



Organization of State Regulation on Export-Oriented Producers and Support for them

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1. Introduction

Despite its economic growth, Russia still faces a problem of its low quality. It is known that the solution of the above-mentioned problem is connected with the processes of regulation and support for entrepreneurial activity in general, and the exports of industrial goods in particular. The main functions performed by central and local authorities, and groups of methods used in their work are presented in Figure 1. They are the same as in any national economy. But their implementation in Russia is different from how it is going on abroad.

2. Foreign Experience of Organizing Entrepreneurial Activity in Exports of Industrial Goods

Our study of experiences of the highly developed foreign countries (Lyskova and Razumovskaia, p.35-43) allowed the authors of this paper to make two important conclusions. The first conclusion is that the development of export-oriented production should be connected with the implementation of the long-term export or socio-economic strategy. In this sector small- and medium-sized businesses should be involved in cooperation with large commercial organizations. The second conclusion is that the achievement of established goals should be provided through an extensive institutional framework. The introduction of an extensive institutional framework is to develop and implement four groups of activities. The first group is

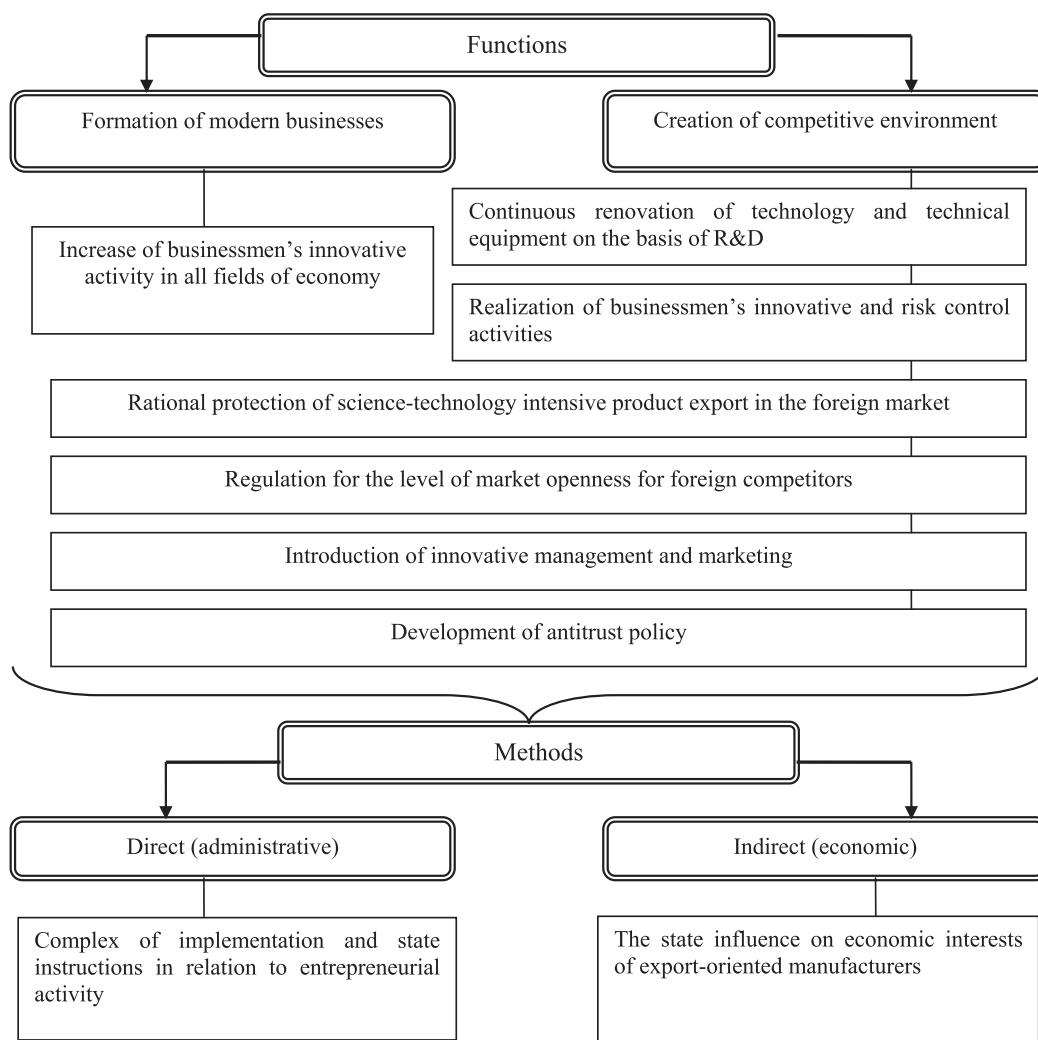
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established by the law and will be *activities* further in the article. The second group provides producers with the access to the external market and functioning of such governmental organizations which regulate export of goods will be called *legal*. Such activities will be further called *organizational*. The third group is connected with the financial support for state programs on the development of export of goods and compensation of costs. Such activities will be referred to as *financial and economic*. The forth group of measures determines consulting and informative support of export from the government, private and public enterprises. They will be called *informational activities*.

Figure 1 Key components of government control of entrepreneurial activity



The research revealed that in many countries there is the following hierarchy of regulatory institutions and business support for export of goods:

- Government departments engaged in expanding international economic cooperation and playing a key role in coordinating the export regulation and support;
- Financial institutions (public and private) dealing with export finance, export credit insurance, and investment abroad;
- Created at the state level associations and councils of national exporters that have become an interface between the government and business;
- Regional state and non-state structures, including chambers of commerce and businessmen's associations.

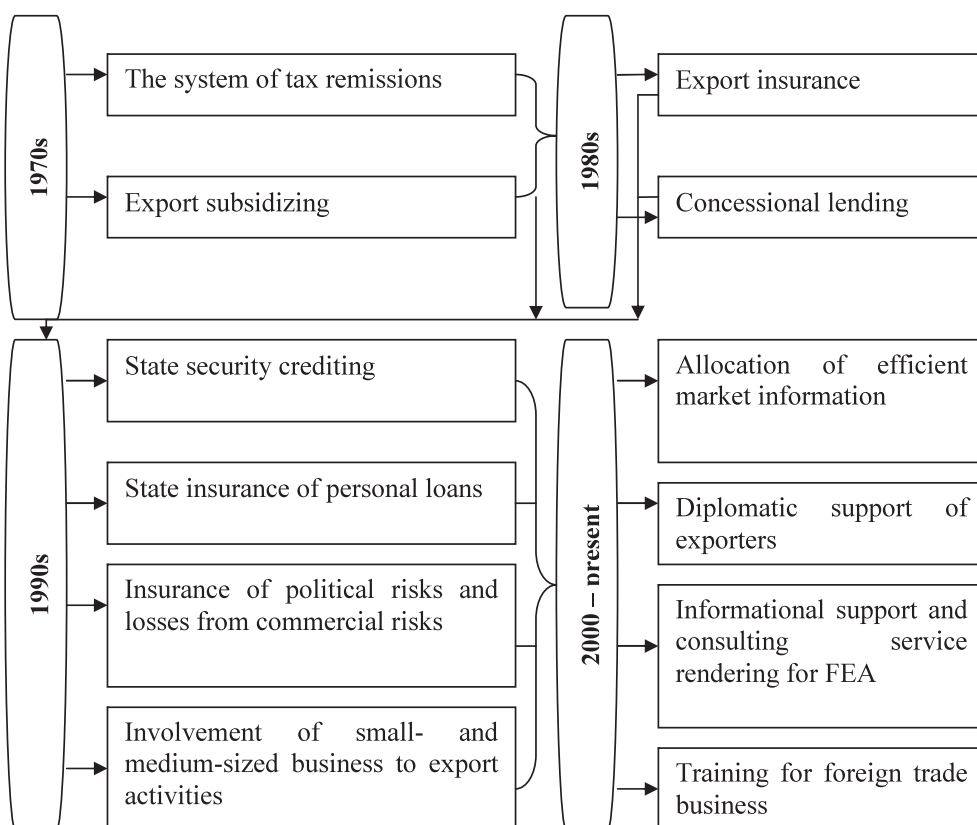
All kinds of measures used in the process of management and business support in export of goods may be divided into two groups (Kozbanenko, p.464). One of them is a general set of measures. Taking into account its application field it includes:

- Economic measures (duties [export, antidumping, special, and compensatory] and subsidies, excise duties and taxes, etc.);
- Administrative measures (prohibitions [overt and covert], licensing, quotas and export control);
- Technical measures (inspections of imported goods against national safety and quality standards, as well as technical properties of consumer goods crossing the border, etc.).

The other group consists of special measures. The development history of special measures taken in Russian economy for over thirty years is shown in Figure 2. So, the 1970s were characterized by the pervasive use of measures such as subsidies, tax remissions and tax reduction. But after the adoption of the Agreement on Subsidies and Countervailing Measures in the network of World Trade Organization the common rules for their use have been established. The agreement also introduced the concept of legal and illegal subsidies. The following two types of financial support for producers were assigned:

- Subsidies were stipulated not by actual export performance, but by expected export revenues;
- Subsidies were granted in order to substitute imported goods for domestic ones.

In the 1980s the existing instrumentation of state export crediting has been extended by the introduction of public insurance of private loans. Loan guarantees, which were intended for foreign importers to buy domestic products, were given by the national bank.

Figure 2 The development of special measures for business activity in export of goods

Source: Lyskova and Razumovskaia, (2008), p.18

A characteristic feature of the early 1990s has been the promotion of exports carried out by small-sized businesses. It is known to play a significant role in the economy of the U.S., the Republic of Korea, China and several EU countries (Lyskova and Razumovskaia, (2008), p.39-42). All these countries have focused on the improvement of the competitiveness of industrial products. In this regard, they strengthened economic diplomacy, information, consulting and other services provision to exporters of industrial products.

Of course, the state also used various financial measures. Over time, financial support has increasingly become a competence of specialized commercial organizations.

At the beginning of the 21st century in foreign countries the efforts of central and local authorities have been focused on reform of the system of innovation support and on acceleration of the commercialization of R&D outcomes. In the 21st century various financial, consulting, and informational supports were provided by private and public organizations, universities and research institutions.

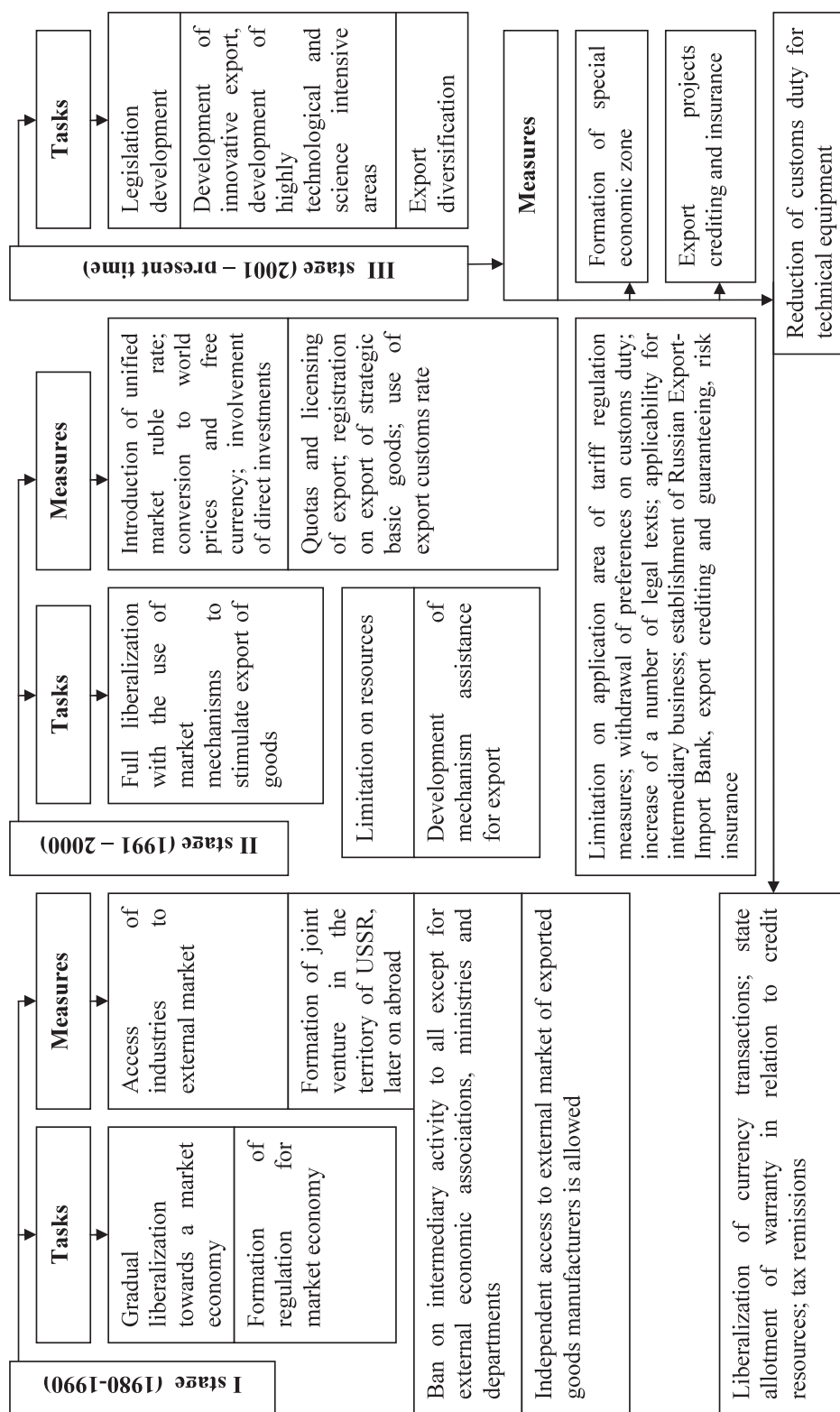
3. Russian experience of business organization in export of industrial goods

In Russia many legal documents on government control and business support in export of goods have been developed. The study of the extensive legislative base allowed differentiation of the following three implementation periods (Fig.3).

The first period was the 1980s. It can be considered as a starting point for the formation and development of a qualitatively new theory and methodology for the market organization on exporting goods. In fact, the development of the industrial production in this period should have been done with a minimum role of the state. In this case, the possibility to develop export-oriented businesses was indicated.

The second period was the 1990s. Russia adopted regulations such as the legal framework for a long-term national export strategy. When foreign trade was organized, general instrument was used. During this period the most productive activity for entrepreneurs was the export of raw materials and semi-finished products. The main regulatory role was non-tariff regulation (quotas and licensing of export deliveries, the registration regime as to exporters of strategically important commodities, etc.). Certain steps were taken to introduce such financial measures as the provision of state credits and guarantees, state participation in export credit insurance and in financing of the most efficient investment projects, amounting to 50% of project cost. But in practice, entrepreneurs did not use the measures listed above. This was most likely because budget allocations were not anticipated for such expenses.

Figure 3 Stages of organization of business activities in export of Russian goods



Source: Lyskova and Razumovskaia, (2008), p.26

Since the turn of the 21st century, the third phase has been continuing. Compared with the second phase, the focus was on the increasing role of the state in exporting high-tech products (secondary industries). The government of Russia has taken steps towards the development of major trends in financial support of export industries. In 2003, the concept of public finance (guarantee) support of industrial goods export was approved and was implemented in 2005.

Table 1 shows a set of special activities and regulatory methods and business activity support for export of Russian-made goods. These activities, methods and support were divided into four groups: organizational; legal; financial and economic; and informational.

The following should be noted. The Russian Federation, in contrast to many countries around the world, has essentially decreased the role of economic and financial methods. In the Russian context the amount of financial support has been less than 1% of the expenditure items of expenses. Methods of financial support were not actually available for small- and medium-sized business. In experts' opinion the main reason was the need for credit receiving (Lyskova and Razumovskaia, (2008), p.28-30).

Tax regulation was the most important method for implementation of financial and economic activities of the organization of entrepreneurial activity for export of industrial goods, especially highly processed goods was determined by the tax regulation. In this context, the rate of value added tax (VAT) and its administration still remains the topic for discussion. It is known that the VAT is one of the main taxes on those economic activities that create products with high added value and a high degree of processing of raw materials. In Japan, the VAT rate is 5%, in the UK - 17.5%, Canada - 7% and 15%, Germany - 16%. In Russia, its level is higher, which has a negative affect on investment activity of a business, hinders the technological modernization of the production and leads to an increase of illegal VAT refunds from the state budget (www.expert.ru). "Tax holidays" are an important measure in Russia that is applied only to Special Economic Zones (SEZ) - Industrial Production Zones (IPZ), Technical Innovational Zones (TIZ) and Tourist Recreation Zones (TRZ) (Fig.4) (*The Federal Law on Special Economic Zones of the RF*).

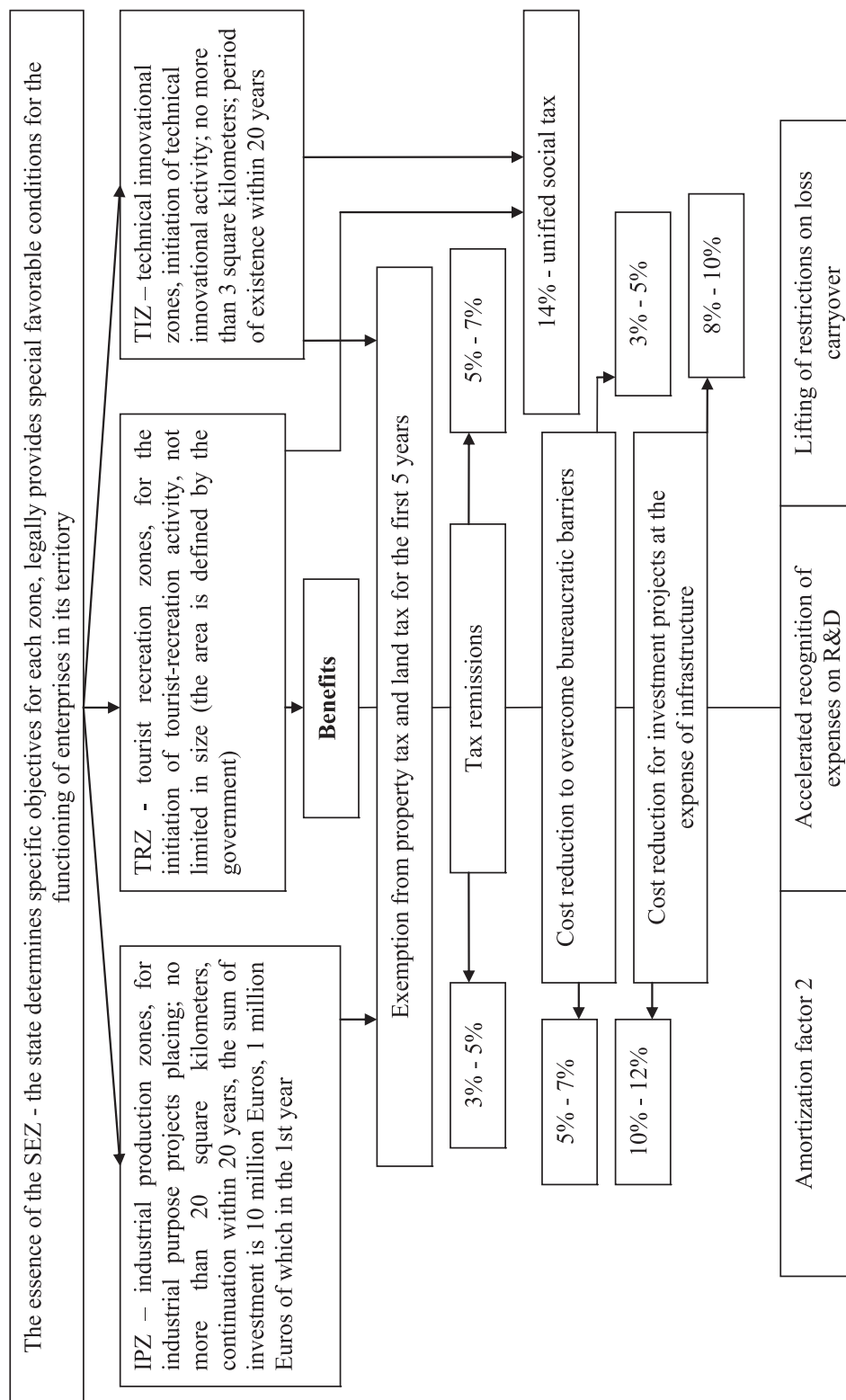
Table 1 Special state support to entrepreneurial activity in export of Russian goods

Legal activities	Financial and economic activities
The solution of procedural issues in the area of fiscal regulation	Tax remissions
Reduction of goods which export is subject to licensing, simplification of permitting documents preparation	State warranty support
Simplification of customs procedures	Reimbursement of interest rates on export credits
Reduction/exemption of import duties on some goods and technical equipment which is not produced in Russia for a number of branches of industry	Reimbursement of costs for implementing the mandatory requirements of Russian legislation and/or exporting country (certification ISO 9000, participation in exhibitions and fairs)
Conclusion of international treaties to ensure favorable conditions for access of Russian goods to the markets of foreign countries	
Organizational activities	Informational activities
Methodological and expert assistance to producers in identifying trade barriers, including measures of trade protection	Presentations of products abroad in competitions and international exhibitions and fairs
Prevention from the establishment of unjustified trade barriers, including a review of existing anti-dumping measures and the elimination of trade barriers by trading partners of Russia	Functioning of the Internet portal - an information search system of general use "Export capabilities of Russia" provides the information about the foreign markets opportunities, offers and requests of foreign companies; legislation in other countries; international tenders, exhibitions, fairs
Protection of Russian trade interests in negotiations with trading partners, both bilaterally and multilaterally	
Political and diplomatic support for external market entry of Russian entrepreneurs. Activities of bilateral intergovernmental commissions on trade, economic and scientific-technical cooperation with foreign countries	Catalog "Russian exports: production and technologies" - information about products, technological developments and services of domestic enterprises in various sectors of Russian economy
	Information system of trade offices in the Russian Federation, which contains various information on foreign countries, was put into trial operation

Source: Lyskova and Razumovskaia, (2008), p.23

Export-oriented manufacturing is promoted in special zone. In the Russian legislation, however, export activity is not considered as a priority. It is mentioned only in articles that define the customs free zone and the regime of processing on the customs territory of the Russian Federation.

Figure 4 Objectives and conditions for special economic zones functioning in the RF



Source: Lyskova and Razumovskaia, (2008), p.31

In developed countries, specialized research centers, – in both public and private entities, are engaged in the analysis of barriers for foreign economic activity and development of activities for the elimination of these barriers. In Russia, the issues of initiating anti-dumping investigations, liberalization of the conditions for the access of Russian goods to foreign markets and resistance to discriminatory measures are considered exclusively by the Ministry of Economic Development and Trade of the Russian Federation. The solution of this problem is the competence of neither trade representatives of the Russian Federation abroad nor the Chamber of Commerce and Industry and other non-governmental agencies involved in assistance of export-oriented entrepreneurs. And still complicated customs clearance procedures, and unfavorable regime of Customs services lead to the increase of Russian export production price.

In Russia, the information base of support to exporter-producers is in the process of formation. A significant amount of Internet resources is being created. The most interesting one among them in terms of volume and value of information can be called the web-site “Export capabilities of Russia”, and the web-sites of Chambers of Commerce and Industry of the Russian Federation and regions. In general, the main disadvantage of Russian Internet resources is a small amount of posted information and its general character, and its rare updating.

In general, according to some experts an integrated multi-level system of measures in Russia has not been developed yet. Federal authorities support primarily large organizations facing the world market with large-scale projects or strategically important products. At the same time, the support for small- and medium-sized enterprises is the exclusive prerogative of the RF.

4. Special mechanism of entrepreneurial activity organization in export of industrial products (by the example of the Khabarovsk Territory)

The analysis of foreign and Russian practices about the government control and business support in export of goods using measures of general and special character has led to two main conclusions. First, the measures of general character is exclusively the competence of the top levels of state authority, and the development and use of special measures is the responsibility of all the levels of territorial administration, including regional and municipal ones. Secondly, the practical implementation of domestic economic policy is provided by a mechanism of organization of entrepreneurial activity in export of goods.

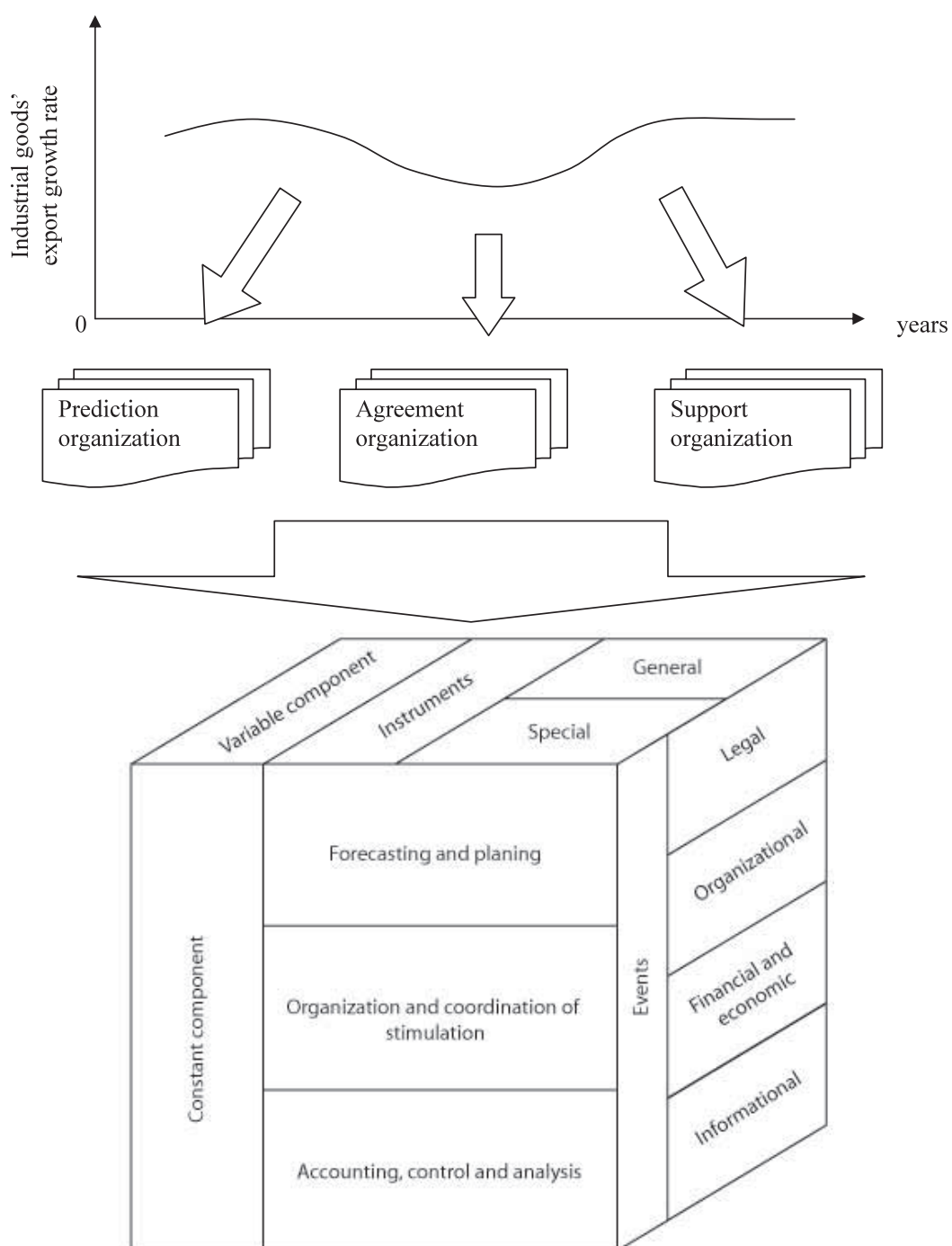
We see that the organization mechanism of entrepreneurial activity in export of goods is a set of necessary processes and conditions which is consciously chosen, ordered and used for the purpose of establishing relationships among business entities that are interested in export of goods. The essence of this mechanism is connected with the following processes:

- Identification of critical factors;
- Classification and accounting of destabilizing factors;
- Development and realization of measures and activities aimed at competitive recovery of industrial production, growth in its export volume and improvement of its structure.

We consider that the content of such a mechanism is determined by the processes of business results prediction in export of goods, and by their coordination and support. The presence of the above-mentioned processes is stipulated by a quite objective phenomenon such as cyclicity of economic development (Fig.5). We emphasize that the processes of prediction are designed to support the production and export of goods existing in industry, by preparing the conditions and prerequisites for their qualitative development in the future. When there is a decrease in export of industrial goods, the organization processes in exporting goods are connected with matching of demand constraints, which, in turn, defines a certain level of production capabilities usage. At the same time, the support processes should provide a stimulus at the beginning of the next development cycle of the two components of entrepreneurial activity-innovative and investment ones.

In the Khabarovsk Territory the development of program documents which are aimed at export promotion, was preceded by work on the division of powers and subjects of management between federal and regional authorities. It ended in the late 1990s. As shown in Figure 6, with the advent of the new century the development of a set of special activities has begun. All of them are listed in Table 2.

Figure 5 Organization mechanism of entrepreneurial activity in export of industrial products



Source: Lyskova and Razumovskaia, (2008), p.21

Figure 6 Organization process of entrepreneurial activity in exporting industrial products in the Khabarovsk Territory

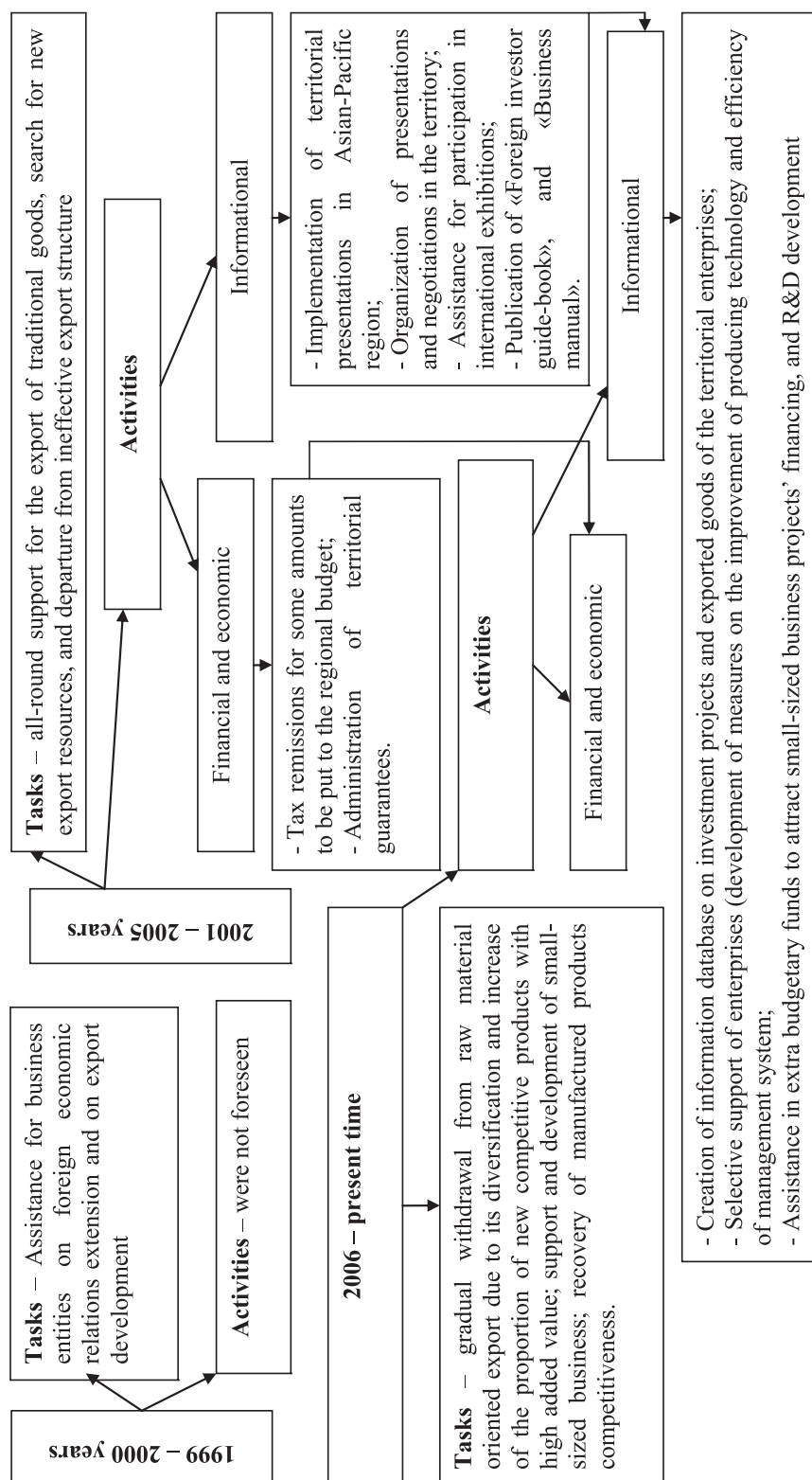


Table 2 Types of special measures of mechanism of organization of business activity in the export of goods of the Khabarovsk Territory

Legal activities	Financial and economic activities
Regulation of development priorities' selection order	Tax remissions for some amounts payable to the regional budget
Securing the support and development measures for industrial production and export	Providing state guarantees
	Co-financing small-sized business participation in exhibitions and fairs
	Activities aimed at industrial products' competitive recovery
Organizational activities	Informational activities
Political and diplomatic support for regional companies' entry to international market	Creation of multimedia information and brochures ("Exported goods of the Khabarovsk Territory", "Investment projects of the Khabarovsk Territory," and "Foreign investor's guide-book of the Khabarovsk Territory")
Strengthening of the ties with the official foreign representatives of foreign countries and the representatives of Russian business	
Presentations abroad by the Khabarovsk Territory administration	Preferential consulting support aimed at the development of projects on improvement of the technical level and product quality
The Khabarovsk Territory delegations' participation in international trade fairs	Updating the web-site, posting the information on exported goods of the territory, for foreign investment attraction in the Khabarovsk Territory
Organization of seminars on international issues in the region, with the participation of foreign specialists	

Source: Lyskova and Razumovskaia, (2008), p.63

As we know, economic activity is a result from entrepreneurial activities which are searching for acceptable variants of meeting the needs and using resources. And its development is influenced by the price ratio and the real location of production. We emphasize that entrepreneurs can show adaptive ability. It is associated with the search for the optimal sustainable state of economic relations. This is the first point. The second point is that entrepreneurs can show reconstructive capacity, which is determined by the search for a new state of economic relations. In this case, the capabilities of entrepreneurs, on the one hand, are determined by the content and dynamics of technological, organizational and economic interactions which generate local personality of irregular cyclical fluctuations of the investment growth for the improvement and fundamental innovations. On the other hand, there is an

objective internal mechanism for the development of business relations, which is based on the interaction of diverse credit and financial factors. Organizational models of such relations depend on the volume of the implemented investments and on entrepreneurs' assets.

5. The project-based approach in the organization of business activity in export of industrial goods (by the example of the Khabarovsk Territory)

Organization of business activity in export of industrial goods of the Khabarovsk Territory should be considered in the context of the Russian Far East. It is known that the region has been already partially involved in rapidly progressing processes of the international cooperation with three countries in Northeast Asia (NEA), such as Japan, China and South Korea. In the future, Russia must become a power base and a link in the territorial space between the NEA and the EU. This can be done during the so-called "incorporation" of the Russian Far East in the previously established inter-economic ties of the countries of the Asia Pacific region and Northeast Asia, namely, trade, financial, energy, transport and manufacturing. In the Far East the fuel and energy complex and natural-resource sectors are considered as economic base for this process (Minakir, (2007), p.69).

In connection with the above mentioned information, the deepening of export specialization in the Khabarovsk Territory can be achieved by improvement of the scientific and technological level of industrial production and by using innovations. It seems that the technological brokerage is one of the most productive ways to achieve the desirable results. This method is regarded as a unique combination of the already known factors of entrepreneurial activity (labor, capital, land) and new business ideas. And it allows people to get a new product on the current market, or to open a new market. In the course of its implementation the information resource, which acts as an independent economic factor, should be involved in economic activity.

In other words, the strategy of the technological brokerage is a unification between various markets and transfer of ideas from one area to another. It is implemented by separated elements of economic activity and their incorporations into new combinations. Practice shows that mostly the success is reached by those entrepreneurs, whose work is based on the theory of project management. Schematic diagram of the functioning business organization in export of goods on the basis of technological brokerage in the industry of the Khabarovsk Territory is shown in Fig.7.

We should pay special attention to the artificiality of the organizing technological brokerage. The most practical and effective method here, in our opinion, is the creation of

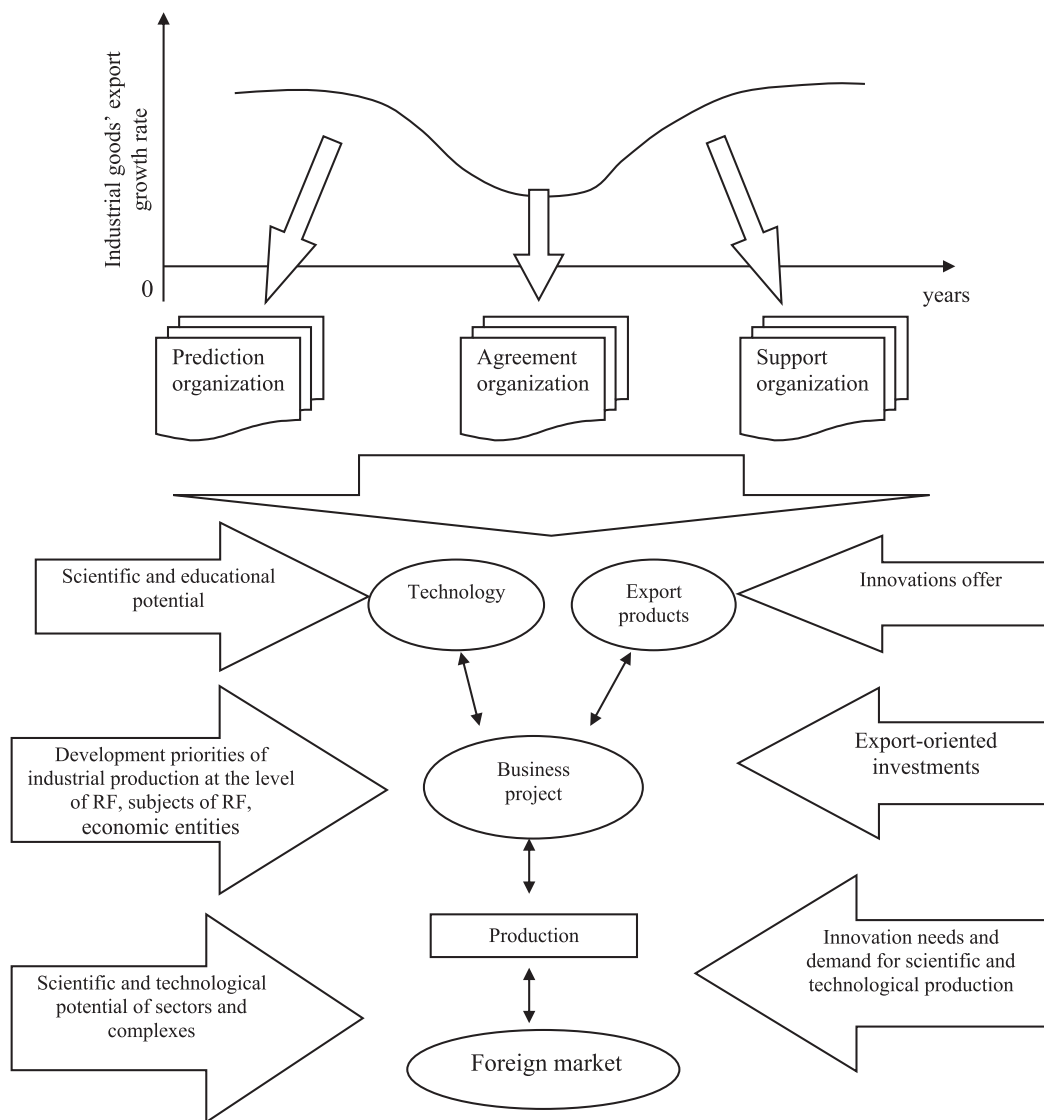
special economic zones. By some estimates, the creation of industrial-production zone in Komsomolsk-on-Amur city in the north of the Khabarovsk Territory will have positive outcomes (www.adm.khv.ru). Its functioning within 20 years can provide a return on investment (the ratio of net income to total investment) to 24% and the profitability of industrial production (the ratio of net income to revenue from product sales) to 12% and more.

According to the authors, while a regional organization of industrial production it is established, it is necessary to identify mutual interests of territorial administration and entrepreneurs in the development of exports; to select schemes of a rational combination of commercial and noncommercial use of limited resources; to create the conditions for the formation among economic entities of partnerships based on mutual civil responsibility. This should be done on the basis of the organizational project which determines one of the three processes: prediction of business results in export of goods, their coordination and maintenance. The organizational project on prediction of business results supports the production and export of goods in the Khabarovsk Territory and creates conditions for further development of entrepreneurial activity. While decline in export the process of demand and industrial production coordination is realized. And the process of maintenance should be the push at the beginning of the development of entrepreneurial activity in the Khabarovsk Territory.

The organizational project is represented as the set of measures for innovative and investment activity of manufacturers. The implementation of the measures depends on what administrative entities are engaged in the process of territorial organization of production.

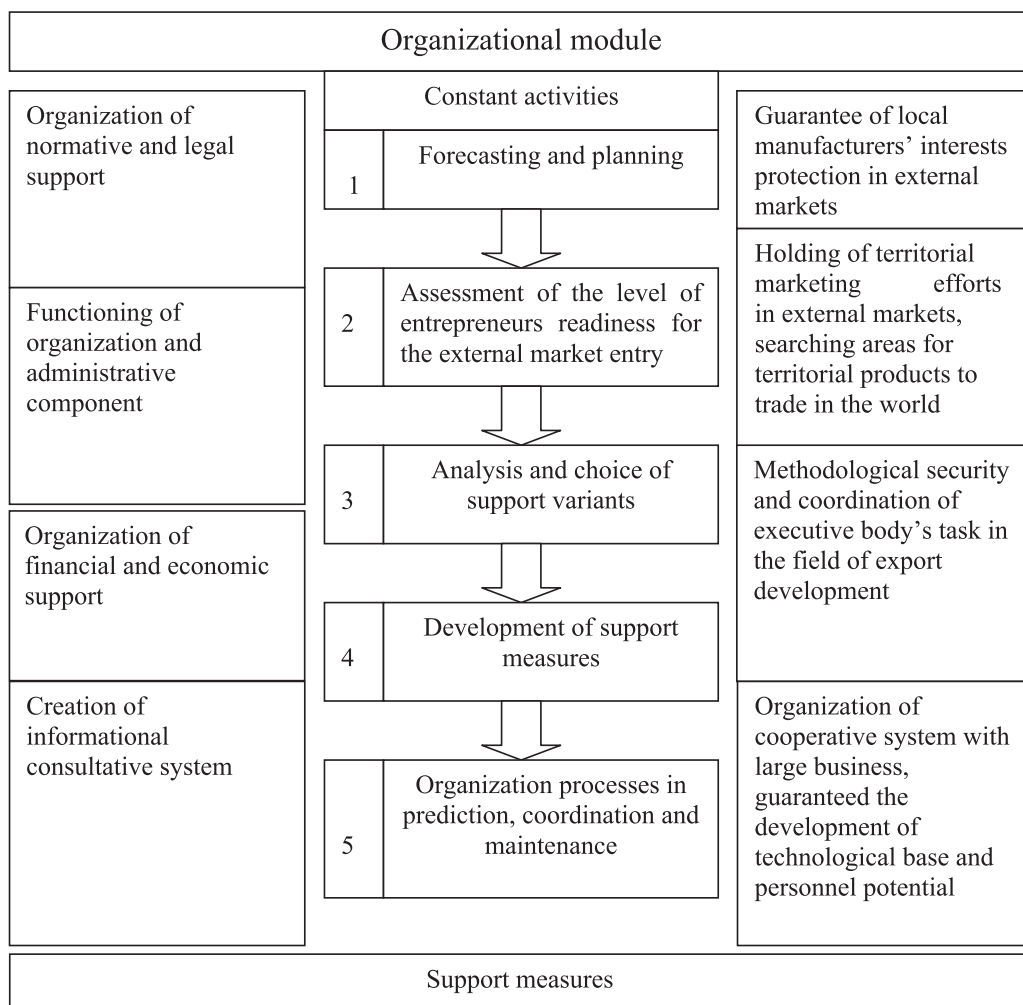
The variant of the organizational project adopted at the regional level, is implemented by means of the organizational module. Figure 8 illustrates the organizational project of maintenance. Other two processes of the organizational project also include a set of fixed and variable procedures of the mechanism of business activity organization. We emphasize that they all must be in mutual connection.

Figure 7 Schematic diagram of the functioning of the mechanism of business organization in exporting goods in the Khabarovsk Territory



Source: Lyskova and Razumovskaia, (2008), p.98

Figure 8 Organizational maintenance module of business activity in export of industrial goods



Source: Lyskova and Razumovskaia, (2008), p.102

The authors conducted a questionnaire survey of entrepreneurs to explore the actual situation of entrepreneurial activity in the Khabarovsk Territory. The sample contained large (the number of employees is from 500 to 1000 people), average (the number of employees is 100 – 500 people) and small manufacturers (the number of employees is from 5 to 100 people). They received the questionnaire which aimed to determine the level of entrepreneurs' awareness about the existing activities of industrial export development, proposed at the federal and regional levels. Over 60% respondents fully filled out in questionnaires.

The survey showed that only 29% of the total respondents are involved in export activity. 94% did not have complete information on available financial and economic instruments for the development of industrial products' export. None of the respondents participated in government programs of export financial support. Meanwhile, 53% of them believe that their products are quite competitive on a foreign market. According to the data, 41% of respondents are interested in receiving state guarantee support, 35% of respondents are interested in compensation of expenditure for products' certification and participation in exhibitions, and 30% are interested in co-financing new projects of industrial production development.

As the main factors restraining export of industrial goods, 41% of respondents cited a lack of information on international trade areas, 36% - outdated production capacity and lack of new technologies, 47% - noncompetitiveness of goods on a foreign market. Further development is required by the organization of business activities in export of industrial goods, which yield information and advise (exhibitions and fairs, potential partners, procedures of market entry, conditions of trade markets, proposals and intentions of business circles to establish contacts and develop specific projects, customs procedures, legal base in the area of trade and economic cooperation with Russia, customs duties, and foreign trade legislation). It is important not only to expand their list, but also to change the ways of implementation.

6. Conclusion

On the basis of the foreign and Russian experience the essence of the organization mechanism for business activities in export of goods has been clarified and its content has been revealed. This allowed us to substantiate the needs for focusing on the processes of providing an objective relationship for economic interests between the internal and external market by combination with private and public law regulation of economic relations.

Taking into account the historical path of Russia's economic development, the stages of government control and business support in exporting goods were specified. The set of general and special measures and activities, which is used in modern Russian practice, was systematized according to *nature of transactions* criterion. On this bases the mechanism of entrepreneurial activity in export of goods in the Khabarovsk territory was revealed.

In order to ensure rational inter-economic relations in the Khabarovsk Territory industry a method of business in export of products - a technological brokerage, was proposed. It involves the implementation of organizational projects by combining processes of regional organization and self-organization of market entities in terms of restructuring the economy.

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