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Aristotle’s Pursuit of the Good Life
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Abstract

In Book I of Aristotle’s *Nicomachean Ethics*, three types of lives that are generally observed to be conventional permutations of ways of living are presented as candidates for the good life. They are the life of pleasure, the political life, and the life of philosophical contemplation. The life of pleasure is immediately dismissed as a viable candidate because those that equate the good with pleasure lack the essential qualities that are required for the cultivation of a good and meaningful life. The political life, i.e. a life that is centered on action and doing good deeds for the benefit of other citizens is not so easily dismissed as a candidate for the good life due to the moral virtues that are practiced in such a life. In Book X Aristotle declares that it is indeed the life of philosophical contemplation that is the best candidate for achieving the good life. The greatest good and the goal of all action is to attain *eudaimonia*, i.e. happiness, or well-being, which is, according to Aristotle, not a state but an activity. Choosing a life dedicated to philosophical contemplation, however, in itself, does not necessarily assure the attainment of *eudaimonia*, which is a permanent possession of the soul. In addition to choosing the right kind of life to live, Aristotle argues, one’s life must also be comprised of partaking in good, correct actions, which, throughout time, lead to the development of virtues. Aristotle states that there are two different kinds of virtues, moral virtues and intellectual virtues, which are, respectively, developed through practice and instruction, and are, in almost all circumstances, achieved by striving for what is moderate in things and situations. Additionally, the external goods, as in sufficient material possessions, and having a few good friends are also essential constituents of the good life. This paper will examine the components required for attaining the good life according to Aristotle’s arguments in the *Nicomachean Ethics*, and will propose that an awareness of the teleological aspect of human nature is indeed necessary for the acquisition of *eudaimonia*.

Part One: Introduction

Aristotle’s inquiries into the foundations of the good life in the *Nicomachean Ethics* commence with the premise that there exists a teleological aspect to human nature. The goal of all actions and activities within the sphere of human existence is to attain the good. Such actions and activities, which are based initially in reasoned thought, are carried out with deliberation in order to achieve the good. The ends of all actions and activities may in
themselves differ from the good itself, however, those ends are indeed accomplished for the sake of achieving the good. Medicine is studied and practiced for achieving health, strategy is studied and practiced for achieving victory, and economics is studied and practiced for achieving wealth. Such aims are admirable and worthy of pursuit. The goals of all of the particular arts and sciences, however, are subjacent to the highest good. This is because the aspiration for the attainment of these various goals is directed towards the acquisition of the highest good and not for the particular, secondary aims. The highest practical science, which holds as its subject matter the human good, is politics, or political science. The best actions and activities to partake in are determined by individuals and by states. State governments hold the responsibility for not only protecting their citizens, but also for cultivating the good life and providing pathways for the attainment of the good. Such responsibilities are carried out by determining what subjects are deemed worthy of study and for creating laws that are conducive to creating an environment through which individuals may freely pursue ways of living that are best suited to their individual abilities and ambitions. It could be said that the goal of politics is the cultivation of the human good.

The pursuit of the good life, and its achievement and permanent possession, is the central topic that unites the analyses that are found within the ten books of Aristotle’s *Nicomachean Ethics*. In this treatise, Aristotle proposes that one of the components for achieving the good life is by partaking in good actions, which are in fact virtues, or *arête*, that are developed either through instruction or through habit. The study of ethics for Aristotle is an intellectual exercise in discerning the practical and the theoretical ways in which one may come to possess *eudaimonia*, or happiness, or well-being. Human life and its components are teleological, and the goal of all striving in life is the attainment of *eudaimonia*, which is the highest good, and may be possessed by a virtuous person as an activity and that may be described as something that is permanent. Aristotle states at the immediate opening of Book I in the *Nicomachean Ethics* that there is indeed a teleological aspect to human nature:

> Every art and every inquiry, and similarly every action and choice, is thought to aim at some good; and for this reason the good has rightly been declared to be that at which all things aim. (*Nicomachean Ethics*, Book 1, Ch. 1 1094a1-3.)

Human life is teleological in the sense that our actions are directed towards a practical goal, the attainment of the good. Actions may be voluntary or involuntary depending upon the circumstances and the nature of the situation however they all originate from an agent’s moving principle.

With regard to the virtues *in general* we have stated their genus in outline, namely, that they are means and that they are states of character, and that they tend, and by their own nature, to the doing of the acts by which they are produced, and that they are in our power and voluntary, and act as reason prescribes. But actions and states of character are not voluntary in the same way; for we are masters of our actions from the beginning right to the end, if we know the particular facts, but though we control the beginning of our states of character the gradual progress is not obvious, any more than it is in illness; because it was in our power, however, to act in this way or not in this way, therefore the states are voluntary. (*Nicomachean Ethics*, Book III, Ch. 5 1114b26-1115a2.)
In order to determine what this human good actually is, and how it may be obtained, one must first be aware of the degrees of precision that exist in relation to various inquiries, and in addition to that be cognizant of the multifarious actions and the accompanying innumerable deviations of those actions that are the subject matter of political science. Aristotle recommends such a cognizance in inquiries in ethical thought and political science in both the presentation of the subject matter and its reception. The actions that are the subject matter of political science are found only within complex human societies, and as such, analyses of those actions require less precision than subjects that are found in nature such as mathematics and zoology. The degrees of precision that exist in the many sciences are in a way determined by the starting-points of a particular subject. It is necessary to be aware of the starting-points of an argument and whether the analysis is moving from or towards first principles. First principles are the indemonstrable first axioms of the sciences, such as the principle of non-contradiction and the principle of the excluded middle. Analyses in mathematics require greater degrees of precision because those analyses start from first principles, i.e. first premises that are intelligible in thought. Ethical thinking, on the other hand, starts with things that are familiar to us, such as human action, and reasons towards first principles. This is because the first principles of ethics hide from us and are obscured from intelligibility by the limitless possibilities of human nature and human action. The student of such studies, and the political scientist, and the philosopher, accept as facts the general truths concerning human nature, and from those things that are most familiar, reason towards uncovering the first principles of that science. With these considerations in mind, let us now attempt to make known what Aristotle identified the greatest human good to be, and how it may be attained as a permanent possession.

Part Two: The Highest Human Good

In many of his treatises, Aristotle presents the opinions of his predecessors and/or the commonly held beliefs of a specific group or the general population, which he termed *endoxa*, and utilized it as one of the starting-points into philosophical analyses. The use of *endoxa* is one of the fundamental aspects of Aristotle’s dialectic, and this is because he understood that some long-held beliefs and opinions of specific groups that held up against argumentation were potentially true propositions, or in the least, contained some truth, or pointed towards the truth. At the outset of the *Nicomachean Ethics* Aristotle employs the use of *endoxa* in the search for the identification of the good. Aristotle observes that both the people in the general population and the wise identify living well, or *eu zēn*, with happiness, or *eudaimonia*. There is substantial difficulty, however, when attempting to identify and define what exactly *eudaimonia* is because of the disagreement of the varying accounts by the wise and the general population. Aristotle states that there are generally three kinds of lives that most people lead, and that those lives are defined in a way by what is thought to be the good. The life of pleasure is immediately dismissed as a candidate for the good life because those that equate the good with pleasure appear to be no different from beasts. The political life is a type of life that is pursued by people that are active and well-educated, however, since the end of the political life is the acquisition of honor, its candidacy for the good life comes into question. This is because honor is something that is conferred upon someone by others, and is not truly a personal possession, and it may be taken away due to circumstances that lie outside of one’s control at any time. The well-educated that possess practical wisdom, or *phronēsis* who pursue the political life may argue that it is virtue, and not honor, that is the goal of the political life. Although Aristotle does not argue against this point, he does indeed argue that the mere possession of virtue in
conjunction with the political life does not lead to the acquisition of *eudaimonia*. This is because one may possess virtues yet remain inactive and do nothing in life, just as one may have virtues yet be asleep, and hence be doing nothing with those good states of character. The political life, therefore, is not so easily dismissed as a candidate for the good life, because those that pursue such a life may possess *phronēsis*, or practical wisdom, and seek virtue as the goal of such a life. The passive possession of virtue by those in politics, however, is not adequate enough to say that such a pursuit in itself is the best candidate for the good life. The third candidate for the good life is the life of contemplation. This is indeed the life that Aristotle identifies as the best life to lead, a way of living that may lead to *eudaimonia*. An analysis of this way of living is reserved for the final book of the *Nicomachean Ethics*. In addition to the three types of lives presented, one final candidate for the good life that is quickly dismissed is the life that is dedicated to making money. This is because people are in a way forced to partake in this life, due to economic necessity, and that the achievement of wealth is not an end in itself, for money is always used for the acquisition of something else. Even though the life of contemplation has been identified as the way of living that may lead to *eudaimonia*, or well-being, what the actual highest human good is has yet to be determined.

In Book I, chapter 6 of the *Nicomachean Ethics*, Aristotle continues his search for the good through an examination of Plato’s philosophy. Aristotle was a student of Plato, and spent nearly twenty years studying under him at the Academy in Athens, and therefore for Aristotle it is necessary to examine the Platonic conception of the good in order to attempt to discern and uncover the nature of what it is we are seeking. Clearly identifying Plato’s conception of the good is no easy task due to the fact that he wrote only dialogues. It is generally agreed upon by philosophers that within these dialogues it is Plato that is speaking through the character of Socrates, who in reality actually wrote nothing that has survived to the present day. However, the dialogues consist of many characters, and the dialogues usually do not conclude in any type of resolution or definition, but in puzzlement, or *aporia*. Furthermore, Plato held speech to be superior to written words, so it would seem as though an understanding of Plato’s philosophy would rest on an analysis by one of his students that attended his lectures in the Academy, combined with an analysis of his dialogues. This is exactly what Aristotle does in Book 1, chapter 6 of the *Nicomachean Ethics*. Although Aristotle greatly respected Plato, it is more important for him to discern the truth rather than refrain from criticism.

We had perhaps better consider the universal good and discuss thoroughly what is meant by it, although such an inquiry is made an uphill one by the fact that the Forms have been introduced by friends of our own. Yet it would perhaps be thought to be better, indeed to be our duty, for the sake of maintaining the truth even to destroy what touches us closely, especially as we are philosophers; for, while both are dear, piety requires us to honor truth above our friends. (*Nicomachean Ethics*, Book 1, Ch. 6, 1096α11-16.)

Aristotle’s criticism of the Platonic conception of the good is connected directly with the Platonic theory of the Forms. The theory of the Forms is presented by Plato in many of his dialogues, however, it is in *The Republic* Books VI and VII where we find its presentation in conjunction with his conception of the highest good. Plato’s theory is a metaphysical doctrine that claims that the true nature of reality lies in perfect and unchanging Forms. The theory of Forms postulates that there exists perfect, eternal and nonphysical Forms or Ideas of things and qualities that are found in our world. All things, such as beauty, justice, tables, and, yes, goodness, partake in and are striving towards the perfection of their corresponding Form.
Book VI of the *Republic*, Plato, through the character of Socrates, states that the object of study and the duty of philosophers is to search for the Forms.

And what is the next question? he asked.
Surely, I said, the one which follows next in order. Inasmuch as philosophers only are able to grasp the eternal and unchangeable, and those who wander in the region of the many and variable are not philosophers, I must ask you which of the two classes should be rulers of our State? (Plato, *The Republic*, 484.)

With such a limited demarcation of the proper subject of study suitable to a philosopher, Plato has committed himself to the idea that a search for truth outside of a search for the Forms lies beyond the scope and is not worthy of consideration for the wise. This commitment to the Forms is displayed in his search for the good. Plato thinks that the good is the highest knowledge, something that is superior to justice or anything else. To possess this highest knowledge is to have knowledge of the Form of the good, and not mere appearances of the good in our changing and imperfect world. Our world, the world of shadows, is, for Plato, a mere resemblance of the perfection of the Forms. Plato, again speaking through the character of Socrates, declares the superiority of the good in the following passage.

Now, that which imparts truth to the known and the power of knowing to the knower is what I would have you term the idea of good, and this you will deem to be the cause of science, and of truth in so far as the latter becomes the subject of knowledge; beautiful too, as are both truth and knowledge, you will be right in esteeming this other nature as more beautiful than either; and, as in the previous instance, light and sight may be truly said to be like the sun, and yet not to be the sun, so in this other sphere, science and truth may be deemed to be like the good, but not the good; the good has a place of honour higher yet. (Plato, *The Republic*, 509.)

Plato and Aristotle do seem to share one aspect of the conception of the good: its position above anything else in terms of its significance. However, that is basically the only similarity they share. Plato’s conception of the good is the Form of the good, something that lies transcendent to the perception and the world of humans. This is the good itself, a Form that exists beyond the sphere of humans. Aristotle’s good exists in our world, and it is something we can possess. Plato’s good is beyond our access, and therefore is not even relevant to human experience, experience that is limited by a perception of shadows. The consequences of Plato’s theory of Forms are quite puzzling to Aristotle, on both the metaphysical and ethical levels. Aristotle conveys his puzzlement concerning the Form of the good in the following passage.

And similarly with regard to the Idea; even if there is some one good which is universally predicable of goods or is capable of separate and independent existence, clearly it could not be achieved or attained by man; but we are now seeking something attainable. Perhaps, however, some one might think it worth while to have knowledge of it with a view to the goods that are attainable and achievable; for having this as a sort of pattern we shall know better the goods that are good for us, and if we know them shall attain them. This argument has some plausibility, but seems to clash with the procedure of the sciences; for all of these, though they aim at some good and seek to supply the deficiency of it, leave on one side the knowledge of the good. Yet that all the exponents of the arts should be ignorant of, and should not even seek, so great an
aid is not probable. It is hard, too, to see how a weaver or a carpenter will be benefited in regard to his own craft by knowing this ‘good itself’, or how the man who has viewed the Idea itself will be a better doctor or general thereby. For a doctor seems not even to study health in this way, but the health of man, or perhaps rather the health of a particular man; for it is the individual he is healing. (Nicomachean Ethics, Book I, Ch. 6 1096b32-1097a13.)

Aristotle’s criticism of Plato’s theory of Forms is essential for understanding the unified project of the Nicomachean Ethics. Aristotle is searching for the good that is applicable to human life, and Plato was basically unable to reasonably connect the Forms to sense-perceptible substances. Plato claimed that sense-perceptible substances ‘participate in’ the Forms, however, how that is accomplished was never delineated. Aristotle does indeed posit the existence of eternal non-sense-perceptible substances, however, they are not the Forms, and the argumentation that supports their existence is based on logic and our sense-perceptible world. It has been demonstrated through previous research that Aristotle, in Book Alpha of the Metaphysics, presented twenty separate arguments against the theory of Forms. These arguments, combined with the arguments against the Forms found in the Nicomachean Ethics, fundamentally dismantle Plato’s doctrine and create a pathway towards an Aristotelian understanding of the abstract nature of reality at its most fundamental level, a realization of the purpose of human nature that is grounded in our sense-perceptible world, and the ability to philosophize about those puzzles with tools that are forged from reason and not shadows.

Since what we are seeking is to be found in this world, and not some other world that is completely disconnected to humans, Aristotle continues his search for the good by an examination of the various goods that are a result of particular human actions and endeavors.

Let us again return to the good we are seeking, and ask what it can be. It seems different in different actions and arts; it is different in medicine, in strategy, and in the other arts likewise. What then is the good of each? Surely that for whose sake everything else is done. In medicine this is health, in strategy victory, in architecture a house, in any other sphere something else, and in every action and choice the end; for it is for the sake of this that all men do whatever else they do. Therefore, if there is an end for all that we do, this will be the good achievable by action, and if there are more than one, these will be the goods achievable by action. (Nicomachean Ethics, Book I, Ch. 7, 1097a15-23.)

There is a teleological basis to all human actions, and even though the goods, or final goals of all actions differ respectively according to the activities that create them, all goods are similar in some ways. The goods are the reasons why certain actions are carried out. Walking is carried out in order to create health, and carpentry is carried out in order to build a house. These goods are indeed worthy of pursuit, however, Aristotle states, they are not complete ends in themselves.

Since there are evidently more than one end, and we choose some of these (e.g. wealth, flutes, and in general instruments) for the sake of something else, clearly not all ends are complete ends; but the chief good is evidently something complete. Therefore, if there is only one complete end, this will be what we are seeking, and if there are more than one, the most complete of these will be what we are seeking. Now we call that which is in itself worthy of pursuit more complete than that which is worthy of pursuit for the sake of something else more complete than the things that are desirable both in
themselves and for the sake of that other thing, and therefore we call complete without qualification that which is always desirable in itself and never for the sake of something else. *(Nicomachean Ethics, Book I, Ch. 7, 1097a25-35.)*

The goods of all actions, then, are indeed worthy of pursuit yet simultaneously are incomplete in themselves because they are carried out for the sake of something else, i.e. the highest good. Aristotle identifies *eudaimonia* as the highest good because it is complete in the sense that it is sought after only for itself.

Now such a thing happiness, above all else, is held to be; for this we choose always for itself and never for the sake of something else, but honour, pleasure, reason, and every virtue we choose indeed for themselves (for if nothing resulted from them we should still choose each of them), but we choose them also for the sake of happiness, judging that through them we shall be happy. Happiness, on the other hand, no one chooses for the sake of these, nor, in general, for anything other than itself. *(Nicomachean Ethics, Book I, Ch. 7, 1097b1-7.)*

Through an observation of the world in general and of the actions of humans in their daily activities it becomes clear that Aristotle is correct in his identification of happiness as the highest good. Happiness is the goal of all actions, and furthermore, argues Aristotle, it is self-sufficient. This complete good is self-sufficient in the sense that when considered on its own happiness is something that is so valuable that it makes human life an exceptional condition that is pleasing and copacetic in itself. Aristotle, however, states that to say that happiness is the highest good may seem to some to be a type of prosaicism, and that such a statement does indeed require further argumentation and analysis.

Aristotle initiates an analysis of human nature through the search for the *ergon*, or function, of human life. Aristotle has identified that *eudaimonia* is the highest good for humans, however, the identification in itself does not inform us what exactly it is. Aristotle is searching for the answer to the *ti esti* or ‘what-it-is’ question regarding happiness. The function argument, then, for Aristotle, is a necessary part of the inquiry for the search for the good life. And understanding Aristotle’s use of the concept of *ergon* will give us a clearer picture of human nature. Aristotle remarks that we can understand the function of certain activities and human occupations when those activities are considered in conjunction with a high level of skill. For artists, such as musicians, playing an instrument well is the function of that activity, and the good is found within the proficient accomplishment of creating beautiful music. Likewise, the function of a carpenter is to create a well-built house. Yet life itself is not defined by an occupation or one specific activity, such as making music, for we are searching for the function of human life in the most general sense. When we consider the human body it becomes clear that it has many functions. The function of the eye is to see well, the function of the hand is to grasp things well, and the function of the heart is to circulate blood well. This is true for the entire human body; it is a perfect whole that is comprised of many parts with as many different functions. Is there one function amongst all of the functions found within the human body that we may say is the function of humans? The aggregate of the functions of the human body support life itself, so perhaps just living is our function. However, Aristotle remarks that life is found amongst plants, and that what we are seeking is particular to the human condition. Therefore, the qualities of life shared by plants and humans, such as nutrition and growth, cannot be candidates for the answer we are searching for. Even the wonderful senses that we possess that differentiate us from plants do not provide us with the answer we
are searching for. Our most prized sense, sight, is shared with horses and all other animals, and is therefore not applicable to only humans. What distinguishes us from plants and animals, Aristotle states, is reason.

There remains, then, an active life of the element that has reason; of this, one part has it in the sense of being obedient to reason, the other in the sense of possessing reason and exercising thought. And, as ‘life of the rational element’ also has two meanings, we must state that life in the sense of activity is what we mean; for this seems to be the more proper sense of the term. (Nicomachean Ethics, Book I, Ch. 7, 1098a3-7.)

It may seem from the above passage that Aristotle has identified the human *ergon*, or function, as reasoning, however, that is only one component to the solution of the puzzle we are trying to solve. Our purpose-driven lives are guided by particular reasons, reasons that determine our actions and differentiate ourselves from plants and animals. In addition to reasoning, however, one must possess virtues in order to attain *eudaimonia*. Just as the function of the hand is to grasp things well, or the function of the eye is to see well, we are seeking a life of activity accompanied by rationality that is lived well. A virtue, or *arête*, is a state of character or quality that assists us in realizing our function. Strength is a virtue in the hand because it assists in grasping things well, and likewise depth perception is a virtue in the eye because it assists in its function of seeing well. Musical skill is a virtue of the human soul because its possession assists in the creation of something that is beautiful and good. A life well-lived is a life that possesses the best virtues, i.e. states of character or qualities that assist us in making the correct reasons that lead to *eudaimonia*. The function of human life, then, is to live well through virtuous actions in conjunction with exercising rationality.

…[and we state the function of man to be a certain kind of life, and this to be an activity or actions of the soul implying a rational principle, and the function of a good man to be the good and noble performance of these, and if any action is well performed when it is performed in accordance with the appropriate virtue: if this is the case], human good turns out to be activity of soul exhibiting virtue, and if there are more than one virtue, in accordance with the best and most complete. (Nicomachean Ethics, Book I, Ch. 7, 1098a12-17.)

*Eudaimonia*, though, is sought after as a permanent possession, and must be cared for and developed from the perspective of a whole human life.

But we must add ‘in a complete life’. For one swallow does not make a summer, nor does one day; and so too one day, or a short time, does not make a man blessed and happy. (Nicomachean Ethics, Book I, Ch. 7 1098a18-19.)

Aristotle, in his pursuit of the good life, is calling for the permanent possession of happiness, and this is acquired by partaking in and realizing human nature’s ultimate function, living a distinctly human life centered on virtuous activities that are practiced, performed well and carried out with rationality, a faculty that lies only within the sphere of human existence.

**Part Three: The Attainment of the Good Life**
For an individual to attain such a valued life is not such a simple endeavor. One must partake in activities that are virtuous, and must do so throughout one’s entire life. The identification of the good, and the identification of the ultimate function of human life are preliminary steps required for the achievement of eudaimonia. The knowledge we are seeking will assist us in possessing phronēsis, or practical wisdom, which in turn assists individuals in discerning the correct ways of doing things and the appropriate comportment in any situation. In Book I of the Nicomachean Ethics Aristotle also identifies other components required for the good life. One set of components are the human goods. The human goods are split into three categories, the internal goods of the soul, the internal goods of the body, and the external goods which exist outside of both. The internal goods of the soul and the body are virtues such as strength, health, and wisdom. Virtues that are considered to be the internal goods are linked directly to the soul, and are therefore the greatest goods. The external goods are things such as honor, wealth and friendship, and are prized because having such things make life more pleasant. The life of a virtuous person is indeed pleasant in itself because virtuous actions are themselves pleasing. However, the external goods are also considered to be necessary because they exist in a such a way that allows them to act like mechanisms through which virtuous activities may be realized. Prosperity is pleasing and good because it may assist one in carrying out virtuous activities, such as in the acquisition of a musical instrument or a dwelling which protects oneself and one’s family from the harsh elements of nature and hence protects good people carrying out virtuous actions. Friendship is also pleasing and good for the same reasons. True friends are like second-selves, for they share in the same virtues and assist each other in just actions and the sustenance of eudaimonia. Perfect friendship is characterized by reciprocal well-wishing for the sake of the good or pleasure, and without qualification. Such friendships, however, are rare, and surely Aristotle would have balked at the diluted 21st century characterization of friendship. For Aristotle friendship is one of the most important of the external goods, and this is made clear by the fact that he dedicated two whole books, Book VIII and Book IX of the Nicomachean Ethics to analyses on this subject. Aristotle recognizes that the attainment of the external goods is sometimes contingent upon luck and chance. One may be born into a prosperous family, or through chance meet a lover that leads to a permanent state of reciprocal well-wishing and perfect friendship. Contrariwise, luck and chance may preempt one from the acquisition of the human goods in many different ways, such as having evil friends, or being born without beauty, or living under dire circumstances that prevent the practice of virtuous actions. Concerning the impact chance has on a virtuous life Aristotle states the following.

Now many events happen by chance, and events differing in importance; small pieces of good fortune or of its opposite clearly do not weigh down the scales of life one way or the other, but a multitude of great events if they turn out well will make life more blessed (for not only are they themselves such as to add beauty to life, but the way a man deals with them may be noble and good), while if they turn out ill they crush and maim blessedness; for they bring pain with them and hinder many activities. Yet even in these nobility shines through, when a man bears with resignation many great misfortunes, not through insensibility to pain but through nobility and greatness of soul. (Nicomachean Ethics, Book I, Ch. 10, 1100b22-31.)

Eudaimonia, however, is not acquired by chance. Happiness is developed through virtuous actions and activities, and is the most divine of all things in life because it is the goal of such
actions and the best thing that is attainable in life. Such a thing to Aristotle seems to be of a divine nature. That which is divine and blessed does not depend upon chance for its existence.

It will also on this view be very generally shared; for all who are not maimed as regards their potentiality for virtue may win it by a certain kind of study and care. But if it is better to be happy thus than by chance, it is reasonable that the facts should be so, since everything that depends on the action of nature is by nature as good as it can be, and similarly everything that depends on art or any rational cause, and especially if it depends on the best of all causes. To entrust to chance what is greatest and most noble would be a very defective arrangement. (Nicomachean Ethics, Book I, Ch. 9, 1099b18-24.)

It is through luck and chance, therefore, that one may come to possess certain human goods that may in turn assist or hinder one’s ability to attain eudaimonia, however the attainment of eudaimonia is cultivated through deliberate virtuous actions and activities that are carried out with reason and a search for first principles. This search may lead to knowledge, or epistēmē, of the first principles of ethics and political science, which will thus in turn lead to an understanding of the pathways one must take in order to create a life that is well-lived.

The Moral Virtues

This search for knowledge concerning the foundations of human nature is to a certain degree comprised of investigations into virtue. The attainment of permanent happiness hinges upon perfect virtue, therefore knowledge of what virtue actually is must be a necessary component for achieving well-being. Aristotle distinguishes between two types of virtue, moral virtue and intellectual virtue. The intellectual virtues are acquired by teaching and the moral virtues are acquired through habit. Virtues are states of character that assist in determining the correct reaction and action in different situations. Aristotle understood that deficiency and excess are the extremes that destroy many things, and because of this he introduces his doctrine of the mean in his investigations into the nature of virtue. Too much or too little nutrition will destroy the body, and likewise too much courage and not enough of it will also lead to ruin. To discern the correct amount of courage or temperance in a situation is to aim for moderation, for moderation preserves the virtues and in doing so preserves human life. Aristotle discusses the nature of moral virtues and how they relate to moderation in the following passage.

We must take as a sign of states of character the pleasure or pain that supervenes upon acts; for the man who abstains from bodily pleasures and delights in this very fact is temperate, while the man who is annoyed at it is self-indulgent, and he who stands his ground against things that are terrible and delights in this or at least is not pained is brave, while the man who is pained is a coward. For moral virtue is concerned with pleasures and pains; it is on account of the pleasure that we do bad things, and on account of the pain that we abstain from noble ones. Hence we ought to have been brought up in a particular way from our very youth, as Plato says, so as both to delight in and to be pained by the things we ought; this is the right education. (Nicomachean Ethics, Book II, Ch. 3, 1104b4-13.)
Moral virtues are developed by habit in the sense that through repeated practice of a specific activity one fosters in his or her soul the skill or virtue that is the final end of that activity. Bravery is the result of acting bravely, and temperance is the result of acting temperately. The practice of the moral virtues consists in the attempt to discern and partake in what is moderate in whatever circumstances may arise. Failing to develop a skill, or a virtue, is the result of practicing badly, i.e. being unable to grasp and partake in what is moderately appropriate in a certain situation.

This, then, is the case with the virtues also; by doing the acts we do in our transactions with other men we become just or unjust, and by doing the acts we do in the presence of danger, and by being habituated to feel fear or confidence, we become brave or cowardly. The same is true of appetites and feelings of anger; some men become temperate and good-tempered, others self-indulgent and irascible, by behaving in one way or the other in the appropriate circumstances. Thus, in one word, states of character arise out of like activities. This is why the activities we exhibit must be of a certain kind; it is because the states of character correspond to the differences between these. It makes no small difference, then, whether we form habits of one kind or of another from our very youth; it makes a very great difference, or rather all the difference. (Nicomachean Ethics, Book II, Ch. 1 1103b12-25.)

Virtues are states of character that are part of the human soul. A person that has practical wisdom, or phronēsis, is able to rationally choose the moderate which lies between two vices, the extremes of deficiency and excess. Aristotle identifies twelve moral virtues that are shown in the chart below.

### The Moral Virtues and Accompanying Deficiencies and Excesses

<table>
<thead>
<tr>
<th>Vice derived from Excess</th>
<th>Virtue derived from the Mean or Moderation</th>
<th>Vice derived from Deficiency</th>
<th>Situation, Action, or Emotion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rashness</td>
<td>Courage</td>
<td>Cowardice</td>
<td>Facing Fear and Risk</td>
</tr>
<tr>
<td>Profligacy or Self-Indulgence</td>
<td>Temperance</td>
<td>Insensibility</td>
<td>Experiencing Pleasure and Pain</td>
</tr>
<tr>
<td>Prodigality</td>
<td>Liberality</td>
<td>Illiberality or Meanness</td>
<td>Bestowing and Acceptance of Money on a Small Scale</td>
</tr>
<tr>
<td>Vulgarity</td>
<td>Magnificence</td>
<td>Pettiness or Stinginess</td>
<td>Bestowing and Acceptance of Money on a Large Scale</td>
</tr>
<tr>
<td>Vanity</td>
<td>Self-respect</td>
<td>Humility</td>
<td>Pursuit of Honor on a Large Scale</td>
</tr>
</tbody>
</table>
The Intellectual Virtues

Book Six of the *Nicomachean Ethics* is dedicated to the analysis and presentation of the intellectual virtues. In addition to the moral virtues, which dictate the scope of correct conduct, it is necessary to study the intellectual virtues because our actions must be ‘in accordance with correct reason.’ Reasoning is an intellectual activity, and to understand the nature of this activity will be advantageous to those seeking to obtain *eudaimonia* and to those seeking an understanding of the soul. Furthermore, if ‘human good turns out to be activity of soul exhibiting virtue, and if there are more than one virtue, in accordance with the best and most complete,’ then the intellectual virtues therefore become a crucial part in determining what is best and most complete in human nature. To choose that which is moderate is to exercise the faculty of reason, and consequently an examination of the structure of reason and of the soul becomes a central part of Aristotle’s ethical investigations.

Aristotle divides the structure of the soul into two initial parts. One part possesses reason and another part is irrational. The part of the soul that possesses reason and formulates rules may be further divided into one part that is the scientific faculty that contemplates ‘the kind of thing whose originative causes are invariable,’ and into another part which is the calculative faculty or faculty of opinion that contemplates changing things. Perception, reason and desire are the three elements of the soul that regulate truth and action. Perception alone does not initiate any type of action, and this is clear from observations of the lower animals. Moral virtue involves choice, and choice involves desire, therefore desire does indeed initiate actions. Reasoning, action, desire, perception and choice carry out their capacities in a cooperative way in the sense that they all participate in human nature’s teleological pursuit to obtain *eudaimonia.*

The origin of action—its efficient, not its final cause—is choice, and that of choice is desire and reasoning with a view to an end. This is why choice cannot exist without reason and intellect or without a moral state; for good action and its opposite cannot exist without a combination of intellect and character. Intellect itself, however, moves nothing, but only the intellect which aims at an end and is practical; for this rules the productive intellect as well, since everyone who makes makes for an end, and that which is made is not an end in the unqualified sense (but only an end in a particular relation, and the end of a particular operation)—only that which is *done* is that; for good action is an end, and desire aims at this. Hence choice is either desiderative reason or

<table>
<thead>
<tr>
<th>Ambitiousness</th>
<th>Proper Ambition</th>
<th>Unambitiousness</th>
<th>Pursuit of Honor on a Small Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irascibility</td>
<td>Patience or Good Temper</td>
<td>Unirascibility</td>
<td>Anger</td>
</tr>
<tr>
<td>Boastfulness</td>
<td>Truthfulness</td>
<td>Self-deprecation</td>
<td>Self-Expression</td>
</tr>
<tr>
<td>Buffoonery</td>
<td>Wittiness</td>
<td>Boorishness</td>
<td>Social Intercourse</td>
</tr>
<tr>
<td>Obsequiousness</td>
<td>Friendliness</td>
<td>Disagreeableness or Unkindness</td>
<td>Social Conduct</td>
</tr>
<tr>
<td>Shyness</td>
<td>Modesty</td>
<td>Shamelessness</td>
<td>Shame</td>
</tr>
<tr>
<td>Envy</td>
<td>Righteous Indignation</td>
<td>Malevolence or Spitefulness</td>
<td>Indignation</td>
</tr>
</tbody>
</table>
ratiocinative desire, and such an origin of action is a man. (Nicomachean Ethics, Book VI, Ch. 2, 1139b31-1139b5.)

The two parts of the soul that possess reason, then, seek truth, and Aristotle identifies five intellectual virtues, or states, by which truth is comprehended and possessed by the soul. Such a possession of truth by the soul occurs through either an affirmation or a denial in regards to a specific subject of thought. There exist three categories of knowledge by which the truth is reached, and within those categories reside the corresponding intellectual virtues. Those categories of infallible knowledge are theoria, the theoretical, poiesis, the productive, and praxis, the practical, and are, respectively, concerned with thinking, making, and doing. Aristotle is seeking the truth, therefore the categories of thought related to believing in something or having or creating an opinion about something are not in themselves considered to be virtues even if they happen to be true or point to the truth. We may believe something to be true and it may be so, so too in the case of opinions, however, such categories of thought are not unequivocally true and are therefore not virtues.

Theoria, or theoretical knowledge is reached by three states, or virtues, of the mind. Those three virtues are epistēmē, i.e. scientific knowledge, and noûs, or intuitive understanding and sophia, i.e., wisdom. Scientific knowledge is knowledge of that which is eternal, necessary and unchanging in the world and the universe. Epistēmē is capable of being taught, and this process proceeds from the logical principles of induction and deduction. The nature of inductive reasoning lies in its providing of the starting points or first principles of demonstration from which the universal or the syllogism may proceed. The syllogistic process is epistēmē, which leads to demonstration of scientific truth. Deductive reasoning, on the other hand, starts from universals, and does not therefore necessarily provide the starting points of demonstration. A deductive logical inference is ‘an inference which introduces no new information and which is truth-preserving. The etymological meaning of the word suggests that we are ‘drawing out’ and making explicit the information that is to be found in the premises of the inference.’ Noûs is intuitive understanding that is not directed towards sense-perceptible objects but is rooted in thought itself. Noûs grasps the first principles or self-evident truths that are found in thought. In the Metaphysics, Aristotle argues that noûs is a divine element in humans. This is so because it is the faculty of thought which grasps the Unmoved Mover, ou koinoumenon kinei. The Unmoved Mover is pure actuality, for it is a necessarily eternal non-sensible substance and is the cause of all movement in the universe, although it itself does not move. Movement requires change and change is equated with that which is not perfect. The Unmoved Mover is perfect, and is the primary object of desire in the universe, and therefore the cause of all motion. The Unmoved Mover, then, is God, and it is with the divine element of noûs by which we are able to comprehend and contemplate its existence. Sophia, or wisdom, for Aristotle, is the most complete of the various intellectual virtues. This is because sophia is noûs combined with epistēmē, and it is an understanding of the highest objects of knowledge, such as knowing complete truths in regards to the first principles.

Within the category of praxis, or, practical knowledge, lies practical wisdom, or phronēsis. Practical wisdom is revealed in human nature by the ability to discern the correct actions and components of the good life. If one possesses practical wisdom, then he or she will do well in political science because that science consists in deliberating on what is best for people in general. Phronēsis itself is not knowledge, it is ‘a true and reasoned state of capacity to act with regard to the things that are good or bad for man.’ Phronēsis deals with variable affairs of humans and the state. This includes opinions, and therefore belongs to the part of soul that holds opinions. A person that has practical wisdom is able to make decisions not only
about particular aspects of something that is good for the body or the soul but also concerning the attainment of the good life in the most general sense.

Within the category of productive knowledge, or, poiesis, lies art, skill, and crafting knowledge, i.e. technē. Technē is productive in the sense that its objects of knowledge lay within the realm of the contingent and the making of such objects. Aristotle initiates his discussion of craft knowledge by distinguishing between the capacities of making something and action. Making something and action are distinguished by their dispositions, or hexis, which are different from each other in respect to the ends they achieve. Actions are sometimes partaken in and completed for the sake of the action itself, such as playing a musical instrument beautifully, while making something results in the creation of an artifact, such as a violin, which is something that came into being because of technē. Technē ‘is identical with a state of capacity to make, involving a true course of reasoning.’ The origin of an artifact lies within the craftsman or artist, and not within the material out of which it was created, nor the final product itself. Epistêmê, noûs, sophia, phronêsis, and technē, are, therefore, the intellectual virtues and operate in conjunction with the moral virtues so that the function of human life is achieved. With the full development and engagement of the intellectual virtues, one is able to, with the highest degree of certainty attainable by humans, to grasp the truth of and to have knowledge of both the first principles of the sciences and the abstract nature of reality.

Part Four: Conclusion

Towards the end of the Nicomachean Ethics, in Book X, Aristotle declares that although pleasure is important to the good life, a life dedicated to amusement is not.

The happy life is thought to be virtuous; now a virtuous life requires exertion, and does not consist in amusement. And we say that serious things are better than laughable things and those connected with amusement, and that the activity of the better of any two things—whether it be two elements of our being or two men—is the more serious, but the activity of the better is ipso facto superior and more the nature of happiness. (Nicomachean Ethics, Book X, Ch. 6, 1177a1-7.)

Exertion for the sake of happiness is virtuous in the sense that we are engaged in actions directed towards well-being. Amusement is acceptable for Aristotle in the sense that amusement is a type of relaxation, and humans require relaxation so that they may further partake in exertion and virtuous actions that sustain the good life. The nature of happiness, however, does not consist of amusement. Eudaimonia, and the good life that accompanies it, consists of virtuous actions, practical wisdom, and conduct that seeks moderation in almost all things. The best type of life for Aristotle is the life of contemplation.

If happiness is activity in accordance with virtue, it is reasonable that it should be in accordance with the highest virtue; and this will be that of the best thing in us. Whether it be reason or something else that is this element which is thought to be our natural ruler and guide and to take thought of things noble and divine, whether it be itself also divine or only the most divine element in us, the activity of this in accordance with its proper virtue will be perfect happiness. That this activity is contemplative we have already said. (Nicomachean Ethics, Book X, Ch. 7, 1771a12-17.)
It is here in the above passage where the distinction between the acquisition of moral virtues and intellectual virtues may be considered with greater clarity. Moral virtues are acquired through habit, and intellectual virtues are acquired through instruction. If a student receives the proper education and instruction, he or she has a greater chance of developing the intellectual virtues than someone else. This is why we seek out the best instructors, because the attainment of *eudaimonia* in some ways hinges on receiving a proper education that contributes to the development of the intellectual virtues. The intellectual virtues are the primary constituents of the good life because the best type of life is contemplative in nature, which, in a life of peace, thinks about the best and most divine components of the universe. *Noûs*, or intuitive understanding, grasps the Unmoved Mover, which is God, *epistêmê*, or scientific knowledge, comprehends the scientific nature of the universe through the first principles of logic, and *sophia*, or wisdom, a combination of *noûs* and *epistêmê*, is a type of theoretical knowledge that understands universal truths in accordance with scientific facts and logical reasoning. Surely the objects of thought and the subject matters that are understood through the intellectual virtues are the best things within the realm of existence and the universe. The activity of philosophical contemplation in its most theoretical aspect is pleasing and good because of the content of the subject matter and because of the activity itself. Furthermore, the intellect is the best part of human beings, and it is the faculties of rationality and logical reasoning that set us apart from all other beings that exist in our world. Contemplation is unlike almost all other activities due to its self-sufficiency. Contemplation is self-sufficient in the sense that ‘it is the most continuous, since we can contemplate truth more continuously than we can do anything.’ Contemplation is also self-sufficient in the sense that the activity is solitary in nature, and the wise person requires no tools or artifacts while immersed in it. Aristotle furthermore recognizes the divine nature of contemplation in relation to the divine itself. The Unmoved Mover does not partake in action, nor does it partake in production, therefore the only activity remaining is contemplation. If contemplation is the activity of the divine, then surely it must be the best thing in us, and the foundation of human happiness.

The attainment of *eudaimonia* is, therefore, no simple achievement. There are various components that are necessary for the process of seeking it out. Some of these components depend upon habit, others upon instruction, and even others depend upon luck and chance. The purpose-driven life is a life that cultivates virtues through habit, instruction, and research; it is a life that searches, with practical wisdom, for that which is moderate in conduct and thought, and possesses adequate external prosperity for the purpose of sustaining *eudaimonia* and taking care of the most important of the external goods, true friends and lovers. Aristotle locates the study of ethics within the discipline of political science because he understood that the goal of political science is to care for the well-being and development of citizens. Politics is a practical science, and those who possess *phronësis* may lead a virtuous life in that activity. In many ways it is the responsibility of the state to create an environment that cultivates virtues and happiness in its residents, citizens, and allies. Moderation is what individuals and states must seek in order to achieve well-being. Aristotle realized that human nature is teleological, and answers in the *Nicomachean Ethics* why this is so. We are all striving for the attainment and or sustenance of happiness, which is, indeed, the target of all virtuous actions, and that which is the best, and the most divine part of existence. Aristotle’s pursuit of the good life, then, is a virtuous, purpose-driven life that is dedicated to partaking in and carrying out good actions with moral and intellectual virtues. The cognizance of the teleological nature of human life requires the intellectual virtues. *Theoria, poiesis, and praxis* are the three types of infallible knowledge distinct in humans that allow us with certainty to comprehend that which is true. *Epistêmê, noûs, sophia, phronësis* and *technê* are the virtues that are necessary for the
acquisition of those special types of knowledge. Human life is a quest to seek and attain perfect virtue, and therefore to live a life filled with virtuous actions, in moderation, with the perfect functioning of the faculties of cognition that make possible the active use of logical reasoning to comprehend the starting points of demonstration is to live in complete awareness of the distinct purpose that lies hidden within the complexities of human nature.

See the Topics, Metaphysics, and Rhetoric for Aristotle’s use of endoxa.

1 See Plato’s dialogues Parmenides, Meno, Phaedo, Symposium, Cratylus, Phaedrus, Sophist, Theaetetus, Timaeus, and Philebus for various presentations of the Theory of Forms.

1 See Karuzis, Studies on Being in Aristotle’s Metaphysics Beta for a complete analysis of Aristotle’s arguments against Plato’s theory of Forms.

1 Nicomachean Ethics, Book II, Ch. 2, 1103a32.

1 Nicomachean Ethics, Book I, Ch. 7, 1098a16-17.

1 Nicomachean Ethics, Book VI, Ch. 1, 1139a6-7.

1 Hintikka and Bachman, page 430.

1 See Karuzis, pages 167-180.

1 Nicomachean Ethics, Book VI, Ch. 5, 1140a4-6.

1 Nicomachean Ethics, Book VI, Ch. 4, 1140a10.

1 Nicomachean Ethics, Book X, Ch. 7, 1177a22-23.
The role of the pedagogical advisor in empowering moral resilience among students in special education: "There was something in you that encouraged me to fight."

Dr. Nitza Shachar, Achva College, Israel
Dr. Lea Baratz, Achva College, Israel

This research emphasizes the role of the pedagogical advisor in establishing increased moral resilience in students, when they need to act with moral courage while facing conflicts which demand ethical and moral decisions.

The pedagogical advisor is the figure who bridges between teaching theories and practice in schools and kindergartens, and who plays a central role in the qualification of pre-service teachers, especially as regards acting courageously. Her or his main goal is to support the formation of a professional and autonomous identity.

Moral resilience in education relates to the ability of teachers or students to remain true to their convictions when these are challenged, or when they might find themselves prone to think or behave in ways that either cast doubt on, risk undermining, or even lead them to completely reject the validity of their own fundamental values. Moral resilience is manifested when there is a sense of commitment and willingness to act according to these convictions.

The participants in the research were twenty special education students who had finished the third year of their studies, as well as teachers doing their practical training ('stage'). Data was collected using qualitative research tools such as interviews, students' portfolios and the field-diary of one of the researchers. Partially structured interviews were used, which alternated
between fixed questions and spontaneous ones which were raised during the encounter with the interviewers. Analysis was made in several stages, as is usual in qualitative research, from an initial reading by each researcher, followed by reading together in order to identify principle themes. Thereafter we established categories within each theme.

The research question: How does the pedagogical advisor contribute to building moral resilience among students, and in what ways does this contribution support their courageous moral actions?

The data reveals two aspects of the centrality of the pedagogical adviser in the development of resilience: one is personal and the other professional.

The findings show that the pedagogical advisor contributes to the building of moral resilience by supplying emotional support, by modeling, by acting in the practice arena and in the college as an authority who provides professional strength and by empowering self-efficacy of the student faced with moral conflict during the learning process.
Sociologising the China Difference

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Abstract: This paper discusses the idea of the French sinologist, Francois Jullien, who perceives the radical difference of China to be of great importance to European philosophy. Jullien sees China as the instrumental heterotopia of Indo-European languages, Roman-Christian historical influences, and a long-standing original textual tradition that makes it a viable historical subject for alternative conception. The intellectual detour to China provides a unique access to European philosophy. Jullien’s insight on the alterity of China should be carefully considered in the sociological context as well, which sociologists are struggling hard to reinvent the discipline with various decolonising, dehegemonising, and provincialising attempts. These efforts aim at shaking off previous epistemic and ethnocentric problems, pertaining to the sociology discipline. The positive endeavour, this paper argues, for sociologists working on China, should be to recognise and work towards an alternative social ontology and epistemology of China. Sociologists should refrain from forcing Chinese formation of reality arbitrarily into Western categories and concepts, like many trivial or even pseudo attempts to extend or modify Western theories with a misplaced sociohistorical context of China. If China difference is fully recognised, undistorted sociological understanding of Western societies and China would be possible.

Keywords: epistemic hegemony, Francois Jullien, Chinese sociology, detour and access, China as heterotopia of Europe

Introduction

Can China produce its own sociological theories? Can sociological study of China go beyond the fate of being just area studies, i.e. China studies? Can Chinese sociologists contribute to the formation of the knowledge core of the sociology discipline in the way
European and American sociologists do, instead of being seen more as area specialists of China who promote mostly the understanding of China? These questions are not posed here because of the relatively low professional and scientific esteem of Chinese sociologists within and without China. They concern rather the epistemic consequence of the hitherto underdevelopment of theoretical knowing of China, given the proliferation of social researches on China in the last two to three decades, and the increasing indistinctness of sociological study of China from works of China studies. The outpour of social researches on China forms a rather great contrast to the paucity of sociological theories of China. Yet the underdevelopment of theoretical models that can be used to comprehend Chinese society befittingly does not appear to many who do research on China to be problematic. Most of them simply adopt Western sociological theories and methods without much contemplation on the differences between the historical contexts of China and Western societies. The primarily empirical, instead of theoretical, orientation of these social researches has delimited not only sociological understanding of China, but also the overall growth of sociology as a scientific discipline.

Sociology as a science of society and a mode of knowing is defined fundamentally by the construction of theories and models as its architectonic core. Social research on the other makes use of theoretical knowledge as its departure to interpret empirical reality, and at the same time detects anomaly to theoretical explanation. Theory and empirical research are closely related to each other because research produces feedback to revise theories and help extend their generalisability and explaining power. In this way, the application of theories to researches contributes to the further growth of sociological scholarship. A balanced formation
of the sociology discipline should be one in which sociological theories and researches develop in parallel and enrich each other. Yet, the bloom in social researches in the last few decades, particularly related to China and many non-Western societies, does not give rise to a proportional growth of sociological theories. While the flourishing of social researches on China and other non-Western societies may have reflected the changing power balance and dynamics of the global world, it is no less symptomatic of and simultaneously contributing to the hypertrophy of empirical orientation in sociology, and the expansion of the hegemonic influence of Western episteme.

In this paper, I will discuss the epistemic consequence of empirical bias of sociology and expansion of its hegemony to the overall constitution of the discipline, and how to revamp the latter from the vantage point of Chinese sociology. The sociology discipline should recognise the alterity of the cultural and historical ontology of China from that of Western societies, and reconceive its departure in the study of China by way of changing its empirical orientation towards a more theoretical one. Its assumption of the comparability of China to Europe to the cultural (in)difference of China from Europe and the West in general should also be questioned. Theoretical re-orientation of Chinese sociology will help ground the study of China in an episteme in which the interpretation of Chinese society can be done in a more authentic manner. The construction of sociological theories of China will also enrich the edifice of sociology as a whole. Francois Jullien’s identification of the indifference of China to

Having said that, the author is well-aware of the problematic nature of the idea of the so-called ‘Western societies’ or ‘the West’. See for example Delanty, G. (2003). But for the sake of clarity and indicative purpose in the present context, such notion is still applied to differentiate the difference between China and other Asian societies from Europe and America.
European society and his strategy of knowing—detour and access—will be introduced in this connection. The last part of this paper will discuss how sociology can learn from Jullien to sociologise the China (in)difference.

**The Empirical Orientation of Chinese Sociology**

Following the Reform and Opening of China in late 1970s and its rapid ascendency onto the world stage, social researches on China are becoming an increasingly important part of Western scholarship. Such researches lift the mystical veil of China and provide important glimpse into different facades of Chinese society, which had secluded itself from the West for long. Researchers on China are very keen on applying Western conceptual frameworks to gain insights into some empirical aspects of the complicated, fast-growing Chinese society. The quintessential empirical orientation of Chinese sociology however obscures the fundamental need for the development of alternative set of sociological theories for the study of China.

Hitherto, China and for that matter other Asian societies too mainly have the value of applied theory to Western episteme (Dutton, 2005). In other words, non-Western societies serve to provide further empirical contexts for the application and extension of Western (sociological) theories, and hardly possess independent theoretical significance. Direct application of many sociological theories and concepts derived from the study of European and American societies onto China is the regular practice among Chinese sociologists. Phrases like ‘evidence from China’, ‘the case of China’, ‘extending the theory to China’ are commonly seen in sociological studies of China. Chinese sociologists actively deploy the situation of China to join into the mainstream discourses of Western sociology. In attempt to become part of
Western sociological scholarship, many Chinese sociologists deal with China in a largely
dehistoricised manner without taking proper consideration of the historical context of Chinese
society and its compatibility with Western episteme. Moreover, the construction of original
sociological theories about China is hardly the concern for most. It is rather difficult to imagine
scholarly works like Michel Foucault’s (1990) *The History of Sexuality* or Jürgen Habermas’
(1989) *The Structural Transformation of Public Sphere*, which are essentially historical study
of European society yet bear original (sociological) theoretical and conceptual significance for
the study of other societies, to be produced related to Asian societies. Upon the universal
pretence of science, generalising (Western) sociological theories to the study of non-Western
societies has long been the practice in sociology—one that is seldom systematically
challenged.

The relative poverty of sociological theory regarding non-Western societies implies
that the constitution and visions of these societies hardly enter the core of sociological
architectonic, which is theoretical by nature. Sociology thus remains basically a Western
discipline as a whole because its central formation is still very much defined by experience of
Western society and knowledge generated in the West. The proliferation of researches on
non-Western societies in the last few decades does not change this fact. Considering for
example from the vantage point of Chinese sociology, China has no sociological theories of its
own and bears primarily empirical values actually suggests the problem of epistemic
dependence of and even violence to China in the name of scientific neutrality. The mainstream
social scientific discourse regarding the political development of China that draws from the
specific sociohistorical circumstance of Europe and American democracies onto China is a
salient example in this regard. The peculiarity of Chinese political culture, societal formation, path of modernisation and historical development are often disregarded. In this way, sociology unwittingly becomes the intellectual appendage of Western imperialist discourse.

Going beyond misrepresented understanding of China and imperialism, the untenability of theoretical models from non-Western societies that can have more generalised theoretical relevance also represents an opportunity lost for the scientific growth of sociology. Exploiting the specific sociohistorical configurations of these societies to build up new configurations of theories could have contributed to the expansion of the knowledge pool of sociology, making its less imbued with cultural bias, and hence enhances its scientific appeal.

The Participation and Reproduction of Epistemic Hegemony of Western Sociology

Underlying the prevalent empirical orientation in Chinese sociology is the hegemony of Western sociology and episteme in general. The power of hegemony, as Antonio Gramsci (1971) reminds, resides in its operation at the commonsensical level, invoking the consensus even among those who are hardly benefited in such hegemonic influence. Similarly, the epistemic hegemony of Western sociology involves the willing participation of many Chinese sociologists, from China and abroad, who take China, without much deliberation, as a newfound empirical area for the application and extension of (Western) sociological conceptual framework. The predominance of Western sociology is thus significantly reinforced by the eager submission of many Chinese sociologists to an episteme, built primarily upon the sociohistorical experience of Europe and American societies.
The complicity on the part of Chinese sociologists with the hegemony of Western sociology has largely to do with the relative late-coming of Chinese sociology after the suspension of its development inside and outside of China. Starting from late 1940s, social scientific knowledge in China was dominated by the orthodox Marxist-Leninism, leading to the suppression of alternative approaches of comprehending China. From outside China, most sociologists and researchers were forbidden to enter China and collect data for their researches. Studying China back then depended quite heavily on memories, personal accounts, incomplete information brought on by refugees from China. The gradual loosening of ideological control in the 1980s makes the adoption of different sociological approaches and the application of positivist Western sociological perspectives to the study of China possible and empirical data of China widely available. Unsurprisingly, there was an explosion of sociological interest in China. China usurps the scholarly limelight that was once cast on Japan and the East Asian little dragons in the 1960s and 1970s, that sociological study on China is becoming more important part of top sociological journals.

Guided by intense interest and urgency to make sense of China upon the condition of scarce viable local conceptual and theoretical materials other than official Marxist-Leninist rhetoric, deploying sociological conceptual and methodological resources from the West seems to be the logical choice for most sociologists from China. Fundamental epistemic questions like what perspective should sociologists use in the knowing of contemporary China are generally brushed aside. Viewed in this light, heavy dependence on Western episteme as the point of departure of researching China can be characterised as the teething problem of Chinese sociology. Moreover, invoking Western sociological framework and concepts for China
also appears to fit well into the scientific model of discovery—extending theory to new empirical area. Only that many Chinese sociologists seem to forget conveniently the subject matter of sociology—social life—is hardly dehistoricised and decontextualised empirical entity that can be applied without careful conceptual adjustment.

The teething problem of Chinese sociology and the relatively uncritical attitude of most Chinese sociologists explains why the incorporation of Western sociological perspectives is a process wrought without much intellectual struggles among most sociologists in China, when sociology and social science was reinstated in China in the 1980s. Having said that, I by no means suggest all Chinese sociologists are unreflective. Calls for sanitising sociology—intellectual searching with an aim to make sociology suitable for the study of China—are not absent particularly in the Chinese-speaking academy (Chan, 2002; Zheng and Wang, 2009). Despite that, the actual progress towards reconceptualising the sociological terrain in the study of China remains small, and does not yet form a consensus among Chinese sociologists.

If reliance on Western sociology is hardly avoidable in the early development of Chinese sociology, then a more independent development of Chinese sociology after several decades of disciplinary growth and accumulation should be reasonably expected. Unfortunately, that is not the case and it may even be argued that the empirical nature of Chinese sociology and the epistemic hegemony of Western sociology on China have been greatly reproduced.
Joining into mainstream sociological debate and discourse from a privileged Chinese position is the shortcut for many Chinese sociologists and scholars to get their names known in the West. In so doing, they are easily taken as spokespersons of a particular schools in China, and their ready accessibility to the Chinese society as natives provides the West with empirical materials that would otherwise be difficult to obtain, particularly in the 1980s and 1990s. Sociologists from China are then widely seen as serving as bridges and making valuable contribution to the development of both Chinese and Western sociologies. Crisscrossing China and the West, they are then able to publish their researches much more easily in the West. Publishing in Western sociological journals, especially those with high impact factors, represents recognised academic excellence worldwide. Getting published and being seen as the descendants of a particular theoretical schools in China would certainly help scholars to find a position or promote their personal career advancement in the West or local universities. For these reasons, it is to the advantage of many Chinese sociologists to directly engage China empirically with Western sociology that saves them much effort in exploring the appropriate framework and theory for the study of China. With the complicity of many Chinese sociologists, the dominance of Western sociological thinking on China is hardly challenged.

More unpleasant still is some sociologists and scholars from China, driven by their urge to stay in Western academic institutions, resort to the essentialisation China so to fit into conceptual categories of the West. No matter they do it intentionally or not, their works can be identified and understood by the academy in America or in Europe without much problem. In relation to this, there is also a rather unhealthy tendency among Chinese sociologists to compete to be the forerunners in the introduction and application of new sociological ideas.
or concepts to China, often done in greatly arbitrary manner, so that their works will be cited whenever those ideas are invoked in relations to China later. If orientalism, as Edward Said (1979) famously invokes, involves the stereotypical gaze that comes from a cross cultural encounter, the hegemonic effect of Western episteme has bred a new type of essentialising gaze that but comes from within a culture. It gives rise to a form of self-orientalisation, as Arik Dirlik (1997) astutely observes, an obsequious effort among many native Chinese sociologists to gratify the desire of Western gaze, perpetuating the distorted or at least incomplete conception of China. With this nexus of self-orientalisation, China can hardly be understood in a more authentic manner with an episteme that suits the situation of China properly. The vicious circle of China lacking historical and epistemic autonomy, and hence the study of China bears primarily empirical relevance for the extension and development of Western episteme and dependence on the latter is thus not broken.

Self-interest and unreflectiveness undeniably plays an important role in motivating Chinese sociologists to partake in Western sociology in an oddly sycophantic way. The intellectual servility of many sociologists from China is also symptomatic of the awkward structural position they situate in relation to the dominance of Western sociology and episteme. As Immanuel Wallerstein (1996) depicts, intellectuals from third world societies are always subjected to a practical dilemma: they participate in Western episteme and academy to become the marginal, dependent or supplementary part of it; but if they do not, there is utterly no way for them to change the rule of game. Refusing to embrace Western positivist sociology either means Chinese sociologists fall back on the state-sponsored Marxist-Leninist perspective, which proves no less unsatisfactory, or they need to struggle strenuously to work
against epistemic hegemony—a difficult undertaking that but guarantees no intellectual success or personal job security. Going with the mainstream approaches and practices is an easy way out for individual sociologists.

On the part of European and American sociologists working on China, intellectual inertia and scholarly doxa, to borrow Pierre Bourdieu (1990), disposes them to adhere to their theoretical traditions in their research of China. This is the most natural and comfortable way of practicing sociology that they do not have to leap into the uncertain foundation even in the research of a foreign country. It is in fact to their advantage that sociologists from China to join hand with them and conceive their sociological practice with(in) Western episteme. As natives in their own traditions, their authority and room for manoeuvring the sociological discourse is only augmented, and not challenged, if more sociologists attempt to crowd into it from the periphery. All in all, sociologists studying China, not matter they come from China or not, are complicit parts in the propagation of the epistemic hegemony of Western sociology. That appeals to the interests of both parties, and is actually an easy way out, if they conveniently shelve the question of authenticity of knowing China.

The global dominance of Western sociology, however, does by no mean promote significantly the scientific development of sociology and hence intellectual viability of the discipline. While the institutions and publications of sociology expand with the multiplication of empirical researches on China, India or other non-Western societies, the overall intellectual influence and esteem of sociology actually decreases. It is well known within the sociological circle that the general reference and borrowing of sociological concepts and ideas by other
social sciences or humanities subjects declines in the last few decades. Also, sociological studies on Asian, African or other non-Western societies become increasingly indistinctive from works in the area studies. The academic identity of sociology appears to be getting blurred.

How can sociology reinvent the knowledge formation of the discipline? Sociology may start from rethinking the orientation of its study of non-Western societies. In the following, we will see how Francois Jullien's thought sheds light on the revamping of the practice of Chinese sociology and the general terrain of sociology.

**China as Europe’s Heterotopia and the Strategy of Detour and Access**

Epistemic reflection of the constitution of sociology, as response to challenges arising from globalisation and intellectual currents like post-modernism, post-colonialism, is becoming popular among some critical sociologists from the West or postcolonial societies. Calls of ‘provincialising Europe’, ‘provincialising social science’, ‘opening the social sciences’, and so on represent important attempts in this regard (Burawoy, 2005; Chakrabarty, 2000; Wallerstein, 1996). These efforts aim at shaking off previous epistemic and ethnocentric problems, pertaining to the sociology discipline. The even more constructive endeavours, this paper argues, for sociologists working on China, should be to recognise and work towards the explication of an alternative social ontology and epistemology of China. We may start with considering Francois Jullien’s idea.
Jullien is a French sinologist and philosopher, though such classification can be quite problematic somehow. He is neither sinologist nor philosopher in the conventional sense. Jullien’s primary concern is actually Greek philosophy. But instead of dwelling on Greek philosophy straightforwardly, he chose to study Chinese philosophy as his intellectual departure. With the identity of a Greek philosopher, Jullien becomes a sinologist and specialist in Chinese philosophy. Through the study of Chinese philosophy, he gets to reflect on ‘the unthought-of’—or in sociological language, the pre-theoretical consciousness of Greek philosophy.

This is perhaps not the place to discuss Jullien’s philosophical ideas because my concern is primarily a sociological one. Jullien’s (2000) strategy of knowing ‘detour and access’ would be more relevant sociologically. Detour and access as Jullien calls it is strategy and not methodology. Methodology incurs standardised procedures, while strategy invokes general plane of action that caters for the achievement of an overall goal of knowing. Detour to China brings intellectual breakthrough because the comprehension of China, the culture most unlike Europe but with compatible stature, introduces angles that objectivate and reveal the unconscious of Greek philosophy. By detouring to China, Jullien gets to know much more about the pre-reflected assumptions of Greek philosophy than directly delving into it.

In general, China is uniquely difficult to understand and was virtually incomprehensible for Westerners for long time. This is rather evident from some English catchwords like ‘it is a Chinese puzzle’, ‘it sounds Chinese to me’. For Jullien, the enigma of understanding China originates underlying from the unlikeness of Chinese culture to Europe. Borrowing Foucault’s
concept *heterotopia*—contemporaneous yet heterogeneous space, Jullien describes China to be the heterotopia of Europe along three dimensions. First, he considers China from linguistic perspective. Chinese language is a largely self-sufficient non-Indo-European linguistic system and the only iconographic language with homophone. So unlike other cultures within the Indo-European language system, including another major Asian civilisation India, China has little overlap with Europe.

Secondly, China considered from the perspective of intellectual and historical origin, is also predominantly irrelevance to Europe. China is not part of Greek, Romanic nor Christian civilisations. In contrast, China is basically a civilisation with its independent cultural worldview and source of ideation. On this score, Arabic or Jewish cultures, despite their actual religious difference, develop from cognate intellectual origin with European society. Even though intellectual cognateness assumes rather different or even antagonistic forms. The Arabic world, for example, appears to be rather incompatible with the West in terms of cultural values and worldview, but in the broad sense it shares the same religious origin. Also, identity of the Western world, as Edward Said (1979) famously puts it, builds largely upon the mirror image of the Arabic world, and the latter is always the imaginary Other of the European society. The two hence intertwine, albeit negatively, in each other’s cultural (self-)imagination, not to say their actual historical engagement. In contrast, the image of the far east China was not as well-formed and articulated in European imagination. China was never quite the imaginary Other for Europe.
The third aspect that makes China an instrumental heterotopia for Europe is its nature as a textual-based civilisation compatible with European civilisation. The long written history and the elaborate, systematic textual based Chinese civilisation make the understanding of historical China and its contrast with European civilisation, which founds equally on written traditions, meaningfully possible. This criterion rules out the instrumental juxtaposition of cultures of many other societies that have much less highly elaborate textual basis and rely mostly on oral tradition.

Taking all these criteria together, China is a very unique and standalone cultural and civilisational entity, observed from the vantage point of Europe, before its large scale contact with the West in the late nineteenth century. Its cultural unlikeness to Europe makes the intellectual detour to China very useful for a critical reflection of—a unique point of access to—Europe. Jullien prefers not to take the unlikeness of China as difference as such. Mental habit propels us to take difference as opposite to one’s own cultural dispositions, and assuming difference always implies and intertwines with the urge for identification. The strategic meaning of unlikeness is likely to be diluted in this habit of thinking. Recognising difference should only be step taken later when we want to have cultural assimilation.

The unlikeness of China to Europe should be seen as indifference, as Jullien emphasises, so to open up a cultural gap or space. The essence of sustaining the cultural space of indifference is about acknowledging other order of intelligibility of China independent of the historical development of Europe that justifies the study of it on its own terms and episteme. The assertion of the cultural gap of China is a theoretical and not an exotic interest
to know China. To see Chinese civilisation as independent development to European civilisation does by no means entail, as orientalist perspective presumes, superiority or inferiority of one civilisation to the other. Just that they have different social and cultural ontologies. Also, if China is a cultural space indifferent to Europe, the nexus works no less the other way round. The alterity of China provides a deconstruction of European philosophy from outside Europe. From a distant European perspective, the unthought-of in China can be equally revealed. Detour and access is thus a strategy of knowing that contributes to the deeper understanding of both China and Europe.

**Sociologising the China (In)difference**

How to deploy Jullien’s strategy of detour and access in his philosophical trajectory for the sociological study of China, and to reconceive the disciplinary formation of sociology? Philosophy is by nature ideational system with more internal coherence. The subject matter of sociology—the social world—however lacks of such kind of internal coherence. Social life and social development, albeit unfolds along certain patterns, are often filled with unpredictability. That would make the identification of the Chinese social world as an alternative social episteme a task far more challenging. Despite that, I would like to make some recommendations for the consideration of the practitioners of Chinese sociology. They, not matter coming from China or not, should rethink many of their premises and departure in their research of China with an attempt to incorporate— sociologise the China (in)difference. Sociologising the China (in)difference implies recognising the unique sociohistorical foundation and ontology of China, and making an accented attention to alterity of Chinese society to the West, so to make the heterotopic character of China heuristically stimulating.
for sociology. Sociologising the China (in)difference thus involves the shedding of some mental habits of sociological practice in the past. Most important of all is to unlearn the underlying assumption of the similarity and direct comparability of China to the West. This very unspoken assumption justifies the common practice of making reference to and ready application of Western sociological theories to researches, and hence the predominantly empirical use of China. China is undeniably a compatible civilisational entity to Europe, but its comparability to Europe is not that straightforward and has to be pondered much more carefully.

Sociologising the China (in)difference suggests an alternative sequence of sociological practice that helps evade such sociological doxa that delimits the healthy growth of the discipline. It is not to deny the similarity and comparability of China to the West. It entails instead putting the (in)difference of China first and foremost in sociological conception before making assertion of comparability of China, i.e. taking China as belonging to another order of sociological intelligibility. Contemporary Chinese society is the outgrowth of its own social ontology and history that warrants an entirely different set of conceptual tools for its comprehension. The resemblance or convergence, as some sociologists would argue, of China and the West is somehow spurious supposition underlain by the long obsolete paradigm of modernisation theory. In a time sociologists regard modernity in plurality, i.e. multiple modernities (Eisenstadt, 2003; Sachsenmaier, 2002), sociological practice should consistently reflect this unsubtle change in the disciplinary vision. Sociologising the China (in)difference would be an essential embarkation in this regard.
To contribute to the complete appreciation of the polyphonic modern world, sociologists from different parts of the world, especially those from non-Western societies, should duly reassess the relationship of their sociologies with the mainstream sociological enterprise. They should struggle for more epistemic autonomy from the hegemonic influence of Western sociology. This is more an academic than political issue. As mentioned before, the extension of the hegemony of Western sociology is probably the main reason why the foundation of the sociology is eroding over the years. Epistemic predominance of the West implies a virtually closed development to the disciplinary core and architectonic of sociology. Only if the hegemonic influence of Western episteme is restrained, sociology would become a more open and developing science. Counter-hegemony demands courage and cooperation among sociologists. A new consensus should be built among sociologists from all over the world, and new approaches of sociological practice should be implemented.

On the part of Chinese sociologists, what they should do is first and foremost to refrain from dehistoricising China and forcing Chinese formation of reality arbitrarily into Western categories and concepts, like many trivial or even pseudo attempts to extend Western theories in their study of a largely different sociohistorical Chinese context. The largely dehistoricised, empirical orientation in Chinese sociology that was in place for long time has been misguided departure point for the study of China. The paramount empirical interest of Chinese sociologists should be replaced by a more theoretical orientation. The attempt to extend Western theories should be replaced by effort to build an alternative series of theories for Chinese society.
By thus saying, I am not advocating a relativist position, and by no mean undermining the intellectual merit of existing theoretical models in the study of China. The construction of alternative model of Chinese sociological theory does not necessarily mean the severance from Western theoretical paradigm. To begin with, theoretical awareness should be much heightened in the adaptation and borrowing of Western concepts and methodologies with an aim to build alternative theoretical framework for the research on China. Western concepts and sociological perspectives will remain to be instrumental building blocks for the construction of alternative theoretical models. At the same time, there is also a need for Chinese sociology to construe Chinese society with its own concepts and perspectives, and generate more systematically its own sociological visions. The later will serve the purpose of comprehending China as an alterity to Europe better and enrich the scientific core of the sociological discipline as a whole. Viewed in this light, doing empirical research on China is only secondary before certain viable sociological theoretical frameworks on China is well devised.

The calling of Chinese sociology is to construct sociological theory of and for Chinese society that builds on identification of the independent cultural and historical ontology of China, and derived from that epistemic premises and models that can fit the unique sociohistorical situation of China. The (in)difference of China to Europe must be taken into full sociological consideration and China regarded as historical and cultural whole and not empirical facades for Western theory.
Chinese sociologists may have detoured in the West for too long that leads them astray. It is time they bring with them their knowledge about the Western world to reflect on China as a holistic entity and reinvent the sociological study of China. Only if the China (in)difference is fully recognised, undistorted sociological (self-)understanding of Western societies and China would be possible.
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Does Russia suffer from the Dutch Disease?

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Abstract
The paper analyses the impact of a resource boom, generally caused by a rise in the international price of the resource, which creates economic problems within the economy such as rising unemployment in the non-resource sector, wage inflation and de-industrialization. The literature terms this as the ‘Dutch Disease’. Russian exports have been heavily dependent on oil and gas output and in recent years there has been a significant rise in export dollar value emanating from the global sales of hydrocarbons. Although oil prices have fallen in recent months, the price of oil has risen by over two and half times during the first decade of this century. We investigate whether this has caused the so-called Dutch Disease for the Russian economy during the last two decades, after the fall of the Soviet Union. Russia is today a full-fledged emerging economy, but, unlike China or India, is very dependent on natural resources and hence a prime candidate for the Dutch Disease. We analyse all the facets of this resource induced boom and consequential stagflation. Our results demonstrate that Russia indeed exhibits the majority of the symptoms. The real exchange rate appreciates significantly, the manufacturing sector declines and there is high wage inflation emanating from the booming sector and spreading elsewhere. Yet, we are not able to diagnose the full blown disease. This is due to the difficulty in linking these outcomes with the oil production per se, since other factors can also determine these outcomes. Overall, the results show that we need to be agnostic about our conclusions.

JEL Category: E2, F4, O5
Key words: Russia, Resource Boom, De-industrialization
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Section 1: Introduction

The term Dutch Disease was first coined and applied to the Netherlands, whereby a substantial resource boom, in terms of output volume and foreign exchange revenue, engenders a decline in the traditional tradeable sector such as manufacturing concurrent with the rise of the non-tradeable services sector. The discovery of substantial natural gas fields in the Netherlands in the late 1950s and the proceeding decline in its manufacturing sector, as described by Ellman (1981), led to the creation of the term Dutch Disease (hereafter called DD) by The Economist in 1977. The ‘DD’ referred to the deterioration of the Dutch tradable (manufacturing) sector (plus the loss of international competitiveness of manufacturing giants such as Phillips), due to an appreciation of the Dutch real exchange rate (Corden 1984) stemming from discoveries in natural gas. The phenomenon of DD often works for economies highly dependent on commodities and their price boom. It has multiple effects. By increasing export revenues of the so called booming sector (often oil or gas or hydrocarbons in general) it appreciates the exchange rates, leads to lower export of other tradeables (such as in manufacturing or agriculture) this having a negative impact on the non-booming sector. Often it leads to a reduction in employment in the rest of the economy. If commodity prices are volatile, then the excessive dependence on export revenue from a few sources creates volatility in the aggregate economy. By an excessive reliance on the oil sector, innovation in traditional sectors such as manufacturing or agriculture is neglected. Finally, the DD often leads to higher inflation led by wage inflation in the booming sector which is followed by others.

Russia is currently one of the largest producers of oil in the world with some of the most substantial oil reserves and pumped over 10 million barrels per day of crude oil last year. In 2012 in terms of total export trade value, petroleum, petroleum products and related materials accounted for 54.4% of Russian exports and were the second highest exporter in the world, behind Saudi Arabia. According to the US Energy Information Agency (EIA) Russia is currently the largest crude oil producer in the world and third (after Saudi Arabia and the United States) in terms of liquid fuels output. It is also the second largest producer of dry natural gas and the sixth in the world in terms of coal production. According to the EIA, “Russia’s economy is highly dependent on its hydrocarbons, and oil and gas revenues account for more than 50% of the federal budget revenues”. Oil prices have risen by about 400% (from $30/barrel to 120/barrel) during the first decade of this century. The World Bank (2013) suggests Russia has an excessively high dependency on oil exports and oil prices. With Russia’s clear abundance and dependency on oil revenues, and the price boom of the international price of oil in the last decade or so, it is an obvious candidate for DD.

In this paper we test the classic symptoms of DD for Russia. We find that Russia exhibits the majority of the symptoms of the so called Dutch Disease. Yet, we are unable to diagnose the full blown disease. This is due to the difficulty in linking these outcomes with oil production per se, since other factors can determine these outcomes too. This is a common theme when attempting to diagnose DD since there is such difficulty of isolating the exact effects of the oil or natural resource industry on precise aspects of the economy. Very recent work on the so called Canadian variant of the DD (Gordon, 2013) comes to a similar conclusion: it is not possible to attribute the decline in manufacturing and the rapid expansion of the non-tradable sector solely to the international commodity boom for a resource rich economy.

This paper is organised in the following manner. Section 2 reviews the relevant theory and
what empirical literature has established so far. Section 3 considers the methodology used in this study. Section 4 discusses and analyses the results. Section 5 concludes.

Section 2 Literature Review

Considerable research and empirical studies have been conducted to ascertain how Russia’s abundant oil reserves, production and exports have affected its growth and development. In this section we look at the fundamental issues that the concept of DD is built upon and investigate any limitations that arise in the analysis.

2.1 Dutch Disease

The first economists to develop an economic model which described the DD were Corden and Neary (1982). The model consists of 3 sectors within an economy. There are two traded-good sectors (whose values are measured in dollars or the international currency): the so-called lagging-sector, assumed to be manufacturing or industry, and the booming sector, assumed to be natural resource extraction; the third sector is the non-tradable sector whose value is measured in the domestic currency. Based on the core booming sector, due to increased international earnings, the effects on the real exchange rate, resource allocation and factor income distribution are all important for the generation of the DD and needs to be analysed. A core component of such an analysis involves the Resource Movement Effect or ‘RME’ as well as the Spending Effect ‘SE’.

The RME refers to the rise in the marginal productivity of the mobile factors employed in the booming (resource or energy sector) which attracts resources from other sectors. In terms of the overall tradable sector, at initial constant wages, labour demand in the oil sector rises and the demand curve shifts upwards. This encourages labour to move out of the lagging sector and the non-tradable sector. Direct de-industrialisation can follow, as the movement of labour lowers output in the lagging sector and possibly raises its relative price thus lowering its demand as well. At a given real exchange rate, the movement of labour from the non-tradable sector into the booming (oil) sector creates excess demand for the non-tradable sector, thus leading to real appreciation (note that the non-tradable sector output is measured in domestic currency terms). In effect, this resource (variable factor of production) movement creates a rise in the domestic price relative to international price, effectively working as an appreciation in real terms of the exchange rate (see Corden, 1984).

The SE refers to the additional expenditure on services which increases their price, causing real appreciation in turn leading to further adjustments. This is either done indirectly by the government through an increased collection of taxes from the tradable sector to siphon off windfall profits or directly by the factor owners. Taking the income elasticity of demand as positive and high, for the non-tradable sector, the relative prices of the non-tradable sector to the tradable sectors must increase. This causes a real appreciation. Corden and Neary refer to the real exchange rate as the price ratio of non-traded goods, to traded goods. Here, a real appreciation suggests a rise in the price of the non-tradable sector will cause an appreciation of the real exchange rate in terms of the price ratio of the domestic non-tradable sector to traded goods sectors, compared with similar price ratio of trading partners. The core model, in their work, found that in the traded goods sectors, the non-booming sector suffered from direct and indirect deindustrialisation caused by these two effects. This included the usual symptoms in manufacturing such as a deteriorating balance of payments, a decline in the real return to factors which were specific to this sector and a fall in employment and output as a result of a real appreciation.

Andrienko and Guriev (2004) study ‘interregional migration’ and find labour mobility in Russia is generally low. The RME is predominantly present when factors are adequately mobile between the non-oil and oil sectors. This suggests this effect may be relatively unimportant in
Russia, while the SE is expected to be the more important effect. If there is complete labour immobility, then service sector supply is not altered and there will be a shift in demand, increasing the relative price level of the service sector. However, if some labour mobility is present between the services and manufacturing sectors, the rise in demand can lead to rises in service sector supply and the subsequent demand for labour would cause an upward shift in the service sector wages. Workers will be encouraged to move into the service sector from the oil and manufacturing sectors. Therefore, oil and manufacturing firms will be forced to increase their wages also. Since prices in these two sectors are internationally given, they will experience falls in the profit level as output prices (given by the international price) cannot be raised. This ensuing fall in manufacturing employment and output is stated by Corden (1984) as ‘indirect-industrialisation’ (see Oomes and Kalcheva, 2007).

The RME and the SE are the basis for the predictions that DD occurs when natural resource exportables rise in price and value. It operates in distinct ways. First, is the appreciation of the real exchange rate, stemming from the relative rise in the price level of services, the non-tradable sector; this reduces the exports and domestic demand for the manufacturing sector. Second, is the fall in manufacturing employment, production and exports, reflecting de-industrialisation. Third, the overall effects on employment and output are ambiguous in the service and oil sector. This is due to the SE and RME pulling in opposing directions. Nonetheless, as Russia suffers from low labour mobility, it is probable the RME will be dominated by the SE. Fourth, if there is some labour mobility then the general wage level will rise. In principle, the rise will also be reflected in the real wage level since workers in the booming sector will want to appropriate some of the gains derived from the international rise in prices of this sector’s output. Fifth, is the rise in oil sector exports, caused by the discovery of new reserves (commercially viable at higher world price) or simply due the increase in the price of oil. These effects and predictions are all summarised in Table 1.
Table 1. Summary of Dutch Disease changes

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<td><strong>Net Effect</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil sector</td>
<td>Increase</td>
<td>Increase</td>
<td>Increase</td>
<td>Ambiguous</td>
<td>Ambiguous</td>
<td>Exogenous</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Reduce</td>
<td>Increase</td>
<td>Increase</td>
<td>Reduction</td>
<td>Reduction</td>
<td>Exogenous</td>
</tr>
<tr>
<td>Non tradeable</td>
<td>Not applicable</td>
<td>Increase</td>
<td>Increase</td>
<td>Ambiguous or Increase</td>
<td>Ambiguous or Increase</td>
<td>Increase</td>
</tr>
<tr>
<td>Sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

One of the weaknesses of the Cordon-Neary model is that it is set in a traditional static macroeconomic framework, albeit with multiple aggregative sectors. Yet, most economies which experience a resource boom tend to have an initial growth spurt which may be maintained in sustainable fashion if wise investment policies are followed. Thus, the decline of the traditional tradeables sectors, consequent to the boom, may not be absolute in the sense that total output is going down per se. Rather, it shows a change (reduction) in relative terms. The traditional exportables may still expand due to the resource flows, but its relative share should decline under the DD scenario. In our empirical work we will be searching for relative decline in manufactures and the possibility of a relative expansion of the non-tradeable service sector. Thus, in the above Table the terms ‘increase’ and ‘decrease’ in output and employment should be construed in relative terms.

There is some debate regarding the Russian economy and DD and opinions vary. Oomes and Kalcheva (2007) find oil prices caused an appreciation of the real rouble exchange rate. They claim Russia has suffered from all of the symptoms, but cannot confirm whether DD was the cause. Dobrynskaya and Turkish (2009) had similar results. They suggest other factors may be to blame for the symptoms. It is suggested the real appreciation of the exchange rate was partly due to the Balassa-Samuelson effect. However, this may work to re-enforce the DD movements. Wage growth in the service sector (following the wage growth in the booming sector) causes higher domestic inflation, thus reducing competitiveness. Oomes and Kalcheva (2007) also claim that the expansion of the service sector is simply a catching-up or convergence of that sector given its relative under-development due to Soviet policy. Roland (2006) also believes it is too early to diagnose the Russian economy with DD. Barisitz and Ollus (2007), on the other hand, find a clear trend of increased growth of imports relative to domestic production and suggest, in terms of DD literature, that the caused by the real appreciation. The World Bank (2005) and Borko (2007) believe the classic symptoms are present. Conversely, Standard and Poor’s (2005, 2006) suggest Russia must be cautious and aware of this phenomenon and must stay clear of the harmful habit of...
relying excessively on oil export revenues. Breach (2003) takes a slightly different approach. He believes the exploitation of Russia’s deposits of oil enabled the Soviet economy to be sustained and financed over a long period. He states Russia currently, in fact, suffers from the Soviet era legacy (the ‘Soviet disease’) rather than issues stemming from large oil export revenues. Gustafson (2013) shares this idea too.

We intend to build on this literature and update its findings, and determine, in a statistical and analytical manner, whether Russia has suffered from the symptoms caused by DD.

Section 3: Methodology

In Section 3 we will follow the DD hypothesis, which is based on Corden and Neary’s Booming Sector model, and build on the Roland (2006) statistically oriented paper and investigate each symptom with descriptive and statistical analyses. The symptoms are: (1) a real appreciation or strengthening of the real exchange rate; (2) a slowdown in growth of the manufacturing sector, which is the traditional exportable; (3) accelerated growth in the service sector; (4) an increase in the general wage level and the possibility of a general inflation. Their relationship with the Russian economy and DD literature will be analytically determined.

3.1 Real Exchange Rate (RER)

Corden and Neary’s (1982) model which defines the real exchange rate and a coinciding appreciation has already been discussed in Section 2.1 In a multi-country setting, we use a generalized measure of the real exchange rate termed the Real Effective Exchange Rate (REER). The Russian REER is a ‘weighted average of the individual exchange rates, weighted by the relative importance of each country in trade with the domestic economy’. This exchange rate can determine Russia’s currency value relative to the rest of the world and therefore it measures export competitiveness. So Russia’s REER from 1994-2012 will be examined from World Bank statistics and it will be determined whether there has been a real appreciation. However, we need to be aware that the DD is mainly affected by the overvaluation of the domestic exchange rate over and above the equilibrium rate – the so called ‘overshooting’ phenomenon. Hence, an evaluation of the equilibrium exchange rate will also be done.

3.2 Manufacturing

Following the DD predictions in Table 1, manufacturing sector production, employment and exports are expected to fall, shown by an actual decline in output in theory, or more realistically in practice, by reduced growth or as a proportion of GNP. This is a result of direct and indirect de-industrialisation.

For calculating the manufacturing exports the Balassa Index of comparative advantages will be used. Due to unobservable relative autarkic prices, Balassa (1965) proposed that by observing post-trade patterns, the comparative advantage of a specific sector can be revealed, assuming that trade takes place according to the theory of comparative advantage. He derived an index that is capable of measuring the degree of a country’s specialisation within an industry. This is known as the Revealed Comparative Advantage (RCA) index. Richardson and Zhang (1999) argue this index is one of only a few formal methods to measure a sector’s strength within a country’s comparative advantage and disadvantage. Balassa’s (1965) RCA is used to ascertain relative trade performance of specific sectors within a country, often in commodities. Trade specialisation, structural change and improved world demand are some of the factors that cause and add to movements in RCA (Batra and Khan 2005). This index is calculated using the following formula:
The numerator denotes Country A’s, in this case Russia, share of sectoral exports i, whereas the denominator represents the entire sectoral share of world exports.

The RCA ‘reveals’ that a country will have a comparative disadvantage in exporting commodities in sector i if RCA is less than unity. A comparative advantage will be revealed if RCA is greater than unity. So the use of RCAs will allow the identification of sectors that Russia will hold a comparative advantage or disadvantage in. The Balassa index in our paper has been used to show the pattern of Russian manufacturing growth, since Russian exports are compared with world exports and a relative comparative advantage or disadvantage can be calculated. Exports are expected to grow over time, and this index will help determine whether Russian manufacturing exports (including sectoral exports) on average, have grown slower than the rest of the world. For example if the RCA increases over time, we will see an improvement in Russian exports in that sector, whereas a reduction in RCA over time will show a relative increase in comparative disadvantage, and fall in exports share over time.

Detailed calculation methods are given in the Appendix. Erlat et al (2007) have developed a way to categorise the factor intensities of each sector so that we also get a picture of those sectors importance for economic development. This will aid the process of determining how factor intensities have altered and will permit more detailed analysis of Russian productivity. Each sector is categorised based on its factor intensity (Erlat et al 2007). There are 5 classifications in total. These are: (i) Oil Intensive goods (O), (ii) Labour intensive goods (L), (iii) Capital intensive goods (C), (iv) Easy to initiate research intensive goods (ERI) and (v) Difficult to initiate research intensive good (DRI). The change in RCA from each factor intensity classification from 1996-2012 will be computed in this study to determine how Russian exports have changed relative to the rest of the world. This will give us a time series evaluation of factor intensity, based on RCAs, over the period of globalization (late 1990s to the first decade of the 20th century). It will also allow us to observe which types of products (in aggregate) are increasing in relative importance for the Russian economy as it is being subjected to the resource boom. This method allows us to trace over time the aggregate structure of exports and whether the traditional tradeable sectors (L, C, ERI, DRI) have gained or lost in the resource boom phase of economic growth and globalisation, relative to the international economy. The analysis is therefore a complex evaluation of Russia’s international competitiveness and whether its non-oil traded goods have advanced or regressed at a time of great global change.

A more straightforward picture can be gleaned from looking at the actual disaggregated data for traded goods and see how Russia’s exports have evolved over time in terms of RCAs. If the RCA of traditional exportables have declined then it is an indirect evidence of de-industrialisation and some proof of the Dutch Disease.

Finally, we can look at the indices of manufacturing in relative terms within the domestic economy and see how it has evolved. Again, this gives some idea of the position of the sectors within manufacturing although it is not necessarily linked with external sectors and real appreciation which is the core of the Dutch Disease phenomenon.

3.3 Service Sector

How we expect the service sector to perform is based on labour mobility within Russia. As Andrienko and Guriev (2004) found, Russia has low labour mobility, it is expected the SE will be

For full factor intensity breakdown, see Appendix B.
more dominant. Based on the DD hypothesis and taking a low level of mobility, we expect to see rises in the size of the non-tradeable sector i.e. the services sector.

3.4 Wages

To follow the DD hypothesis we expect to see rises in service sector’s real wages, caused by raised service sector demand. This increase will encourage workers to move to the service sector, so oil and manufacturing wages would be forced to increase their wages in order to retain labour. So we expect to see general real wage level increase.

3.5 Prices/Inflation

DD literature predicts a boom in the resource sector will cause the inflation rate in the service sector to rise in turn causing an overall wage inflation and therefore price inflation in the macroeconomy. This is a result of both the RME and the SE. Seen as resource and manufacturing sector prices are determined internationally, an increase in the service sector could cause general inflation particularly in consumer goods prices.

Section 4 Empirical Work and Analysis

In Section 4, we present data for each symptom that was discussed in Section 3, and it will be determined as to whether Russia has suffered from the DD. To emphasize, the symptoms are: (1) an appreciation of the RER, (2) a slowdown in the relative growth and export capability of the manufacturing sector, (3) accelerated growth in the service sector and (4) an inflationary increase in the general wage level and aggregate prices. These will be tested empirically.

4.1 Real Exchange Rate (RER)

Based on the World Bank REER index (see Table 2) the Russian exchange rate appreciated by 106.6% from 1994-2012. Although an obvious increase, there is always a difficulty in relating this appreciation to international oil prices, as there may be other factors that can determine changes in the RER.

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>REER</td>
<td>64.8</td>
<td>63.2</td>
<td>56.8</td>
<td>67.1</td>
<td>87.9</td>
<td>60.4</td>
<td>66.7</td>
<td>79.9</td>
<td>82.3</td>
<td>84.8</td>
<td>91.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>REER</td>
<td>100</td>
<td>109.8</td>
<td>115.9</td>
<td>123.7</td>
<td>115.2</td>
<td>125.9</td>
<td>132.0</td>
<td>133.9</td>
<td>141</td>
</tr>
</tbody>
</table>

Source: World Bank

An increase in the price of oil would increase the aggregate income of factors employed in the oil sector. This can lead to an increase in the SE. Comparing oil prices with the RER will give some indication as to whether the SE has occurred. 5 year average RER percentage changes were calculated and over the period. 1999-2003 witnessed the largest appreciation of 40.4%, which coincided with the highest oil price in the 13 year period between 1991-2003 in 2000. In 2009 the
price per barrel fell dramatically to a 5 year low which was also 41% less than in 2008\(^6\). The 4 year average RER percentage change from 2009-12 was the lowest of the whole period, 16.2% appreciation. Comparing REER and oil price data between 1994-2012, gives a correlation of 0.92, which suggests there is a strong positive relationship.

We therefore find a clear appreciation of the Russian Ruble from 1994-2012, which is in line with DD literature. The SE could have been a major determinant of this appreciation. This is due to the strong relationship with oil prices and that the RME is less common in Russia. However, other factors can also determine the RER. These include: (1) Public debt; (2) Differentials in interest rates; (3) Differentials in inflation; (4) Terms of Trade in the non-oil sector. (5) Economic performance overall and political stability; (6) Current-account surplus/deficit. However, in the Russian case, most or all these factors should have led to a rouble or RER depreciation, since Russia had high public debts, relatively low real interest rates, high inflation, adverse terms of trade outside of oil, current account deficits in the non-oil sectors and general political instability in the 1990s. Overall, therefore we can conclude that the appreciation of the RER and its relative overvaluation was caused by the increases in the world price of oil. It is feasible that here at least the DD was prevalent.

4.2 Manufacturing and Revealed Comparative Advantage (RCA)

Consider now the factor intensity of Russian exports in terms of: Oil Intensive goods (O), Labour intensive goods (L), Capital intensive goods (C), Easy to initiate research intensive goods (ERI) and Difficult to initiate research intensive good (DRI)). Within this classificatory scheme we calculated the RCAs over time. We then look at the changes from 1996 to 2012 in the RCAs of the relevant 5 classifications; namely: O, L, C, ERI and DRI (see Table 3). The changes are + 0.05, – 0.06, – 1.03, – 0.23 and – 0.11 respectively. The manufacturing sector in total can be made up of L, C, ERI and DRI. All of these sectors experienced a downward shift in their RCAs. In particular the decline was most precipitous in the capital-intensive goods sector (C). On average this sector experienced a decline in its RCA between 1996 and 2012 of approximately unity (1). Since capital intensive goods are at the heart of Russian manufactures (unlike that of China), the decline of manufacturing export competitiveness is a clear indication of de-industrialization. Collectively, the manufacturing sector as a whole experienced a change of – 1.39. This suggests manufacturing exports experienced a relative comparative disadvantage over this period, and suffered a relative decline compared to world manufacturing exports.

**Table 3:** Russia’s sectors with RCA from 1996-2012

<table>
<thead>
<tr>
<th>Factor Intensity</th>
<th>Average Annual RCA</th>
<th>Average Change in RCA from 1996-2012</th>
</tr>
</thead>
</table>

\(^6\) [http://inflationdata.com/Inflation/Inflation_Rate/Historical_Oil_Prices_Table.asp](http://inflationdata.com/Inflation/Inflation_Rate/Historical_Oil_Prices_Table.asp)
Oil-Intensive Goods (O) 4.94 0.05
Labour-Intensive Goods (L) 0.19 -0.06
Capital-Intensive Goods (C) 1.11 -1.03
Easy-to-Imitate Intensive Goods (ERI) 0.38 -0.23
Difficult-to-Imitate Intensive Goods (DRI) 0.18 -0.11

Source: Authors’ calculation

The calculations behind Table 3 are complicated and requires disaagregated computation of many industrial sectors (over 80) and then re-classifying them in terms of ther factor intensity i.e. O, L, C, ERI and DRI. A more straightforward picture emerges if we look at the aggregate RCA according to the SITC Product Groups classified by the World Bank as: agriculture and raw material; chemicals; food; fuel; machinery and transport equipment; manufactures; ores and metals; textiles. Although ‘manufactures’ come as a specific heading, clearly product groups chemicals or machinery and transport equipment are also part of the potetial impact of DD. On the other hand, although we are concentrating on the price of hydrocarbons, the sector ‘ores and metals’ are a part of natural resources overall.

Consider Table 4 which gives these aggregate RCAs per annum for the period 2009-2013 and compare it with the previous period 1996-2000 as shown in Table 5. The earlier period is the earliest data available and the later period is the latest data (available from the World Bank which has calculated these RCAs).

Table 4: RCA of Russia 2009-2013 (SITC, Rev 2; Groups)

<table>
<thead>
<tr>
<th>Commodity group</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and raw materials</td>
<td>1.58</td>
<td>1.46</td>
<td>1.33</td>
<td>1.29</td>
<td>1.27</td>
</tr>
<tr>
<td>Chemicals</td>
<td>0.46</td>
<td>0.47</td>
<td>0.48</td>
<td>0.46</td>
<td>0.46</td>
</tr>
<tr>
<td>Food</td>
<td>0.46</td>
<td>0.35</td>
<td>0.36</td>
<td>0.46</td>
<td>0.42</td>
</tr>
<tr>
<td>Fuels</td>
<td>4.31</td>
<td>4.21</td>
<td>3.70</td>
<td>3.52</td>
<td>3.75</td>
</tr>
</tbody>
</table>

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Comparing Tables 4 and 5, one can see the relative export and global competitiveness decline of ‘manufacturing’ types of industries: chemicals; machinery and transport equipment; manufactures; textiles. The case of chemicals is illuminating; a decline of RCA from around 0.8 in the earlier period to a level below 0.5 by the end of the period under consideration. Similarly, the RCA for traditional manufactures falls from around 0.4 to 0.25. Fuel and ores and metals hold steady in the almost two decade period but overall there is strong evidence that Russian manufacturing is not doing well in terms of global competitiveness. This is precisely what the proponents of the Dutch Disease would predict.

What about the relative decline of manufacturing as the Dutch Disease proponents would claim in a growing economy subject to positive shocks in the oil sector (more output, greater international demand and higher world prices)? World Bank data shows that Manufacturing value added as a proportion of GDP has either stagnated or declined in the last decade. At a time when oil prices were rising the fall in manufactures share is once again an indication of a relative form of de-industrialization. More telling is the decline in the share of manufacturing in total exports. World Bank gives data for exports of Manufactures which comprise commodities in SITC sections 5 (chemicals), 6 (basic manufactures), 7 (machinery and transport equipment), and 8 (miscellaneous manufactured goods). Again there is significant evidence of the decline of manufacturing – not surprising given the nature of RCA movements in the previous analyses. Table 6 gives data for manufacturing value added (as share of GDP) which is a better measure than total output since the latter may include inefficiencies due to high inter-industrial demand. Table 7 gives share data of manufacturing exports as a percentage of total exports. 8.

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and raw materials</td>
<td>1.80</td>
<td>1.91</td>
<td>1.97</td>
<td>2.26</td>
<td>1.93</td>
</tr>
<tr>
<td>Chemicals</td>
<td>0.85</td>
<td>0.83</td>
<td>0.85</td>
<td>0.88</td>
<td>0.78</td>
</tr>
<tr>
<td>Food</td>
<td>0.55</td>
<td>0.49</td>
<td>0.62</td>
<td>0.64</td>
<td>0.60</td>
</tr>
<tr>
<td>Fuels</td>
<td>4.81</td>
<td>4.92</td>
<td>5.86</td>
<td>5.67</td>
<td>4.09</td>
</tr>
<tr>
<td>Machinery &amp; Transport equipment</td>
<td>0.14</td>
<td>0.12</td>
<td>0.16</td>
<td>0.14</td>
<td>0.11</td>
</tr>
<tr>
<td>Manufacture</td>
<td>0.39</td>
<td>0.40</td>
<td>0.42</td>
<td>0.38</td>
<td>0.39</td>
</tr>
<tr>
<td>Ores and metals</td>
<td>4.26</td>
<td>5.07</td>
<td>5.53</td>
<td>6.76</td>
<td>4.26</td>
</tr>
<tr>
<td>Textile</td>
<td>0.20</td>
<td>0.18</td>
<td>0.18</td>
<td>0.18</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Table 6a: Manufacturing value added as share of GDP (2002 – 2007)

8 [http://data.worldbank.org/indicator/TX.VAL.MANF.ZS.UN]
Once again, the progression of the data indicates a relative decline in Russian manufacturing output and exports – which is often a good characteristic of an economy suffering from the Dutch Disease. The status of manufacturing, its export competitiveness and its relative decline are clear indication of the Dutch Disease.

4.3 Service Sector

Consider now the service sector data for which is given in Table 8. We see from 1995-2012 service sector production decreased by 8.3%. (see Table 8). From 2008-2012 service sector employment did increase, but by only 47,000 people – a miniscule rise given the adult population of the Russian economy. The DD literature predicts either an increase in production and employment or an ambiguous change, depending on how much the SE dominates. As we observe a clear fall in production in the service sector, this symptom does not follow the literature.

Table 8a: Average Service Sector Production

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</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>110.01</td>
<td>103.53</td>
<td>101.62</td>
<td>101.18</td>
<td>102.84</td>
<td>102.45</td>
<td>101.85</td>
<td>102.91</td>
<td>102.15</td>
</tr>
</tbody>
</table>

Table 8b: Average Service Sector Production

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>104.34</td>
<td>104.35</td>
<td>104.24</td>
<td>105.11</td>
<td>105.23</td>
<td>95.23</td>
<td>101.00</td>
<td>100.89</td>
<td>101.28</td>
<td>100.82</td>
</tr>
</tbody>
</table>

Source: Federal State Statistics Service, Russia (DataStream)
Notes: Service Sector Includes: communications, transportation, construction and financial services
4.4 Wages

DD literature predicts a rise in the general real wage level. We find (see Table 9) an increase of 16.74% in the average yearly real wage per worker from 1998-2013. Further, although there were cyclical movements in the real wage rate the positives outweigh the negatives on the annual year-to-year calculations. Although the wage increase is not particularly impressive, this symptom follows the DD literature.

Table 9a: Real Wages (and Compared to corresponding period of previous year %)

<table>
<thead>
<tr>
<th>Year</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Wage</td>
<td>90.2</td>
<td>76.5</td>
<td>121.2</td>
<td>120.4</td>
<td>116.7</td>
<td>110.3</td>
<td>111.2</td>
<td>109.9</td>
<td>113.4</td>
</tr>
<tr>
<td>% change</td>
<td>n.a.</td>
<td>-15.19</td>
<td>59.74</td>
<td>-1.47</td>
<td>-3.07</td>
<td>-5.48</td>
<td>0.82</td>
<td>-1.17</td>
<td>3.18</td>
</tr>
</tbody>
</table>

Table 9b: Real Wages (Compared to corresponding period of previous year)

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Wage</td>
<td>116.2</td>
<td>111.0</td>
<td>97.3</td>
<td>104.4</td>
<td>104.1</td>
<td>108.5</td>
<td>105.3</td>
<td></td>
</tr>
<tr>
<td>% change</td>
<td>2.47</td>
<td>-4.48</td>
<td>-12.34</td>
<td>-4.48</td>
<td>-0.29</td>
<td>4.23</td>
<td>-2.93</td>
<td></td>
</tr>
</tbody>
</table>

Source: Federal State Statistics Service, Russia (DataStream)

4.5 Prices/Inflation

Inflation rates are given in Table 10. From 1994-2013 we witness high annual average inflation rates. There is evidence of consistent inflation year-on-year. In this period, average inflation does not fall below 5.06% and peaks at 412.51% in 1994. The first three years (1994-1996) are clearly abnormal and reflects the catching up when the command economy is unchained from regulatory price controls. The extreme initial inflation rates in 1994-96 will be due to the artificially low prices of the Soviet era, and then the movement from a command to a free market economy. However, the transition must have been over in the 2000s. Even in the past decade, inflation has been stubbornly high although falling, indicating some impact of the Dutch Disease.

Table 10a: Average Inflation Russia (CPI) % - by year

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation (CPI)</td>
<td>412.51</td>
<td>204.9</td>
<td>53.07</td>
<td>14.76</td>
<td>27.36</td>
<td>92.64</td>
<td>20.98</td>
<td>21.61</td>
<td>15.84</td>
<td>13.68</td>
<td>10.88</td>
</tr>
</tbody>
</table>

Table 10b: Average Inflation Russia (CPI) % - by year

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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4.6 Analysis of results overall

Under the assumption that labour is fairly immobile, we are expected to see the SE predictions in table 1. However, as Andrienko and Guriev’s study only accounts for Russia up to 2004, labour could have become more mobile to the present date since the economy has become more sophisticated. So the predictions for ‘Net Effects’ in table 1 may also be analysed. Given the data analysis we see Russia exhibits the following DD symptoms: (1) an appreciation of the RER,
(2) a slowdown in growth of the manufacturing sector and a relative loss of international competitiveness in manufacturing exports, particularly in capital intensive goods and (4) an increase in the general wage level as well as an increase in real wages. Symptom (3) accelerated growth in the service sector was not exhibited. There are clear signs the criteria for three out of the four symptoms have been met. Determining whether Russia has suffered from the DD however is more difficult to conclude conclusively.

Regarding symptom (1), we find evidence of an appreciation and there seems to be a positive relationship with the REER and oil prices. However, Oomes and Kalcheva (2007) find that between 1995-2005, despite evidence of an appreciation, the RER had not been over the estimated equilibrium level. This suggests the real appreciation may not have been detrimental to the Russian economy. Furthermore, a real appreciation does not have to correspond to poor economic health or an impact of mis-utilized resource boom. Contrarily, a real appreciation can be seen as a naturally occurring phenomenon in economies that are growing and catching up with more developed economies. This is referred to as the Balassa-Samuleson effect which has been discussed in Section 2.1. Real appreciation linked with the Balassa-Samuleson effect should not be feared as it reflects the improvement in living standards in a developing or transition economy.

Despite exhibiting symptoms (2) and (4), it is difficult to determine that these symptoms are a result of DD per se. Other factors can explain these results. De-industrialisation for example is a natural phenomenon experienced by advanced industrial regions (take Detroit in the USA or Birmingham in the UK). As households become more wealthy, demand tend to shift naturally to services away from goods. Likewise, the wage growth from 1998-2013 that was witnessed, could be a result of a rebound from the 1998 crisis and less so with the more recent 2008 crisis. In 2000 and 2010 an increase of 59.74% and 7.30% respectively, is likely due to recoveries from both crises. In addition, the initial rapid productivity growth, de-shadowization of wages and low relative wages in the Soviet regime may have contributed to this increase.

Moreover, with Russia, it is important not to overstate the threat of DD. The Russian economy is vast and much of it is geared to the domestic sector. In 2012 exports of goods and services as a percentage of GDP in Russia was less that 30%. Hence a real appreciation will not have as large an effect compared to a smaller economy like the Netherlands, whose exports of goods and services stand at 88% of GDP. If we consider the value of exports of goods and services as a percentage of GDP in Russia over the last decade, we see that from 2004-2012 there has been a 5% fall. This shows how the foreign sector within Russia has become a smaller contributor towards GDP, suggesting it is becoming less important to the economy as a whole. If this ratio continues to fall, which the time series data suggests, then this shows a reduced dependence on the foreign sector, suggesting a high real exchange rate due to DD will likely affect Russia less.

In addition, if we look at the performance of the Russian economy in recent years we find it has strong labour productivity growth and GDP growth. Labour productivity growth in the total economy has been on average 3.23% per year between 2010-2012, while on average GDP growth was 4.01% between the same period. These are relatively strong results considering the financial crisis of 2008 and compared with other advanced economics such as the UK which has experienced on average 0.97% GDP growth between 2010-2012.

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Even though Russia has displayed 3 out of the 4 symptoms, and potentially all the symptoms if production data was more readily available for the service sector, it is still difficult to conclude whether these results are due to the DD. Let us now briefly consider some other hypotheses.

The resource curse is another theory that attempts to explain Russia’s economic climate with respect to the oil industry. Resource curse literature highlights the political problems associated with states that possess rich natural resource deposits but poor institutional frameworks. The question is whether a natural resource endowment creates a poor institutional environment? The symptoms include high corruption and weak rule of law, low political pluralism, high state involvement in the economy, repression and the natural resource sector as a main area of taxation (Ahrend 2013; Mehlum et al 2006). Russia is ranked 127th out of 188 countries in a corruption perceptions index13, which implies considerable corruption. On a global competitive index which measures institutional competitiveness, Russia ranked in 2011 as 66th out of 14214, although there are issues related to an evaluation of its position. These are poor statistics for such a major economy. Clearly, Russia appears on the face of it to be ‘cursed’. It has even been suggested that ‘addiction’ characteristics have more of an influence on Russia’s economic climate than DD. It is argued inefficient industries such as the manufacturing sector are not destroyed by the likes of the oil sector but are in fact sustained by it. This is due to the quasi rents from the oil sector being distributed around the economy, usually in most inefficient parts, either directly (use of Russian machinery etc.) or via the state (subsidies to enterprises etc.). This has negative consequences because it reduces competitive pressures in the economy. In a sense, they have become ‘addicted’ to recycled rents. This perpetuates inefficient ‘dinosaurs’ that choose not to reform, and instead focus on using political connections to secure access to rents. This is politically attractive, but it means Russia maintains an inefficient industrial structure that is only sustainable if oil prices and production increase (Gaddy and Ickes 2005, 2009, 2010).

The results in this study, as well as considering the results of other studies leads to the conclusion that Russia cannot be diagnosed with full blown DD. It is evident some symptoms are displayed, but linking these effects precisely with oil production and distribution is more difficult and statistics suggest Russian GDP and labour productivity growth is relatively healthy. Furthermore, with Russia’s sheer size, the oil sectors dominance of exports of goods and a relatively moderate and falling percentage of GDP of exports of goods and services, it is uncertain how much a real appreciation actually negatively effects the Russian economy. Moreover, the DD symptoms displayed may be partially a result from the resource curse or Russia’s possible resource rent addiction.

5. Conclusion.

The classic literature on immiserization through a resource boom has produced the Dutch Disease (DD) literature for the open economy. The boom creates an international resource flow in the external account (measured in dollars) which in turn causes a real exchange appreciation. This affects adversely the non-resource sectors whose international competitiveness falls. The economy goes through a phase of de-industrialisation where its traditional exportables suffer a competitiveness loss and output falls (relative to GDP) with a concomitant decrease in exports (as a share of all exports).

This paper has examined Russia’s susceptibility to the DD. Empirical evidence has been provided for the classic symptoms (see Section II). Despite Russia clearly displaying three out of

13 http://www.transparency.org/country#RUS
the four symptoms, full-scale DD cannot be diagnosed. We claim that other factors can play a part in identifying and causing these symptoms. It has even been argued that Russia is suffering from the ‘Russian Disease’ and that a poor Soviet era legacy has been more of a burden than DD itself. The resource curse and Russia’s potential addiction to resource rents can also help explain Russia’s current economic climate. This study concludes Russia is suffering from aspects of the DD, but linking oil production to these effects is not obvious and clear-cut. Overall however, certain sectors of the economy are being quashed by relative de-industrialisation due to oil revenues, high exchange rates and wages. For Russia to achieve successful future growth and development it should follow certain paths. Firstly, it must create, replenish and maintain a stabilisation fund by building high reserves. Second, is the stimulation of oil sector modernisation. Improvements in resource efficiency and productivity are still required in the oil industry. Third, is the need for diversification. This will leave the Russian economy less exposed to exogenous shocks and provide a stronger economic base for when their oil wells run dry. To achieve Russia’s unquestionable growth and development potential, the Russian state must undergo a systemic improvement in order to stimulate stability, predictability and transparency.

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ANALYSIS OF THE REASONS FOR THE INSTITUTIONAL BACKWARDNESS OF GEORGIA

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PhD of economics
Ivane Javakhishvili Tbilisi State University

The main goal of the research is to form the basic directions of establishing Institutions and to overcome their lag in the conditions of post-communist transition for further improvements in macroeconomic reforms.

In order to reach this goal it is now possible to compare the implemented Institutional reforms in Georgia, Azerbaijan and Estonia as well as to identify the main indicators of Institutional lag. The Indicators of European Bank for Reconstruction and Development (EBRD) gives a fairly clear picture of the implemented reforms and their effectiveness. They are known as Transformation Indicators and they include six main groups:

- Large-scale privatization;
- Small-scale privatization;
- Governance and enterprise restructuring;
- Price liberalization;
- Trade and foreign exchange system;
- Competition policy.

The initial level of these indicators is 1.0, while the maximum level is 4.0 and 4.8 (in some cases, the indicator’s rating is higher than 4.0 for successful reforms).

**Price Liberalization Index.** In Georgia the first success was achieved in terms of price liberalization as well as in most of transitional countries. In 1992 this indicator equaled 3.3 and it reached 4.0 in 1996. According to European Bank for Reconstruction and Development the price of 15 products in the basket in 1991 was determined by administrative procedure, then it was – of 5 products in 1992 and - only 3 product prices in 1996. The indicator reached 4.3 in 1998, which means that Georgia got closer to the economic standards of developed economics where prices are not controlled administratively. In 2012 this indicator equaled still 4.3. As for our neighbors: Azerbaijan and Armenia, in Armenia as well as in Georgia this figure equaled 3.3, and it reached 4.3 in 1996. Azerbaijan reached the acceptable standard later in 1997. And in Estonia approaching to the standards of developed economics was done much earlier in 1993, when the price liberalization index was already 4.3.

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Small-scale Privatization Index. From the point of view of privatization of small enterprises in Georgia, the coefficient’s progress begins in 1993 (2.0), and privatization of large enterprises begins in 1995 (2.0). The privatization of small enterprises ended rather soon with acceptable results and the coefficient reached the desired level already by 1996. In comparison with Georgia in neighboring Armenia, small-scale privatization indicator reached 4.0 much later in 2007. In Azerbaijan, from the point of view of small-scale privatization, significant steps were taken in 2002 and the indicator reached 3.7. And Estonia was able to conduct a full privatization of small enterprises since 1994 and the figure reached 4.0 as a result.

Large-scale Privatization Index. In contrast to small-scale privatization the removal of large enterprises has become much more difficult in Georgia due to the various political and economic reasons and this was logical because of the number of labor employed there. The next significant wave of privatization begins in 2005, which was accompanied by a certain social discontent. In 2007 this indicator reached 4.0, but nowadays there still exist a small number of state-owned enterprises and on this side there is the potential for institutional improvement.

In the case of Armenia, the large-scale privatization still does not comply with the requirements of the modern economy and the position of 2012 remained again 3.7.

The more deplorable condition is in Azerbaijan, where the coefficient of large-scale privatization for 2012 was again 2.0.

From this point of view recovery began in 1993 in Estonia when the indicator was equal to 2.0, and soon, since 1995 it already met the modern standards and reached 4.0.
Trade and Foreign Exchange System Index. In 1995 the coefficient for the indicator of trade and foreign exchange system was changed for the first time in Georgia (2.0) after the export tax was abolished for non-CIS countries and a unified tariff structure for imports was introduced. As a result, in 1997 this indicator has already become 4.0. In 2000, Georgia joined the World Trade Organization, which further increased this indicator to 4.3. Because of the reforms carried out in this direction earlier than in Georgia, Armenia was able to reach the index of 4.0 in 1996. And Azerbaijan was able to respond to modern standards and increase the indicator of trade and foreign exchange system to 4.0 only in 2005. In Estonia reforms were carried out again at an early stage and the indicator reached 4.0 as early as in 1994.

Competition Policy Index. In Georgia, as in most republics, the progress of the competition policy indicator occurred later in 1996 (2.0) when price liberalization and small-scale privatization reached the level of 4.0 by 1996. In Azerbaijan, progress in this direction occurred approximately as well as in Georgia, in 1995 and the indicator became 2.0, but in 2011-2012 the indicator decreased and became 1.7. Later, all progress occurred in Armenia in 2001, and since 2005, the situation in Armenia has evolved from the point of view of competition policy and index reached 2.3. In Estonia, this indicator began to develop in 1993 and in 2006 it reached 3.7.
One of the main objectives of this study was to study the specifics of Georgia’s institutional development and identify the reasons of country’s institutional lag and, consequently, developing specific measures (at the recommendation level) to eliminate the institutional lag.

The analysis showed that the freedom of trade is the strongest factor for reducing the country’s institutional lag. On the second place, financial freedom, on the third – fiscal freedom, and the influence government spending is relatively small compared to other factors.

The result gives an opportunity to make a significant announcement: because the freedom of trade has a strong influence, it means that that the development of trade-related institutions, the liberalization of trade regime, especially active participation in international trade greatly affects the institutional lag together with the economic situation in Georgia.

As for the second most reliable indicator – financial freedom: based on its content, the higher the country’s score for this indicator (respectively, the lower the lag in this institution), the freer country’s financial system, including the Central Bank.

Another interesting issue is the importance of indicators of fiscal system and a negative assessment of the coefficient of government spending. The reason for this should be sought in the initial data: In contrast to other indicators, in most cases the assessment of Georgia is higher than the estimate of Estonia.

Figure 2: The relative dynamics of the institutional development of Georgia and Estonia – Fiscal Freedom\textsuperscript{16}.

Figure 3: The relative dynamics of the institutional development of Georgia and Estonia – Government Spending.

Taking into account this fact, it becomes clear why government spending has negative assessment: an increase in the assessments of Georgia (i.e. institutional development in this direction) increases the distance from the reference indicator, since Georgia’s initial assessment already exceeds Estonia’s estimate.

Based on the above, we can say that to eliminate institutional lag of Georgia, all efforts should be aimed at developing institutions related to international trade and relevant legislation, and at improving the country’s financial system. Recently, more and more opportunities have opened up for Georgia to enter the markets of the European Union, which will undoubtedly have a positive impact on the position of our institutions: first of all, due to high standards, Georgia will have to take care of improving the quality of its own institutions, on the other hand, the effect of “transplantation” of foreign institutions will be revealed, during which the relations of the underdeveloped countries with highly developed countries play the role of a push for development.

Figure 1: Institutional lag of Georgia

The figure is based on the results of calculations. The data were obtained by calculating the absolute differences in the value of WGI indicators.
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Based on the above, we can say that to eliminate the institutional lag of Georgia, all efforts should be aimed at developing institutions related to international trade and relevant legislation, and at improving the country’s financial system. Recently, more and more opportunities are opening up for Georgia to enter the EU markets, which will undoubtedly have a positive impact on the position of our institutions: first of all, due to high standards, Georgia will have to take care of improving the quality of its own institutions.

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Multilevel Causal Factors Affecting Organizational Commitment and Isolation through Territorial Behavior among IT Employees in Bangkok and its Environs

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Abstract

The objective of research is to investigate the multilevel causal relationship of factors affecting organizational commitment and isolation through territorial behavior. The sample consisted of the individual-level sample being 504 employees working at private companies operating IT business in Bangkok and its environs and the group-level sample being 153 executives who are direct supervisors of employees in each function. Data were collected using a questionnaire and the 6-level rating scale to measure casual factors and a consequence of territorial behavior. The adopted questionnaire is of quality, accurate and reliable. For data analysis, the multilevel causal model was analysed using Mplus program.

The research finding revealed that the adjusted model of multilevel causal factors affecting organizational commitment and isolation through territorial behavior was fit to the empirical data ($\chi^2 = 9.23$, df = 4, $\chi^2$/df = 2.307, $p = 0.055$, CFI = .994, TLI = .976, RMSEA = .047, SRMR within = .01 and SRMR between = .003).

From individual-level analysis, it was found psychological ownership, internal locus of control and achievement climate had indirect influence on organizational commitment and isolation through territorial behavior. Meanwhile, for the group level, it was found psychological empowerment had influence upon executive’s territorial behavior, while self-leadership had cross-level effect on employee’s territorial behavior, and psychological empowerment significantly had indirect influence over employee’s territorial behavior through executive’s territorial behavior.
Push Notifications & The Indian Mobile Marketing Revolution

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Abstract

The most dynamic and challenging aspect of a business is marketing. Digital & mobile mediums are forcing a transition in marketing from being always-on ‘to always-relevant‘. Personalization & relevance in customer engagement have become the essential mantras of marketing. With smartphones becoming the dominant medium of communication between brands and consumers, marketing has had to become more agile than ever. The process of migrating from websites to mobile apps is gaining traction. Consequently, it has become imperative to reshape content and improve personalization in offers sent to the mobile app medium.

This paper aims to study mobile app based marketing & especially push notifications as an effective marketing medium which can help businesses and brands engage with people. Though push notifications are a relatively new medium of engaging with customers, they have demonstrated the ability to take engagement to a personal level. A literature review has revealed that there is very little research on preferences or impact of push notifications on customers in India. Consequently, an exploratory research based on a combination of qualitative and quantitative approach has been undertaken. The objective of the research is to try and understand growth possibilities of push
notifications and its impact on targeting and delivering digital content to an expanding & digitally savvy Indian youth customer base. In-depth interviews have been taken to gain a broad understanding of the topic. This has been followed by an empirical study to find out various perceptions and preferences regarding mobile marketing & push notification marketing amongst the youth in India. The perceived usefulness of such notifications pertaining to different functions served by them such as informative, news, personal reminders, weather updates and discount vouchers, general and personal updates will also be explored. Additionally, factors that influence the quality and impact of push notifications as a delivery medium for targeted marketing by digital wallets such as time, location, frequency, personal preferences & user consent and others will be examined.

The paper concludes with suggestions for driving mobile based digital marketing campaigns that are a value addition for customers through effective implementation of a synchronised push notification strategy.

Key words: Mobile marketing, Customization, Push Notifications, App-based marketing, Consumer-profiling
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Introduction

Perhaps, the most dynamic and challenging aspect of a business is marketing. Essentially the key to a successful marketing campaign is to target the right customer at the opportune moment. Reaching out to a customer has become easier has more and more marketing channels have evolved over time. The sheer number and extent of channels has made it a necessity to correctly identify the most convenient time and channel through which effective communication can be established between the organization and the customer. Traditional marketing channels have been able to establish and codify customers based on their media habits. However for a sustained two way communication, it is the digital channel of communication that enables an instantaneous two way communication.

The evolution of the digital and social media landscape has been very conducive for India Inc. to embrace social and digital marketing as a cornerstone of their marketing and public relations program. Brands have understood the need to attract, engage and transact with customers by leveraging their digital and social presence. India’s digital advertisement market is expected to grow at a compound annual growth rate (CAGR) of 33.5 per cent to cross the Rs. 25,500 crore (US$ 3.8 billion) mark by 2020- as per a report by Confederation of Indian Industry (CII) and KPMG.(E&Y Mobile Report, India, 2016)While the primary goals seem to be centred on brand awareness and generation of leads or sales, digital medium is increasingly being leveraged for customer engagement and customer service. Since customer engagement entails communication with the customer, the digital medium offers a versatile channel to gain instantaneous feedback and establish a two-way communication with customers. However, with the level of development taking place in the digital medium, feedback is just the starting point of various services that can be developed and achieved with its incorporation in customer relationship management and as an effective marketing channel.

Digital media in India is fast catching up with other traditional media like Television and Radio. In the year 2017, adults in India will spend an average of 1 hour and 18 minutes daily with digital media according to eMarketer’s latest forecast on time spent with media. Additionally this figure is estimated to increase by 14.4 percent this year, with much of that spurred by rural populations gaining internet access for the first time. According to the Internet and Mobile Association of India (IMAI) and market research firm IMRB International in their report titled Mobile Internet in India 2016, there were 389 million mobile internet users in India as on December 2016. The report points out that 77 percent of urban users and 92 percent of rural users consider mobile as the primary device for accessing the Internet, largely driven by availability and affordability.
of smartphones. Already the unprecedented growth of mobile smartphones amongst the Indian consumers makes it an attractive medium to engage customers. They further predict that India will have around 450 million smartphone users by the end of 2017. This translates to a mobile penetration rate of 31 percent. However if we only consider the Urban Indian population, mobile penetration rate is close to saturation at 52 percent. The IMAI report also found that respondents between the age of 12 and 60 spent, an average, two and a half to three hours with their mobile phones. Additionally the intense competition in the smartphone segment have resulted in a pricing that has become affordable to the masses which adds to the attractiveness of mobile as a channel to access digital media.

**Literature Review**

Smartphones occupy a ubiquitous presence in most people’s lives today. They have established themselves as an essential assistant for many of our everyday activities. From communicating with other to helping to keep track of finances, the reach of smartphones and the multitudes of applications have resulted in smartphone becoming essential for many people. Smartphones have had a tremendous impact on shopping. The entire chain of decisions and actions from scouting for a product to purchasing has fundamentally changed for the average customer. This is especially true for the younger generations that have been exposed to the internet and smartphones right from their childhood and have grown up with them being a constant part of their lives. Additionally with the advent and popularization of e-commerce in India in the late 2000’s, purchasing online has huge exposure amongst the millennial generation. Online marketplaces and marketing are also driving in-house sales as some people prefer to conduct their research online but the next step of buying occurs at a brick and mortar shop. Additionally even with online purchases, customers prefer to pay in cash at the time of delivery. Some estimates are as high as 60 percent of users paying through cash in 2016. (Singh, 2016) This has been attributed to low trust levels, distrust in online payment, very low penetration of credit/ debit cards and other digital mediums of payments and a fear of online scams. Many people preferred to physically inspect the product before proceeding with payment. (Singh, 2016) Some of the current mobile marketing trends in India have been discussed below.

**The new mobile oriented path to purchase**

The linear progression of retail path to purchase, from discovery, to consideration,
to purchase, to loyalty, has become obsolete for the ‘always-connected’ consumer. Consumers, today research on mobile websites throughout the purchase process with search being the most common starting point for the research. Around 48 percent of consumers begin their product research on search engines in the USA in 2015. (Kapadia, 2015). Similarly About 6 in 10 online consumers in India begin their purchase journey by carrying out a search in Google. And about 3 in 5 consumers look up other consumers’ reviews before buying a product. This clearly shows that search plays a decisive role in a typical online consumer’s purchase related decision in India. (Diwanji, 2017). The mobile aided purchasing cycle is predominantly starting with the pre-purchase research that usually happens online in either an online market place or a company website or on the company app. Shopping is becoming an iterative rather than a serial process. Consumers no longer go shopping, they always are shopping. Therefore the pre-purchase research is constantly happening.

As per a study published in the Harvard Business Review, the new mobile shopping cycle consists of six steps namely; (1) Pre Buy (2) In Transit (3) On Location (4) Selection process (5) Point of purchase and (6) Post purchase. (Martin, 2013)

Figure 1 The mobile purchase lifecycle

At each of these distinct stages, marketers need to influence the shopping behaviour of these individuals and help create visibility and affinity for their product. Mobile and the digital channel of communication can act as an effective medium to interact with the customer.

Pre- Buy Research and Future purchase Intentions

The pre-buy research has become one of the most important and integral step for most customers. This is especially true for consumers exposed digital content as the internet
is the most favoured medium for this. According to a Google/Nilsen survey globally the following are the most popular activities with regards to a smartphone usage:

- 58% find location/directions
- 57% Find hours
- 44% make price comparisons
- 44% find promo deals
- 43% Browse
- 32% find where specific products are sold
- 31% find product information
- 31% find product availability in-store
- 30% find product reviews
- 19% use to make a purchase

Source: Google/Nielsen study, 2013

Studies have also found that mobile marketing tools especially push notifications can induce the future intention of buyers for a product or accessing a service. Different VALS segments were found to respond differently and have different attitudes and Future Intensions (FI) towards push notifications. Finally, demographics such as gender, age, income, and education were found to be insignificant with FI. (Awad & El-Shihy, 2014)

**The new shopping assistants**

Smartphones have evolved as today’s go to device for many of our needs for information. Smartphones are shopping companions for many customers today. Even if the customer might not necessarily be purchasing online, smartphones are undoubtedly the most convenient way to access information about offline modes of purchase (eg: Opening time of a shop, address of a store). The evolution of the new path to purchase has been on the back of the dissolution of the older more traditional path to purchase. The new path is clearly less linear. The mobile and digital enabled path to purchase argues that a customer might have multiple exit and entry points on this path. They might reach the buy stage only to quit and maybe come back again for the product. CPG- Consumer packaged goods companies need to plan for a so-called 1-5-10 market, in which digital’s current 1 percent penetration will likely expand to 5 percent and could accelerate to as much as 10 percent in short order. (Gentile, 2016) As a customer negotiates his journey on the path to purchase it’s the shopping companion smartphone, which offers a constant medium of communication and interaction.

**The mobile app revolution**
In 2016, India took the top spot for Android-app downloads with 6.2 Billion downloads on Google Play, beating the US. The major categories that consume most of the time spent on apps included shopping apps, games and travel centric. App analytics and insights major-App Annie reports that on an average Indians spent a bit higher than 2.5 hour per day using apps. Among the major categories- shopping apps; which included major e-commerce apps; is an area where Indians are ranked on the second spot globally. On an average Indians spend around 90 minutes exclusively on mobile shopping. (App Annie, 2017) These numbers are only projected to increase with the smartphone boom in India coupled with the roll out of the world's most economical 4G network roll out. This presents a huge opportunity that marketers can leverage to establish a meaningful interaction with customers.

The new mobile marketing equation

Though the Indian market for mobile marketing lagged behind global standards in adoption, it has more than made up for the delay. With digital, social media and mobile taking such importance with the Indian customers, especially with the millennial generation, businesses have realized that their future customers’ engagements will be only on digital. Marketers now have the opportunity to engage and re-engage with these users through Paid Media touch points such as an SMS Services, Video Ads, Voice Services, Missed Call services, In App advertisement and Owned Media platforms such as Mobile Apps, Voice Portals and Mobile websites depending on the target audience of the brands.

According to eMart Solutions, 71 percent of digital marketers in India—including channel partners and brand managers-believe that mobile marketing is core to their business. And nearly as many (68 percent) said they have integrated mobile into their overall marketing strategy. Further it is predicted that by 2019, advertisers in India will be around 1.32 billion on mobile marketing. This will account for a majority of all digital ad spending (60.9 percent), and 15.5 percent of total media advertising in India. (eMart Solutions, 2016)

Location based marketing

Location-based marketing services (LMS) is a direct marketing strategy that uses a mobile device's location to alert the device's owner about an offering from a near-by business. (Rouse, 2014). Founder and president of the Location Based Marketing Association (LBMA), Asif Khan referenced at the 2015 South By South West Interactive Festival (SXSW—a 22 year old event that serves as an incubator for cutting-
edge technologies) that 85 percent of all data generated on earth has a geo-location element attached to it, which can be leveraged to improve marketing results. (Kapadia, 2015). Brands can access and leverage insights derived from their customer’s location, then this information can contribute to offering personalized offers to drive sales. By referencing the location data with other data points like time, local weather, consumer’s possible activity state (at work or commuting) a contextualized message and offer could be communicated with a prospective customer. Such use of location data is also referred to as ‘proximity marketing’ or ‘hyperlocal marketing’. The technique can be used by businesses that want to send mobile display (banner) ads, mobile paid search ads or other forms of mobile advertising to people who have been located using GPS or cell tower triangulation. (60secondmarketer.com, 2012)

—The market can be segmented based on application: location-based navigation, location-based tracking, location-based infotainment, location-based search and advertising, location-based analytics, indoor LBS, location-based recreation and fitness, and other applications.\end{quote}\The latest news from Research and Markets indicated that Location Based Services (LBS) market in India could grow at a CAGR of 58.61 percent over the period from 2014 to 2019. (researchandmarkets, 2015) Indian brands have already started incorporating location based targeting and engagement in their marketing strategy. The Indian restaurant search and discovery service provider Zomato has been able to successfully implement location based marketing into its services. The Zomato app has a well incorporated mechanism with social media that allows customers to check in via the application. The check-in is followed by features which including providing reviews, ratings, photos etc. Armed with location and other relevant data, they are able to profile customers based on their preferences. The app provides the best incentive alert strategy which helps in bringing the localization aspect towards a marketing strategy for the restaurants. Brands such as Splash Fashions, JW Marriott Juhu, Sula Vineyards have made use of location based marketing for promotions and succeeded in increasing foot-falls. Also, location based social data fills the gaps left when relevant keywords are not used and provides a rich visualization of the real-time happenings during an event. (Rais, 2017)

\textbf{Relevance to customer}

One of the biggest drawbacks with mass mobile marketing campaigns is their lack of relevance for customers. If the content or the offer is not relevant to the customer, not only will it be ignored but it will be often perceived as spam and will be an invasive and an ‘annoying distraction’. (O’Connell, 2016) Relevance is important for every marketing campaign, but with mobile marketing campaigns marketers have to
absolutely ensure relevance. Smartphones are often viewed as an extension to consumers and is a highly personal medium of communication. In fact one of the reasons mobile marketing has one of the highest ROI’s amongst other mediums is because a notification on a mobile has a greatly higher chance of being viewed than other distant forms of mass communication. However, with such high access rates for smartphones, the negative perceptions for messages that are irrelevant are also very high.

Location access

Location-based marketing answers the concern through relevant and personalized localization. Location based marketing requires the customer to opt-in and agree to share their location through an app or directly through their browsers based on their smartphones GPS system. Brands have to be sensitized to the fact that customers are concerned about their data privacy -- and the intrusiveness of location-based techniques. Also, not every customer might opt in to have their location tracked. However by catering to customer's constant need to be updated and by providing relevant value, they are open to sharing their personal information with brands. If they appreciate the customer engagement that a brand provides they are further open to sharing their location, shopping inclination, demographics, product preferences etc. Companies must strike a balance between forging customer trust and privacy concerns. Location based updates can provide greater value than banner advertisements; if it is contextualized to factors like time and activity. Location targeting technologies such as iBeacon and Geofencing can enable apps to target consumers individually based on all the information provided to them. Geofencing is a location-based digital marketing tool that enables marketers to send customized message or notifications to smartphones in a defined geographical area. With the help of smartphones, marketers can also track as customers enter or leave an area of interest like a specific pin code, area like airport or a shop or mall. Google Now is one such example of how a marketer can connect with its consumers via adapted and local reminders by means of geo-fencing technology.

Case Studies

A few selected cases that were studied in the literate review are discussed here. Since push notification and location based mobile marketing is still a relatively new strategy for business, relevant case studies involving location based marketing strategies can provide insights into the campaigns that have already been carried out by business. Two case studies have been discussed here. One of the companies OLX is a popular online classifieds portal that has a pan India presence. Bose is an international brand that designs, develops and sells audio equipment.
OLX hyper-location targeting campaign

OLX is one of India’s largest classifieds’ platform for used products. During their marketing campaign to increase OLX app downloads and usage they discovered that generic advertisements for a classifieds platform were not very successful. To reach out to the prospective customer at a favourable time, they introduced a location based advertising system. Out of the many category of products listed on the classifieds; the second hand car and mobile market were chosen. To ensure relevance for customers, geofencing of areas inside second hand auto markets and stores that sold second hand mobiles. The users were targeted with personalized contextual overlay ads using network apps and mobile sites. The 6 weeks long campaign saw over 5,00,000 unique users responding to the advertisement and interact with the brand. App installations were four times higher than previous campaigns run by OLX. Additionally sixty percent of the new users who had installed app; transacted on the app within three months. Also, the cost per unique reach was around 3 rupees (less than 8 cents) for a hundred clicks on the banner advertisements. (Mobile Marketing Association , 2016)

Bose premium product launch

Bose was launching a revolutionary new technology: in-ear noise cancelling earphones in India in 2012. Priced at over USD 300, this was a premium product aimed at affluent audiophiles and frequent air travellers. Their objective was to drive awareness in this audience through advertisements targeting premium customer class. As they wanted to reach a specific audience set to build awareness; location-based advertising was used to reach out to audience present within a 500-meter radius of all airports in India, users who visited 5-star hotels in the vicinity of airports and who lived in the top 10 percentile of residential areas. The users were shown dynamic banners and landing pages based on their location. The campaign targeted smartphones and tablets on both Android and iOS platforms. The campaign delivered over 5,000 clicks every day for Bose during the campaign duration. (Mobile Marketing Association , 2014).

Research Methodology

In order to understand the global trends in mobile marketing an extensive literature review has been undertaken and documented. Also trends in mobile marketing in the Indian context have been analysed. Technological and market developments that are contributing to the potential rise of mobile marketing India have been studied. Additionally two recent case studies on location based mobile marketing campaigns have been studied and briefed here.
As mobile marketing through push notification is a rather a nascent field in India, the research incorporated a broad overview of current scenario through a combination of qualitative and quantitative data. In-depth interviews were conducted with local business representatives that were leveraging mobile marketing in some capacity for marketing.

**Expert Interviews**

In order to understand trends in mobile marketing by local businesses five exploratory semi-structured interviews were conducted with professionals from the diverse businesses in the field of mobile marketing. Since most mobile marketing campaigns are at a very nascent state, focus of the interviews was to understand their key strategies, essential learning, factors of success/failure and future outlook for the growth of the medium. Local businesses and franchise owners were selected based on convenience. Attempt was made to establish & study client-business groupings. Discussions lasted for 30-45 minutes and were conducted on business premises.

<table>
<thead>
<tr>
<th>Business</th>
<th>Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cafe Coffee Day</td>
<td>Food &amp; Beverages</td>
</tr>
<tr>
<td>Havmore</td>
<td>Restaurant</td>
</tr>
</tbody>
</table>

**Survey Design**

To understand how consumers feel about location-based marketing tactics, a survey was conducted using Google forms and promoted via email. Participants were selected using the snowball convenience sampling technique. A total of 28 questions were selected including two screening questions, one to confirm if the participants owned a smartphone and the second to ascertain the age of the participant was between sixteen & twenty-six. Questions regarding the participant’s mobile shopping habits, browsing, scouting for promotions and where they use it the most, at home, work or during travel were added. The average number of apps pertaining to shopping, ticketing, digital wallets etc that the respondents had currently installed on their smartphones was also added. It is essential to understand the subject matter of notifications that the participants had previously received as their views regarding this subject would have been influenced by those notifications. Respondent were given broad categories including those that announced a sale, provided a discount on a specific product, a general coupon, provided live updates (such as for traffic, news or weather) or dealt with a new product launch. Participants were also asked to agree or disagree, on a four-point bipolar scale ranging from ‘strongly agree’ to ‘strongly disagree’ with eight attitude statements. As the topic of location-based marketing is new for most consumers
offering a five-point scale could lead to receiving responses as 'don't know/can't say' in the attitudinal statements which would not contribute to the study. These statements reflected the three areas of research; usefulness, intrusiveness and personalization of mobile marketing.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing on the smartphone is a great source of product information.</td>
<td>Usefulness of Mobile Marketing</td>
</tr>
<tr>
<td>I like to receive coupons on my smartphone; it helps me save money.</td>
<td></td>
</tr>
<tr>
<td>Smartphone is a great shopping assistant; makes my shopping quick and easy.</td>
<td></td>
</tr>
<tr>
<td>Marketing on the smartphone is uncalled for and annoying.</td>
<td>Intrusiveness of mobile marketing</td>
</tr>
<tr>
<td>I hate it when marketing offers come up on my smartphone while I am browsing on it.</td>
<td></td>
</tr>
<tr>
<td>Smartphone marketing messages are too generic and not for me</td>
<td>Personalization of mobile marketing</td>
</tr>
<tr>
<td>I am impressed by smartphone marketing messages that relate to my need.</td>
<td></td>
</tr>
<tr>
<td>I like receiving recipe/how-to links and coupons for products I regularly buy.</td>
<td></td>
</tr>
</tbody>
</table>

Also, participants were also give five hypothetical situations and were asked to note their reaction on a four point scale ranging from 'very happy', 'happy', 'displeased' and feeling 'Irritated'. The scale was changed to reactions rather than the regular 'agree-disagree' format to understand their response and attitude towards such situations. These situations are as listed below:

1. If you are at a Restaurant, Clothing store or a Mall, and you receive a text on your smartphone that reads -Welcome!! Click A for current deals; click B for store map & aisle information and click C for product information.
2. If you are at a store/restaurant, where you are a regular customer and the moment you enter, you receive a text containing coupons related to your past purchases or regular items.
3. If you regularly book a ticket or perform a recharge, say once in a month or week and you get a notification reminding you to repeat your action.
4. If you are passing by your favorite restaurant, and it is almost dinner time; You receive a notification that reads: Hello ABC! It's been some time since you have visited us. Your regular special is available at 20 percent for you!
5. Consider two scenarios: 1: You receive notifications for vouchers or coupons as soon as they are launched by a brand. 2. You only receive updates or vouchers if you have recently performed a search for a product/service or are within a store of the brand.
These situations mentioned above were created on the understanding that with the increase in personalization in, participants may feel a lack of control and find the messages intrusive. The last scenario was incorporated to find out whether the respondents viewed mobile marketing as a source of general advertisement used by an organization or if they preferred mobile marketing as a customized & personalized avenue of interaction with a brand. A total of 100 participants took the online survey, 87 completed the survey yielding a completion rate of 87 percent. Of those who completed the survey, two participants were screened out as they did not fit the age criteria and they did not own a smartphone thus yielding 85 usable responses. Of the final participants selected for analysis, 48.2 percent were female, 51.8 percent were male. Twenty-nine percent of the participants belonged to the age group of 16 to 19, sixty nine percent belonged to the group of 20 to 26 years. The survey was exclusively targeting the youth and the millennial generation. Since many respondents were pursuing education, the income category was replaced with monthly expenditure. 45.9 percent percent respondents had an average expenditure of Rs 2000 to 4000 on areas like shopping, mobile recharge, tickets, eating out, retail shopping etc. 32.9 percent respondents spent an average of Rs 4000 to 8000; 14 percent percent between Rs. 8000 and 12000; and the rest 7.1 percent spending more than Rs. 12000.

Results and Discussion

One of the preliminary questions that were asked related to the number of hours that the respondents were spending on their mobile phones per day. These responses include time spent on every activity throughout the day. The majority of the respondents (almost 48 percent) spent between three to six hours per day with their mobile phones. As this survey was centred on the millennial generation; the average usage per day is higher when compared to the national average. Predictably, none of the respondents opted for the lowest mobile phone usage category of less than one hour a day.

![Graph showing distribution of hours spent on smartphones]

To understand the mobile marketing mediums that are already in play and have been targeted at customers, the following question was asked:

Count of For how many hours do you use your smartphone in a day? Please choose one.

- 1-2 Hours: 11.8%
- 2-3 Hours: 23.5%
- 3-4 Hours: 22.4%
- 4-5 Hours: 15.3%
- More than 6: 27.1%

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Regarding the subject matter of these notifications; announcing a sale (84.7 percent) and providing a discount coupon or promotional offer on a specific product (84.7 percent) were the most popular choices. This was followed by promotion for new product launch at 65.9 percent & general coupons at 57 percent. Also notifications regarding personal subscriptions were listed along with personal notifications from the brands.

To understand customer’s smartphone usage behaviour, respondents were asked to rate their activities on a four point scale including never, occasionally, often to very often. A five point scale was not chosen as the option of ‘can’t say’ or ‘don’t know’ was redundant as push notifications is a relatively new subject and would not have contributed to the research. A broad range of activities identified from literature and from interviews were incorporated here. Finding location details and navigate to businesses is the most frequent task carried out on smartphones with the majority (62 percent) responses falling in the very often and often group. Also, around 54 percent responders admitted to frequently making product and price comparisons on their smartphones. However, only 36 percent of respondents frequently looked for coupons and promotions on their smartphones.

Some of them are graphically represented here:
Location of the consumer plays an important role in determining the manner in which a notification is received by the consumer. Therefore it is important to understand the place & surroundings that the customer is present in, before engaging them through their smartphones. Since the smartphone has become engrained in our life, it is used extensively most of the time. Therefore quizzing respondents about the probable places where they interact with their smartphones might not give the required insights. Instead respondents were asked to list the places where they used the smartphone in activities that involved interacting with brands.

Where do you use the smartphone for any of the above activities? Please rate from 1 to 4 with 1 never used and 4 being very often.

Home is the most popular place at which respondents carried out the listed activities. Consumers also spend a lot of time on their smartphones while travelling. This option has been the most consistently voted preferences with almost equal percentage of respondents using their mobile phones very often, often and occasionally. Work places are places where smartphones are only used occasionally. However there still is a sizeable number of people who use smartphones for these activities at their workplaces. Almost forty percent respondents often use their smartphones in malls, stores and other
public places, while around thirty eight percent use it occasionally. This data points out that most of the research for new products (including comparing and evaluating them) and services or the hunt for deals and offers begins at home.

Since relevant literature had pointed out that the Indian market was adopting a ‘mobile first‘ attitude towards shopping, one of the questions was aimed at quantifying the number of mobile apps that respondents had installed on their smartphones to aid them in shopping, booking tickets and carry out other transactions through the mobile medium. Majority (43.5 percent) of respondents had less than three applications pertaining to online shopping and interacting with brands. The next majority (31.8 percent) had between 3 and 7 apps on their smartphones. These results are higher than the results established in 2016 which found an average of 4.7 apps installed by respondents. However these results were for the entire smartphone owning population India while this survey focused only on the millennial generation.

Further to gauge whether respondents actually checked their smartphones and apps for relevant updates/ coupons/ vouchers/ personalized deals from brands, the following question was posed:
A majority of respondents 52.9 percent have either agreed or strongly agreed to checking their smartphones before purchasing, eating out, booking tickets and making payments. The 15.3 percent respondents who have opted to not respond agree in the affirmative or negative might be highly infrequent in performing this task.

A set of eight statements were prepared through literature review and interaction with the target age group. These statements were to understand the respondents’ perception towards different aspects of mobile marketing such as usefulness, intrusiveness and personalization. These statements were randomized to ensure that respondents weren’t influenced by two statements that were based on a similar aspect of mobile marketing. For the Personalization and Intrusiveness aspect of mobile marketing, contrasting statements were used to accurately gauge respondents’ reaction about the same.
With regards to the attribute of usefulness of mobile marketing, almost the entire majority (more than 85 percent) agree that smartphone based marketing is an essential source of product information. However less than 5 percent respondents do disagree that smartphones are not an effective medium to gain product information. Around eight percent of respondents are not able to agree or disagree with the statement. With regards to receiving coupons on the smartphones that help save on expenditure, around 13 percent disagree or strongly disagree. Since this figure is higher than for the previous statement; the same number of respondents that view the usefulness of mobile marketing on smartphones do not agree that coupons are helpful. This may be because other issues like relevance and context of the coupons might affect their perception about coupons. With the third statement that equates smartphone with a shopping assistant has the highest percentage of respondents (almost 75 percent) who have responded favourably. This points out that smartphones have become a major component of the purchasing cycle. Out of the polled respondents none of the respondents have strongly disagreed to the statement. Brands cannot afford to ignore the digital smartphone enabled medium as the millennial generation has demonstrated high affinity for it.

With regards the intrusiveness aspect of smartphone marketing, two statements were presented to gauge the perception of the respondents. The first statement broadly brings out the intrusiveness aspect of all forms of mobile marketing. The majority disagree with this statement (55 percent), while around 25 percent do not agree nor disagree with the statement. Conversely when a more specific aspect of mobile marketing- intrusive and disturbing messages popping up on the smartphone; has an increasing affirmative trend with almost 56 percent agreeing with the statement. This point to the fact that
respondents do not view mobile marketing to be intrusive in totality, but the intrusiveness aspect can be mitigated with better optimization. With smartphones becoming in everyday activities; intrusiveness stems from irrelevant, repetitive and poorly timed notifications and updates. Additionally respondents who have either strongly agreed or disagreed form only 15 percent in each question, but the proportion who only agree or disagree is around 40 percent in both instances. Though the respondents have both negative and positive reactions, only a small proportion of respondents have strong opinions. This shows that the majority customers are yet to form strong opinions on this aspect of mobile marketing.

The personalization aspect of mobile marketing was represented through three statements that dealt with customer’s need, after sales engagement and a general statement that portrayed mobile marketing as being too generic. Majority of the respondents are impressed with the personalization aspect of mobile marketing and customer engagement. Around 58 percent either agree or strongly agree and appreciate the personalization that can be achieved with mobile marketing. The second statement was designed with regards to retargeting customers who have availed a product or service. Around 53 percent of respondents appreciated receiving after sale promotions and engagement messages based on their previous frequent purchases. However a significant percentage (19 percent) of respondents either disagreed or strongly disagreed with the statement. With increasing personalization of mobile marketing, some customers might feel a loss of control in dictating their interaction with brands. Around 49 percent respondents disagreed with the third statement that suggested that mobile marketing messages are too generic and not for me.
marketing in entirety was too generic for the respondents. However 22 percent of respondents have agreed with the statement. It is possible that their previous exposure to mobile marketing might have led them to question the relevance of such engagement by brands. The largest proportion of respondents who neither agree nor disagree are with this statement with almost 28 percent opting for this option. Also, as respondents might not be able to accurately describe their attitude towards different aspects of mobile marketing through these statements; different scenarios were provided to collaborate their latent attitudinal response towards the selected characteristics of mobile marketing.

The first scenario dealt with brands engaging their customers in store through digital medium on customer’s smartphone. Around 81 percent of responses states that they would be happy and appreciate brands engaging them on location in brick and mortar stores. 8.2 respondents felt irritated by such engagement while 10.6 percent customers were displeased with the same. Together around 19 percent of respondents demonstrated a negative reaction towards this scenario. This can be related with the 10 percent and 12 percent respondents disagreeing with the first and second statement of usefulness of mobile marketing that dealt with smartphone as a great source of product information and an avenue to receive coupons and promotions from brands. Though customers might not accurately agree or disagree with a statement pertaining to usefulness of mobile marketing, their emotional response to this scenario can help gauge that a majority of the respondents have a positive reaction towards such engagement campaigns run by brands. This scenario does not deal with the personalization aspect of mobile marketing but represents a generic digital engagement scenario.

If you are at a Restaurant, Clothing store or a Mall, and you receive a text on your smartphone that reads “Welcome!! Click A for current deals; click B for store map & aisle information and click C for product information. Would that message make you-
The next scenario dealt with the personalization aspect of mobile marketing. Leveraging customer location data to send coupons relating to their past purchases represented the personalized and customized approach towards mobile marketing. Almost 88.2 percent of respondents demonstrated positive reaction towards this scenario. However 11.8 percent of respondents were irritated or displeased in this scenario. This can be related with the 19 percent respondents who did not appreciate receiving how to links/recipes and coupons in the second statement dealing with the personalization aspect of mobile marketing. This can also be related to the 19 percent of respondents who agreed that marketing on smartphones is uncalled for & annoying in the statements on the intrusiveness aspect of mobile marketing. However the respondents who had responded with the neutral option of ‘neither agree nor disagree‘ responded with positive emotional reaction to the personalization scenario.

The next scenario dealt with the intrusiveness aspect of mobile marketing. To drive repeat purchases and retain customers, brands have either engaged push notifications or app based notification directed at smartphones. This scenario drew the highest percentage of ‘displeased‘ reaction from respondents with almost 30 percent being displeased and 15 percent being irritated. Additionally it has the lowest percentage of respondents (around 12 percent) who stated that they felt ‘very happy‘ in this scenario. This can be understood with reference to the roughly 15 percent respondents who agreed that marketing on smartphones was intrusive and annoying. Considering both the negative statement, 44 percent of respondents felt irritated or displeased. This can further be associated with 55 percent respondents who had stated that they felt annoyed when push notifications popped up and served as an interruption when they were using...
The next scenario dealt with personalization and the relevance aspect of mobile marketing. This scenario had the highest number respondents who had a favourable response with almost 87 percent respondents stating they would be happy or very happy. Compared to the first scenario, in which the location and the time element had been relevant to the customer, this scenario dealt with only the location relevance factor as the time of the notification/message is not considered.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Happy</th>
<th>Very Happy</th>
<th>Displeased</th>
<th>Irritated</th>
</tr>
</thead>
<tbody>
<tr>
<td>If you are at a store/restaurant, where you are a regular customer and the moment you enter, you receive a text containing coupons related to your past purchases or regular items.</td>
<td>57.6</td>
<td>30.6</td>
<td>9.4</td>
<td>2.4</td>
</tr>
<tr>
<td>If you are passing by your favourite restaurant, and it is almost dinner time; You receive a notification that reads: Hello ABC! It's been some time since you have visited us. Your regular special is available at 20 percent for you!</td>
<td>64.7</td>
<td>22.4</td>
<td>8.2</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Although there isn’t significant difference if both the positive statements are combined, there is a difference in the number of respondents who felt ‘very happy’ in the scenario. Getting the timing and the location relevant to the customer results in lesser percentage
of customers feeling irritated with the notification. It also result in a higher percentage of customers feeling a strong positive reaction of ‘very happy’.

To understand the characteristics of push notifications which determine its reception amongst customers, respondents were asked to name or select aspects like timing, relevance, location, content & design etc. The highest numbers of respondents, around 81 percent, feel that relevance of the marketing offer is an important aspect to be considered by brands. Almost 70 percent agreed that the timing of the voucher was also very important. However around 50 percent do not view the design or content style as being an important factor. Also 52 percent did not think that the location of the consumer is not an important factor to be considered with respect to notifications.

When asked to choose the aspect which they considered to be critical towards sending a push notification, 55 percent people polled relevance as the most important aspect. Almost one-third of responders (30 percent) selected timing of the offer as the most critical aspect while the balance was almost equally distributed amongst location and
design as a factor.

**Which of the factors is the most important one?**

![Pie chart showing the distribution of responses](chart1.png)

To understand customers' view, respondents were asked to choose the frequency that they think is ideal for brands or applications to communicate with them. The results are almost equally divided with a third opting for a couple of notifications in a day, almost a third (36.5 percent) opting for receiving notifications not more than once in a couple of days and a third opting for receiving notifications only once a week. Only 3 percent opted for the option frequency option of receiving notifications multiple times a day.

![Pie chart showing the frequency of notifications](chart2.png)

To understand if consent, permission, and a collaborative process helped customers in sharing their personal information with brands for mobile marketing, they were asked to rate the following statement on a 5 point scale. Three-fourth of the respondents agreed that if they could choose which details to share with brands, they would feel more comfortable with the process of installing apps from brands on their smartphones. However, 7.1 percent respondents disagreed with the statement revealing that sharing personal information with brands did not depend on consent either.
Respondents were most willing to share gender & details of discount coupons used earlier. Details of items/services purchased earlier also had 62 percent favourable responses. Number and age of family member along with search history had the lowest number of positive responses.
Limitation and further scope

As this research focused only on the millennial generation, further research could be conducted on other age groups. The survey was limited by geography as most of the polled respondents were from Gujarat. Also the survey could be replicated for a larger number of respondents.

The belief statements & scenarios that were incorporated & analysed in this research focused on a few types of businesses (restaurants, malls, stores and apps) which could be expanded. Additionally focused research in these individual business and their mobile marketing campaigns will result in an in-depth understanding that will be specific to these businesses.

The modelling of the scenarios that have been incorporated have been adapted from literature reviews and from personal interviews with businesses and customers. Further scenarios can be developed to understand customer's reaction towards such marketing campaigns.

Works Cited


http://indianonlineseller.com
Predicting customer lifetime value in the Saudi retail sector

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Abstract

Customer Lifetime Value has been described as the current valuation of all the future benefits incurred from a customer during their relationship with the firm (Rust, Ambler, Carpenter, Kumar & Srivastava, 2004; Rust, Zeithaml & Lemon, 2000). However the relevance of this concept is not limited to the financial gains but customer lifetime value is found to be instrumental in effective customer segmentation, determining customer churning, facilitating resource allocation and marketing strategy formulation. Keeping in mind the multiple benefits of customer lifetime value for the marketers, this research attempts to calculate the customer lifetime value in the Saudi retail sector.

This study will be beneficial to the Saudi business community especially businesses which have a non-contractual relationship with the customers i.e. where the customer is not bound to specifically buy from that particular brand. The researchers aim to describe and predict the future behavior of customer base for retail brands in Saudi Arabia using the BG/BB (Beta Geometric/ Beta Binomial) model which is so far considered the most credible data analytic tool outnumbering the traditional measurement methods like client profitability analysis (CPA), share of wallet (SOW), recency frequency monetary (RFM) and antecedent behavior consequence (ABC) approach. The results will yield valuable insights for Saudi retailers and provide them a clear picture of customer churning. The brands can use the study to plan their marketing strategies more effectively which saves them time, cost and resources.
THE INVESTMENT POLICY OF THE TRANSITION PERIOD IN GEORGIA

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TSU P. Gugushvili Institute of economic
Head of the Department, a senior fellow employee

Abstract

Formation of the investment environment in the country, both in micro and macro -economy is carried out as a result of the impact of a number of interrelated processes.

It is quite difficult to strongly estimate the investment environment in Georgia. For the investment environment evaluation it is necessary to processin and analyze complex factors. Among them it is important to study economic potential of the country, organizational and legal status, financial resources, social sphere, political environment, general structure of farming etc. It is important to consider the country's economic sovereignty issue when attracting foreign investments in Georgia.

It is important for sustainable economic development of the country to eradicate disproportions in regional aspect. This requires the realization of such an investment policy that will increase the incentives for attracting investment in the lagging regions. This will help us to restore and effectively enact economic sectors important for the country.

For effective investment policy it is necessary to reduce the difference between foreign direct investment and domestic investment. Equally important is the mobilization of the direct foreign investments to be implemented in the real sector of the country.

Keywords: direct foreign, investments, investment policy, economy of Georgia, economic growth.
Introduction

In order to evaluate the investment environment in Georgia it is necessary to study the economic potential of the country, organizational-legal status, financial resources, social sphere, political environment, general structure of the economy etc.

Today, many forms and methods of foreign investment in the world are used. However, we will focus directly on foreign investments, as one of the major forms of inflow of foreign capital in Georgia is direct real investment.

Important problem of economic reform in Georgia is to attract foreign investments and use them rationally. The solution to this problem depends on the real growth of the Georgian economy and the level of its involvement in the world economy.

It is important to pay attention to the motivation of foreign investors, which is most relevant in the modern stage. First of all, the resources invested in the country are less expensive than the actual resources. Conquer new markets and more.

When talking about the impact of foreign investments on our country's economy, there are a number of factors to consider: first of all how the country's economy is developed, what is the quality of development of market mechanisms, how well is regulated legislation base and other. Depending on which sector of the economy is invested and what forms and methods of investment are used, the economy will be different. Influence of investments can be expressed: in the growth rate of the economy, the recovery of investment activity, the growth of technological progress, the development of country infrastructure, the effective use of labor resources, etc.

The positive effect of investment is that it leads not only to the development of the sector where investments are made, but also the development of neighboring sectors.

In attracting investments in the country the following facts should be considered:
1. What socio-economic policies are imposed on foreign direct investments.
2. Promote investment business.
3. Economic factors.

In order to attract foreign investments in the country, it is necessary to create favorable climate and formulate mechanisms for its efficient use. When the country experiences its own resource deficit, the only way to make internal investments is to attract direct foreign investments. It is also important to note what investment policy is being implemented by the country, because it depends on it how many investments will come into and how they will be effectively used. Effective investment policy determines the creation of attractive investment climate.
When it comes to attracting foreign investments in the first place it is important that these investments take place in the real sector of the economy. Overall, the effectiveness of foreign investments depends on the quality and quantity of attracted investments in the country.

It is also important that investments provide new technologies in the country, introduce innovations, consider national interests, and provide ecological safety. Taking into consideration everything it should be very important to determine the correct investment policy, as the market mechanisms are always in favor of our country's interests. The state must support investments in the areas and regions the development of which is the prerequisite of economic growth of the country. It is impossible to talk about their efficiency without the knowledge of scientifically substantiated investment policy.

In attracting investments, it is no less important to give foreign investors legal guarantees that their investments will be protected by law. The main objective of support of FDI is the establishment of an institutional environment in which the private sector will be free to make decisions, and the right to property will be reserved.

The private sector must be free to create an environment that facilitates direct foreign investment, and the government's activities must be transparent and effective. For instance, it is important to establish an institutional environment where property rights are maximally reserved, corruption levels are low and others.

Georgia is an attractive country for foreign investments due to the following circumstances: attractive economic environment, liberal economic reforms, liberal tax code, active privatization of state property, strategic geographical area, as well as the fact that Georgia is a country with ancient culture and traditions.

When we talk about attracting foreign investments in Georgia, it is important to pay attention to the World Bank's research, one of its projects "Doing Business" has been studying most of the world countries over many years in terms of assessing favorable environment for business. According to the report of the 2017, Georgia is in the 16th place among the 190 countries in the simplicity of doing business. Georgia has advanced with eight positions in comparison with the previous year. The reason for this promotion is the reforms implemented in 2015-2016, concerning property registration, in
particular improving in Tbilisi land management, plotting on the map private lands this has improved Georgia's position in terms of property registration simplicity in the world and set on the third place.

In Georgia the protection of small investors has grown, too due to the growth of shareholders' rights and role in corporate decisions, resulting the seventh place.

The improvement of the electronic processing system enabled us to introduce export and import documents more quickly, as well as the introduction of preliminary electronic documents. All of this brought Georgia to the 54th place in the direction of foreign trade simplicity. In terms of the tax system Georgia occupies the 22nd position.

Due to the change of the research methodology, Georgia retreated 9 positions in 2016 and took 24th place, though in 2006 it was ranked 98th.

According to the data of the National Statistics Office of Georgia, the volume of direct foreign investments in Georgia amounted to $1645 million in 2016, which is 22% higher than the previous year's data.

Data for 2012–2016 is given in the #1 diagram.

Diagram 1

**Foreign Direct Investments in Georgia in 2012–2016**

(mil USD)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016*</th>
</tr>
</thead>
<tbody>
<tr>
<td>All between them:</td>
<td>912</td>
<td>942</td>
<td>1,758</td>
<td>1,564</td>
<td>1,645</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>59</td>
<td>82</td>
<td>341</td>
<td>550</td>
<td>578</td>
</tr>
</tbody>
</table>

It is important to see the list of dozens of the largest investors in the foreign direct investment (see Table 1).

Table 1.
As for the distribution of direct foreign investments according to the economic sectors in 2016, we have the following picture. See Table 2.

Table 2.

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016*</th>
</tr>
</thead>
<tbody>
<tr>
<td>All between them:</td>
<td>912</td>
<td>642</td>
<td>1758</td>
<td>1564</td>
<td>1645</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>73</td>
<td>140</td>
<td>434</td>
<td>585</td>
<td>645</td>
</tr>
<tr>
<td>Power engineering</td>
<td>179</td>
<td>245</td>
<td>190</td>
<td>124</td>
<td>203</td>
</tr>
<tr>
<td>construction</td>
<td>42</td>
<td>50</td>
<td>317</td>
<td>111</td>
<td>163</td>
</tr>
<tr>
<td>Financial sector</td>
<td>163</td>
<td>166</td>
<td>115</td>
<td>179</td>
<td>136</td>
</tr>
<tr>
<td>Manufacturing Industry</td>
<td>168</td>
<td>100</td>
<td>205</td>
<td>67</td>
<td>120</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>18</td>
<td>-13</td>
<td>125</td>
<td>139</td>
<td>111</td>
</tr>
<tr>
<td>Real Estate</td>
<td>53</td>
<td>42</td>
<td>139</td>
<td>90</td>
<td>70</td>
</tr>
<tr>
<td>Mining industry</td>
<td>5</td>
<td>44</td>
<td>43</td>
<td>88</td>
<td>38</td>
</tr>
<tr>
<td>Healthcare and social assistance</td>
<td>18</td>
<td>1</td>
<td>-10</td>
<td>140</td>
<td>27</td>
</tr>
<tr>
<td>Agriculture, fishing</td>
<td>16</td>
<td>12</td>
<td>12</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>The rest of the sectors</td>
<td>178</td>
<td>156</td>
<td>188</td>
<td>28</td>
<td>122</td>
</tr>
</tbody>
</table>
Conclusions

Based on statistical data a number of positive steps were done to attract foreign investments in recent years, but there are still many things to do:

- There is still no stable legislative environment in the country yet. Frequent legislative changes threaten investors;

- The process of reform of the Code of Labor reform is quite complicated;
- New regulations in postal services and labor migration;
- There is no unified state policy for foreign investments in Georgia, including all sectors of economy.

The activities of the National Investment Agency established in order to facilitate attracting investments in Georgia should be more transparent, which will be more efficient in carrying out its activities.

It is necessary to carry out such monetary and fiscal policy in the country, which will improve the investment environment in Georgia and will increase the trust of investors more.

It is necessary to take such measures that will promote science, technology and innovation in the country.

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Diffusion Index Based On Leading Economic Indicators as Forecasting Instrument (In Case Georgia)

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Abstract

Cyclical feature of economies in a violent environment is forcing researchers to search for early signals of turning points. The most appropriate tools to solve this problem are the leading indicators and indexes based on leading indicators. The leading indicators provide qualitative information of the most probable performance of a reference cycle (i.e. GDP, Industrial production) with a significant lead-time of several months. It is difficult to rank which types of indicators have most weight in foretelling the course of the economy, and subsequently, its impact on currency market. Given the volatile nature of transformed economy, there is a need an accurate leading indicator of economic performance (In particular for Georgia). In this paper we try collect leading economic indicators, study their features and engage diffusion index for Georgia. We build forecasting model and evaluate the performance of the model using time series models accuracy measures RMSE, MAE and MAPE.

Keywords: Diffusion index of leading indicator, AR, MA, ARMA, forecasting.

JEL Classification: C52, C53, C18, C18, E37.
1. Introduction

For many years a system of leading economic indicators, first developed by the National Bureau of Economic Research (NBER), has been widely used in the United States to appraise the state of the business cycle. A few years ago the Organization for Economic Cooperation and Development (OECD) set up a working party to develop this type of analysis and most of the member countries participated.

Georgia is a country with a transitional economy. Given the volatile nature of transformed economic performance, there is a need for businesses and government agencies to have access to an accurate leading indicator of transformed economic performance (in particular for Georgia).

The analysis of leading indicators can help policymakers gauge the short-term direction of economic activity. While such analysis is well established in advanced economies, it has received relatively little attention in many emerging market and developing economies, reflecting in part the lack of sufficient historical data to determine the reliability of these indicators. This paper presents an econometric approach to deriving composite indexes of leading indicators for a small open economy. The results show that, even with limited monthly observations, it is possible to establish meaningful economic and statistically significant relations between indicators from different sectors of the economy and the present and future direction of economic activity.

The Leading Indicators can be used for analyses of the cyclical development of the Georgia economy or for predictions of business cycle turning points. There were some attempts of building a leading indicator in the past; however the research in this area was not based on a systematic long-run approach. The main problems were short time series and the instability of macroeconomic conditions connected mainly with the economic transition. Furthermore, statistical data have been continuously revised as a consequence of the necessity to harmonize the methodology for compilation of the system of national accounts.

2. Literature Review

The NBER first developed an approach to monitor economic variables that are sensitive to cyclical change in the 1930s. A research team at the NBER led by Burns and Mitchell studied a group of economic variables to see if fluctuations in those variables persistently led, coincided with, or lagged turning points in U.S. business cycles. Burns and Mitchell (1946) defined business cycles as follows:

**Business cycles** are types of fluctuations found in the aggregate economic activity of nations that organize their work mainly in business enterprises: a cycle consists of expansion occurring at about the same time in many economic activities, followed by similarly general recessions, contractions, and revivals which merge into the expansion phase of the next cycle; this sequence of changes is recurrent but not periodic (Burns and Mitchell, 1946, p. 3.).

In later research conducted in the 1950s and 1960s, NBER researchers combined the best series into composite indexes of leading, coincident and lagging economic indicators. Moore and Shishkin (1967) first developed and applied a formal weighting scheme by scoring variables in terms of their economic significance, statistical adequacy, cyclical timing and business cycle conformity. The choice of variables and the weights associated with them, however, was purely subjective and did not involve a formal econometric analysis. In the early 1960s, the U.S. Department of Commerce took over the production of the composite indexes and in December 1995 ceded responsibility to the Conference Board (CB) in New York City.

The OECD started publishing leading indicators in 1987 and now publishes such indexes on a monthly basis for all member countries and for six aggregate geographical zones. The NBER-CB and the OECD methods are very similar. Both methods are based on the analysis of turning points, namely the analysis of
expansions (i.e., peaks) and recessions (i.e., troughs). The main difference is that the NBER-CB does not rely on trend adjustments, whereas the OECD method estimates long-term trends using a modified version of the Phase Average Trend method (PAT) first developed by the NBER. The difference between the two methods reflects a more fundamental difference in the definition of the business cycle.

Despite their popularity, two complaints that were originally directed at the analysis of Burns and Mitchell (Koopmans, 1947) continue to haunt the literature on leading and coincident indicators. First, little attention is paid to economic theory in determining the relationship between these indicators and economic activity (e.g., measurement without theory). Second, the methodology is not considered scientific, in so far as it relies on a subjective analysis rather than an econometric approach.

Studies of leading indicators mostly relate to advanced economies. Only a few attempts have been made to apply the same methodology to emerging markets. At least several factors may account for this. First, limitations of the quality and frequency of data are often constraining factors. Second, emerging markets tend to be prone to sudden crises and market gyrations in macroeconomic variables, often making it difficult to discern any type of cycle or economic regularity (Agenor, McDermott, and Prasad, 2000). However, increasing examples in the literature have begun to analyze the stylized facts of business cycles for emerging markets and constructing coincident and leading indicators. The main contributions are Pallage and Robe (1998), Agenor, McDermott, and Prasad (2000), and Rand and Tarp (2001). These studies find that business cycles in emerging markets are different from those of industrial countries; the average duration of business cycles is shorter than in the industrial countries and the speed from peak to trough and vice versa is faster (Rand and Tarp, 2001).

The OECD system of composite leading indicators was developed in the 1970’s to give early signals of turning points of economic activity. This information is of prime importance for economists, businesses and policy makers to enable timely analysis of the current and short-term economic situation.

OECD CLIs are constructed to predict cycles in a reference series chosen as a proxy for economic activity. Fluctuations in economic activity are measured as the variation in economic output relative to its long term potential. The difference between potential and observed output is often referred to as the output gap, and the fluctuation in the output gap as the business cycle. The output gap is not however observable directly, indeed, this is estimated as part of the overall CLI production process.

3. Theory
The importance of predicting future economic events is undisputed. From a political standpoint, heading off future weakness may be the difference between staying in office or joining the ranks of the unemployed. In these attempts to anticipate general business conditions, people look for signals about the economy cyclical. Economic indicators are usually used to forecast changing business cycle in an economy as they are descriptive and ex-ante time series data for forecasting economic or business conditions.

It is important for stakeholders in the economy, such as government and private sector, to understand the meaning of each of the business cycle indicators and to know their relationships. This kind of relationship is helpful to the investors because they become aware of future, present and past business cycles issues which help in decision making. Well focused investors want to know the current status of economic affairs as well as to forecast into the future and find out how the economy is likely to perform so that they make viable and profitable business decision. However, it is understood that the leading indicator predicts the future business cycle trends, the coincident indicator moved in the same direction as the economic cycles while the lagging indicator responds to the previous economic cycles.
It is difficult to rank which types of indicators have the most weight in foretelling the course of the economy, and subsequently, its impact on currency market. With that said, leading economic indicators have been showing reliable foresights in the past to help investors make crucial investment decisions. Work on leading indicators suggests that both the indicators themselves and the process surrounding their identification are important aspects of their utility.

Therefore, we define **leading indicators** as systematically collected data on an activity or condition that is related to a subsequent and valued outcome, as well as both the processes surrounding the investigation of those data and the associated responses. This definition captures several important attributes of leading indicators. First, leading indicators are **antecedents to important events** that predict or foreshadow those events. Second, leading indicators are not fixed characteristics of individuals or systems; rather, they are **conditions or activities that can be changed by action**. Third, the search for leading indicators **catalyzes a productive inquiry** that results in the rethinking of organizational resources or supports. Fourth, the search for leading indicators may help identify or develop more relevant and precise indicators.

Leading indicators share some meaning with terms such as correlates, predictors, and risk factors, but are distinctive. The term correlates describe the connection between variables, but does not convey the antecedent nature of a leading indicator. While leading indicators can be predictors and convey risk factors, they are distinct from these concepts in that they always represent an actionable concept, whereas predictors and risk factors may convey immutable qualities of individuals or groups.

**Leading Economic Indicators:** This group includes ten measures that generally indicate business cycle **peaks** and **troughs** three to twelve months before they actually occur. The ten leading indicators (According NBER methodology) are: Hours of production workers in manufacturing; New claims for unemployment insurance; Value of new orders for consumer goods; S&P 500 Composite Stock Index; New orders for plant and equipment; Building permits for private houses; Fraction of companies reporting slower deliveries; Index of consumer confidence; Change in commodity prices; Money growth rate (M2).

This types of indicators are different by OECD methodology. Differences depend on country’s features. For example for Belgium there are: New passenger car registration; Employment (manufacturing) future trend; Export orders inflow; Demand; Production; Consumer confidence indicator. Also different are LEI for Poland: Real effective exchange rate; Interest rate; Production; Unfilled job vacancies; Production of coal. For Netherlands calculate 5 leading indicators in total, four of which are confidence indicators.

Business cycle theories found their way into the economic theories at the beginning of 20th century. The research in this area was concentrated mainly at the National Bureau of Economic Research (NBER) in United States. The business cycles (called sometimes economic cycles) are regular fluctuations of economic variables in market economies. There are two different approaches to the fluctuations: business cycles (classical view) and deviation cycles. The leading indicator became an important research tool of business cycle analysis mainly in the US and the member countries of OECD.

The classical view of business cycles is the simplest and most accurate approach in cyclical analysis. But the experience of many countries proves that a long-term slowdown of growth can cause more damage to the economy than the recession itself. In the second half of 20th century the classic business cycle didn’t even occur in some countries – the growth of the output in level continued without break.
That’s why the attention is devoted also to deviation cycles (called also growth cycles) – fluctuations of time series around its long-term trend. The original time series have to be decomposed into four components – seasonal, trend (long-term), irregular and cyclical component. The objects of the cyclical analysis are the cyclical components of economic indicators with different time resolutions (leading, coincident, lagging).

The time series decomposition is contrary to the classical cycle view connected with more inaccuracy. Compared to the classical view the interpretation of deviation cycles differs too. As we talk about expansion or recession in the classical view, deviation cycles describe only the slowdown or an acceleration of the economy. For instance all phases of the deviation cycle pass over during only one phase of the classical cycle (e.g. expansion). Nowadays the research in OECD countries is focused both on the classical as well as on the deviation cycle.

4. Data and Empirical Results
4.1. Calculating the Diffusion Indexes of Leading Indicators

The composite indexes measure the volume of overall business activity based on the percentage changes in selected indicators. The diffusion indexes measure the proportion of the indicators that are improving. If the proportion of indicators improving is more than 50%, the economy is expanding and if they are below 50%, the economy is contracting.

The indexes of business conditions are summary measures for aggregate economic activity. They are designed to be a useful tool for analyzing current conditions, and for forecasting future economic conditions. They are indexes that combine the behavior of key cyclical indicators that represent widely differing activities of the economy such as production, employment, and many more.

The composite indexes are used to identify the volume of overall business activities by composing percentage changes of selected indicators. On the other hand, diffusion indexes are used to determine turning points of the business cycle, among other purposes, by counting changes in directions of selected indicators.

The composite indexes mainly aim to measure the tempo and the magnitude ("the volume") of economic fluctuations. They compose the quantitative changes in indicators that are sensitive to business cycle movements.

The diffusion indexes are used to determine the turning points in the business cycles. They measure the proportion of the component indicators that are improving. When the diffusion indexes are above the 50 percent threshold, the economy can be interpreted to be in an expansion phase; when below, in a contraction phase.

On the other hand, the composite indexes provide a quantitative measurement of economic strength. The composite indexes differentiate between small and large overall movements. They are referred to as the indexes that indicate the "volume" of economic activities, e.g. the amplitude of economic peaks and troughs, as well as the speed of economic expansion or contraction.

Compute Diffusion Indexes. Diffusion indexes measure the proportion of the components that contribute positively to the index. The first step in computing the diffusion indexes is to calculate if a component increased, decreased, or had no change. Components that rise more than 0.05 percent are given a value of 1, components that change less than 0.05 percent are given a value of 0.5, and components that fall more than 0.05 percent are given a value of 0. Next, sum the values of the components. Third, divide by the number of components. Finally, multiply by 100.
4.2. The Choice of Leading Variables.
How can we choice target variables for the leading indicators. Since the pioneering work of Mitchell and Burns (1938), variable selection has rightly attracted considerable attention in the leading indicator literature, see, e.g., Zarnowitz and Boschan (1975a,b) for a review of early procedures at the NBER and Department of Commerce.

Moore and Shiskin (1967) formalized an often quoted scoring system (see, e.g., Boehm (2001), Phillips (1998-99)), based mostly upon (i) consistent timing as a leading indicator (i.e., to systematically anticipate peaks and troughs in the target variable, possibly with a rather constant lead time); (ii) conformity to the general business cycle (i.e., having good forecasting properties not only at peaks and troughs); (iii) economic significance (i.e., being supported by economic theory either as possible causes of business cycles or, perhaps more importantly, as quickly reacting to negative or positive shocks); (iv) statistical reliability of data collection (i.e., provide an accurate measure of the quantity of interest); (v) prompt availability without major later revisions (i.e., being timely and regularly available for an early evaluation of the expected economic conditions, without requiring subsequent modifications of the initial statements); (vi) smooth month to month changes (i.e., being free of major high frequency movements) (Marcellino, 2005).

We also can select indicators, which are closely related to GDP. In this regard we select six time series ready to enter the leading indicator. The data availability for Georgia is limited therefore we consider the period from 01.2012 to 04.2015 (40 observations). The basis for selection of reference series and construction of the diffusion indicator for the Georgia economy is the database of monthly time series. The DLI database contains time series released by the official statistics (National Statistics Office of Georgia, National Bank of Georgia). They all contain information on business cycles, which is the basic precondition for the components of DLI. The database is built of quantitative and qualitative monthly data (Business and Consumer Tendency Surveys). The containing time series come from different areas of economy (real and financial sector).

The given criteria yielded six indicators with best scores:
1. CPI
2. Monetary Aggregate (M1);
3. Spread of Interest Rates;
4. LCI for OECD Countries;
5. Residential Transactions;
6. Consumer Confidence Indicator;

CPI – Consumer price index provides an overall picture of price rises. The CPI is the central indicator to judge monetary value trends. Data are available through the Georgian Statistic Department.

Money M1 – is a prime mover, contains information about the monetary policy. M1 (Narrow money) measures cover highly liquid forms of money. Measures of the money supply have exhibited fairly close relationship with important economic variable such as GDP. Decrease or increase of money supply influences economic activities of various subjects. Data are available through the National Bank of Georgia.

The Interest Rate Spread – is a key determinant of a financial institution profitability. The role of financial sector in facilitating economic growth and development is well acknowledged. Data are available through the National Bank of Georgia.

LCI for OECD Countries – Georgia is country with small open economies and widely depend on import. Therefore we use Leading Composite Index for OECD countries as one of the indicator. Data are available through the OECD statistics.
Residential Transactions – are evidence of economic activity. An increase in housing drives economic activity in two ways. First, it induces investment in new residential construction. Second, it leads some household to spend, either for home improvement or consumption. Housing market (As existing home sales as new home sales) is a better indicator of future economic activity. For residential transactions we take the information collected by “Colliers International Georgia”.

Consumer Confidence Index for Georgia - Consumer Confidence Survey by ISET follows the standard EU methodology: There are randomly sample 300-350 individuals on a monthly basis and question them about the past, current and future financial situation of their families and the country as a whole. Consumer confidence is the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation. How confident people feel about stability of their incomes determines their spending activity and therefore serves as one of the key indicators for the overall shape of the economy. In essence, if consumer confidence is higher, consumers are making more purchases, boosting the economic expansion. On the other hand, if confidence is lower, consumers tend to save more than they spend, prompting the contraction of the economy. Data are available through the ISET survey. All statistics are on appendix – Figure #1.

Construction the DLI for Georgia. The methodological starting point for the DLI construction is the OECD system of leading indicators, which is mainly based on a system approach developed by NBER. We evaluate the relative performance of the suggested approach resorting to the Georgia monthly data which covers the period from January 2012 up to April 2015, encompassing 6 macroeconomic time series. We calculated DLI for Georgia (The results of calculating is shown on the appendix -Figure#2).

4.3. Forecasting. The focus is on forecasting DI (Diffusion Index) based on six major monthly Georgia macroeconomic variables: CPI; Monetary Aggregate (M1); Spread of Interest Rates; LCI for OECD Countries; Residential Transactions; Consumer Confidence Indicator; AR(p) model is one where the current value of a variable depends on the values that the variable took in previous periods plus an error term. AR(p) model can be expressed as:

\[ X_t = \alpha + \sum_{i=1}^{p} \varphi_i X_{t-i} + \varepsilon_t. \]  

where \( \varphi_1, \ldots, \varphi_p \) are parameters, \( \alpha \) is a constant, and the random variable \( \varepsilon_t \) is a white noise disturbance term.

A moving average (MA) process is one in which the systematic component is a function of past innovations. MA(q) model of order q can be expressed as:
\[ X_t = \mu + \varepsilon_t + \sum_{i=1}^{q} \theta_i \varepsilon_{t-i} \]  

where the \( \theta_1, ..., \theta_q \) are the parameters of the model, \( \mu \) is the expectation of \( X_t \) (often assumed to equal 0), and the \( \varepsilon_t, \varepsilon_{t-1}, ... \) are again, white noise error terms.

By combining the AR(p) and MA(q) models, an ARMA(p,q) model is a model that the current value of some series depends linearly on its own previous values plus a combination of current and previous values of a white noise error term. This model contains the AR(p) and MA(q) models. The ARMA(p,q) specification is given by equation:

\[ X_t = c + \varepsilon_t + \sum_{i=1}^{p} \varphi_i X_{t-i} + \sum_{i=1}^{q} \theta_i \varepsilon_{t-i}. \]  

Following Stock and Watson (2002) coined the version of (1) as the diffusion index equation (DI) and the complete version with lags of the targeted variable as the diffusion index – autoregressive equation (DI-AR) we use this equation for forecasting.

Furthermore, we produce both dynamic and static forecasts using the selected models over the sample period. Dynamic method calculates multistep forecasts starting from the first period in the forecast sample. Static method calculates a sequence of one-step ahead forecasts, using actual rather than forecasted values for lagged dependent variables.

To compare the forecasts of our models with real data, we construct AR, MA and ARMA models.

We compare the forecast performance of each time series model through the error statistics (criteria). Three error statistics are employed to measure the performance of the forecasting models. Namely, the Root Mean Squared Error (RMSE), the Mean Absolute Error (MAE), and the Mean Absolute Percent Error (MAPE).

Suppose that the forecast sample is and denote the actual and forecasted value in period \( t \).

The reported forecast error statistics are computed as follows:

\[
MAE = \frac{1}{T} \sum_{t=1}^{T} \left| \hat{x}_t - x_t \right|, 
\]

\[
RMSE = \sqrt{\frac{1}{T} \sum_{t=1}^{T} ( \hat{x}_t - x_t )^2 }, 
\]

\[
MAPE = \frac{1}{T} \sum_{t=1}^{T} \left| \frac{x_t - \hat{x}_t}{x_t} \right| \cdot 100,
\]

The RMSE and MAE error statistics depend on the scale of the dependent variable. We use them to compare forecasts for the same series and sample across different time series models. The results of forecast accurate is shown below

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The better forecasting ability of the model is that with the smaller RMSE and MAE error statistics. We apply four forecasting models for AR(p) and MA(q) models (with p=q=1,2,3,4) using the Least Squares method, as well as four forecasting models for ARMA(p, q) (with p=q=1,2).

We present the best forecasting models for Diffusion Index (i.e. the model with the smaller forecast error statistics) using both static and dynamic methods. In the case the smallest RMSE for ARMA(1,1) model. Hence, in terms of RMSE, ARMA (1, 1) static model is the best forecasting model.

The forecasting results of the selected MAE measures show the smallest MAE value indicates that ARMA(1,1) model is superior than the other time series models. The results show that ARMA(1,1) provides superior forecasts of index, while others.

Therefore, we select static ARMA(1,1) as the best forecast model because it provides small RMSE, MAE and MAPE. Since most of the parameters are significant at 5% level, we believe that these models can be used for potential forecasting results. Figure 6 shows graphs of dynamic and static forecasts accuracy for Diffusion index. Figure 7 provide forecasting of index. Hence, we will consider the ARMA(1,1) model as the benchmark.

5. Conclusions
In this paper we have evaluated the forecasting performance of diffusion index-based methods. Typically, forecasts compute for large datasets of long time series of macroeconomic variables, but the case of short time series is perhaps even more interesting and relevant in practical applications. In this regard, diffusion indexes of leading economic indicators provide useful summary statistics to analyze the current and future direction of economic activity. Macroeconomic modelling, and forecasting, is a widely researched area in the applied economic literature. This numbers indices some aspects of economic development, they might be used for forecasting for a small open economy such Georgia.

A regular updating of these indexes could provide a useful tool to the Georgian authorities for policy formulation. The indexes proposed in this paper should be considered experimental for the time being and should be used operationally only after a testing period that can confirm their performance. The first experiment with DLI construction can be assumed as successful.

The next phases of research will be based on verification of the results. However, verification of its reliability and predicative ability requires a long-term experimental application, including many revisions as confirmed by experience of other countries. The accuracy of different forecasting methods is a topic of continuing interest and research.

In this paper we report the forecasting competition between Autoregressive (AR), Moving Average (MA), models of the diffusion index monthly series. We test the out–of - sample forecasting accuracy of forty-eight models. Specifically, we compare the forecasting techniques based on the following symmetric error statistics: Root Mean Square Error (RMSE), Mean Absolute Error (MAE) and Mean Absolute Percent Error (MAPE).

Acknowledgement
I would like to express my special thanks of gratitude to Professor Dr. Peter Winker (Justus-Liebig-University Giessen) for useful comments.

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Appendix

Figure#1

Statistical Data for Diffusion Index

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Central Bank Communication as a Tool of Unconventional Monetary Policy: Case of the Federal Reserve

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Abstract
The paper sheds some light on central bank communication as a contemporary tool of unconventional monetary policy. We discuss modern central bank communication strategies and their efficiency in achieving primary goals of this governmental institution. The research also investigates the US Federal Reserve forward guidance - a tool of unconventional monetary policy - and potential channels of international spillovers that it may cause. We conduct a preliminary study to determine whether the announcements made by the Federal Reserve governors at conferences and meetings have an immediate effect on asset prices in four developing countries. The analysis shows that there is a connection between the announcements and changes in equity price indexes. However, further research is needed to prove the robustness of the preliminary analysis.

Key words: central bank communication; unconventional monetary policy; international spillovers; the Federal Reserve.
1. Introduction
Over the past three decades, the way in which central banks conduct monetary policy has undergone remarkable changes. The ideas of independence, transparency and accountability of a central bank have also become crucial issues in viewing the role of this institution. Along with the advent of new tools of influencing financial markets and maintaining the economy known as unconventional monetary policies, the need for a communication mechanism that would allow to convey the essential information to the general public has arose. The recent global financial crises proved that traditional tools of monetary policy are not sufficient enough to mitigate the consequences of recession in an effective way. This led to the development of a broad set of unconventional monetary policy tools. One of the tools is known as forward guidance and is considered to be a necessary part of a central bank communication strategy.

The purpose of this paper is to have a closer look at the communication strategy of the US central bank - the Federal Reserve - in order to determine its major channels of policy transmission not just to the domestic economy, but also abroad. We firstly discuss the role of central bank communication in the contemporary monetary policy environment. After that, we investigate the current communication strategy of some central banks in developed countries (Bank of England, ECB etc.) and compare them with the current communication strategy of the Federal Reserve and major instruments that are involved in policy making. We assume that communication has a strong effect on asset prices in emerging market economies because of changes in interest rates expectations of international investors. To prove the hypothesis, we conduct a preliminary case study on the issue. We choose the developing countries with relatively low asset prices correlations and compare fluctuations in major local asset prices indexes with announcements made by the Fed governors during meetings and conferences that were immediately published on financial media (Bloomberg, CNN). The results of the analysis are presented in the concluding part of the paper.

2. History of central banks communication and trend towards greater transparency
With the development of a central bank as an integral part of the governmental system, the role of this institution has been significantly altered. In the past, the activities and intentions of central banks could be described as latent and covered in mystery. They were relatively closed organizations without any direct access to the general public. However, with the development of new and more sophisticated tools of monetary policy to impact the economy in a more efficient and less unexpected way, the idea of a new vision of a central bank as a governmental body was born. Such
issues as transparency and openness to the general public have become integral attributes of a central bank’s agenda (Masciandaro, Romelli, 2016: 8).

Transparency is the means of reducing asymmetric information between financial market players and policymakers. The need to make central banks more transparent and open to the public was generated by the advent of inflation targeting in many advanced economies. Institutions needed to deliver the relevant and up-to-date information to their audience in order to increase the efficiency of policies they conducted (Issing, 2005: 67).

One of the further accelerators of the trend towards greater transparency was the need to manage the consequences of severe financial crises effectively. In times of significant economic turbulence and political maneuvering, the confidential and relevant information is highly appreciated and, thus, can play an essential role in combating economic upheavals.

In addition, transparency has always been a key tool for maintaining accountability of a central bank, as clear and well-explained economic policies help to establish trust relationship between policymakers and markets.

The effectiveness of revealing necessary information by central banks has been repeatedly proven by numerous research papers on this topic (Cukierman, Webb et al., 1992; Briault, Haldane et al., 1996; Blinder, Ehrmann, 2008). The main goal of central banks communication is to reduce uncertainty and anchor expectations about the economy.

The information that could be revealed by a central bank falls into two broad categories. First of all, it is the necessary statistics about the economic performance of a country. The data are usually supported by brief comments and possible outcomes for the economy. This type of information is crucial for analytical forecasts and long-term planning, whereas the comments made by central bank representatives help to understand the attitude of this institution towards the current situation and to anticipate further policy responses. The second category encompasses the announcements on further actions that a central bank intends to undertake. They are usually accompanied by solid arguments in favor of the decisions made.
In most cases, these two kinds of information are presented in one row to provide a clear and complete understanding of central bank’s incentives.

The type of information provided by a central bank could also be differentiated by its delivery time. Some news and policy responses appear immediately in media after central bank representatives have made announcements in a conference, whereas some other kinds of information could be found in a final report published several days after a meeting has been held.

In pursuing its goal of delivering the information, a central bank is generally oriented at four major groups: financial market participants, the government and the parliament, media, and the general audience (Siklos, Sturm, 2013). For financial market participants the information transmitted by a central bank acts as an auxiliary mechanism to anticipate and forecast further fluctuations of asset prices, bond yields and exchange rates. The awareness of the market about central bank’s concerns helps its participants to adjust their expectations to current economic conditions and alleviate uncertainty.

The government and those policymakers who are not directly related to this institution may use the announcements conveyed by central bank employees may take them into consideration when developing policies in the long run period. The media acts as a transmitter of the information between the governmental institutions and the general public. It plays an essential role in receiving, reworking and delivering the information to a broader audience. The fact that media is considered to be one of the most important channels of communication by issuing financial news poses a significant challenge to a central bank.

In order to avoid information distortions and misinterpretations, the data provided by a central bank should already be simplified and carefully selected before going to media. The last group called the general public is represented by those whose day to day decision making process might also be affected by changes in economic policies.

This group pays precise attention to interest rates, since they impact their ability to borrow money for daily purposes: to buy a house or a car, go to the university or college, etc. As a result of recently changed interest rates, the general public might also be interested in inflation and domestic currency rate fluctuations, as both of them could become repercussions (sometimes goals) of monetary policy
tools. When revealing the information, all the named groups that make up the audience of a central bank should be taken into account.

Transparency of a central bank is closely connected with its credibility. Establishing trust relationship between a central bank and a market has always been within main priorities of this institution, since it has a direct influence on the way economic policies are conducted. Credibility of a central bank is referred to be a commitment made by this institution to follow its previously identified policies without any significant deviations.

It is also closely correlated with reputation of a bank. With a higher credibility rating, a central bank may have a more precise impact of the financial market when conducting its policies, because market players will have a higher degree of trust and adherence. The main indicator to which central bank’s credibility is exposed is inflation and inflation expectations. Having a clear understanding of central bank’s inflation target and being aware of what instruments are employed to the economy allows market players to make more accurate forecasts and abhor their expectations about future price fluctuations. On the other hand, more anticipated behavior of investors on the financial market helps a central bank to adjust its policies to satisfy the need of the economy.

3. Communication as a tool of monetary policy

3.1. Theoretical framework of central bank communication

To keep inflation low, control interest rates and supervise financial institutions - there three goals have always been a mantra of any central bank. Since the moment when monetary policy was ultimately separated from fiscal policy in 1970s, it has developed into a substantive set of policies conducted by a central bank or any similar governmental body.

With the development of financial markets and the growth of financial sectors all over the globe, policymakers started inventing a number of new and more sophisticated toolkits in close collaboration with academia to achieve the mantra goals. Such tools as open market operations, discount rate and reserve requirements are considered to be the attributes of traditional monetary policy.

Central banks use open market operations to purchase (or sell) particular securities on the financial market and thus to impact the interest rates in the economy. The seconds tool in known as the
discount rate in the US (this interest rate is called differently in different countries) is used by central banks to increase or decrease the interest rate at which commercial banks can get loans from it to expand their balance sheets or meet the requirements on reserves.

When changing the reserve requirements, a central bank can influence the ability of banks to issue loans. All the tools are proved to be effective in combating economic shakeups. However, among the traditional tools of monetary policy open market operations are more frequently used and preferred by policy makers due to their relatively low implementations costs (Vayid, 2013: 5).

A shift from controlling the money supply to targeting inflation has generated the development of a new set of economic policies known as unconventional monetary policy. The need to adapt new tools to reach precise goals appeared because of limitations to efficacy of traditional monetary policies when low interest rates are reached.

The main goal of unconventional monetary instruments is consistent with the objectives of traditional tools and is aimed at further easing of financial conditions. Unconventional tools had been actively used by many advanced and some developing economies during the global financial crisis started in 2008 and in the post-crisis period. Major emphasis of these policies is put on the communication toolkit of central banks, as it is believed to be one of the most essential channels of transmission from a central bank to an economy (Santor, Suchanek, 2015: 7).

Numerous debates have been generated in economic literature regarding the classification of unconventional monetary instruments. However, scholars have agreed to group the tools into four broad categories: credit easing, quantitative easing, forward guidance and signaling.

Credit and quantitative easing are similar in their aims and, therefore, are usually used together. The goal of providing additional liquidity to the economy through commercial banks and intensified lending is reached by purchasing different kinds of corporate assets and securities (credit easing) or government bonds (quantitative easing) by a central bank. In comparison to traditional open market operations, these non-standard tools embrace a broader set of assets and securities from both governmental and private sector to be purchased, which allows to mitigate the financial meltdown in a more precise and effective fashion.
Forward guidance and signaling are the tools of unconventional monetary policy exercised by using central bank communication strategies. Albeit these tools have been developed and have actively involved by central banks in their policies over the past decades, the frequency of using forward guidance and signaling is ever increasing.

Their major goal is to manage expectations and alleviate uncertainty over economic conditions in the future. As a part of non-standard toolkit of monetary policy, these options mostly serve as complements to traditional measures of monetary policy.

In this paper, we mostly focus on these two instruments, as their implementation implies sophisticated techniques of delivering essential information in order to manage market expectations. Businesses and individual agents use this information to determine their investments and spending in the future. As a result, a central bank prepares the financial market for future changes in its monetary policies and, thus, mitigates a potential shock.

Since financial market participants are forward-looking, and the asset pricing is closely correlated with expectations and economic conditions, the information provided by a central bank is considered to be crucial in its attempt to conduct monetary policy effectively. A central bank transmits the information on its target interest rates and provides an economic outlook paying precise attention to inflation rate and unemployment level. These data help investors and other market participants to form their expectations and forecasts.

One of the main problems that has been actively debated over the past decades is known as the time-consistency problem (Masciandaro, Romelli, 2016: 12).

When a central bank announces that it will set a new inflation target and will array its policies towards reaching these goals within the next several years, a bank makes an official commitment. This assertion serves as a major indicator for market players in defining their both short-term and long-term goals. In the short run, central bank’s policies are not exposed to significant alterations and, hence, act as a reliable and credible indicator for them. However, in the long-term planning
companies, institutions and other market players may face several difficulties, as a central bank may decide to alter its intentions in line with current economic conditions to address new challenges.

Generally, central banks tend to reassess their goals and policies on a monthly or a yearly basis to adjust their actions based on the performance of an economy. Typically, such economic indicators as unemployment and consumer price index and economic activity in general are taken into consideration. The time-inconsistency problem reflects the idea that market players may form their expectations rarely or with a significant time lag than a central bank alters its policies. This may also generate space for information asymmetry, which may adversely affect the market.

3.2. Contemporary central bank communication strategies
Contemporary communication strategies of central banks always involve two main issues that should be addressed: what to communicate and how. The information that could be considered as necessary and vital for market participants is explained in detail in the previous chapters. However, the ways by which these data could be successfully delivered is a more sophisticated process.

Modern central banks all over the globe use a broad set of communication strategies when conducting monetary policy. Such instruments of communication as periodic reports, short after-meeting notices and transcripts, conferences and briefings, visual materials, personal interviews with central bank representatives are used nowadays to achieve a goal of conducting monetary policy wisely (Herri, 2016: 38).

Generally, the communication strategies fall into two broad categories: verbal communication and communication via readable and visible sources. Almost all central banks in developed and developing countries issue periodic reports and outlooks (e.g. Inflation Report of Bank of England, Monthly Bulletin of ECB), as it is believed to be the most common tool of central bank communication. Such reports contain short-term (up to three years) forecasts on the economic performance and market conditions.

However, the Federal Reserve in the US also provides a longer-term forecast for up to ten years with the emphasis on inflation and unemployment targets.
Central banks in developed countries mostly focus on the analysis of three major economic indicators: labor market (i.e., unemployment), short-term inflation, and economic activity. Such central banks as publish periodic reports on unemployment and labor market conditions. Some of them also reveal the information on labor price levels and costs.

Reports and forecasts on inflation are divided into two broad categories: analysis on headline and core inflation. Headline inflation is calculated based on consumer price index over a precise period and reflects changes in the price of a fixed basket of goods. Core inflation represents a longer-term perspective and excludes unexpected short-term fluctuations in prices. Core inflation is considered to be a less volatile measure than headline inflation.

One of effective measurements of economic activity in the short run is potential output and/or output gap. Central banks of New Zealand, Norway, the Czech Republic, Sweden, and Hungary include this information into their reports (Blinder, Erhmann, 2008: 22).

The other way of delivering necessary information could be presented in the form of interest rates projections. It implies that a central bank provides a precise and accurate guidance on its future path of actions. Several banks all around the world have incorporated these strategies into their communication tools. Some banks went even further and started issuing quantitative guidance that reflects numerical path of future policy rates (e.g., Bank of New Zealand, Bank of Sweden).

Issuing short after-meeting notes (meeting minutes) and transcripts is also considered to be a valuable tool. Meeting minutes usually reveal detailed results of voting on a particular policy. All the tools mentioned above could be united into one powerful tool known as forward guidance. Forward guidance is referred to as assurances of a central bank given to a country where it operates that reflect its intentions on monetary policy. It is the way of delivering particular messages to businesses, households, investors, and other market participants with the purpose of preventing them from unanticipated changes in interest rates. These messages always give hidden clues to market participants and rarely direct instructions. They are aimed at outlining the general trend that a central bank will be pursuing in the nearest future.

Verbal communication implies that a central bank provides information at briefings and conferences. Usually, these events are held after meetings so that businesses, investors, households, and other market participants may receive first-hand information. For example, the ECB holds question and
answer sessions after every open conference, so that the general public may pose questions to bank authorities.

Information revealed by individual central bank committee members during interviews or briefings also plays an important role in a bank’s communication strategy. However, opinions of individuals bankers may lead to significant information distortions and misleading among market participants, because sometimes the communication mechanism between bank committee members does not work appropriately (Cœuré, Speech in Brussels, 31 March 2017).

Overall, there are numerous tools and instruments of verbal and nonverbal (via written and visible sources) communication that central banks all over the world use to enhance the effectiveness of their monetary policy. The main question is still to be answered: which of them is proved to be the most efficient tool?

4. US Federal Reserve forward guidance
4.1. Current communication strategies

The Federal Reserve (the Fed) is believed to be one of the most complicated and at the same time powerful central bank systems in the world. The mandate of “maximum employment, stable prices, and moderate long term interest rates” has always been a top priority from the outset of the institution. Currently, the US long-term target inflation rate stands at 2%.

The Fed has a broad set of tools to achieve its mandate goals. The central bank has an exclusive ability to alter money supply and adjust credit conditions in the country. There are three traditional tools that the Fed uses to achieve monetary policy objectives.

Firstly, it implements open market operations by purchasing or selling Treasury bonds on the secondary market or carrying out repos. Secondly, the Fed is in charge of altering reserve requirements, which specify the fraction of deposits of a commercial bank that should be remained in reserve and not given away if the form of a loan. Consequently, the Fed controls the liquidity on the federal funds market. Thirdly, the Fed conducts its policy by setting a target for federal funds rate, which is referred to be the rate at which banks can lend and borrow funds on an overnight basis. To achieve its target, the Fed implements open market operations that usually involve Treasury bonds. The policy of low rate interest rates was the response of the central bank to the challenges in
the post-crisis period. At that time, the target federal funds rate had been decreased to the range of 0-0.25%. However, after conducting the three rounds of quantitative easing, the Fed admitted significant improvement in the US economy and announced a new course in its monetary policy by the end of 2015. Currently, the interest rates are expected to increase gradually (Labonte, 2017: 6-9).

The Fed has been using forward guidance as a primary communication tool over the past decade. It describes its policy as ‘accommodative’ and ‘data dependent’, since the forecasts provided by the Fed are highly connected to the data on unemployment issued periodically. Thus, the policy goals may deviate and be altered in the short run to provide a maximum accommodation to current economic conditions.

The Great Recession proved that the traditional toolkit of monetary policy employed by the Federal Reserve could not impact some significant parts of the financial system. This caused a shift towards unconventional monetary policy incentives (Vayid, 2013, 9).

The Fed started providing assistance through numerous additional liquidity facilities in the course of the recent financial crisis. The next step if mitigating the crisis was the introduction of the policy known as quantitative easing with the purpose of putting a downward pressure on interest rates in the economy.

One of the most important toolkits of US unconventional monetary policy is forward guidance. In economic literature, it is sometimes called forward commitment, as the central bank gives a commitment that it will follow the policy for a particular period of time. The mechanism of forward guidance in the US is similar to traditional monetary policy tools. It operates through interest rates channel, however, does not imply any changes in target federal funds rate. It influences the term premium and the expected path of future interest rates (Smith, Becker, 2015: 58). Forward guidance anchors expectations of market participants and alleviates the risk of unexpected changes in monetary policy.

The active phase of using forward guidance as a necessary tool of monetary policy fell on the recent financial crisis. Later, the Fed solely revealed primarily quantitative information on labor market conditions and current headline inflation in its reports and forecasts. However, since 2013 verbal
communication tools such as conferences, briefings and meetings have been successfully incorporated into the Federal Reserve communication strategy.

Currently, the Federal Reserve issues the Monetary Policy Report twice a year where such issues as inflation goals and further interest rates projections are discussed. In addition, eight times per year every federal bank gathers anecdotal information on current economic conditions in the respective region. The summary of these short reposts is known as the Beige Book. Four times per year, the Board of Federal Reserve Governors issues the Report on Federal Reserve Balance Sheet Developments, where it sheds light on major changes in the balance sheet and major reasons that cause them. Moreover, the Fed publishes minutes and transcripts of speeches after meeting and conferences, which helps market participants to understand the attitude of the committee towards the economic situation.

The Fed also publishes all enforcement action, orders, and regulatory policy laws that it passes. However, there are some difficulties when analyzing the efficiency of forward guidance as a tool of monetary policy. First of all, numerous research proved that it is impossible to insulate and quantify the effect of forward guidance without being influenced by further unconventional instruments (Kool, Thornton, 2012; Hirose, Kurozumi, 2017; Labonte, 2017).

We can only assert that this effect exists and exerts influence in combination with other tools. Secondly, forward guidance encompasses a broad set of actions implemented by central bank representatives, which may generate uncertainty about what exactly causes changes in market participants’ expectations. Kevin Warsh, a former Fed governor, calls this phenomenon “the cacophony of communications”.

A survey conducted in 2016 among academic and private-sector Fed watchers finds out the degree to which they find the information and the way it is revealed by the Fed useful when determining their inflation and interest rates expectations (Olson, Wessel, 2016). Half of the respondents (53%) assigned a B- to the overall communication strategy of the Fed. The respondents believe the main problem of the Fed is the uncertainty caused by the difference in opinions among the incumbent Fed governors when they are asked about perspective policies of the central bank. The majority responded that the Fed Chairwoman, Janet Yellen, should talk more to the public, whereas the Reserve Bank Directors should resist from giving ambiguous comments. Generally, the survey also
showed that sometimes the actions taken by the Fed are inconsistent with its policy agenda, which also results in a particular degree of uncertainty among market participants.

4.2. Federal Reserve communication and channels of international spillovers

It is not a secret that the US Federal Reserve is one of the most impactful central banks in the world. The decisions of the committee representatives have power to affect not just the domestic economy, but also to cause international spillovers to the entire world.

Numerous research has been conducted over the past decade to determine the quantitative impact of US monetary policy on both developed and emerging market economies. Most of the analysis is, however, has been dedicated to the impact of such unconventional tools as quantitative easing and liquidity facilities. A small portion of research papers discloses the influence of forward policy and communication strategy on asset prices abroad (Moessner, 2014). Since one of the purposes of this research paper is to reveal the channels of international spillovers from the Federal Reserve to emerging market economies, we will focus solely on this aspect.

First of all, it is important to outline possible channels of policy transmission. To better understand how US monetary policy causes international spillovers, we will briefly discuss the theoretical channels in the domestic economy. Forward guidance is believed to be an effective supplementary tool to both conventional and unconventional monetary policy. It acts as a facilitator of decision making and an anchor for inflation and interest rates expectations.

Market participants react very quickly to any changes in prospective economic policies, as they pursue a goal of increasing profits from their investments. When the Fed announces that the US economy is still in a weak condition, this information acts as a clue for investors which implies that no hikes in the target federal funds rate are expected.

Hence, interest rates on Treasury bonds will remain at the same level. On the other hand, when the Fed announces that the US economy is strong enough (based on the labor market conditions and headline inflation), it may raise expectations about future rates hikes. The higher the federal funds rate, the higher rates commercial banks will charge when issuing loans.
On the other hand, a stronger economy implies that it will generate a higher GDP and, thus, is worth investing. With an increase in the federal funds rate, the yields of Treasury bonds also rise, which may attract international investors due to relatively higher interest rates. With an increase of investments in the US economy, the dollar also appreciates. From the consumption point of view, a stronger local currency will cut the demand for export goods, and, therefore, the aggregate demand in the economy. A lower level of spending in the final goal of discretionary monetary policy.

It is not always clear how exactly forward guidance transmits its effects to the economy. One potential issue is the time-inconsistency problem described in detail in the previous part of the paper. As businesses, investors and households usually have a long-term perspective, they may not be willing to adjust their financial decisions to every changes in the Federal Reserve policy. Some of them use hedging instruments of long-term contracts to anchor asset prices and anticipate future cash flows.

Nevertheless, all market participants are exposed to some extent to US monetary policy changes (Moessner, 2016: 3). An intention to hike the target federal funds rate means that the US will provide higher returns on assets, deposits and other investors. For example, a stronger economy gives space for business expansion and, thus, contributes to higher profits generation.

Higher profits of companies will bring higher dividends on corporation stocks. Hence, the demand for US stocks will increase in response to a Fed announcement on rate hikes. Higher production level will also result in an increase in the US GDP. This sequence of events affects expectations of market participants regarding future cash flows and better opportunities for money allocation. As a result, asset prices in developing countries may go down because of higher yields offered by US securities.

The same logic could be applied to exchange rates. With all other indicators being unchanged, higher interest rates in the US may attract investors who currently have funds abroad, e. g. in developing countries. Massive withdrawals of short-term and portfolio investments, especially from investment-dependent countries, may result in a dramatic currency depreciation (Chen, Mancini-Griffoli et al., 2014).
Since the US Federal Reserve is considered to be a credible central bank with a high level of transparency and low dependency on the government, we assume that the influence it exerts with its announcements is strong enough to reach the final stage of international policy transmission. It is also important to mention that the channels of transmission we determined above are rather indirect due to the complicated system of pricing on the global markets and a great number of external and internal factors that may lead to price fluctuations.

4.3. Impact of Federal Reserve announcements on developing countries: case study

To prove that the channels of international spillovers from Federal Reserve announcements take place on the financial market, we conduct a preliminary research on the reaction of asset prices in several developing countries to Fed policy intentions.

The countries for the analysis - Brazil, South Africa, Indonesia, and the Philippines - meet the three basic criteria. First of all, they are developing countries, according to the official UN classification. Secondly, they are located in different parts of the globe, which potentially reduces the correlation between their currencies and asset prices. Thirdly, the countries we picked are investment-sensitive and have economic ties with the US in terms of trade.

Since holding conferences and meeting is one of the Federal Reserve communication strategy tools, we selected several events where the perspective changes in interest rates were explicitly announced. We used financial media such as Bloomberg and CNN due to the fact that these agencies publish short notices on Fed decisions with the shortest time lag (within a matter of several minutes).

For a preliminary investigation, we used major equity indexes in four countries which reflect any changes in asset prices in general.

Table 1 summarizes the data for the research.

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<tr>
<th>Index name</th>
<th>Country</th>
<th>Brief description</th>
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<td>Brazil</td>
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<tr>
<td>FTSE/JSE</td>
<td>South Africa</td>
<td>All shares price index</td>
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<tr>
<td>IDX</td>
<td>Indonesia</td>
<td>Composite price index</td>
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</table>
Table 1. Summary of equity indexes

We decided to analyze the most recent announcements made by the Federal Reserve. The time period is from February until June 2017. Since it is a preliminary study, the sample of dates is narrow and consists of five major announcements that appeared in financial media (Bloomberg, CNN) within the period.

<table>
<thead>
<tr>
<th>Date</th>
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<th>Announcement (literally)</th>
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<td>14 February 2017</td>
<td>Janet Yellen</td>
<td>It may be appropriate for the central bank to raise interest rates at one of its upcoming meetings.</td>
<td>To raise the range in nearest future</td>
</tr>
<tr>
<td>28 February 2017</td>
<td>William Dudley</td>
<td>The case for monetary tightening has become more compelling.</td>
<td>To raise the range in nearest future</td>
</tr>
<tr>
<td>15 March 2017</td>
<td>Janet Yellen</td>
<td>Today the FOMC decided to raise the target range for the federal funds rate by one quarter percentage point. Our decision to make a gradual reduction in the amount of policy accommodation reflects the economy's continued progress toward the employment and price stability objectives.</td>
<td>To raise to the range of 0.75-1%</td>
</tr>
<tr>
<td>3 May 2017</td>
<td>Janet Yellen</td>
<td>We can see further improvements in the US economy outlook sufficient enough to alter the target for the federal funds rate</td>
<td>To raise in nearest future</td>
</tr>
</tbody>
</table>
Federal Reserve Governor Jerome Powell is calling for gradual interest rate increases and a start to balance-sheet reductions later this year if the economy stays on track, though he is watching a recent slowdown in inflation.

Table 2. Federal Reserve announcements on monetary policy incentives
Source: Bloomberg, CNN

To determine a change in indexes, we used daily financial data provided by Quandl. The differences were calculated as follows: \( \frac{i_1 - i_0}{i_0} \), where \( i_0 \) is the index value on the day on an announcement, and \( i_1 \) is the value of the index on the next day. Table 2 summarizes the calculated differences.

<table>
<thead>
<tr>
<th>Change in the index</th>
<th>Brazil</th>
<th>South Africa</th>
<th>Indonesia</th>
<th>The Philippines</th>
</tr>
</thead>
<tbody>
<tr>
<td>14 February 2017</td>
<td>-0.24%</td>
<td>-0.93%</td>
<td>-1.05%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>28 February 2017</td>
<td>-1.21%</td>
<td>-0.68%</td>
<td>-0.4%</td>
<td>-0.57%</td>
</tr>
<tr>
<td>15 March 2017</td>
<td>-0.68%</td>
<td>+1.98%</td>
<td>-1.43%</td>
<td>+0.34%</td>
</tr>
<tr>
<td>3 May 2017</td>
<td>-2.86%</td>
<td>-0.34%</td>
<td>-0.13%</td>
<td>-0.27%</td>
</tr>
<tr>
<td>1 June 2017</td>
<td>-1.99%</td>
<td>-2.49%</td>
<td>-0.81%</td>
<td>-0.25%</td>
</tr>
</tbody>
</table>

Table 3. Indexes reaction to the announcements
Source: Quandl Research Data

When analyzing the data, we noticed small changes in indexes values on the days when announcements were made. However, there is no pattern in indexes differences, as in two countries...
– South Africa and the Philippines – there was an increase in index value on the day when the Federal Reserve decided to hike the target for the federal funds rate.

Overall, the indexes responded negatively to the announcements. It is also important to mention that the drops in index values on the days of the announcements were on average more significant than on other days, which may prove our hypothesis about channels of monetary policy transmission.

The idea of this case study was to determine whether it makes sense to carry out a further study on the issue. It is obvious that both the data and methodology need to be improved in future. An econometric model should be employed to the data to make the analysis more sensitive. Moreover, additional factors that could potentially have influence on index values should also be incorporated in further research. The announcements sample should become broader and more sophisticated. It would also make sense to divide announcements according to the position of the Fed governor. It would allow to differentiate between impacts made by Janet Yellen and the rest of the board members.

5. Conclusion

In this research paper, we investigate central bank communication as a tool of unconventional monetary policy. With the development of new tools of economic policy and challenges that the world faced during the recent global financial crisis, the need for a new toolkit of central banks arose. Communication is considered to be an integral part of unconventional monetary policy conducted by many central banks in developed and developing countries.

The way in which a central bank conveys messages with essential information on basic economic indicators and economic performance in general may have a significant impact on market participants behavior. Since a central bank has exclusive rights on altering interest rates, businesses, households and investors adjust their interest rates and inflation expectations to the policies of a central bank. Such issues as credibility and transparency play a vital role for a central bank when developing an effective communication strategy.

The research also focuses on the Federal Reserve as one of the most powerful and influential central banks in the world. It uses a wide range of unconventional monetary policy tools to conduct its policy effectively. One of these tools is known as forward guidance.
Forward guidance is the tools which allows the Federal Reserve to deliver necessary information on possible changes in the target federal funds rate and, thus, to manage expectations of market participants. This mechanism has been proved to be effective for the domestic economy. However, since the US has one of the greatest and most developed economies in the world, policy changes made by the Federal Reserve may have adverse impact on emerging market economies. We outlined several channels of international spillovers caused by Fed forward guidance. One of them is the transmission of expectations through asset prices. With higher interest rates in the US, international investors may withdraw their funds from investment-sensitive economies and cause fluctuations on their financial markets. The same logic is applicable to exchange rate fluctuations.

To prove this statement, we carry out a preliminary research to find out whether this effect exists, and whether further investigation will help us to insulate this effect from systematic index value fluctuations. The analysis showed that the markets generally react negatively to the announcements of the Federal Reserve on possible rate hikes in the nearest future. However, this connection is not robust and does not allow us to determine any permanent pattern yet.

Further study is needed to prove the statements and obtain more representative and robust results. An econometric model is necessary for conducting a study of this kind. It would also be wise to include several external and internal factors that may cause index value fluctuations on the markets to isolate the effect of Fed announcements from systematic movements of the markets.

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Evolving Marketing Strategies For 

Ngo’s in India 

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Abstract 

India is a country of myriad contradictions. On one hand, it is considered to be one of the largest economies of the world, and an increasingly important player in the emerging global order, on the other hand, it is still home to the largest number of people living in absolute poverty (even if the proportion of poor people has decreased) and the largest number of undernourished children. What emerges is a picture of uneven distribution of the benefits of growth which many believe, is the root cause of social unrest. Similarly, large Indian companies too have been the target of those perturbed by this uneven development and as a result, their contributions to society are under severe scrutiny. 

Governments, especially in developing and emerging economies, are limited in their capacity to promote social development, due to scarcity of resources to handle such a formidable task. Unlike the NGOs, which have the capacity to work closely with their beneficiaries, governments are far removed from their beneficiaries. These circumstances have offered opportunities to NGOs to play an increasingly important role in socioeconomic development. Based on experience in other parts of the world, NGOs in developing countries can enhance their effectiveness by applying marketing practices for socio-economic development. While
much research has been done in the West in the area of social marketing, the subject is still relatively unexplored in India. To work for the society, it is essential for NGOs to market themselves in order to keep replenishing the funds required to achieve their objectives.

This paper is a secondary research which aims to explore the area of marketing strategies adopted by NGO"s in India. Impact factor of NGO"s has always been a debatable factor, thus, this paper aims to study in-depth, the real impact of the work on the Indian society. Further, the steps taken by government to collaborate companies and NGOs in order to maximize the impact factor by establishing National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of Business, and the Corporate Social Responsibility clause within the Companies Act, 2013 is also been discussed in the paper.

Key Words

1) Non-governmental organizations
2) India
3) Marketing strategies
4) Socio-economic development
5) Corporate Social responsibility

Introduction

Onset of 21st century has seen a wide paradigm shift in international politics. With Asia rising to a global forefront, India too flexes its muscles internationally. The study of rise of Asian power is not new. Scholars from various disciplines have attempted to analyze and discuss the rise of India in the domain of global power politics. India might be soaring high in global arena yet its domestic forum is flawed. India is a nation of 1.32 billion people and it is ought to have few extreme contrasting disparity. With its highest contribution to reduce poverty in 2008-2011, it is still in progress of lifting major chunk of its population out of poverty (Chakravarty, 2014). The overall literacy rate in the country may have gone up to 74.4%, but the drop in the illiteracy rate has not matched the increase in population (Chetan, 2016). Between 2001 and 2011, the population above the age of 7 grew by 18.65 crores but the decrease in the number of illiterates is just 3.11 crores.

According to a report by UNESCO in 2015, in terms of absolute numbers, India - with 28.7 crore illiterates - was the country with the largest number of adults without basic literacy skills in 2010-11 compared to 2000-2001 when it had 30.4 crore illiterates. Social issues in the domain of child abuse, child labour, drug abuse, corruption, etc., are the issues which the nation faces in its domestic arena.
Triumph over the social issues marginally has made a lot of difference in the status of the nation as a whole but the challenges faced by the nation still remains. Governments, especially in developing and emerging economies, are limited in their capacity to promote social development, due to scarcity of resources to handle such a formidable task. Unlike the non-governmental organizations (NGO), which have the capacity to work closely with their beneficiaries, governments are far removed from their beneficiaries.

These circumstances have offered opportunities to NGOs to play an increasingly important role in socioeconomic development. On the same note, voluntary organizations play a vital role in the shaping and implementation of a participatory democracy. They rigorously work towards contributing to the society through development programmes. These organizations provide innovative and alternative cost effective models for development.

Mobilizing people for constructive community work and reaching out to the most marginalized and vulnerable sections of the society to contribute to the socio-economic development of the country is a primary goal of most of these organizations. Estimates of the total number of voluntary organizations in India that are in some way or other recognized by the state, range from 3 to 4 million.

By the definition of American Marketing Association (AMA), “Marketing is activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.” (American Marketing Association, 2013). Marketing to the outside world is an activity more or less used by institutes or corporations to increase their reach and sales in the market. Marketing as an activity is associated more with institutes and corporations but the same activity when associated with non-governmental organizations give an absurd picture in India.

There has not been a comprehensive study on NGO marketing in particular to Indian context. It is probably difficult to say how many NGOs there are in the country, since there are no comprehensive or reliable statistics. Yet on an approximate scale, most of the NGOs do not market themselves to raise awareness about their goals and objectives to the prospective donors. When non-governmental organization is associated with any form of marketing or subtle marketing, a negative connotation is by default attached to the NGO. This further enhances the need for NGOs to be extremely careful about not damaging their image in the market outside and yet being able to get funds from donors and achieve their valuable goals.

HISTORY OF NGOs

India has a long history and tradition of voluntary action, providing services to the sick, needy and destitute. Rather, it is a part of Indian cultural heritage and way of life. Voluntarism in India is as old as the emergence of organized society itself. It originated as pure philanthropy of charity.
and this motivation sustained the voluntary efforts all through history in the ancient and medieval period. The voluntary efforts in the process of welfare and development have undergone evolutionary changes with changing emphasis on various experimental development programmes in India. The history of voluntary action is an integral part of the study of evolution and changes in the voluntary organizations itself.

Indian culture has placed great emphasis on charity. Every individual or householder was expected to help the needy and the suffering. (CONCEPTUAL FRAMEWORK AND HISTORY OF NGOs, 2014). Even in the contemporary times, building drinking water platforms and feeding the hungry is practiced almost in every state of the nation. To construct temples, dharmashalas and centers to serve free food were some manifestations of charity. During the British era and with the development of modern education, donating wealth for construction of colleges and schools were practiced. The Upanishads written in India between c. 800 BCE and c. 500 BCE are the collection of texts of religious and philosophical nature and have an immense impact on cultural belief of the Indian population.

Even the Upanishads indicate the gradation of daanam which are Shramdaan (voluntary contribution through physical effort), Anna-Daan (offering of food), Vastra-Daan (offering of clothes) and Gyan-Daan (Offering of knowledge). Islam has rules on giving which is Zakat. Zakat has its own governing rules and along with it Fidya which is more like a fine imposed on those violating the fast in the month of Ramadan. Christianity has their rule that is one tenth of the income to be set aside for charity.

This is very similar to Sikh religion, which also has its Dasvandh that translates to keeping aside one tenth of the income for the poor and disabled. This has inspired many missionaries to do service to the poor irrespective of religion, caste or creed. Voluntarism in early days had its genesis in charity, philanthropy and relief activities. In ancient and medieval India, charity on a voluntary basis outside the religious channels operated freely and extensively in the fields of education, health, cultural promotion and in crises during natural calamities such as - floods, famine, droughts, and epidemics. The voluntary efforts in the early phase were limited in scope and were marked in rural and community development such as digging wells and tanks, planting trees etc.

The history reveals that the responsibility of assisting the individual-in-need was shared by the community and the rulers. The kings and the chiefs used to provide free kitchens during famine and shelter to homeless. The directives of the emperor were restricted to the rules of Dharma Sastras. Religion emphasized on the value of charity, philanthropy and mutual help. The Indian culture history is entangled to social reforms and fighting for justice. During the British Raj, voluntary efforts received a boost with new cultural, social and religious surroundings. In the same time, many Christian missionaries came to India. The ultimate objective of these missionaries was to spread Christianity but they even engaged in a lot of activities like running schools and medical relief. Social reforms in the nation were bought by various leaders including Guru Nanak (the founder of Sikh religion), M. K Gandhi, Thakar Bapa, Rabindranath Tagore, Iswar Chandra Vidyasagar and Jaya Prakash Narayan, to name a few. They propagated the ideas and established institutes to reconstruct villages to improve healthcare, education and get rid of old deformed social practices like Child abuse, Sati, prohibition of widow remarriage and other caste-directed practices.
Amongst others, M. K. Gandhi has strongly help build the foundation of voluntarism in India. „Gandhiji”s Constructive Work“, an initiative by him entailed among others Charkha (spinning wheel), Khadi (hand-woven cloth), Gramodyog (village industries), basic education, removal of untouchability etc. The founding principles behind „Gandhiji“s Constructive Work“ were- self-reliance, voluntarism and sharing, mutual aid, decentralization and moral action. Inspired by the Gandhian ideology, voluntary movement in India gained further momentum and a large number of organizations based on Gandhi”s work emerged in the Indian voluntary work.

CONTEMPORARY TIMES

The past two decades have witnessed dramatic growth in the number, nature, reach, influence and diversity of voluntary organisations. The processes of grassroot democratization as well as the privatising initiatives for economic liberalization have been the forces behind the growth. The voluntary or the civil society sector today is comprised of a very diverse group of institutions ranging from those who want to facilitate the development of the poor and the marginalized, to those who run economic and service delivery activities that privatise public institutions and services. This second set (privatised public institution and services), however, is contested by the practitioners of the Voluntary Sector and does not fall in the category of Voluntary Sector in the present study. It is principally because of those VOs, which have worked closely with the people and worked on their issues that VOs are the most trusted institution in the world. Ever since the Edelman Trust Barometer was initiated, it has always found NGOs to be the most trusted of the four major public institutions it studies: Media, Business, Government and NGOs. In India, where NGOs have faced charges of opaque funding and misuse of funds from foreign donors, the Edelman Trust Barometer still rates NGOs as the most trusted Institution. “Since 2009, trust in NGOs has surged in India to 68 percent among 35 to 64-year-olds,” the report reads. At the same time, trust in government trails business, media and NGOs as the least trusted institutions.6

In this context it is important to evaluate the growth of the sector in the last few decades. According to the report published by Ministry of Statistics and Programme Implementation, Government of India, there are 31,74,420 societies in the States and Union Territories.7 The study, commissioned in 2008, took into consideration only those entities which were registered under Societies Registration Act 1860, Bombay Public Trust Act and companies registered under the Indian Companies Act (Section 25), 1956. This was mainly for the reason that majority of the NPIs are registered under the Societies Registration Act, 1860. Such organisations can be registered under a plethora of Acts such as the Societies’ Act, 1860, Indian Trust Act, 1882, Public Trust Act, 1950, Indian Companies Act, 1956 (Section 25), Religious Endowment Act,1863, The Charitable and Religious Trust Act, 1920, the Mussalman Wakf Act, 1923, the Wakf Act, 1954, and Public Wakfs (Extension of Limitation Act) Act, 1959, etc. (T, 2016)

MARKETING STRATEGIES
Marketing strategy in its most fundamental form is a method to sell products or services in a manner that delivers long-term profitable growth. It is a brand’s road map; it tells the brand where to go and the best route to get there. Great brands use strategy to deliver products and services that will have meaningful impact. Every brand decision stems from the marketing strategy, and is articulated at every touch point. It is important to build and protect strong brand equity. This can only be accomplished with a solid marketing strategy at the wheel, supported by consistent reinforcement of the brand’s message at every mile marker. Every customer-related activity is part of the branding process whether it is advertising and promotion, interactive media, sales materials, and presentations. The seamless communication and coordination of all marketing elements is the secret to creating a world class brand.

In the Indian context, marketing is believed to be a corporate’s job. With non-governmental organization’s roots originating from an era of serving society voluntarily, it is highly unlikely for these organizations to compare itself with a large corporation. But what needs to be understood by these NGOs is that to achieve however moral objectives, raising money will gain a momentum with creating a presence in the global or national arena. Being the “third sector” of the society, NGOs have huge responsibilities on their shoulder. Despite the good cause NGOs work for, there is a stranglehold of the government or state on their functions, especially their finances. This is to ensure that the funds are actually being used for the genuine purposes. Even the donors keep an eye on the usage of funds. Thus spending on functions like “marketing”, “communication” is seldom considered in line with the “objectives” of an NGO, considering the opportunity costs. But the mere fact that the NGOs also work in a market makes it evident that they also are subjected to the same market related factors as other organizations. To sustain their NGOs, Non-profits need to build linkages and network with their prospective donors. Not having a structured and well defined marketing department is also a result of a failed leadership or lack of vision. It has never been about doing only good; it is even about narrating stories about the same. Leaders without commitment or vision are sure to be unable to grow their NGO or sustain them to achieve their goals effectively. Having 3 to 4 million organizations has no zero value unless operating effectively. To be able to meet the needs of hundreds of people, fundraising become one of the primary project of organizations. Without regular funding, the NGO is sure to die or operate in extremely bad conditions. Marketing is a good thing to do but niche marketing is the right thing to do. To be able to recognize your potential donors who can or are willing to align with your organizations goal becomes essential. Placing yourself strategically is necessary for growth and effectiveness. None of this can be achieved without a visionary leader. Many NGOs in India begin their journey with high hopes but fade with time. Even the marketing strategy adopted could be really old and ineffective.
TEACH FOR INDIA (TFI)

TFI is a non-profit organization striving to end the problem of educational inequality in India and provide an excellent education to all children. With India having about 2.27 million children out of schools and only 10 percent reaching college, the education crisis in the nation is alarming. The organization is primarily a youth centric organization and chooses fellows for a two year fellowship post undergrad or other working professionals. The fellows work across 209 schools in seven cities of India – Mumbai, Pune, New Delhi, Ahmedabad, Chennai, Bengaluru and Hyderabad reaching approximately 353 schools (2016) and 39587 Kids (2016). The organization has been established since 2009 and has grown tremendously since then. Unlike U.S where Teach for America operates, the fellows at TFI are not paid in any form by the government or the school they work in. Thus the organization needs continuous pumping of funds to keep it functioning.

On marketing and growing, TFI is one of those NGOs in India which attempts to have a global presence. With working in seven big cities of India, the organization holds a larger presence in the nation. The recruitments are targeted- being a youth-centric organization, the awareness workshops are usually made in university for their prospective volunteers and fellows. Going digital is one of the highly praised strategy of Teach for India. According to a report by Telecom regulatory authority of India (TRAI), India has 36.74 (367.48 million) internet subscribers in September 2016. With most of its youth being active on social media, TFI uses digital marketing quite effectively. Sponsoring ads, spreading stories through videos and targeting the youth in order to convert them to fellows of the organization, TFI is essentially on the right tracks. Teach for India fellowship is highly sought for recent graduates due to its tempting post-fellowship narrative. Showing a bright picture to undergrads in their workshops, TFI promises to build a good networking space for everyone. They highly narrate this saying, „In addition to direct impact on our children, Teach For India‟s long-term theory is to develop leaders who will continue fighting towards educational equity. The impact of the Fellowship on developing Fellows is measured through their growth on the three commitments of Personal Transformation, Collective Action, and the Commitment to Educational Equity.‟ Further, each commitment is well designed in forms of videos. For non-governmental organization it becomes essential to understand who their audience is. Their audience for fundraising and fellows/volunteers will certainly differ. Teach for India understands the difference between the two well and thus is successful in establishing a national presence.

Like Teach For India, not all NGOs are able to market themselves. They usually rely on marketing through brochures and newspapers instead of going digital. To be able to market or reach out to a wider audience, there is a requirement of committed and digitally savvy team with a continuous pumping of funds. The challenges faced by NGOs in India widely vary from politics to lack of volunteers.
Recommendations

Following are a few recommendations that came up after observation method applied in NGOs like Teach for India and Make a Difference. This is an earnest attempt to help the NGOs fill up the gaps so that they can market their cause in a much more effective way. (Marketing Strategies used by NGOs, 2006)

The recommendations are as follows-

1. Maintaining database

Maintaining database of volunteers will help the NGOs to keep a track of their volunteers. Assigning duties becomes easy and so does fundraising. With volunteers from different backgrounds, it becomes easier to pitch the ideas to their professional organizations through them. To integrate the volunteers and make the organization feel like a family - which again is necessary especially in a volunteer sector, having a pre-recorded database always comes handy.

2. Tie-Up with the Academic Institutes

With most of the NGOs running with a youth-centric human resource, it is important to be present where the youth is. Tie-up with academic institutes helps spread awareness to a larger group of targeted audience.

- Organizing lectures, seminars, workshops and presentations regarding the various social issues for the students. This would sensitize the students and hence help the students in understanding the cause of the NGOs.
- Advertising in their Annual functions. This would give the NGOs the visibility that they want (Putting up banners and stalls, distributing brochures and leaflets).
- Conducting regular presentations regarding their objectives and cause to all the students and other stakeholders. This would help the NGOs reach the masses on a wider scale.
- Rewarding the students by giving certificates to them and appreciating their contribution.
- Most the NGOs” do not have website. For solving this problem the NGOs could tie up with academic institutes specially the technical ones which can help them design a good website.

3. Corporate

With Corporate social responsibility becoming essential, the corporates are more aware about their responsibility towards the society. Thus working with a mutual beneficial approach, NGOs can get capable and potential fund from the corporates.

- The corporate could work in tandem with a particular NGO and help them carry out all their activities in a better and organized way.
- The corporate could purchase all the items made by the NGOs and sell them during their cultural events. This would help the NGO get more funds and can be done on a quarterly basis.
Some distinct ways to market the cause:

The NGOs could also look at these ways to market their cause

• Road Shows and Street Plays can be organized on regular intervals to make the masses aware of their cause. This gives them more visibility as well volunteers. These plays can be conducted at different malls or public places.

• NGOs can tie up with most of the housing societies which can lend them their extra space to conduct events. This helps them target housewives who can lend the NGO a helping hand during their free time.

• Creating a distinctive logo and mission of the NGO. This could then be printed on t-shirts. This helps them reach people and leaves an impact on people’s mind.

• Tying up with Newspaper agencies for distributing pamphlets along with newspapers. This will again help them reach the masses and get help in form of volunteers.

• Using the audio-visual medium to propagate their cause. The audio-visual medium could be the radio or cinema houses.

• Motivating the youth to join hands with the NGOs by urging the NGOs to tie-up with the youth wings of different clubs (like the Rotract club Youth wing). This would help the NGOs to get the young blood and get newer and fresher perspectives.

• From the analysis we see that most of the NGO’s don’t have a celebrity associated with them. The celebrity could be of help to the NGO’s in raising funds for its marketing purpose.

Conclusion

In a nation as populated as India, it becomes immensely necessary for non-governmental organizations to take up roles and effectively fulfill them. Commercial marketing and non-commercial marketing have a lot in common but at the same time they have some essential distinctions, which depend on type, mission and goals of an organisation. Marketing a nonprofit organization takes the need for being innovative and strategic in identifying ways and avenues to market it. It is also important for NGOs to not only satisfy their target group but also the donor’s needs. The findings of the participation show that most of the NGOs depend on the traditional methods to market themselves. NGOs must learn to devise newer and better ways to market themselves, like associating with Academic Institutes and using the potential of students as volunteers. To gain better outcomes, newer methods are needed to be implemented. A lot of research in this area has to be conducted in order to gain wider perspective. Lifting people and helping them sustain is a duty that government organization and non-governmental organization have to fulfill together. Works Cited


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Government Spending Multiplier and Economic Growth in Georgia

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Abstract

The history of economic thought highlight the facts that in many countries during the period of economic recession including 2008 financial crisis, government often applying to fiscal policy for changing macroeconomic process in countries. Furthermore, in last financial crisis, many developed or developing country’s government implement different economic growth stimulation packages which mainly dedicated on increasing government spending than cutting the taxes. To capture the big-picture effect of government spending on economic growth is important to analyze government spending multiplier.

Role of government spending multiplier as a macroeconomic phenomenon was evaluated by John Maynard Keynes. Keynes argued, in the “General Theory of Employment, Interest, and Money” (1936) that in order to get out of recessions and have any chance for long-term economic growth, the government must take an active role in encouraging aggregate demand by increasing government spending or decreasing taxes. The effect of a government spending multiplier of real economic growth is the main watershed between economic schools.

Georgian as a small open and developing countries made significant changes in fiscal policy, decreased the quantity of taxes from 21 to 6, increased efficient administrative procedures for allocating taxes and made changes in relevant laws. As a result of those reforms according to the world bank date in 2002 tax revenue (% of GDP) of Georgia was equal to 7.6% and 23.8% in 2015, government expenditure compare to 2002 yea in 2015 doubled and reached 29% share of GDP. In recent years Georgia have attempted to manage aggregate demand by boosting government spending than cutting taxes.

Preset study aims to review literature and define the factors that has negative/positive effect of government spending multiplier, measure the size of the government spending component shocks on real economic growth through evaluation multiplier in case of Georgia based on quietly dates of 2002-2016 years, within a structural VAR framework idea develop by Blanchard and Perotti (2002).

Preliminary results of research are as followings:

– impulse response analysis shows positive shock of government consumption on real economic growth in the third quarter, in case of government transfers in the second quarter, same situation is the
case on the percent and grants, the results are different when we analyze other expenditure of government, which has a negative effect on growth in all time schedules;

– cumulative coefficients of multiplier calculated by one year show that government consumption, transfers and grants have positive shocks to real economic growth, the precepts and other expenditure of government has negative shocks;

– elasticity coefficient of government consumptions is higher than the others;

– fourth lag is statistical significant;

– causality between government expenditure component and economic growth is existing;

– In a variation of GDP important factor is self-variation of GDP than contribution of other factors.

**Keywords:** Government spending multipliers; VAR, Georgia.
Sustaining High Economic Growth Rate: Channeling Domestic Savings Through Financial Inclusion

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As the global economy passes through a period of meagre growth it looks to India as a positive spot. With China slowing down, the Indian economy is the fastest growing economy in the world. However, even the Indian economy has its task cut out if it is to sustain the high rate of growth. One of the essential components of sustaining high growth rate is to ensure high amount investment into the economy. Though the Indian economy commands a lion’s share of global foreign direct investment, the amount pales in comparison to the estimated investment needed to fuel its growth. Domestic investment from the public & private sector has to make up for the rest in tandem with inflow from the government. Though India has one of the highest domestic saving’s rate; it does not contribute efficiently towards the development of the Indian economy. After reaching its all time high in 2008, the saving’s rate is dropping. This is a cause for worry as this correlates with a drop in investment. Another challenge that is faced by the Indian economy is on the financial inclusion front- till recently about half of the Indian population did not have a bank account. Financial inclusion is a must if domestic savings are to contribute effectively to the development of the entire economy.

This paper aims to explore trends in India’s savings rate for different sector and relate it with investment and economic growth rate. It also explores the recent government policies and schemes like Pradhan Mantri Jan Dhan Joyja (PMJDY) and with setting up the Post office savings Bank to promote financial inclusiveness; with a heightened focus on the rural area. The current composition of investments that are predominately preferred by households has been studied. The paper concludes with suggestions that will help effectively channel household savings into the Indian economy. The perceived effects of these measures on income and wealth creation will also be discussed.

Key Words: Economic Growth Rate, Savings rate, Domestic Investment, Financial Inclusion
An Empirical Study on the Factors Influencing the Customer’s Adoption of Online Banking in Saudi Arabia

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Abstract

The development of E-Commerce has led to the development of online banking. In Saudi, Online banking has become one of the integral parts of banking sectors. The number of online banking users is increasing all over the world without exception the number of online banking users is also increasing in Saudi Arabia. The increased usage of online banking is influenced by the retail banking customer acceptance and adaptation of banking. There are few researches has been done on the customer adaptation of online banking in Saudi Arabia. This paper investigates the factors influencing the customer adaptation of online banking in Saudi Arabia. Literature reviews have found that perceived usefulness, perceived ease of use and perceived credibility of online banking are the important factors which can influence the adaption of online banking.

The empirical study was conducted using a survey questionnaire distributed to 120 banking users inside the Kingdom of Saudi Arabia. The data was analyzed using the SPSS software. The results shows that perceived usefulness, perceived ease of use and perceived credibility of online banking are positively related with adaptation of online banking in Saudi Arabia. The factors are highly influencing the customer’s adaptation towards online banking.
Keywords: E-commerce, online banking, perceived usefulness, perceived ease of use, perceived credibility, and SPSS.
Climate Change: Global Regime or National Interests?

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Abstract

International relations has evolved over a period of time to incorporate aspects of various disciplines today. In the contemporary world, climate change is the poster child of global diplomacy. Somewhere amidst the anarchic view of international system lacking the supreme authority, the idea of international system itself being a part of the wider structure of earth’s biosphere is disregarded. With increase in the urge of nation-states to compete and thrive in the dynamic global arena, the question of environmental security is greatly debated upon. This paper is an exploration of the broader relationship between environmental changes and international system. International relations between nations are driven by their national interests. But what happens when the national interests collide with global regime? This paper aims to study this conflict in depths and come up with conclusions for the same. When the question of climate change arises, the concept of territoriality blurs.

Environmental degradation in any part of the world is bound to affect the globe as a whole. So who decides, which environmental issue is important and which is not? Historical emissions from industrial countries are merging with today’s rapidly growing emissions from the developing countries. Yet, the developed nations still contribute greatly to the acceleration of environmental degradation.

Climate change is global in both its effect and cause dimensions. Considering climate change is really a collective issue, there is an unspoken obligation for addressing the root causes through international cooperation.

Then why has the responsibility of environmental security taken care of superficially? The paper aims to perform a secondary research to answer the questions asked above in the abstract and further explore the roles of international organizations like- United Nations Environment Programme (UNEP), World Nature Organizations (WNO) and Global Environment Facility (GEF) in binding the global community as a single
unit when the environment is in question. For nation-states to function in a stable environment, a balance between their national interests and climate change is necessary to be established.

**Key Words**

1. International Organizations
2. Developed nations
3. Anarchic international system views
4. Conflict