In the 1980s, NIC began to pay special attention to the introduction of new technologies. Domestic scientific research institutes, universities, technoparks, technopolises were created to promote new applied scientific developments. The main research areas became developments in the field of making equipment for nuclear power plants and for offshore oil and gas extraction; the production of computers, microelectronics, of products of pure chemistry; development of informatics and the automation of production.

As the economy strengthened, the role of state regulation was constantly transformed - the rigid administrative methods of management were replaced by indirect mechanisms, combined with market self-regulation.

The export-oriented model of development, which brought high results, requires further improvement. With the increase in wages and skill levels of labor force, the goods of these countries become less competitive on the world market. Volumes of production are declining, profits are falling, and the problem of settlements on loans arises. Therefore, NIC continue the modernization, and switch to new technologies, develop science-intensive and resource-saving production. Intensively are developing industries, focused on the manufacture of components for computers, parts for aircraft from new construction materials. In the non-productive sphere, grows the role of tourism, financial activities and information technologies.

The financial and economic crisis of 1997-1998, which hit the NIS of Asia, had three main reasons:

- imbalance in the industrial structure of production, lack of basic industries;
- the direction of foreign investments for a long time mainly into highly profitable sectors to the prejudice of optimizing the structure of the economy;
- the emergence of imbalances in foreign economic relations, in levels of development of different spheres of the economy, in the financial and banking sector, due to very high growth rates of the economy.

The international competitiveness of Asia's newly industrialized countries began to decline due to the appearance of cheaper Vietnamese and Chinese products. A certain role in the territorial deepening of the crisis in the region was played by the "effect of infection", caused by the similarity of economic structures

and by the interdependence of the economies of the states (mutual exports accounted for more than 50%). Total losses from the crisis were estimated at \$ 2 trillion [22., c. 464].

By the beginning of the XXI century, in the structure of the South-East Asian NIC currency reserves 60% accounted for the US dollar, 5% - for the Japanese yen, 10% - for the euro. Therefore, it is natural that the depreciation of the dollar on world markets during the 2008 crisis had an extremely negative impact on the volume of foreign exchange reserves in Asian countries. Again, like 10 years ago, they came to understanding that it is necessary to protect their financial markets and currencies from American influence. The common point in the programs to counter the financial and economic crisis in South-East Asia's countries was the allocation of financial resources for the development of the real economy, curbing inflation, reforming the banking sector in order to get rid of "bad loans" in problem banks, as well as increased protectionism. An acute problem for all countries was the containment of the escape of foreign capital as a result of the collapse of stock markets and the crisis in the structure-forming sectors of the economy. In 2008-2009, the countries of Asia faced, in essence, the same problems that occurred during the crisis of 1997-1998, and the lessons of the crisis were poorly studied. In addition, the domino effect in the XXI century was spurred by globalization with insufficient state participation in regulation of the economy [23, c. 11–12].

**Regional features. Republic of Singapore.** In the domestic economic policy of Singapore, a rigid so-called model of "managed democracy" was traditionally applied, one of the main directions of which was import substitution, based on the processing of products of basic industries.

A feature of the economy of Singapore is a significant share of the public sector in transport, utilities, housing construction, as well as a large proportion of state enterprises in the formation of gross savings.

In the sectoral structure of the national economy in 2011, the share of industry in the GDP structure was 26.6%, the service sector 73.4%. In the production of agricultural products, Singapore does not specialize [61]. In the 1980s, the main areas of specialization were refining of oil and shipbuilding of mainly oil tankers. At present, the development of electronics, informatics and biotechnology is recognized as a priority. Singapore and Hong Kong are the world's largest financial centers.

The Singapore seaport is the second largest in terms of cargo turnover after Rotterdam. Despite the absence of historical attractions in the country, 3 million tourists visit it annually.

In Singapore, there are about 60 private universities and branches of foreign universities, and three public universities. On the basis of the University of Singapore in 1981, a scientific and technological park was created, in which the development of science-intensive products focuses on the creation of modern technologies for the production of agricultural products, growing vegetables and fruits, fish, seafood [24].

**Taiwan** is actually an independent state, but not recognized by China, which considers it to be part of its territory. The population of Taiwan is 23.2 million people, the area is 35.96 thousand square km, the volume of production of GDP (at PPP) - 887 billion dollars (2011). Taiwan's share in world exports is 1.7% [62].

The highest growth rates of the economy were observed in the 1980s. (the average annual growth in GDP was 9.2-9.3%). In 2011, this indicator fell to 4%. On economic potential, Taiwan is among the world's top ten exporters of capital, and by foreign exchange reserves it ranks third in the region after Japan and China. GDP per capita is 38.2 thousand dollars [62]. Taiwan accounts for 8% of worldwide sales of personal computers, 22% of laptops, 83% of motherboards and 51% of monitors.

The most developed sector of economy is service sector, its share in GDP production is 67%, industry creates about a third of GDP, and agriculture - 1.3%. Taiwan's production potential is focused on exports, production of textiles, clothing, electronics, food and chemical products. Agriculture specializes in the cultivation of rice, citrus, tea and sugar cane.

Taiwan intensively attracts foreign capital and imports technology. The strained relations with China explain the significant volumes of arms imports. In Taiwan, the main source of income for funding of industrial production initially was the export of agricultural products. This was facilitated by the introduction of the so-called "hidden rice tax", i.e. redistribution of monetary savings of farmers in industry through the credit and banking system. It was made a gradual transition from large private and state landownership to the small - of family-type - ownership. Implemented agrarian reforms made it possible to replenish the state budget, improve the forms of ownership, accelerate the industrialization of agriculture, overcome its monocultural character, disaggregate production, and strengthen urbanization processes.

For Taiwan is characterized by the widespread development of small businesses. Basically, these are handicraft industries and manufacturing enterprises. The active policy of encouraging small business began to be carried out from the mid-1960s, when the export-oriented development model was introduced. In the 1990s, small and medium-sized enterprises produced 98-99% of the total GDP and provided 60% of exports. The success of this form of entrepreneurship is related to the ability to conduct flexible market policies, to adapt to the changing market conditions in a timely manner, to cooperate with intermediary companies and foreign partners.

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conditions in a timely manner, to cooperate with intermediary companies and foreign partners.

To help small businesses in the training of personnel in Taiwan, a special youth commission has been set up, which provides loans to young businesspersons, provides technical and legal advice, and prepares managers. This organization oversees the activities of more than 5,000 small businesses. The Small Business Bank of Taiwan, the Credit Guarantee Fund of Small and Medium Enterprises and the Small Business Center provides financial assistance to entrepreneurs.

Not far from the capital of Taiwan - Taipei - has been established a scientific and technological park, in which are located research institutes of industrial technologies and electronics, microelectronics development companies, semiconductor manufacturing companies, a biotechnology center. The Science and Technology Park specializes in the development and production of computers and peripheral equipment, electronic components, semiconductor devices. It employs more than 12 thousand scientists and specialists [24].

*The Republic of Korea* in terms of economic structure and development tendencies is similar to Taiwan. Its population is 48.9 million people, the territory is 99,392 sq km. In terms of GDP production by PPP (2011: \$ 1574 billion), the country ranks 12th in the world rating, GDP per capita is \$ 32,100. Gold and currency reserves of Korea are \$ 306 billion [54]. With an insignificant share of the population of Korea in the world's population (0.6%), its economy produces 2% of the GWP and 3% of world exports.

In the mid-1950's, on the level of economic development of Korea, according to the classification of the World Bank, belonged to the backward countries with per capita GDP less than \$ 100. Since 1999, the country has been accepted into the "club of the rich and highly developed" countries - the OECD. The growth rate of GDP production in Korea in the 1950s. were 4.3%, in the 1960s - 8.9%, in the 1990s - 4.8%. At the same time, real per capita income doubled every 10-12 years. The highest average annual growth rates of the economy were recorded in the 1980s (9.1%). At present, they have decreased more than 2 times - 4% [62].

Since 1979, Korea has pursued a policy of open economy for foreign investment. Through the introduction of TNCs into Korean markets, FDI came from Japan, the United States and Western European countries. One of the important characteristics of Korea is the significant role of the state in the development of the economy, which managed in a short period to accumulate and direct for the industrialization foreign and domestic investments.

Foreign capital provided 60% of the volume of investments in 1961-1965, 39% - in 1966-1970, 30% - in 1971-1975, 14% - in 1978-1980, 15% in 1981-1985. Until 1981, Japan was the main investor in the development of the Korean economy. It accounted for 55% of total FDI, and 76% of foreign firms operating in Korea. Japanese investments were directed mainly into labor-intensive industries.

Since the mid-1980s, the share of Japanese investments declined, giving way to American and West European capital. As Korea does not have significant natural resources, FDI was mainly directed to manufacturing industries, and services (75% and 24% respectively). In 2011, the total volume of foreign direct investment in the Republic of Korea was \$ 132 billion [104].

At the initial stage of industrialization of the economy, foreign capital was directed to the production of fertilizers, refining of oil with the aim of replacing the import of this raw material. Over time, FDI reoriented to the electronics industry and instrumentation. There was a specialization among investors. In particular, Japanese capital prevailed in shipbuilding, engineering, clothing and hotel industry; American - in the production of vehicles and business services; Western European - in the chemical industry and machine building. Japanese investments were directed mainly to export-oriented industries, American and Western European ones - to import substituting and servicing of domestic market ones.

The basic branches in the course of industrialization were labor-intensive and material-intensive ones (shipbuilding, car manufacturing). Over time, there has been a reorientation to the development of science-intensive industries (electronics, electrical engineering, the production of computers and commercial space satellites). In the so-called depressive cartels in the electrical, chemical, shipbuilding and automotive industries, if necessary, voluntary reductions of excessive capacities, unprofitable directions or conversion of industries were practiced. Under government guarantees, commercial banks provided loans to create new jobs in small businesses.

The macroeconomic model, which provided the country with such a sharp leap, was aimed at state support for high economic growth rates. The export-oriented model for the development of the national economy did not aim at attracting domestic reserves, but focused on foreign investment. In modern conditions, high rates of development of the country can be provided based on stimulating domestic demand and more efficient use of the country's intellectual potential.

*Asian "tigers"*, which include Indonesia, Malaysia, Thailand and the Philippines, in terms of economic development are inferior to the "dragons". The greatest successes were achieved by Malaysia and Thailand, but their economies were seriously damaged by the financial and currency crisis of 1997-1998. In the development models of these countries, the experience of creating the "Japanese miracle" was used, as well as a positive example of the formation of the "dragons" of Southeast Asia. However, the world market could not withstand the powerful pressure of flows of goods and capital from the region.

The economy of the Asian "tigers" has an agrarian-industrial character. Unlike the "dragons" of Southeast Asia, "tigers" have a rich natural and resource potential, which makes it possible to use it widely in the national economy. Therefore, both the extractive and manufacturing industries prevail in these states, but in comparison with the developed countries, the services sector does not occupy a sufficiently high share (**Table 5.3**). The exception is the provision of



tourist services, according to estimates of international organizations bringing in from 2 to 15% of GDP.

**Table 5.3**

**The structure of the economy of the "tigers" of Southeast Asia in 2011,  
% to GDP [4]**

<b>Sphere of economy</b>	<b>Malaysia</b>	<b>Thailand</b>	<b>Philippines</b>	<b>Indonesia</b>
<b>Industry</b>	<b>40,0</b>	<b>34,0</b>	<b>31,5</b>	<b>47,2</b>
<b>Agriculture</b>	<b>12,0</b>	<b>13,3</b>	<b>12,8</b>	<b>14,7</b>
<b>Services sector</b>	<b>48,0</b>	<b>52,7</b>	<b>55,7</b>	<b>38,1</b>

Reference: [103].

In Malaysia, there are 29 million people; its territory is 336.7 thousand square km. Production of GDP per capita in 2011 - 15 800 dollars. This country is the world's main producer of tin and natural rubber. In the branch structure of industry the most brightly represented are non-ferrous metallurgy, the production of rubber products, the timber and textile industries. In recent years, in connection with the growth of wages in Japan and the "dragons" of Southeast Asia, TNCs have deployed a number of labor-intensive industries in Malaysia: textile, footwear, sewing, assembly of simple equipment (wristwatches, electric heaters, umbrellas). Agriculture is focused on growing rice, sugar cane. Also the production of palm oil is widespread.

Significant funds are sent to create their own scientific and technical base, including the "Malaysian multimedia super corridor", located to the south of Kuala Lumpur. In this region is located the new capital of the country - Putrajaya, which is part of the scientific and technological zone.

The manifestation of the crisis in Malaysia has affected the decline in private and public investment, the fall in domestic demand, and the demand for Malaysian electronic and electrical products in the global market due to fierce competition. Production in extractive industries, forestry and agriculture declined due to a drop in demand from the main importers - Japan and the Republic of Korea. After eliminating the consequences of the crisis, economic life has noticeably intensified.

***The Kingdom of Thailand*** is home to 67 million people, its area is 514 thousand square km [4]. The share of the inhabitants of the country in the world population is 0.4%. At the same time, in Thailand, 0.9% of world GDP is generated, country is accounting for 1.2% of world exports. GDP (PPP) is 610 billion dollars, and per capita - 9500 dollars.

The country has significant reserves of tungsten, tin, forest resources, precious and semiprecious stones, is one of the leaders in the production of natural rubber.

The sectoral structure of the economy is similar to the Malaysian one, at the same time; the revenues from tourism are more significant (more than half of the country's GDP is created in this area).

A significant part of the labor force (about 41%) is engaged in agriculture, which produces only 13.3% of the country's GDP. The main crops grown are rice, corn, sugar cane, tapioca, jute and cotton. Developed are fisheries and livestock.

The country's highest GDP growth was in the 1980s (an average annual increase of 7.9%). In the 1990s, this indicator fell more than 2 times to 3.4%. Thailand was hit by the Asian financial and economic crisis to a lesser extent than other countries, because to ensure the security of the national economy, an anti-crisis program was quickly developed, aimed to create more favorable conditions for foreign investors. In particular, the ban on the purchase of land by foreign contractors was abolished; the control over the use of funds of branches of banks and financial companies of other countries was simplified. The government of Thailand connects the successful exit from the crisis with the financial help of the USA and the IMF.

In *the Republic of the Philippines*, there are 104 million people (1.5% of the world's population), its territory is 300.7 thousand square km [103]. The Philippines produces 0.5% of the GDP, the share of the country in world exports is 0.3%. In 2011, the country's gross domestic product amounted to 395 billion dollars, and per capita - 4100 dollars. The highest rates of economic development were recorded in the 1960s and 1970s, when the average annual growth rate of GDP was about 6%. In the 1980s, they fell to 2.1%, but thanks to the results reforms of the 1990s rose to 4%.

The relative cheapness of the labor resources stimulates in recent years the inflow of capital from the NIC of South-East Asia to labor-intensive industries (production of household appliances, electronics, telecommunications equipment, pharmaceutical products).

In the Philippines, the share of the public sector is high. It controls coal production, shipbuilding, hotel business, construction, fabrication of paper, cloth, production of sugar.

The bases of exports are ores and their concentrates, agricultural products. Imported are mainly machines and equipment, coal and consumer goods. The main foreign trade partners are the USA, Japan, the ASEAN countries and the EU.

In *the Republic of Indonesia*, there are 249 million people (3.5% of the world's population), its territory is 1.9 million square km. The country produces 1.4% of world GDP, its share in world exports is 1.1%. The volume of Indonesia's GDP in 2011 amounted to 1139 billion dollars, and per capita - \$ 4,700 [103].

The basis of the natural resource potential of the country are oil, natural gas, tin, coal, nickel ore, bauxite, gold, forest resources, fish and seafood.

In industry, along with mining, in recent years, are intensively developing textile, clothing, footwear production, shipbuilding and aircraft construction, petro-chemistry, electronics, auto assembly. Agriculture is focused on growing rice, coffee, tea, bitter and sweet pepper, oil palm, tobacco, cloves, sugar cane, corn, fruits, vegetables. The collection of natural rubber and copra is actively carried out.

Indonesia has a high share of the public sector in the economy. In the 1960s, the state controlled the infrastructure, the communal economy, i. e. those areas where the profitability of production was low and they required a significant infusion of capital. By the 1990's, the state sector has significantly expanded and covered more than 200 major enterprises in the field of oil refining, steel

production, cement, mineral fertilizers, aluminum smelting, and shipbuilding. However, similar structural transformations caused the growth of the administrative apparatus and corruption trends.

*Newly industrialized countries of Latin America* include Brazil, Mexico, Chile and Argentina. These states have significant natural and resource potential, so the prerequisite for increasing the pace of economic development in them was the export of raw materials and agricultural products. For example, about 80% of Chile's exports were copper.

In comparison with the newly industrialized countries of South-East Asia, the four newly industrialized countries of Latin America have a smaller share in the world's population, world industrial and agricultural production. In terms of population, these states are 1.3 times smaller than the NIC of Southeast Asia, 2.6 times in terms of exports, and 2.3 times in agricultural production.

Until the 1980s, the countries of the region were characterized by "import-substituting industrialization", developed on the basis of internal resources. Conducting such an economic policy helped to increase production in the heavy industry, to increase exports of raw materials, to implement protectionist measures. At the same time, the leading role in the management of the economy belonged to the state. The implementation of the etatists model of regulation brought significant results and ensured in the 1950-1970s, 5-6% of the average annual GDP growth. In the 1970s, positive dynamics was maintained due to the increase in the capacity of extractive industries, but at the same time, the list of critical import goods was constantly expanding. The global economic crisis, which occurred after the energy crisis (1979), led to a drop in demand for Latin American raw materials, and a rise in oil prices stimulated overall inflation. This caused the outflow of capital from the region and further worsened the economic situation.

Since the 1980s, Latin American countries moved to the implementation of the neo-liberal development model, which created certain prerequisites for overcoming the crisis. This model, like in the Southeast Asian countries, was based on the external orientation of the economy. State regulation gave way to the initiative of the private sector. This model was called "Creole neoliberalism."

In *the Republic of Chile* live 17 million people, its territory is 756.9 thousand square km. With an insignificant share of Chileans in the world population (0.24%), the country produces 0.4% of the GWP, its economy accounts for 0.5% of world exports. The total volume of GDP in 2011 was \$ 304 billion, and the per capita indicator was \$ 17,400 [103]. The growth rates of the economy are the highest in comparison with other NIC of this region (in the 1990s it was 5.4%, in 2007 - 5.1%, in 2011 - 5.9%).

The country's natural resource potential is based on reserves of copper, iron, manganese and zinc ores, coal, gold, sulfur, and ammonium nitrate. Traditionally, the mining industry has been developing well, recently the woodworking, petrochemical, light and food industries have been intensively expanding. Agriculture is highly productive, specializing in the cultivation of cereals, grapes, citrus fruits and dairy and meat cattle.

In recent decades, the main flow of foreign investment was directed into the mining industry (56% of their volume), services (34%), processing industries (7%) and agriculture (3%).

In *the United Mexican States* live 115 million people (1.6% of the world's population), their territory - 1958.2 thousand square km., in 2011, the volume of Mexico's GDP was \$ 1683 billion, and per capita - \$ 14,800 [103].

The country's natural and resource potential is represented by oil reserves (8th place in the world), natural gas, sulfur, silver, lead-zinc, copper and manganese ores.

In the early 1990s, privatization of the mining industry, ferrous metallurgy, aviation transport, communications, and major banks was carried out. On the scale of privatization, Mexico is the leader among the countries of the region.

Since the country retains a lower level of wages than in the countries of South-East Asia, Mexico is attractive for investments from both the US and Asia. Capital investments are mainly directed to export-oriented industries.

An important role in the economic development of the country was played by its accession to the North American Free Trade Area (NAFTA) in 1994 and cooperation with the common market of the countries of South America (MERCOSUR - Brazil, Argentina, Uruguay and Paraguay).

After Mexico's incorporation into NAFTA, its presence in the US economy increased. Thanks to economic cooperation with the United States of America in 1998, Mexico came out on the seventh place in the world for the production of cars (1.5 million units). A significant share of Mexican exports (71%) goes to the United States, from which 62% of products and services are also imported. The bulk of foreign investment (70%) is sent to Mexico from the US, but still attracting FDI is an actual problem for Mexico.

In industry, 34% of GDP is produced. Are developed oil production, electronics, mining, oil refining, textile and food industries. Agriculture produces 4% of GDP. The main crops grown are wheat, corn, sorghum, cotton, coffee, sugar cane. Also well developed are pasture cattle breeding and pig breeding. The service sector is predominant; its share in GDP production is 62% [103]. Its development is mainly influenced by the revenues from tourism and the activities of the stock exchange in Mexico City.

The **Republic of Argentina** is home to 42 million people, its territory - 2.8 million square km. The country produces 0.9% of the GWP, it accounts for 0.5% of world exports. The volume of GDP in 2011 amounted to 726 billion dollars, and its production per capita - 17,700 dollars.

The highest annual average GDP growth rates were recorded in the 1950s. (4.5%), and their negative dynamics was observed in the 1980s (the average annual rate of decline was 1.65%). In recent decades, Argentina is increasing production volumes, in particular in 1991-2000-e years. The average annual increase in GDP was 3.2%, in 2001-2011, - 5%. At the same time, the Argentine economy experienced a significant decline at the beginning of the millennium (GDP fell by

4-10%), while in the rest of the years GDP had a high growth rate - more than 8% per year [103].

The natural and resource potential of the country is represented by fertile land resources, forest lands, hydropower potential of rivers, oil, coal, natural gas, uranium, zinc, copper, beryllium and iron ore reserves.

The industrial production previously focused on the extraction of minerals - coal, iron ore, oil. Over time, the country began to give preference to the development of processing industries: ferrous metallurgy, oil refining, chemical industry, automotive, textile and timber industries. Such progressive branches as the nuclear industry, electronics, and aircraft construction, began to develop in Argentina earlier than in most Latin American countries. Agricultural products provide not only the domestic needs of the country's population, but also exports. The main items of agricultural exporting are grain, beef, leather, wool, grapes and wine.

In the 1990's activation of the privatization process was facilitated by the adoption of a law under which foreign investors were equated with rights to national investors. As a result, 28% of the state ownership passed to the American capital, and 24% - to the Spanish. The Chilean funds took part in the denationalization of Argentine energy. In addition, equal rights with national banks were provided to foreign financial institutions. The number of the latter has sharply increased. Currently foreign banks account for 60% of credit operations. Despite the obvious progress in macroeconomic and financial stabilization, the problem of the budget deficit and the growth of domestic debt has become aggravated in Argentina.

The development's features of the economy and economic policy of the *Federative Republic of Brazil* will be analyzed in the next section of this manual.

### **5.3. The economy and economic policy of Federative Republic of Brazil**

The territory of Brazil occupies 8.5 million km<sup>2</sup> and the number of population makes 207.7 million pers. The specific gravity of Brazil is 2.89% in the world GDP, 1.42% in the world export and 1.23% in the world import. The economic growth in the country in the 1970ties (average annual GDP growth rate was 8.5%) changed into the slump in the 1980ties (1.4%) and some growth in the 1990-ties (2.0%). The GDP increase was 3.1% in 2006, 2.7% in 2011 and 1.6% in 2014.

Brazil enters to the first ten of world leaders and has its own aerospace complex. By the middle of the 90ties it began to take third place in the world after Japan and Republic of Korea in output of sea-going ships, fifth place in output of tractors, sixth in the manufacture of arms and aircraft, seventh in output of motor-cars and smelting of steel and tenth in the production of metal-cutting and metal forming machine tools. The country feels a lack of investments. There is a low specific gravity of participation of internal sources in the investment of economic

development in Brazil (19.3% of GDP in total). For 1991-1997 the inflow of FDI has grown by more than 4 times but the investments mainly were short-lived and in case of changes in political or economic situation they «left» the country.

The measures on increase of national accumulations, raise in reliability of banking system and development of capital market are taken by the government. In order to regulate the financial market the government utilizes instruments of tax policy. 7% tax on foreign investments into short-term obligations and 5% one into privatization funds are established in Brazil.

In 1998 the significant progress in the development was achieved after carrying out the wide privatization in oil and electric power industry and in the financial sector.

There were some measures on reduction of inflation taken. If it made 2489.1% in 1993, then it was 3.6% in 2007 and 5.9% in 2014. The high rate of inflation and high interest rates lead to speculative banking operations. When reaching the financial stabilization, many banks, which income growth substantially depends on volumes of speculative operations, have become bankrupts.

Brazil is guided by national capital in the investment policy. In this, it takes an active part in the processes of subregional integration, tries to unite South American states around itself and to withstand the economic expansion of the USA. Brazil represented an initiator of foundation of MERCOSUR. Its aim is to create the common market of the countries of Latin America.

In terms of **economic reforms**, the mass privatization is carried out in the country, measures on increase of competitiveness of local enterprises are taken, a private initiative is encouraged and foreign investments are attracted. For a period of 1980-2011 the volume of attracted FDI has been equal to 471.2 billion dollars. In 2014 Brazil took fifth place in the world in FDI inflow (64 billion dollars) [4, p. 143].

The expensive objects of infrastructure such as telecommunication and telephone communications, electricity and gas, output of electric power etc. are privatized.

Brazil possesses one of the richest natural resource potential in the world. It occupies the fifth place in the world by area, second place (after Russia) in reserves of timber and iron ore, fourth place in reserves of bauxites and fifth place in ones of manganese ore. Moreover, the country takes leading positions in reserves of zinc, beryllium, niobium, platinum, nickel, uranium and gold. Brazil enters the first six of countries in hydro potential of rivers.

**Industry** produces 26.4% of GDP and its branch structure is presented by extraction of minerals such as iron ore, bauxites, gold and gems, ferrous and nonferrous metallurgy, mechanical engineering (including output of aircraft, sea-going ships and riverboats, satellites), electronic and food industry and timber industrial complex.

Agriculture (5.5% of GDP) is specialized on production of wheat, corn, cocoa, coffee, cotton, sugar-cane and sugar-beet. 20% of manpower is employed in this industry.

In **the service sector** (68.1% of GDP) the main part belongs to financial services (one of the major financial exchanges in the region is placed in São Paulo) and tourism.

Lately, the problems of disproportionate development of different parts of country have become aggravated, and “depressive” regions have appeared that provokes the growth of social tension in the country.

### ***Economic policy of Brazil***

For a long period of time the introduction of import-substituting industry, which relies on internal opportunities, was the strategic direction of Brazil. It was a characteristic feature of most Latin American countries. This policy contributed to increase of production in heavy industries. Up to 1980s protectionism was actively implemented; there was noted a strong state intervention in the regulation of economic processes. Model of “etatism” was giving good results in the 50s -60s, when the ordinary rate of GDP growth was 5-6%. The energy crisis in 1970s has hit the Brazilian economy, which has no significant oil and gas pools. Inflation in the country has harshly increased, foreign capital began to flee, and the public debt has increased.

In the 1980s Brazilian government passed to the neo-liberal model of development. This model is based on the orientation on the external factors and externally oriented economy. The emphasis in economic policy began to shift from governmental levers of control to stimulation of private initiative. Foreign capital began to play a significant role in the new policy – loans and direct investment.

At the end of the 1980s the extensive privatization of the oil and electric power industries and financial sector was carried out. The important objects of infrastructure were privatized: telecommunication and telephone connections, electric power and gas supply, electricity production. At the same time 40% of the revenues from privatization were received from the sale of property to foreign companies. The measures were taken to increase the national savings: reliability of the banking system was being improved, the stock market was being developed. Government used the tools of tax policy for the regulation of the market. The measures to reduce inflation were implemented.

Reforms have slightly improved the situation in the financial sector of the country, improved its branch structure. However, economic growth rates remained not high. In 2002 a new crisis broke out. The private sector had difficulties with refinancing of foreign currency debt. Transfer of incomes abroad activated, and it led to a shortage of funds on the currency market. Central bank was unable to meet the demand for foreign currency, as a result the devaluation of the real happened. Brazil took a loan from the IMF in the amount of 30 billion dollars to get out of the predicament.

In the last five years in the economic policy the Brazilian government implements the direction aimed at improving the standard of living of the poorest

segments of the population, the development of national industry and agriculture. Brazil takes measures to ensure positive dynamics of the national economy growth, the implementation of tax policy that encourages the growth of national production, the fight against inflation, the development of insider lending, export growth, ensuring a primary budget surplus, stimulating of innovative development of the economy in conditions of ongoing economic crisis in Europe.

#### ***Features of business ethics***

Many of the traditions of business ethics are borrowed from European culture. However, compared to Europeans, the behavior of Brazilian businessmen seems more relaxed: they loudly speak with expressive gesticulations and constantly touch each other. In addition, the size of the personal space of the Brazilians is less than that of the Europeans, so it is considered impolite to retreat back if someone moves to the interlocutor during the conversation.

The Brazilians conduct business on a personal basis and expect a long-term mutually beneficial relationship. Before going to Brazil, it is worth taking care of a serious intermediary, which will help attract the right people. It is better to try to avoid business activity during the preparation and holding of the annual carnival in Rio de Janeiro, passing a week before Lent on the Catholic calendar.

The process of presentation and greeting can be quite stormy, with an energetic handshake, and as friendly relations develop, they can also be expressed in embraces. In Brazil, gifts are not a priority method for strengthening business relations. Presenting business gifts is not necessary at the first meeting, it is better to order a good lunch or dinner.

Gifts are given at the end of the formal part of the negotiations. One should be careful with the gift to the representatives of opposite sex, since this can be interpreted equivocal. If a man offers a business gift to a woman, then he should specify that it is a gift, for example, from his wife. You should also avoid choosing gifts in the national yellow-green range, as these are the colors of the Brazilian flag.

In the business sphere, Brazilians prefer a conservative style, so a dark suit is mandatory for meetings with business partners and government officials. Women should avoid combinations of yellow and green. It is better to use a neutral gamut.

### **5.4. The economy and economic policy of India**

India takes second place in the world by the number of population (1.21 billion pers.) and seventh one by area (3.3 million km<sup>2</sup>). India is on the fourth place in the world in GDP volume (3.3 trillion dollars). In 2014 the external debt made 412.2 billion dollars and its specific gravity in GDP was 23%. The output of GDP per capita is 5.86 thousand dollars.

India belongs to the group of developing countries having a medium-sized level of income. The country produces 5.6% of world GDP, 1.67% of world export and 2.59% of world import, 2.57% of world industrial production and 10.91% of world agricultural output. However, taking into account the considerable number



of population, the indices per capita are much lower than ones in highly developed countries.

India has been a member of UNO since the moment of its foundation, one of founders and leaders of the Non-Aligned Movement and occupies a special position in non-proliferation of nuclear and rocket weapons and creation of nuclear-free zone in South Asia. India is a member of the South Asian Association for Regional Cooperation (SAARC) and “Colombo Plan”.

In the last years India went to the post-industrial development stage. In 2014 in GDP output the agriculture occupied 17.6% and industry did 29.7%. 52.7% of GDP is inherent in service sector such as transport, trade and communications. The GDP growth rates were marked on the level of 6.0% in 1991-2000. It is lower than on the average in Asia (6.6%) but higher than in developing countries as a whole (5.0%). In 2014 the GDP growth rate made 8.7%.

We should note that the population of India is doubled every 30 years and GDP has been doubled every ten years since 1980. Thus, the significant growth of GDP per capita is provided but for the present India could only pass from the group of the poorest developing states to one having a medium-sized income. Its GDP per capita 1.8 times lower than in other countries in Asia and 1.9 times lower than in developing countries in total.

The specific gravity of GDP in India in the world output of goods and services constantly changed during the century: at first it has decreased till 1970 and then steadily increased. But, nevertheless, for the time being it is not comparable with the share of Indian population (17%) and availability natural resource potential.

Describing the share of India in the world agricultural output, we should mention that it has reduced compared to 1900, whereas the specific gravity of other countries in Asia and developing ones as a whole has increased.

India takes first place in the world in output of sugar, second place after China in cultivation of jute and tobacco, cotton fiber and cotton fabrics and third place after China and the USA in coal production and also in output and consumption of cotton.

India has a rich natural resource potential. It enters the first ten of countries in the world by the number of population, overall area of territory, worked lands, river hydro, stock of timber, reserves of coal, iron, uranium, manganese, chromite ore, bauxites, diamonds and other gems. However, the country is not rich in oil, so India imports it and oil products.

The specific gravity of India in the world industrial production has begun to grow since the 1980ties. The development strategy in so-called «lines of penetration» was worked out which became main lines connecting the four largest parts of country such as Mumbai, Calcutta, Madras and Delhi. These railway lines formed a quadrangle which sides were named as «growth corridors». Thanks to the developed infrastructure available, they began to involve the major industrial construction projects in the country. The enterprises of ferrous metallurgy and

heavy mechanical engineering became to appear here. The «growth corridors» were considerably expanded involving new undeveloped sites.

Despite the significant natural resource potential, the industry development was restrained by the lack of source of raw materials and deficit of financing funds.

The structure of **industrial production** in the forming of GDP is the following: textile industry – 17.2%, oil and coal industry – 16.5%, ferrous and nonferrous metallurgy – 14%, mechanical engineering – 12%, food industry – 11.4%, pulp and paper industry – 7% and electro technical industry – 5%.

The growth rate is observed in the industries of information and computer technologies. 5% of world market of computer equipment and software belong to India.

**The agriculture remains** as the main link of the economy, 52% of able-bodied population is employed in it. The government continues realizing the principles of the «green revolution» in the agriculture directed at the irrigation of areas under crops, expansion of sown areas under high-yielding variety of plants and more active utilization of mineral fertilizers and agricultural machinery.

The constant shortage of state allocations is felt in the agriculture. The significant investments are put into the creation of rural infrastructure. The policy of price liberalization for agrarian products contributed to the growth of private investments into the agricultural output.

The private sector, which provides 75% of GDP in the country, plays the leading part in the economy of country. It is in the lead in the light, food and medical industries, in trade, mechanical engineering, construction and motor transport. 25% of GDP output is inherent to the government sector. It prevails in defense industry, power engineering, aircraft, railway and sea transport, communications and metallurgy. The government sector is involved in research and development. India disposes of high electronic technologies, space industry and nuclear power.

In recent times the centralized planning was substituted by market mechanisms. A wide access was opened for private companies to such, earlier exclusively public sectors as aircraft construction, shipbuilding, ferrous and nonferrous metallurgy, electric power and aircraft transport.

Several times the banking system was reformed for the years of independence in India. In the 1950ties the large commercial banks began to be founded together with small ones. In 1969, with the purpose of more even distribution of credit resources, 14 banks and in 1980 another 6 ones were nationalized. The banks were obliged to allot 40% at the least of all the credits to priority industries of the economy. The strict control of banking activities on the side of government led to the deterioration of its financial position. In the 1990ties the government proceeded along the liberalization path of banking sector. The foundation of new private banks, including ones with foreign capital, has been permitted. These establishments could issue shares to raise capital but the stake remained with the state.

Despite the economic growth, according to the data of the World Bank, 25% of population in India is below the poverty line having income of less than 1 dollar a day. For improving the economic situation in the country the state began to pay higher attention to the development of small enterprises. As a result, their share in the industry reached 40%, in industrial exports – 45%, in total exports – 35%.

Constant redundancy of labor, limited purchasing power of the population, insignificant progress in economy became a basis of mass development of traditional forms of economic activity. Attraction of new technologies allowed carrying out modernization of a small-scale production, technically to pull it with the large one.

The state pursues policy of protection of domestic market against the active foreign competition which creates conditions for a survival of the small enterprises focused on poor segments of the population. This market has its own specific: demand is limited by a narrow set of essential products; it is poorly subject to changes that allow not spending additional resources for modernization and updating of the range. It is typical for textile, shoe, tanning, glass and construction production in which the small enterprises make 70-80%. Government has developed a list of goods prohibited for the production by large enterprises. It includes 800 items of goods, which it is advisable to buy from small producers at fixed prices. This virtually guarantees the sales of these products.

The policy of “rural industrialization” is realizing in India – the enterprises for processing of agricultural raw materials on small creameries, the device for rice drying and mills are creating. It gives the chance to increase employment of the population and to use local resources more widely. A decision was made on creation, especially in economically backward areas, clusters of small enterprises as centers of growth.

The number of manpower in India makes 523.5 million people, 7% of them are jobless.

The government developed the new economic program providing acceleration of liberalization of the economy, increase of growth rates of agricultural production to 5% a year, stimulation of foreign business. In 40 priority industries, including the automotive industry, production of artificial fertilizers and the power equipment, the government guarantees to foreign investors a controlling stake.

Specific weight of India in inflow of portfolio investments into developing countries makes 9.5%. Priorities are given to investments into development of infrastructure and key industries of economy, including the export-oriented ones.

Having rather capacious domestic market, the economy of India is focused on its filling and takes respectively insufficient part in the international division of labor. For export arrives only 7% of GDP. In structure of the Indian export textile products – 24%, agricultural production – 18.9%, jewelry – 14%, cars and the equipment – 8.1%, leather and leather products – 4.4%, pharmaceutical goods – 4% prevail.

The share of India is 20% of tea, 10% of spices, products from leather, precious and semiprecious stones, 5% of iron ore and its concentrates, cotton fabrics, textile products in world export. The specific weight of raw materials as reduced at the expense of increase in specific weight of an industrial output (76% of all export) in recent years in structure of export.

The country remains the largest producer and the exporter of tea. Duties on import of tea from Bangladesh, Nepal, and Sri Lanka were lowered or ensuring constantly growing its domestic demand, and reduction of export of high-quality grades.

Specific weight of India in world export of agricultural production makes 1%.

Such products as: oil and oil products, natural gas, cars and the equipment, production of chemical industry, gold, silver, precious and semiprecious stones for the jeweler industry prevail in the structure of import.

The main trade partners of the country are: the USA, Great Britain, Japan, Germany, the United Arab Emirates, Belgium, Italy, and recently - NIS of Southeast Asia.

Foreign financial aid plays an important role in economy of India; its annual size makes 7 billion dollars. Main creditors are "India Development Forum", IBRD, IDA.

### ***Economic policy of India***

From the very beginning of independence the government of India faced with unbalanced and decentralized economy, with the centrifugal tendencies of the local warlords and oligarchs. The great President of India Jawaharlal Nehru laid out a course, named after him, which provided a significant increase of the role of the government in the economic sphere. The reliance on internal forces was in the basis of the economic strategy "Nehru course".

From the first years of independence Nehru strongly strengthened the public sector in the economy. All enterprises owned by colonial authorities were nationalized. The public sector began to develop most dynamically. In the early 1970s, its share in GDP amounted to 26%, and in the early 1980s – 38%. At the same time the government controlled the major activities of the private sector.

Government regulation in India is carried out in terms of mixed economy. Two methods of regulation are applied there: direct (administrative) and indirect (economic). Lagging enterprises that are at low technological level, poorly react to economic regulation, therefore they are subject to administrative methods. Enterprises and sectors with high technological level are more amenable to economic methods that give greater effect. Economic regulation is carried out by regulation of prices, tariffs, terms of loans, exchange rates and level of taxes.

In the early stages of economic reform (until the end of the 1980s), the government carried out the policy of protecting the domestic market from active foreign competition, creating conditions for the survival of small enterprises, focused on the poorest population. The policy of "rural industry" is carried out in rural areas – the enterprises on processing of agricultural raw materials were

established at small creameries, rice drying houses, mills. This gives the opportunity to increase agricultural employment and to use broader the local resources. There was decided to create clusters of small enterprises like growth centers, especially in economically backward regions.

In the early 1990s India faced with new economic problems. The process of development of the economy became less stable. There was the growth of the balance of payments deficit, as well as external and internal debt. During 1990 - 1994 the average annual GDP growth fell to 3.8%. In 1991-1992 India was overtaken by financial crisis. The budget deficit of the Central government amounted to 8.2% of GDP, the balance of current transactions deficit – 3.5%, inflation jumped to 17%, growth in industrial production has not even reached 1%, export significantly decreased [8, p. 224].

In such conditions, it became obvious that is needed a new strategy for economic development, which was chosen by Indian government. The basis of the strategy became the limitation of government regulation, liberalization of economic policy.

The achievement of macro-financial stabilization and restructuring at the industry level was the initial task. The reforms have covered almost all sectors of the economy. Price changes were implemented in agriculture; the prices of agricultural products were approached to the actual cost of their producing. There were preserved the subsidies for producers in the agricultural sector. According to various estimations the subsidies account for 14% of GDP, that complicates relations between India and the WTO.

The licensing of enterprises was abolished in the industry; this has contributed to capital formation. Some sectors of the economy that previously were state-owned were opened to private enterprise. The quantitative restrictions were removed in foreign trade and the tariffs were reduced from 71% in 1993 to 35% in 1998.

Economic reforms have contributed to the inflow of foreign investment to India. During the years of reforms the country attracted 27 billion dollars of direct foreign investment. The significant role in this process belongs to ethnic Indians living abroad: in the 1990s their share in FDI amounted to 31%. However, foreign investment makes up 11.5% of the needs in the Indian economy. The inflow of investment is restrained by bureaucratization of Indian society, corruption, closedness of certain sectors for foreign capital.

The creation of a competitive economy by the standards of the global market economy is defined as the strategic goal of economic reform in India for the first decade of the current century. The course is set for the weakening of governmental intervention in the economic mechanism of the country with the purpose to encourage private initiative, extension of opportunities for self-regulation of the national economy. The acceleration of the process of privatization of public sector enterprises, reforms in the banking sector, reform of labor legislation were defined as the priorities of the 10<sup>th</sup> plan of socio-economic development of India (2002-2007). Special attention is paid to implementation of programs regarding

development of infrastructure, especially energy, oil and gas industry, transport and communications.

A large amount of poor population, unemployment still remains as the problem of the Indian economy. This constrains the introduction of new technologies in economy, because the increase in production efficiency will lead to the dismissal of a significant number of employees. That's why most of the technological achievements in India have export orientation. On the other hand, the annual departure from the country of tens of thousands of the most qualified specialists weakens the position of India in the hi-tech field.

So, the task of the government of India is to form a new economic development strategy for the next years, which would accelerate the pace of development and would promote the improvement of living standards of general body of population.

Since 2014 a series of new economic reforms began there. These reforms, according to opinion of experts, will have a positive impact on the economy, since the accelerated modernization of infrastructure, tax reform, reduction of various subsidies and other measures can increase a percentage point of GDP growth and will open the doors for foreign investment [105].

### *Features of business ethics*

Business etiquette in India is not very different from business etiquette in other countries, as it goes back to the times of British rule. However, in dealing with Indian businessmen, one should also take into account some of the nuances associated with the fact that India is a country in which various cultural and religious traditions coexist and this is reflected in business etiquette.

Almost all Indians speak English. In business negotiations, your partner can demonstrate a great knowledge of English with Oxford pronunciation, the deep knowledge of philosophy.

When greeting, men shake hands. You can use the local greeting, especially when meeting a woman - folded hands together before the chest and a slight bow.

It should be kept in mind that in India there is influence of caste system. It is necessary to know to which caste the business partners belong and to know the relevant restrictions, for example, the prohibition of contact with representatives of the lower castes, so as not to force the Indian partners to do what is contrary to their principles. In India and Pakistan, it is not accepted to touch the interlocutor under any circumstances, whereas for Europeans and Americans this is quite acceptable and even required by etiquette, for example, patting a partner on the shoulder. In conversation, one should not touch on personal topics, poverty issues, military expenditures and large volumes of foreign aid.

Business in India is often discussed in a quiet and informal place, for example, in a restaurant or at home with a business partner. Late start of the meeting is a normal phenomenon, which is not considered a sign of disrespect. In India the direct refusal to an invitation to discuss business matters during lunch is considered insulting. If it is not possible to accept the invitation, it is better to give

a non-binding, vague answer to it with a promise to think or revise the schedule. And only after a while you can give the final answer.

Of great importance are the traditions associated with food. Most people in India only eat vegetarian food, the cow is considered a sacred animal. Muslim Indians do not eat pork and does not drink alcohol. When passing or accepting food, it is taken only with the right hand. Being in this country, one should observe the customs of Indian business partners.

In India, business is done with friends, so a good personal relationship is his basic premise. The communicate with Indians should be delicate and patient. It is advisable to refuse telephone conversations in favor of communication through a serious intermediary. This is the only way to get a worthy partner and lay a good foundation for future relations.

Indians are not too punctual. It is common belief among the Indians that everyone should wait for an important person, so you need to be prepared for the fact that a partner may be late. But the guests and business partners should be accurate. The appointment should be made in writing form in advance; and also the materials relating to the subject matter of the transaction and the proposed rules of the negotiation process should be submitted in advance. Since the Indians - out of courtesy - do not ask questions, you yourself need to ask more often whether everything is clear. In India it is customary to praise even for doing a little services.

### **5.5. Economy of the least developed countries and features of their economic policy**

The group of the countries, which include the least developed, that is low-income countries, is quite numerous. Experts include from 54 to 60 countries in this group. Mostly the level of social and economic development is estimated by indicators of literacy, GDP per capita, purchasing power, the size of an external debt, structure of national economy, employment of the population in various spheres of production, etc.

There are about 50 countries in the world with GDP per capita less than 1025 dollars a year on classification of the World Bank. Their greatest number is in Tropical Africa to the south of Sahara (38 states), in the Latin American and Caribbean region: Haiti, Honduras, Nicaragua; in Asia - Afghanistan, Butane, Yemen, Cambodia, Laos, Myanmar, Nepal.

Reasons of poverty of these countries are different: consequence of an injurious colonial policy (Haiti, Myanmar, Côte d'Ivoire), peripheral situation (Nepal, Butane), lack of considerable reserves of minerals (Chad, Niger, Benin), dictatorships (Honduras), lack of an outlet to the sea (Mali, Central African Republic, Uganda), underdeveloped transport, financial and social infrastructures.

Underdeveloped countries are differed from other ones in an uncontrollable and unregulated demographic situation at which GDP growth of the country

doesn't keep up with population growth. There are low life expectancy (on average 40-57 years old), high mortality (20-26 ppm), including children (135-170 ppm) in these countries. Processes of pseudo-urbanization in a bigger measure complicate already numerous economic problems. About 1 billion people in developing countries suffered from constant malnutrition; about 1.3 billion people had daily profits of less than 1 dollars; more than at 1.1 billion people the expected life expectancy didn't exceed 40 years.

The main part of the consumer budget goes for food in underdeveloped countries. 25 countries are allocated in the world, where was a decrease in caloric content of an annual diet for the last 25 years. If more than 2 thousand calories were the share of one person on average per day in 24 countries in 1970, there were only 17 countries with the same indicators in 1996, and 8 countries fell below this level: Angola, Burundi, Zaire, Zambia, Cambodia, Mozambique, CAR and Chad. We will add to them Rwanda, Ethiopia, Eritrea, and the total number of the population of "the countries of malnutrition" will make 460 million people.

The basis of the economy of these countries is extensive agriculture. 40% of GDP fall to its share. 80% of the working population is engaged in this sphere.

Many types of agricultural production are the main export items of these countries and provide 90% of currency receipts (for example, cocoa in Côte d'Ivoire and Ghana, coffee in Nicaragua and Ethiopia). Falling of the prices or demand for similar production instantly reduces receipt of currency to these countries. The intensification and modernization of low-productive agriculture in these conditions is problematic due to the lack of possibility of accumulation of the capital for its subsequent investment into modernization.

Financial and political instabilities in the majority of the countries of this group hinder their integration into the world economy and do them unattractive for foreign investments.

***Problems of economic development.*** Underdeveloped countries have no sufficient resources for overcoming the poverty by own forces. Lack of rich mineral deposits doesn't allow gaining the income from a mineral rent. Development of the available mineral deposits and their production depend on inflow of external investments that interfered by political instability and lack of transport infrastructure. Low level of literacy, high percent of functionally uneducated population constrains development of labor-consuming productions in these states of productions. The world community constantly gives help to this group of the countries in various forms, but lack of effective control of its distribution doesn't allow using similar receipts rationally.

The lowest level of accumulation of means of the population and the production capitals does impossible investment of branches for creation of means of production, preparation of the qualified labor, improvements of technologies. Low level of accumulation is the result of poverty and at the same time the reason of their preservation. The insignificant volume of investment doesn't provide implementation of new technologies. For example, the cumulative sum of all DFI, invested in economy of less developed countries such as Africa and Haiti during



last 40 years is equal to 136 billion dollars that is in 3.6 times less, than investments into economy of Brazil for the same period (483.9 billion dollars). Low domestic demand even on essential products doesn't allow creating enterprises not only of mass, but also of series production.

Underdeveloped countries are at the initial stage of development of the industrial society. Such branches as: mining of raw materials, and also recycling of agricultural raw materials and production of food and goods of daily demand are mainly developed in these countries.

Industrial production is concentrated generally on small enterprises in these countries. Small enterprises take the second place after agraria n sector by numbers of employed and are largely related with this sphere by production relationships. These enterprises use the available insignificant raw material resources more effective, deliver consumer goods to the population and make the instruments for agriculture. It is especially important in conditions of underdevelopment storage and refrigeration facilities, underdevelopment of infrastructure and constant power outages. For example 70% of craftsmen work in areas without electricity or running water because of problems with the electric power in East Africa. Besides, production intensification level at such enterprises is lower, than at large ones, which give the chance to create additional workplaces. The big specific weight of the live labor, including unaccounted cases of work of families, children and females, is present at such enterprises.

Ability of the small enterprises to adapt to an unstable economic situation found reflection in their special forms - association of industrial and agricultural activity. It is so-called "rural industrialization" and "small industrialization" which are mainly created outside the large cities for the maximum approach to a source of raw materials. Such forms of business give the chance to expand scales of use of local natural resources, and to reduce outflow of labor from rural areas due to development of labor-consuming productions.

**Clusters** are created in a number of developing countries; they are the groups of small territorially connected enterprises carr ying out joint purchases of raw materials and sale of finished goods. Small enterprises maintain the competition to larger producers of similar production thanks to economy on administrative staff and more careful studying of the local markets.

There is a considerable differentiation of small enterprises on degree of technical armament, specialization, a skill level of shots, labor productivity. Cooperation of the small enterprises with the large ones leads to high-quality changes in the industry. New incentives of growth of a small-scale production are created by internationalization of the world economy with an active role of TNCs. The small enterprises in textile, shoe, clothing industry are the objects of interest of TNCs. The number of small enterprises on production of national crafts extends. Handicraft and craft workshops with the big specific weight of manual skills enjoy support of the government of the countries not only taking into account economic needs, but also for the purpose of preservation o f cultural heritage. Informal (unorganized, informal, unregulated) sector is functioning widely. The opulation

which is occupied in traditionally backward branches of economy and it isn't considered by official statistics, differs by the low incomes which could be frequent in natural form, and people, who are on the verge of a physical survival are typically included to this sector. These are the smallest enterprises making goods and services, and also independent, self-busy producers in the cities. In Asia and Africa more than 50% of the women, who aren't occupied in agriculture, work in the informal sector (Zambia -72%, Gambia - 62%) covering mainly retail trade and traditional services for these countries.

High rates of urbanization promote overflow of the cities by excess labor. The specific weight of informal employment makes 20-60% in cities. Textiles, carpets, toys, footwear, costume jewelry, wigs, artificial flowers are produced in the informal sector.

### ***Conditions of implementation of economic policy of developing countries***

The creation of a favorable investment climate with the purpose of attraction of foreign investment was an important feature of economic policy in developing countries; in particular, there was proposed preferential taxation, the possibility of acquisition of immovable property by foreign investors. In 1980-1990 this furthered the rapid inflow of investments; gradually, since the mid-90ties, the rates of foreign investment began to subside due to the fact that a growing part of FDI began to head for the markets of developed countries.

Gradually in separate countries the implementation of structural reforms started. From the extractive industries, they began to move to the processing labor-intensive and even science-intensive. It concerns the so-called newly industrialized countries. There was the rapid growth in engineering and social infrastructure, services, tourism, banking, insurance, and communications. The tight fiscal policy, the policy regarding reducing inflation rates, fights with corruption and shadow capital were carried out; however, the achievements in this sphere were not so obvious.

The reorientation of production from import-substituting development strategy to the export-oriented is one of the strategic directions of economic policy in developing countries. It has greatly expanded the range of goods for export, shifting from the category of mono-functional to poly-functional.

The model of "etatism" was widely applied in many developing countries, at the initial stage of economic reform. This model includes the broad intervention of government in economic processes, the creation of a powerful public sector. Economic resources turned out to be in the hands of the government, which constantly regulated the prices for the products of state-owned enterprises, regulated the exchange rate, and controlled the foreign trade. The number of workers was artificially overstated to reduce the unemployment at state-owned enterprises. The negative effects took place along with the positive effects of such policy (for example, in Singapore, Taiwan); particularly the large concentration of resources and economic power in the hands of government officials often led to corruption.

The majority of countries of this group have moved to neoliberal policy at the present stage of economic development. Especially widely the neoliberal model is applied in countries of Latin America. It was developed by the UN Economic Commission for Latin America and the Caribbean (ECLAC). This model, called the “peripheral economy”, envisaged structural transformations regarding the formation of import-substituting industrialization. The main role in the implementation of the model should be played by the government, but due to the methods of macroeconomic policy. The import-substitution policy allowed to develop new industries and to maintain a sufficiently high rate of economic growth in Latin America.

In the 1990s there was proposed a new model – the “Washington consensus”. Implementation of the “Washington consensus” model led to contradictory consequences. Positive effects include the growth of foreign trade rate, attraction of foreign investment, the negative – financial and currency instability, which turned into a sequence of crises, in particular, in Argentina, in Southeast Asia.

### ***The economic policy of the least developed countries***

As it was already mentioned above, the problems of least developed countries are that they do not have their own reserves to overcome poverty. The absence of rich mineral deposits, political instability, lack of transport infrastructure, and low level of education of the population become the obstacle for economic development. The extremely low level of accumulation of population's funds and production capital excludes the investment of sectors for creation of means of production, training of skilled labor, technology improvement. This, in turn, does not promote the growth of labor productivity and causes low consumption level. Insignificant investments that take place do not ensure the implementation of new technologies. Low demand even for essential commodities does not allow creation enterprises for serial production.

The main strategic goal of the majority of countries of this group is the industrialization of the economy. Nowadays the industrial production is presented primarily by processing of agricultural products, food industry. Industrial production is concentrated mainly in small enterprises. By the number of employees small enterprises are on the second place after agricultural sector and largely are connected with it.

Possibility of small enterprises to adapt to the unstable economic situation is reflected in special forms – in combining industrial and agricultural activities. It is so-called “rural industrialization” and “small industrialization”, which are established outside the large cities for maximum approaching to the sources of raw materials. These forms of entrepreneurship give the opportunity to broaden the scale of use of local natural resources, and through the development of labor-intensive industries to reduce the outflow of labor from the countryside. Clusters began to be created in a number of countries (groups of enterprises, geographically interconnected with each other that jointly purchase raw materials and sale finished products). Since 1960s the least developed countries have implemented policy of

import-substituting industrialization. Metal-working, agricultural machinery (mainly at the level of the assembly), the assembly of imported components and parts of refrigerators, washing machines, air conditioners were added to the previously formed food, tobacco and textile industries. As a rule, foreign capital is involved in the foundation of these industries. But there is very low supply of foreign investment in these countries.

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