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**Lobachevsky State University of Nizhni Novgorod  
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**REGIONAL ECONOMY AND POLICY**

**Tutorial Manual**

Recommended by the Methodical Commission of the Faculty of Foreign students for  
international students,  
studying in the B.Sc. programme “Economics”

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**МИНИСТЕРСТВО ОБРАЗОВАНИЯ И НАУКИ РОССИЙСКОЙ  
ФЕДЕРАЦИИ**

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## **РЕГИОНАЛЬНАЯ ЭКОНОМИКА**

**УЧЕБНО – МЕТОДИЧЕСКОЕ ПОСОБИЕ**

Рекомендовано методической комиссией факультета иностранных студентов  
для иностранных студентов,  
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Учебно– методическое пособие представлено в виде сжатого содержания курса лекций,, списка литературы по предмету «Региональная экономика» для иностранных студентов, обучающихся в ННГУ по направлению «Экономика» (бакалавриат).

В рамках пособия рассматривается развитие региональной экономики, основные элементы региональной экономической политики. Учащиеся должны понимать взаимодействие региональной экономической политики и экономической деятельности хозяйствующих субъектов на территории региона, а также перспективы и возможные результаты воздействия федеральных и региональных властей на экономику.

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## INTRODUCTION

The discipline focuses on regional aspects of economic development and policy.

The goal is a comprehensive study of socio-economic processes in the regional economy and the mechanisms of their management with the further use of the received knowledge in practice.

Tasks:

1. Awareness of the role of regional aspects and factors in socio-economic development,
2. Mastering the theoretical principles of regional economy and management of the region, methods of regional studies, instruments of regional economic policy
3. Acquaintance with the basic functioning of regional economy and management of a region,
4. Study of the mechanisms on the basis of which the specific tasks of the regional policy are formed,
5. Assimilation of modern problems of regional development and regional economic policy
6. Acquaintance with the international experience of regional studies and regional policy.

The main topics discussed are: regional income and expenses, regional growth and development, regional government, special economic zones in regional economy, interregional migration, labor force exchange and labor market in regional economy, investments and innovations in a region, regional policy and its instruments, regional problems in different economies. Students examine regional economy and policy in different parts of the world to discover peculiarities of regional development.

This subject requires preliminary study of the follows subjects: History, Mathematics, Computer Science, Microeconomics, Macroeconomics, Statistics, Finance, Management, Marketing, International Economy, Economy of the Firm, Economic Policy, and Economics of the Public Sector. This course will be useful when studying Contemporary International Economic Relations, International Commercial Operations Organization in Russia, International Finance, Investment, Financial Strategy, and Doing Business in Russia.

## TOPIC 1. THE INTRODUCTION TO REGIONAL ECONOMY AND POLICY

*Questions for the lectures and the seminars:*

*Regional economy: definition, objects and aims of. Historical development of regional economy. Types of states: federal state and unitary state. Methods in regional economy. Links of regional economy and policy with the other economic sciences. Regional economic agents and their economic relations. Types of regions in the world economy. Local regions, transnational regions. Regions in the Russian Federation. Federal districts in Russia. The European Union, BRICS, NAFTA etc. Regional economics: The input –output method, the Keynesian approach, the neoclassical growth model, theories of interregional trade and migration. Natural resources and regional production possibilities.*

Regional economy is a scientific school and an academic discipline.

Regional Economy examines the regional economic processes, the prerequisites for economic development of the region (e.g. geographical location, natural resources, demographic, production capacity), production structure, social sphere and living conditions, the system of settlement and allocation of facilities, regional management, etc. It familiarizes with laws, factors, characteristics and methods used in the economy of region intended to develop regional policy. Along with the elements and mechanisms of the internal structure of the regional economy, the economic relations of the region with other regions of the country and other countries should be studied.

Thanks to interregional economic relations, regional systems are formed, so the economy of each region becomes a part of one or more regional systems. Therefore, the regional economy includes the study of the regional economic system.

The aim of the course is to study the complex structure of the regional economy, the most important organizational and economic mechanisms of the region such as taxes, transfers, credits, investments etc. The purpose of the regional economy is to achieve the sustainable growth in living standards, in the sphere of production, in the market of goods and services, etc.

Regional economy uses a lot of basic information represented in different economic sciences (table 1)

Table 1

Basic information of economic sciences used in the course of regional economy

Science	Information
General economic theory (Economics, micro - and macroeconomics)	Economic laws and categories
Economic geography	division of labour force, natural resources and economic potential; branches of economy
Economic management (General and special management)	Scientific bases of production management, state regulation of the market, methods of management, principles and methods of development of macro - and microeconomic forecasts, balance sheets, etc.
Branch of economy (industrial Economics, agricultural Economics and others)	scientific-technical progress, raw materials, energy, manufacturing process, technical and economic indicators and other
Finance	Principles of generation and distribution of money in the territorial aspect
Economic statistics	System and methods of calculation of statistical indicators
Econometrics and informatics	Methods of economic-mathematical modeling

***Region: definition and types***

The word region has the Latin origin (from the root regio), meaning country, territory, area. The region is a defined territory. It's different from other areas on the basis of the following grounds, such as natural resources, population, production, infrastructure etc. At the same time it has certain integrity and interdependence of the constituent elements.

The region is not only a subsystem of social and economic complex of the country, but it's also a relatively independent part of it. It has specific peculiarities of social and economic processes.

International Economy considers the regions, which are independent nation. Regions, examined by the regional economy, are parts of the state working in the framework of the common economic space.

Economic space is an area, containing a set of objects and relationships between them, such as settlements, industrial plants, cultivated and recreational areas, transport and engineering networks, etc.

The necessary attributes of the common economic space are the general economic legislation, the unified monetary system, the common customs territory and the united infrastructure (e.g. power grid, transport system, communications etc.).

Legal entities interacting within the regional economy limits do not face any trade barriers, they enjoy the same monetary units, and they are within the common legal and institutional framework.

Currently, the Russian Federation includes 22 republics, 9 territories (Kray), 46 regions (oblast), 3 federal cities, 1 autonomous region (autonomous oblast), 4 autonomous district.

Besides Russian regions are grouped into:

1. 9 Federal districts;
2. 11 economic regions (rayon);
3. 4 military district;
4. 9 time zones.

### ***Federal districts in the Russian Federation***

In 2000, seven federal districts were formed in the country. The North-Caucasian Federal district was separated from the Southern Federal district by the decree of the President of Russia in 2010. The Crimean Federal district was established by the decree of the President in 2014. The table shows the main characteristics of all federal districts (table 2).

A plenipotentiary representative of the President was appointed in every district. The main functions of a plenipotentiary representative are ensuring harmonization of interests of the federal and regional levels and coordination of activities of Federal Executive bodies in the district; organization of interaction with the authorities of the region and local governments (municipalities), political parties, other public and religious associations; participation in regional development programs' implementation, etc.

Table 2

Federal Districts of Russia



<b>№</b>	<b>District</b>	<b>Area (km)</b>	<b>Population</b>	<b>Regions</b>	<b>Capital</b>
1	The Central Federal district	652,800	38 819 874	18	Moscow
2	The Southern Federal district	416,840	13 963 874	6	Rostov-na-Don
3	The North-Western Federal district	1,677,900	13 800 658	11	Saint-Petersburg
4	The Far Eastern Federal district	6,215,900	6 226 640	9	Khabarovsk
5	The Siberian Federal district	5,114,800	19 292 740	12	Novosibirsk
6	The Ural Federal district	1,788,900	12 234 224	6	Yekaterinburg
7	The Volga Federal district	1,038,000	29 738 836	14	Nizhny Novgorod
8	The North Caucasus Federal district	172,360	9 590 085	7	Petegorsk
9	The Crimean Federal district	26,945	2 342 411	2	Simferopol

These large-scale territorial formations (macro-regions) are better provided with the state support of the private, public and mixed sectors, at the same time the solution of important economic tasks is elaborated. Regions including into the district join their efforts to solve the mutual problems and to realize their potential. They consolidate for the following purposes:

- implementation of large-scale targeted projects and programs;
- mobilization and efficient use of proper financial, material, human and other resources, development of interregional integration;
- formation of diversified territorial economic systems and regional markets at the territory of the district;
- small business support;
- development of market infrastructure;
- effective regulation of scientific and technical progress;
- protection of natural resources;
- stimulating of investment activity;
- formation of a more favorable budget, trade balance and balance of payments;
- coordination of their development with the goals set by the Federal government;

- creation of favorable conditions for state regulation and support of socio-economic reforms in the regions;
- accelerating economic growth;
- significantly strengthening the economic and national security of the country;
- significant reduction in public expenditure management.

Advantages of the Federal district establishment include:

First, the Federal government strengthened the control and increased its efficiency. Instead of almost ninety of amorphous and poor regions the Federal center created nine macro-regions, this number of links is considered as optimal system.

Second, the Federal offices become more effective. Prior to that, in each region there were a lot of different structures of the Central administration. Several thousand officials worked there. Nowadays there are only a few of them.

Third, the emergence of powerful territorial-economic complexes created an effective system of large-scale segments regulation. This system is much more successful provider of integrated development, economic integration and alignment of socio-economic levels of the regions.

### ***The territorial division in European countries***

The statistical office of the European communities (Eurostat) uses multi-level territorial division.

The Nomenclature of Territorial Units for Statistics or Nomenclature of Units for Territorial Statistics (NUTS for French Nomenclature des unités territoriales statistiques) is a geocode standard for referencing the subdivisions of countries for statistical purposes. The standard is developed and regulated by the European Union, and thus only covers the member states of the EU in detail. The Nomenclature of Territorial Units for Statistics is instrumental in the European Union's Structural Fund delivery mechanisms.

For each EU member country, a hierarchy of three NUTS levels is established by Eurostat; the subdivisions in some levels do not necessarily correspond to administrative divisions within the country. A NUTS code begins with a two-letter code referencing the country, which is identical to the letters taken from the country name (except UK instead of GB for the United Kingdom). The subdivision of the country is represented by numbers. Each numbering starts with 1, as 0 is used for the upper level. Where the subdivision has more than nine entities, capital letters are used to continue the numbering. A similar statistical system is defined for the candidate countries and members of the European Free Trade Association, but they are not technically part of NUTS governed by the regulations.

The current NUTS classification, valid from 1 January 2012, lists 97 regions at NUTS 1, 270 regions at NUTS 2 and 1294 regions at NUTS 3 level. The table shows three NUTS levels (table 3).

In addition to the full three levels for the European Union countries, all other countries have a NUTS code with a two-letter code for a continent and two numbers for the country, and for the USA, Canada and Australia the states, provinces, and territories are numbered separately.

There are some anomalies: for example, Gibraltar is listed as being outside the EU; while French Guiana is listed twice, in France and in South America.

Besides the United States and other countries outside the European Union have their own classification of regions.

Table 3

The Nomenclature of Territorial Units for Statistics

<b>NUTS 1</b>	<b>NUTS 2</b>	<b>NUTS 3</b>
Country or groups of NUTS 2	Region/Province/State/Prefecture/District	Parish/Canton/Oblast/City and Regency/County/Municipality

Source: based on [51].

In addition, in Europe, there are Euro-regions, including the territory of the neighbouring states. For example, the Euro-region SaarLorLux includes Saar (Germany), Lorraine (France) and the Luxembourg state. It is a euro-region of five different regional authorities located in different European states. The Euro-region Neisse includes a number of Eastern lands of Germany, Western province of Poland and the Western district of the Czech Republic (all of

them are located along the river Neisse). Euro-regions have their own governing bodies and law, partly beyond the law States, especially in the EU.

### *Types of regions*

In accordance with the foregoing representation of the regions, any region is an element of some hierarchical system of regions (figure 1). The primary element of this system is a very small region usually called a primary area or a place (theoretically this is a geographical point). The other elements are administrative region, a constituent entity of the Russian Federation, economic region, the macroeconomic area, the Russian Federation, Eurasia and its economic unions (such as the CIS), the world.

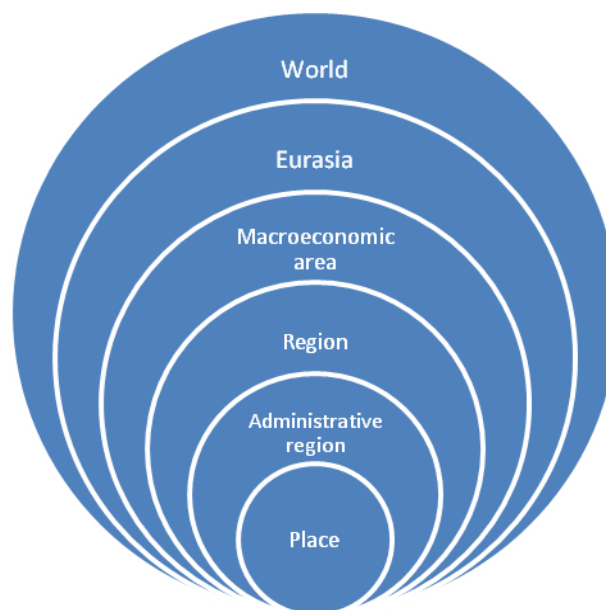


Figure 1. Hierarchical system of regions

There are several types of regions [52,53].

1. Formal
2. Functional
3. Nodal
4. Network
5. Vernacular

Formal regions are frequently used to outline governmental, physical, cultural and economic areas. There is an area with one or more common characteristics such as language, production of a particular crop or climate. Some familiar examples include Canada, the Rocky Mountains, the Islamic World, or the rice-growing areas.

Functional regions are frequently used for service areas, for example, areas served by a particular utility company. This is an area organized around a node or focal point. The region is tied

by a central point by transportation or communications systems or by economic or functional associations.

Nodal region is a particular type of functional region that is defined by the point-to-point nature of activity. For example if we wanted to identify places in the United States that have a certain number of telephone calls placed to London over a given period of time, these locations would be represented by points on a map, rather than a particular contiguous area. Network regions describe networks of activity, for example, delivery routes.

Vernacular regions are constructed by peoples' perception and therefore vary in extent from person to person. They exist because people refer to them as if they are real. Perfect examples are provided by the terms Midwest, Dixie, and Down East. If you gave people maps of the United States and asked them to draw a line around any of these regions their boundaries would vary considerably.

### ***Unitary states and federal states***

A unitary state is a state governed as one single unit in which the central government is supreme and any administrative divisions (subnational units) exercise only powers that their central government chooses to delegate. The great majority of states in the world have a unitary system of government.

There are unitary republics such as Finland, France, Hungary, Iceland, Poland, Portugal and unitary monarchies such as Japan, Luxembourg, Monaco Denmark, and New Zealand

In federal states, by contrast, regions or other subnational units share sovereignty with the central government. Sovereignty is constitutionally divided between a central governing authority and constituent political units (such as regions or provinces). The states constituting the federation have an existence and power functions that cannot be unilaterally changed by the central government. The USA, Australia, Brazil, Canada, Colombia, India are countries with federal political system

### ***The Nizhny Novgorod region***

The Nizhny Novgorod region is a constituent entity of the Russian Federation located in the center of the European part of Russia [3, 54]. Located in the centre of the European part of Russia, at the confluence of the Oka and the Volga rivers, the Nizhny Novgorod region is the most industrially developed among the neighbouring regions and republics. Since 2000 it is a part of the Volga Federal district. Nizhny Novgorod is its administrative center.

It's one of the largest regions of Central Russia. Its area is 76 900 km<sup>2</sup>, stretching from the South-West to North-East. Its area is comparable with the Czech Republic and Lithuania.

The population is 3 297047 people (according to census of 2012). Nizhny Novgorod is one of the biggest cities in Russia.

The Nizhny Novgorod region was founded on January 14, 1929 and was part of the RSFSR. In 1936 the region was transformed into the Gorky region. In 1990, the region was again renamed in the Nizhny Novgorod region.

The region doesn't possess large and numerous stocks of natural resources, nevertheless there are deposits of clay deposits; anhydrite and gypsum; peat and dolomite; sodium chloride; titanium-zirconium, construction and glass sands; rock-salt; sources of drinking and mineral water located on its territory. The region has considerable resources of forests, agricultural lands, rather rich flora and fauna. Thus, there is the lack of a sufficient raw materials base while the region's industries head for the production of ready-made goods.

There is a number of factors that have favoured the intensive development of economic activities of the region. Among them are a powerful industrial and a high scientific and technical potential, qualified labor resources, a dynamically developing banking system, well-developed transportation infrastructure.

The processing sector is a significant integral element of the region's economic structure; this sector manufactures a considerable part of the regional GDP. A big part of industrial enterprises specialize in high-degree manufacturing.

The principal industries are the machine building industry, the oil refining industry, the ferrous-metals industry, the food and food processing industry, the chemical and petro chemical industry.

The machine building complex of the region and especially the automobile industry is developing rather dynamically. In 2010 manufacturing output in the region was the 7th large in Russia [3]. Besides, swiftness and efficiency of economic reforms in the Nizhny Novgorod region have placed this region among the first in Russia.

Enterprises of machine building and metal processing manufacture buses, trucks and cars, car components, parts and components, automotive and marine engines of internal combustion, tractors, river and sea ships, planes, machines, devices, instruments, equipment for chemical, light, food industry, televisions and other. Major machine-building enterprises of the region are Gorky Automobile Plant (GAZ), Pavlovo Bus Plant (PAZ) and Zavolzhsy Motor Plant (ZMZ), Nizhegorodsky machine-building plant, aircraft building plant Sokol, "Krasnoe Sormovo Plant", etc.

The chemical industry is represented by products of organic synthesis, synthetic resin and plastic, plexiglass, manufacture of varnishes, paints, pesticides and other. Main enterprises are located in Dzerzhinsk and in Nizhniy Novgorod. The oil-refining industry is represented by the

company LUKOIL-Nizhegorodnefteorgsintez in Kstovo. Paper production is located in Pravdinsk and Balakhna. Ferrous metallurgy enterprises are located in Vyksa, Kulebaki and Nizhny Novgorod. The oldest centers of metal working are Pavlovo, Vorsma, etc.

Apart from the highly developed industrial potential, the Nizhny Novgorod region possesses the well-developed transportation infrastructure.

Agriculture is developing in the region. Rye, oats, barley, wheat, buckwheat, sugar beet, flax, onion, potatoes are the main crops grown. The region focuses on dairy and meat cattle breeding, pig breeding, poultry farming.

### *Input–Output Model*

The total market value of all final goods (i.e. goods purchased for final use and not for resale or further processing or manufacturing) and services produced annually by within a region, is Gross Regional Product, or GRP.

In economics, an input–output model is used to analyse regional economic activities; it's a quantitative economic technique that represents the interdependencies between different branches of a national economy or different regional economies [55].

Say that we have an economy with  $n$  sectors. Each sector produces  $x_i$  units of a single homogeneous good. Assume that the  $i^{\text{th}}$  sector, in order to produce 1 unit, must use  $a_{ij}$  units from sector  $j$ . Furthermore, assume that each sector sells some of its output to other sectors (intermediate output) and some of its output to consumers (final output, or final demand). Call final demand in the  $i^{\text{th}}$  sector  $d_i$ . Then we might write the formula (1)

$$x_i = a_{1i}x_1 + a_{2i}x_2 + \dots + a_{ni}x_n + d_i, \quad (1)$$

So total output equals intermediate output plus final output. If we let  $A$  be the matrix of coefficients  $a_{ij}$ ,  $x$  be the vector of total output, and  $d$  be the vector of final demand, then our expression for the economy becomes  $x=Ax+d$ , which after re-writing becomes  $(I-A)x=d$ . If the matrix  $I - A$  is invertible then this is a linear system of equations with a unique solution, and so given some final demand vector the required output can be found. Furthermore, if the principal minors of the matrix  $I - A$  are all positive, the required output vector  $x$  is non-negative.

Walter Isard and his student, Leon Moses, were quick to see the spatial economy and transportation implications of input–output, and began work in this area in the 1950s developing a concept of interregional input–output. Take a one region versus the world case. We wish to know something about interregional commodity flows, so introduce a column into the table headed "exports" and we introduce an "import" row (table 4).

Table 4

## Input–output model with export and import transactions

Economic Activities	1	2	...	...	Z	Exports	Final Demand	Total Outputs
1								
2								
...								
...								
Z								
Imports								

A more satisfactory way to proceed would be to tie regions together at the industry level. That is, we could identify both intra-region inter-industry transactions and inter-region inter-industry transactions. The problem here is that the table grows quickly.

*International Integration Associations*

Currently, there are a lot of international integration associations that implement socio-economic policies on the territory of member-countries [55]. The basic integration Associations are represented in table 5.

Table 5

## The basic integration Associations, the beginning of XXI century

The goals of integration (stage integration)	Title (year of creation)	Member countries
Free trade areas	NAFTA free trade agreement (NAFTA) the North American free trade area (1994)	3: USA, Canada, Mexico
	APEC (APEC) Organization of Asia-Pacific economic cooperation (1984)	21: Australia, Brunei, Vietnam, Hong Kong (SAR of China), Indonesia, Canada, China, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Russian Federation, Singapore, USA, Taiwan, Thailand, Philippines, Chile, Japan
	ASEAN Association of South-East Asia (1967)	10: Brunei, Vietnam, Indonesia, Cambodia, Laos, Myanmar, Malaysia, Philippines, Singapore, Thailand
	EFTA European free trade Association (1960)	4: Iceland, Liechtenstein, Norway, Switzerland
	Latin American integration Association -LAIA Latin American Integration Association –LAIA (1980)	12: Argentina, Bolivia, Venezuela, Brazil, Colombia, Cuba, Mexico, Paraguay, Peru, Chile, Uruguay, Ecuador



Customs Union	southern African customs Union (1969)	5: Botswana, Lesotho, Namibia, Swaziland, South Africa
Common market	(MERCOSUR) Common market of the southern cone (1991)	5: Argentina, Brazil, Venezuela, Paraguay, Uruguay,
	Central American Common Market — CACM (1960)	5: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua
	The Andean Common market (Andean community of Nations, the Andean group) Andean Community (1969)	5: Bolivia, Venezuela, Colombia, Peru, Ecuador
	Caribbean Community and Common Market — CARICOM (1973)	15: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Montserrat (Brit.), Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Jamaica
	Common Market for Eastern and Southern Africa — COMESA (1993)	19: Burundi, Comoros, Dr Congo, Djibouti, Egypt, Kenya, Libya, Mauritius, Madagascar, Malawi, Rwanda, Swaziland, Seychelles, Sudan, Uganda, Zambia, Zimbabwe, Eritrea, Ethiopia
Economic Unions	(EU) the European Union (1957)	27: Belgium, Germany, Italy, Luxembourg, the Netherlands, France (1958); the United Kingdom, Ireland and Denmark (1973); Greece (since 1981); Spain and Portugal (1986), Austria, Finland and Sweden (1995); Estonia, Hungary, Poland, Czech Republic, Slovenia, Cyprus, Lithuania, Slovakia, Latvia, Malta (since 2004), Bulgaria, Romania (since 2007)
	Benelux (1958)	3: Belgium, Netherlands, Luxembourg
	The cooperation Council for the Arab countries of the Persian Gulf - Gulf Cooperation Council — GCC (1981)	6: Bahrain, Qatar, Kuwait, Oman, UAE, Saudi Arabia
	CAAPK South Asian Association for Regional Cooperation — SAARC (1985)	7: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka Бангладеш, Бутан, Индия, Мальдивы, Непал, Пакистан, Шри-Ланка
	The Arab Maghreb Union (1989)	5: Algeria, Libya, Mauritania, Morocco, Tunisia
	Economic Community of West African States — ECOWAS (1975 )	15: Benin, Burkina Faso, Gambia, Ghana, Guinea, Guinea-Bissau, Cape Verde, Cote d'ivoire, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo
	Economic Community of the Great Lakes Countries — CEPGL (1976 )	3: Burundi, Congo, Rwanda
	The customs and economic Union of Central Africa -	6: Gabon, Cameroon, Congo, Central African Republic, Chad, Equatorial Guinea

	Economic and Monetary Community of Central Africa — CEMAC (1964)	
	South Pacific Regional Trade and Economic Cooperation Agreement — Sparteca (1981)	16: Australia, Fiji, Kiribati, Marshall Islands, federated States of Micronesia, Nauru, Niue, New Zealand, cook Islands, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Fiji
	CIS - the Commonwealth of Independent States (1991)	10: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan

Source: based on [55].

BRICS is a group of five leading emerging economies playing a key role in the world development platforms. It consists of Brazil, Russia, India, China, and South Africa. The grouping was originally known as "BRIC" before the inclusion of South Africa in 2010. The BRICS members are developing or newly industrialised countries, but they are distinguished by their large. These significant and fast-growing economies influence regional and global affairs.

The Group has received overwhelming global attention since its inception in 2009 and it has been playing a critical role across the globe.

Common interests of BRICS nations are:

- Desire to reform the outdated financial and economic architecture of the world which ignores the growing weight of BRICS;
- Common commitment to principles and norms of international law, rejection of policies of armed pressure and infringement upon sovereignty of other nations;
- Common challenges and problems related to the needs of modernization of economy and social life;
- Mutual complementarity of a wide range of sectors of national economies.

The Commonwealth of Independent States (CIS) is a regional organisation whose participating countries are former Soviet Republics; it was formed during the breakup of the Soviet Union. There are ten full member states of the Commonwealth of Independent States.

The organisation was founded on 8 December 1991 by the Republic of Belarus, the Russian Federation, and Ukraine.

## TOPIC 2. REGIONAL DEVELOPMENT

*Questions for the lectures and the seminars:*

*Definition of regional development. Objects and criteria of regional development. Human development index. The main tendencies of regional development. The main problems in regional development. Regional disparities and problems: Region of Pilbara in Australia, The Tennessee Valley (TVA) and the Appalachian Region of the United States, the Ruhr district in Germany etc.*

Regional development is usually understood as any progressive changes primarily in the economic sphere of the region.

The development of the region is a multi-dimensional process, which is usually considered from the point of view of the totality of different social and economic objectives. Usually the economic development is considered together with social development.

Socio-economic development includes such aspects as:

- growth of production and income;
- changes in institutional, social and administrative structures;
- changes in public consciousness;
- changes in traditions and habits.

Currently, the main purpose of economic development of most countries and regions is improving the quality of life of the population. Therefore, the process of socio-economic development includes three main components:

- Growth of incomes, improvement of health and rise of the educational level;
- Formation of social, political, economic and institutional systems, focused on respect for human dignity;
- Extension of freedom, including economic freedom.

The goals of socio-economic development of the region are:

- increased income,
- improved education,
- nutrition and health,
- poverty alleviation,

- environmental protection,
- equal opportunities,
- expansion of personal freedom,
- enrichment of cultural life.

There are long-term and short-term goals. The long-term goals are the establishment and development of post-industrial society; the creation of highly qualified workplaces; improving the living standards of all citizens, including the level of health care, education and culture. The short-term goals are overcoming the crisis and achieving specific values of gross domestic product growth next year, quarter, month, etc. Long-term and short-term goals differ significantly; the measures to achieve them vary considerably.

Among the tactical goals of regional development or development of a city there are:

- attraction of new businesses;
- expansion of the existing business;
- development of small business;
- development of the city center;
- development of industry;
- development of the service sector;
- increasing the level of employment of the region.

### ***Indicators of regional economic development***

The level of regional economic development is determined by the following indicators:

- gross regional product (GRP);
- gross regional income;
- level of consumption of goods and services (food, housing, telephone services),
- provision of households with durable goods.

These indicators are calculated in total and per capita. At the same time to evaluate the dynamics of development it is advisable to use indicators that assess the economic growth in the region: the growth rate of income per capita, productivity, and the rate of structural changes of production and society.

At the same time the other indicators are used to assess the level of regional economic development. Among them:

- average level of income and the degree of income differentiation;
- life expectancy, population health and mental health;
- education level;
- health care (provision of clinics, hospitals, pharmacies, diagnostic centers and ambulance services, the quality of medical services);
- environment;
- equal opportunities for people;
- development of small business;
- degree of happiness of the population;
- enrichment of the cultural life.

Sometimes there are some difficulties in regional development assessment, so it is possible to use integral indicators of the regional development.

One of these indicators is the human development index, developed in the framework of the United Nations development Program. This index ranks countries from 1 to 0.

The human development index (HDI) or Index of Human Potential development (up to 2013) is an integral index, calculated annually for cross-country comparisons. The Human Development Index (HDI) is a composite statistic of life expectancy (to evaluate longevity), education (literacy rate of the population calculated on basis of the average number of years spent in education and the expected duration of education) and income (standard of living, measured by gross national income per capita in USD). The Human Development Index is used to rank countries into four groups according to human development level. It was created by the Pakistani economist Mahbub ul Haq and the Indian economist Amartya Sen in 1990 and was published by the United Nations Development Program. The index is published by the UN in its annual report on human development since 1990. It is a standard tool in the comparison of different countries and regions.

The 2014 Human Development Report was published by the United Nations on July 24, 2014, and calculates the HDI for 2013. Russia was ranked 57th among 187 countries and territories instead of the 55<sup>th</sup> in the previous year.

Below the list of the very high human development countries is represented:

1. Norway 0.944
2. Australia 0.933
3. Switzerland 0.917
4. Netherlands 0.915
5. United States 0.914
6. Germany 0.911
7. New Zealand 0.910
8. Canada 0.902
9. Singapore 0.901
10. Denmark 0.900
11. Ireland 0.899
12. Sweden 0.898
13. Iceland 0.895
14. United Kingdom 0.892
15. Hong Kong SAR 0.891
16. Republic of Korea 0.891
17. Japan 0.890
18. Liechtenstein 0.889
19. Israel 0.888
20. France 0.884
21. Austria 0.881
22. Belgium 0.881
23. Luxembourg 0.881
24. Finland 0.879
57. Russia
70. Kazakhstan
83. Ukraine

### ***Methods of regional development' regulation***

Local authorities of a region, a city or a district perform two main functions: the provision of services to citizens and enterprises (roads, water, heat, electricity, scavenging, maintenance of parks, recreation areas etc.) and management of socio-economic development (table 6).

Management of regional development can be carried out by using a diverse range of strategies, programs, actions and management decisions, through which the local administration is seeking to stimulate the economic development of the region, to create new jobs, to increase tax base, to expand the possibilities for certain types of economic activity, in which the local community is interested.

Table 6

Functions of regional authorities

Current provision of services	Management of regional development
Roads, scavenging, water-, gas-, heat-, power supply, housing, parks and landscaping	Creation of new and development of old enterprises; development of infrastructure (telecommunications), employment, prosperity increase

Regional authorities use the following methods and instruments to manage regional economic development: such as the creation of general conditions for business, the regulation of business activity, the direct cooperation of government and business (table 7).

Table 7

Methods and instruments to influence the regional development

Creation of General conditions for business	Regulation of business activity	Direct cooperation of administration and business
<ul style="list-style-type: none"> <li>• transport</li> <li>• communication</li> <li>• hotels</li> <li>• recreation</li> <li>• telecommunications</li> <li>• regional market infrastructure:</li> <li>• banks</li> <li>• audit</li> <li>• insurance</li> <li>• consulting</li> </ul>	<ul style="list-style-type: none"> <li>• land tenure rules</li> <li>• taxation</li> <li>• subsidies</li> <li>• benefits</li> <li>• guarantees</li> <li>• special conditions for business activities</li> </ul>	<ul style="list-style-type: none"> <li>• joint projects</li> <li>• interaction with non-profit organizations:</li> <li>• chamber of Commerce</li> <li>• training and consulting centers</li> </ul>

**TOPIC 3. REGIONAL MANAGEMENT**

*Questions for the lectures and the seminars:*

*Definition of regional management. Principles and methods of regional management. The structure of regional management. The division of responsibilities between federal, regional and local authorities. Regional management in European countries and in the USA. Levels of regional management in Russia.*

Regional management is the management of socio-economic processes in the region.

The main goals of regional management include:

- high level of living conditions of the population and high level of quality of life in the region;
- economic and social transformation of the regional economy;
- analysis, forecasting and programming of regional development;
- optimization of financial flows, the creation of conditions and mechanisms for strengthening the economic base of the region;
- environmental security in the region, protection of the environment;
- formation and implementation of the structural, investment and scientific-technical policy in the region; creation and development of market infrastructure.

***Principles of regional management***

The main principles of regional management are: decentralization, partnership, subsidiarity, mobility and adaptability, as well as the principle of allocated competence.

The essence of the principle of decentralization is to move decision making from the regional government to the agents of the market. This principle limits the monopoly of regional management on sovereignty, provides economic freedom of economic entities in the region and polycentric system of decision-making and delegates management functions.

The principle of partnership implies a rejection of the rigid vertical hierarchy and subordination. It is dedicated to the interaction of all regional economic agents in the economic process as legally equal partners.



The subsidiarity principle lies in the allocation of financial resources under pre-defined goals. It is implemented in the regional management through the creation of the mechanisms of redistribution of financial resources in order to ensure the minimum state social standards for the whole population of the region.

The principle of mobility and adaptability is the ability of the regional governance to respond to changes in the external environment. This principle is manifested through ongoing transformation of the functional and organizational structures of regional management, allowing the regional management to adapt to quickly changing market conditions.

The concepts of allocated competence and separation of functions are the differentiation of functions between the regional authorities, and within them. According to this principle there is redistribution of the functions among the federal, regional and municipal management. Resources are provided for the implementation of each function.

The implementation of the functions of the different economic agents in countries with different types of state structure is represented in table 8.

Table 8

The implementation of the functions of the different economic agents in countries with different types of state structure.

Function	A			B			C		
	1	2	3	1	2	3	1	2	3
1. Housing	++	+	+	+	++	+	—	+	++
2. Trade and consumer services, food provision	+	++			++	+			++
3. Healthcare	+	++	-	-	+++	-	-	+	++
4. education	+	++	-	-	+++	-	-	++	++
5. Transport and communications	+	++	-	-	+++	-	-	+	++
6. Energy and water supply	++	+	+	+	++	+		++	+
7. Construction	++	+			+++	+		+	++
8. Environmental protection	++	+	+		++	+			++
9. Culture and leisure	+	++	-	-	+++	-	-	+++	+
10. Land tenure	+++	—	-	•-	++	-	-	+++	—

11.Law enforcement	+	++	-	+	++	-	+	++	-
12. Employment and labor market	++			+	++			++	+
13. Social protection	+++	-	-	+	++	-	+	+++	-
14. Finance and tax policy	+++			++	+		+	++	
15. Planning and building up of a settlement	+	++		+	++			+++	
16. Support of market structures				++	+		+	++	++
17. Foreign economic activity	+++	—	—	++	+	+	+	+	++

Notations used in table:

A - the countries with centralized economy and management;

B - the countries with transition economy and reforming management system (Russia);

C – the countries with developed market economy and developed local self-government;

1 - government;

2 - local authorities;

3 - population;

(+++) function is fully implemented;

(++) function is implemented in part;

(+) implementation of function is negligible;

(-) function isn't implemented.

The implementation of the governmental functions and expenses stipulated in the budget in Germany is represented in table 9.

Table 9

The governmental functions and expenses stipulated in the budget in Germany, per cent of total

Function	Federation	Region	Municipality
1. Expenses for administration activity	22,0	36,0	42,0
2. Foreign economic activity	100	—	—
3. Defense	100	—	—
4. Law enforcement and security	9,0	63,0	28,0
5. Justice	4,0	96,0	—
6. Schools	—	76,0	24,0
8. Science	76,0	21,0	3,0
9. Culture	2,0	46,0	52,0

10. Social security	89,0	4,0	7,0
11. Healthcare, sport	5,0	25,0	70,0
12. Housing, construction, environmental protection	5,0	25,0	70,0
13. Agriculture	74,0	24,0	2,0
14. supply of energy, water, transportation	65,0	28,0	7,0
15. Communication	45,0	28,0	27,0

#### **TOPIC 4. REGIONAL POLICY**

*Questions for the lectures and the seminars:*

*Definition of regional policy. Objects and criteria of regional policy. Regional policy instruments. The main tendencies of regional policy. Regional policy and regional problems in European Union. Regional programs of development. Strategy of regional development. Regional policy and regional economic growth. Competitiveness of regional economy. Regional policy and the SME sector.*

Regional disparities in economic welfare may cause severe problems and have a large impact on the economic welfare of a nation's inhabitants. In addition, such disparities may have political and social consequences. Regional policy is a part of the general economic policy focused on political, economic, social and environmental development of a region and reflecting the relationship among the government and the regions, and among different regions with each other.

Regional policy is a special kind of governmental economic policy aimed at government regulation of territorial development. It should be regarded as an important component of a broader economic policy that covers national policy objectives.

The main components of the regional policy are:

1. Economic policies aimed at regional economic growth and evening-out of the regional economic disparities.
2. Social policy aimed at smoothing the regional differentiation and at welfare increase.
3. Demographic policy focused on family planning, surplus of births over deaths, improving the fertility, mortality, death-rate lowering, migration, etc.
4. Ekistics or settlement policy aimed at the optimal allocation of production, communication and places of settlement taking into account natural, economic, architectural, engineering and technical factors.
5. Environmental policy focused on improvement of the ecological situation in the region.
6. Scientific and technical policy aimed at regulating the relationships between universities, research centres and enterprises, movement of scientific personnel, etc.

### ***Goals of the regional policy***

The main objective of regional policy is to achieve more efficient and more even distribution of economic activity across the country. However, this aim describes two sides of regional socio-economic development:

- economic efficiency, which requires economically rational distribution of production in space and use of production potential of each region in order to promote national prosperity;
- social justice, which is the spatial distribution of economic activity, in which the residents of all regions have more or less equal opportunities to achieve the desired prosperity.

Both of these two objectives of regional policy are contradictory.

However, there are other goals of the regional policy:

1. strengthening the economic unity of the country on the basis of federalism;
2. increase of income and life quality of population and provision of approximately equal conditions for social development in all regions (unified social standards and equal social protection);
3. formation of efficient socially-oriented economy in the regions.
4. prevention of environmental pollution, as well as liquidation of pollution consequences, integrated environmental protection;
5. development of strategic regions.

### ***Levels of regional policy***

Regional policy has Federal and sub-Federal levels.

The subject of a Federal regional policy includes the territorial problems of the national economy (including inter-regional problems), the relations of the Federal center with regions, factors and relationships that influence the socio-economic situation in the regions. The Federal government can take part in solution of many problems, such as liquidation of emergency situations, mining of strategic raw materials, etc.

The subject of the sub national regional policy includes improvement of transport accessibility, food and energy supply, overcoming depression in small towns, regulation of the relations among a region and municipalities. The municipal authorities solve a wide range of problems connected with healthcare, education, welfare, territorial organization of economy etc.

### ***Methods and instruments of the regional policy***

There are two main groups of methods that the federal and local authorities use to govern the regional economy. They include administrative and economic ones.

Administrative methods of regional development regulation include:

- administrative decrees, decisions;
- rules of governing the entrepreneurial activity in the region;
- recommendations and control (e.g. fiscal) and supervision (for example, sanitary-epidemiological).

The economic methods of regional development are based on some general rules, giving the opportunity to prepare, adopt and implement alternative economic decisions, making enterprises responsible for the decisions and their consequences. They preserve independence of an enterprise and have indirect effects on producers and consumers, taking into account the interests of the collective and individual employees.

Regional policy instruments that are available for decision makers can be classified as macro-policy and micro-policy instruments. From a regional point of view, policy instruments are designed either to influence the allocation of productive resources or to change the level of income and expenditure in specific regions. In that sense, macro-instruments are concerned with changing aggregate regional income and expenditure, while micro-instruments of regional policy are concerned with the design of incentives to allocate capital and labour between regions and industries.

In practice, macro-policies are designed to have different impacts in different regions. The effect of that impact depends on the objective the macro policy is pursuing. That is, deliberately introducing a regional dimension into the macroeconomic management of the national economy, so that changes in output and employment can be induced in specific regions. For example, a depreciation of the exchange rate or an expansion of the economy through fiscal or monetary policies will have different effects in the output and employment of different regions.

Regional economies, furthermore, tend to respond differently to national shocks.

The major objective of micro-policies is to allocate labour and capital in areas, which they would normally not choose. There are various ways in which micro-policy instruments can be used to induce a reallocation of labour and capital [57].

### ***Regional policy in the European Union***

The European Union has a well-developed and sophisticated regional policy. Co-ordination of regional policy in the European Union is represented by the figure 2.

The main regional policy instrument in the European Union today is the Structural Funds. They correspond to financial resources transferred from rich to poor regions. The three basic objectives of the Structural Funds are:

1. Promote the development and structural adjustment of regions, whose development is lagging behind,
2. Support the economic and social conversion of areas facing structural difficulties,
3. Support the adaptation and modernisation of policies and systems of education training and employment.

Regional policy in the European Union is characterised by ensuring that most of the available resources are directed to poorer and/or disadvantaged regions. These policies use financial transfers in order to improve the funding of development initiatives in poorer regions.

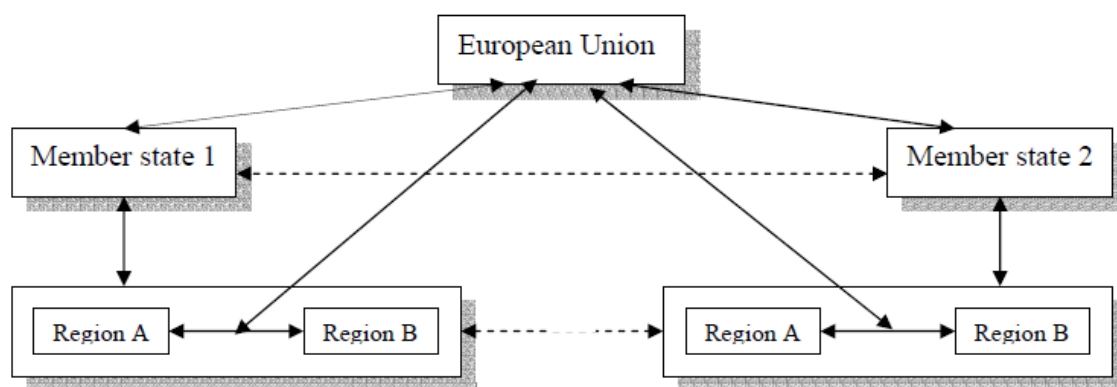


Figure 2. Co-ordination of regional policy in the European Union

Source: based on [57, 1]

There are several channels through which regional policies in one country can have a regional impact in other countries. Redistribution of income, fiscal transfers between regions, and social and cultural subsidies, all tend to have an impact not only on the target region, but also on other regions. The openness of the regional economies also has an impact on the effects of regional policy decisions. Regional policy should, nevertheless, not be over-centralised. The European Union has an important function in co-ordinating national regional policies, but in most cases leaves the development of these policies to the national and regional governments.

## TOPIC 5. SPECIAL ECONOMIC ZONES

*Questions for the lectures and the seminars:*

*Definition of Special economic zones. Types of Special economic zones in the world economy: free trade zones (FTZ), export processing Zones (EPZ), free Zones (FZ), industrial parks or industrial*

*estates (IE), free ports, free economic zones and urban enterprise zones, port zones, techno parks, off-shore zones etc. . Life cycle of Special economic zone. Methods of government regulation in Special economic zones. Special Economic Zones of the Russian Federation.*

Modern stage of the world economy development on the whole and regional development in particular is characterized by the strengthening of integration processes, liberalization and increase in the degree of regional economy openness.

One of the important elements of the regional strategy is a special economic zone (SEZ), created for attracting local and foreign investment, increasing exports, growth of income, access to new technologies, balance of payments improvement and, ultimately, to the development of regional economy and its integration into the world economy.

A special economic zone is a compact, relatively localized territory in which the economic activity of economic entities is carried out on special conditions, guaranteed by government.

Special economic zone has been widely spread in the world economic practice. At present, there are about 3000 various types of SEZs worldwide, including about 900 free trade zones, 900 scientific-industrial parks, more than 800 industrial-production zones and about 400 zones of special purpose (offshore centers, recreation, ecological and economic regions, tourist centers and others).

### ***Types of special economic zones***

There are different types of special economic zones.

Free trade zones are compact territorial entities derived from the national customs territory. Free trade area focuses on operations in storage and processing of imported goods in accordance with the internal market conditions (import, storage, sorting, packaging, labeling, quality control, handling of goods, the simplest modification without additional processing etc.). Free trade zones are established to increase export, promote foreign investment and stimulate economic development. Zones of free transit are used to facilitate international traffic.

Industrial and development zones are created as a territory with a special customs regime, where industrial companies produce export or import substituting products using certain fiscal and financial privileges. They are located in South Korea, Malaysia, India, Hong Kong.

In areas of scientific and industrial or technology-innovative type (technological implementation zones) national and foreign research, design and scientific-production firms are concentrated, they use the common system of fiscal and financial incentives (e.g. the Silicon Valley).

Service zones are territories with favourable entrepreneurial activity for companies and institutions that provide different types of financial and non-financial services. The most known and widely spread type of service zones are offshore zones, where legal entities use simplified regime of registration and tax benefits. But they can have no economic activity on the territory.

Offshore companies specializing in banking are registered in Switzerland, Luxembourg, Hong Kong, Singapore, Bahrain, and the Cayman Islands. Offshore holding companies dominate in Liechtenstein and Switzerland. Insurance companies prefer the Bermuda Islands, the Isle of Man, Guernsey, Grater, Caicos Islands and other. Offshore marine companies prefer to register in Liberia, Panama, Belize, Gibraltar.

### ***Goals and requirements for special economic zones creation***

The goals of special zones creation are:

- development of international cooperation;
- economic development of the region and attraction of foreign investments;
- solution of employment problem;
- increase of export potential of the territory;
- production and supply on the domestic market of high-quality import-substituting goods;
- development of modern experience of organization and production management, training, etc.

Special economic zones are multifunctional units, focused on solving both the regional and national tasks.

Requirements for special economic zones creation may include the following:

- transport nodes (airports, ports, railway junctions and highways);
- the settlement capable to provide zones with labor force;
- a financial center;
- an electric power station or power lines, systems of water and heat supply, and other utilities.

### ***Special economic zones in Russian Federation.***

One of the tools used to stimulate investments in Russia are so-called special economic zones (SEZ) which are based in Russian regions that offer unique advantages to investors.

SEZ are territories a state bestows with special legal status and economic benefits to attract domestic and foreign investors to Russia's industry of priority.



Systematic development of special economic zones in Russia began in 2005 once the Federal Law on SEZ was adopted on 22 July, 2005.

The objective of creating special economic zones is to develop the hi-tech sectors of the economy, import-substituting production, tourism and health resort and treatment services, to develop and manufacture new products and to expand transport infrastructure.

To promote high-tech industries, the state creates very favorable conditions for SEZ residents.

Special treatment includes the following advantages:

- Relations with governmental regulatory authorities become as simple and transparent as possible due to the “single window” system.

- Investors enjoy state-built infrastructure for business development, which reduces costs of launching new production facilities.

- The free customs area status implies major customs privileges.

- A number of tax benefits are offered [78].

Key objectives of SEZs:

- Development of manufacturing and technology sectors

- Production of new types of goods, development of domestic production

- Development of transport infrastructure

- Development of tourism and recreational sphere [76].

Russian legislation outlines four types of special economic zones. Russia has two industrial and development zones, four technological implementation zones and seven tourist and recreational zones. Following competitive tender results, bids have been approved for the creation of three port SEZs.

- Industrial and development zones

- the Lipetsk region

- Elabug (the Tatarstan Republic)

- Technological implementation zones

- Dubna, the Moscow region

- Zelenograd, the Moscow region

- St. Petersburg

- Tomsk, the Tomsk region

- Tourist and recreational zones

- the Stavropol territory

- the Zelenograd district, the Kaliningrad region

- the Irkutsk region

- the Krasnodar territory
- the Altai region, the Altai territory
- the Baikal region, the Republic of Buryatia
- the Kaliningrad region, etc.
- the Republics of the North Caucasus Federal District
- Port zones.
  - Ulyanovsk (Ulyanovsk-Eastern Airport)
  - Krasnoyarsk (Emelyanovo Airport)
  - Seaport in the Khabarovsk region.

SEZs offer a simplified procedure of land assignment, as well as special free customs regime and a number of tax preferences for SEZ residents.

The State Program for Establishment of high-technology parks in the Russian Federation was adopted to implement innovative investment projects aiming at developing engineering, transport, manufacturing and residential infrastructure for enterprises in high-tech industries (nano-, bio-, information and other technologies).

High-technology parks provide resident enterprises with a set of essential services, helping them significantly reduce their expenses and focus on their principal activity [3].

## **TOPIC 6. FINANCES IN REGIONAL ECONOMY**

*Questions for the lectures and the seminars:*

*Definition of the regional budget, revenues and expenditures of regional budgets, regional tax system, the types of local taxes, peculiarities of taxation in different regions of the world, regional expenditures, the main functions of the regional authorities and the expenditures of the regional budget. Regional budget of Russian regions: income and expenditures. Fiscal Federalism. The division of financial responsibilities between federal, regional and local authorities. Federalism in Canada, Germany, USA etc.*

Regional finances are cash resources and flows in cash and cashless forms which provide needs of the regional economy, acceptable level of welfare, goods and services production, and stable commodity exchange in accordance with the laws of market economy.

Regional finances are based on the following main principles:

- independence;
- fiscal federalism;

- state financial support (transfers from the Federal budget and target transfers);
- transparency;
- publicity.

So, the finances of the region represent a system of economic relations, through which national income is distributed and redistributed to the goals of socio-economic development of the territory.

The Regional budget is the form of generation and expenditure of monetary funds intended to achieve the objectives and functions reserved to the jurisdiction of the region, as well as an active tool of direct interference by the public authorities of the region in the process of socio-economic development of the region. The table 10 shows the consolidated budget of the Nizhny Novgorod region.

Table 10

The Consolidated Budget of the Nizhny Novgorod region

	<i>Consolidated Budget of the Nizhny Novgorod region and extra-budgetary funds</i>	of which	
		<i>Consolidated Budget of the Nizhny Novgorod region</i>	<i>Regional Budget of the Nizhny Novgorod region</i>
Revenues	159875,9	139318,2	105872,7
of which:			
profit (income) tax of organizations	24184,3	24184,3	24184,3
profit (income) tax of organizations for goods (works, services) sold on territory of the Russian Federation	47592,2	47592,2	28264,5
excise on goods (products) produced on territory of the Russian Federation	12498,2	12498,2	12498,2
property tax	12498,2	12498,2	12498,2
aggregate income tax	17188,3	17188,3	13461,1
tax, dues and regular payment for natural re-sources usage	6121,1	6121,2	4189,7
revenue from use of state and municipal property	57,7	57,7	57,7
payments for natural resources usage	5546,8	5546,8	940,1
-безвозмездные поступления uncompensated revenue	897,9	897,9	569,0
Expenditures	40447,1	20408,4	20310,0
of which on:			
objectives affecting the state as a whole	170862,3	150031,9	114850,0
state and municipal debt service	10272,6	10079,9	4457,1
national defence	3573,8	3573,8	3204,8
law enforcement and state security	41,4	41,4	41,4
	1797,6	1797,6	1065,2

national economy	26249,6	26249,6	19404,4
of which on:			
fuel and energy complex	119,1	119,1	25,6
agriculture and fishery	6238,4	6238,4	6183,7
transport	3043,7	3043,7	615,8
communications and informatics	544,5	544,5	449,2
public road system (road funds)	12277,8	12277,8	9108,2
other fields of national economy	2317,5	2317,5	1493,4
housing – communal utilities	7397,9	7397,9	3201,7
social-cultural arrangements	120643,4	100005,6	76805,8
general inter-budget transfers	-	-	6015,2
Profit, deficit (-)	-10986,4	-10713,7	-8977,3

The degree of decentralization differs quite substantially between countries. It is also instructive to measure decentralization of public expenditures by function to see whether this is consistent with normative advice.

From a normative point of view decentralization is desirable when the need to tailor spending to local preferences dominates the possible economies of scale and cross-regional spillovers.

The Government Finance Statistics of the IMF contain the data for breaking down government activities by functions and levels. All local expenditures refer to expenditures of the state, regional and provincial governments. The table 11 indicates the functional decentralization of government activity country-by-country. Welfare is the most decentralized, with an average of 71 percent, followed closely by Education and Health with an average of 64 percent each. The least decentralized are the expenditures for Social Security with an average of 18 percent. This is consistent with the normative view that income redistribution is better achieved at the central level.

Table11

Local Expenditures by Function (per cent of Total Government Expenditure)

Country	Education	Health	Social	Welfare	Housing	Transport
Australia	72	48	10	77	85	50
Canada	94	96	31	74	90	60
Denmark	45	95	55	29	51	56
France	37	2	9	82	42	19
Germany	96	28	21	93	57	38
Ireland	22	48	6	70	43	25
Netherlands	33	5	14	79	35	26
Norway	63	78	19	87	31	38
Russia	83	90	10	96	68	39

Spain	71	63	6	93	62	36
U.K	68	0	20	40	61	26
U.S.	95	43	31	32	75	49
Average	64	64	18	71	56	38

Source: IMF Government Finance Statistics Yearbook, 2001

## TOPIC 7. REGIONAL INVESTMENTS AND REGIONAL INNOVATION POLICY

*Questions for the lectures and the seminars:*

*Types of investments in regional economy. Investment climate and attraction of foreign investments by regional and local authorities. Regional Investments policy and support of regional investment activity.*

*Technological potential of a region. Regional support and development of research and development.*

Investment is putting capital into business with the expectation of gain. Investments are divided into real and financial.

### ***Investment Activity in the Nizhny Novgorod Region***

In 2012 the investment volume index was 106,1%. Total investments in fixed capital of all companies of the Nizhny Novgorod region totaled 258,176 billion rubles or 96,7% of all investments [3,11].

In 2008, the Nizhny Novgorod region saw significant growth in foreign investment – the investment volume was 708,5 USD millions. The most part of foreign investments in 2010 came under the form of other credits (more than 78% of total investments). Our region didn't use financial leasing (except for 2008).

In 2012, \$1114,26 USD millions in foreign investment came to the Nizhny Novgorod region, including \$199,4 USD millions direct investment (Table 12).

Table 12

## Foreign Investments in the Nizhny Novgorod Region's Economy in 2006-2012, USD thousands and per cent of total

	2006		2007		2008		2009		2010		2011		2012	
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
Foreign investments total	216105,1	100	409601,2	100	708467,6	100	262979,0	100	432686,4	100	999168,4	100	1114262,7	100
Direct investments	48412,9	22,4	136441,9	33,3	313081,7	44,2	222337,0	84,6	396341,8	91,6	702072,8	70,3	199415,5	17,9
including:														
Capital inpayments	29727,9	13,8	29393,8	7,2	162097,2	22,9	77461,5	29,5	64673,6	14,9	440598,2	44,1	78251,8	7,0
Tangible and fictitious assets	17708,4	8,2	403,2	0,1	18993,3	2,7	2059,6	0,8	-	-				
Funds	11991,1	5,5	28990,6	7,1	142912,9	20,2	74078,6	28,2	64514,6	14,9				
Financial leasing	-	-	-	-	26805,4	3,8	-	-	-	-	-	-	-	-
Credits from foreign sharers	17941,0	8,3	88483,4	21,6	121340,5	17,1	135504,3	51,5	326470,2	75,5	261467,0	26,2	121159,7	10,9
Others direct investments	744,0	0,3	18564,7	4,5	2838,6	0,4	9371,2	3,6	5198,0	1,2	7,6	0,0	4,0	0,0
Portfolio investments	6945,0	3,2	27052,7	6,6	1363,0	0,2	64,0	0,0	102,4	0,0	91,4	0,0	15,5	0,0
including: shares	6945,0	3,2	27052,7	6,6	1363,0	0,2	64,0	0,0	102,4	0,0	91,4	0,0	15,5	0,0
Other Investments	160747,3	74,4	246106,7	60,1	394022,9	55,6	40578,0	15,4	36242,3	8,4	297004,2	29,7	914831,6	82,1
including:														
Trade credits	29572,4	13,7	22660,1	5,5	33499,3	4,7	27766,1	10,6	23256,3	5,4	28287,7	2,8	46168,7	4,1
Other credits	131154,3	60,7	223446,5	54,5	360523,6	50,9	8392,7	3,2	12986,0	3,0	268716,5	26,9	868662,9	78,0
including: credits from world financial organizations	-	-	-	-	40000,0	5,6	-	-	-	-	40885,9	4,1	102710,6	9,2
Others	20,6	0,0	-	-	-	-	4419,2	1,7	-	-	-	-	-	-

Source: based on [3,11]

In 2012 the leading investors in the Nizhny Novgorod region were the Netherlands and Germany. These countries accounted for 84,3% of the total accumulated investments (Table 13).

Table 13

The Main Foreign Countries-Investors to the Nizhny Novgorod Region's Economy in 2006-2012,%

	2006	2007	2008	2009	2010	2011	2012
All foreign investment	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>		<b>100</b>
Austria	3,9	6,9	6,6	16,1	18,3	14,2	0,7
United Kingdom	46,6	24,6	31,4	0,2	0,0	0,0	0,1
Germany	8,4	24,3	11,2	55,9	39,5	4,5	42,3
Spain	1,2	1,3	0,2	0,0	0,6	0,8	0,2
Italy	2,3	1,7	2,0	1,0	1,1	2,9	1
Cyprus	2,6	10,9	18,2	4,6	1,1	0,7	7
Luxembourg	0,0	0,0	0,0	0,0	3,1	0,6	-
Netherlands	7,0	0,0	11,7	7,4	30,1	72,0	42
USA	0,6	0,8	1,0	4,4	2,1	0,8	0,6
Turkey	8,8	3,4	10,1	4,0	0,0	0,0	0
Finland	1,3	4,8	0,2	0,7	0,8	0,2	-
France	5,2	7,2	1,2	1,4	2,6	0,4	0,5
Switzerland	0,8	4,4	1,8	0,1	0,1	0,1	
Sweden	4,3	4,4	3,2	1,4	0,2	0,0	2,2

Source: based on [3,11]

In the table 14 the major investment projects of the Nizhny Novgorod region are represented.

Table 14

Investment projects of the Nizhny Novgorod region

Company	Investment project	Location	Total investments (RUR millions)
Verkhnevolzhskaya Generating Company (VVGK)	a combined-cycle co-generation plant	Kstovo district	40920
OMK-Stahl	foundry & rolling facility	Vyxa district	31 133
Rusvinil	a PVC production facility with 330 000 tons of annual output	Kstovo district	22308
LUKOIL-Nizhegorodnefteorgsintez	a facility for catalytic cracking of hydrotreated vacuum gas oil	Kstovo	16085
World Organization of Korean Businessmen	the world Korean cultural and business	Nizhny Novgorod	13160

	centre		
Liebherr Novgorod	Nizhny the industrial plant to manufacture structural units and components	Dzerzhinsk	11 557
Vyxunsky Plant	Metallurgic makeover of electric pipe welding department	Vyxa	6026
Brewing Company	Volga Volga brewery re- equipment	Nizhny Novgorod	5 210
Saint-Gobain Productions Rus	a plasterboard production facility	Pavlovo District	2396
SAVECO	manufacturing IVECO commercial vehicles	Semionov	2 082
Acrylat	completion of acrylic facility construction at Acrylat	Dzerzhinsk	1206

Source: based on [3]

An agreement was signed between the Government of the Nizhny Novgorod region and Liebherr. The company builds manufacturing lines for engineering and excavation equipment to produce loaders, tractors, excavators and road-building machinery. The next step will be production of aeroplane parts for Airbus-380 jets. Liebherr intends to invest over 300 million euros [3].

### ***Investment climate***

Investment climate is the situation in which an investment is made. Investment climate is the economic, financial and other conditions in a region that affect whether individuals and businesses are willing to lend money and acquire a stake in the businesses operating there. The investment climate is a significant contributing factor in the performance of an investment.

Investment climate is affected by many factors, including: poverty, crime, infrastructure, workforce, national security, political instability, regime uncertainty, taxes, rule of law, property rights, government regulations, government transparency and government accountability. Factors affecting the investment climate in a region include macroeconomic conditions, the political situation, and consumer confidence. A favorable investment climate is likely to include low inflation, falling interest rates, growing corporate earnings, political stability, and a high degree of consumer confidence. A strong investment climate can help spur investments toward growth, while a weak climate can do the opposite. It should be noted that an investment climate may be beneficial for some investments and detrimental to others.



In November 2013, the Expert RA rating agency granted 2B the Nizhny Novgorod region: middle potential- moderate risk and assessed the level of ecological risk in the Nizhny Novgorod region as one of minimal among Russian regions (the 11th rank), the region was given one of the first places in Russia in terms of innovation potential (the 4th rank). The Nizhny Novgorod region ranked 35th in terms of investment risk and 8th by investment potential, and its total rank was the 51st [3].

The investment climate of the Nizhny Novgorod region has the following features:

1. Favourable geographic position. The Nizhny Novgorod region has a lot of river routes (the main are the Oka and the Volga rivers); an international airport; rail and road transit routes; other transport and logistics infrastructure.

2. Dynamic economic growth. The Nizhny Novgorod region boasts one of the most dynamically developing and attractive economies in Russia. GDP reached 7,5% in 2010 (compared to 4-5% average world economic growth) and it was 6,9% in 2011 [11].

3. Highly skilled and well-educated human capital. The Nizhny Novgorod region has one of the most highly skilled workforces. There are a lot of universities and institutes in the Nizhny Novgorod region (4 Institutes and 2 branches of Moscow Institutes of the Russian Academy of Sciences; 5 R&D Institutes of the Russian Ministry of Education and Science; 66 specialized R&D institutes, including VNIIEF All-Russian Nuclear Centre, and 15 design and development agencies of industrial enterprises; 17 universities, including 2 private ones, and about 30 affiliates of state and private universities; 15 innovation infrastructure facilities).

4. High scientific and technological potential of the region. Strong scientific knowledge creates a competitive basis in automotive, machinery, metallurgy, chemistry and pharmaceuticals, aviation, shipbuilding, construction, nuclear physics and many others industries.

5. Large consumer market. With a population of over 3 million people and eight megapolises within a radius of 1000 km, the Nizhny Novgorod region provides a large and booming consumer market offering attractive growth potential.

6. Strong government support. Investment in the Nizhny Novgorod economy is strongly supported by regional government.

### ***The governmental support of investment activity in the Nizhny Novgorod region***

The Government of the Nizhny Novgorod region renders all possible support to investment projects. The government support is offered in diverse forms addressing investor's interests to the extent possible and mitigating his risks.

The principles and basic criteria of government support are stipulated by the Nizhny Novgorod regional Law On Government Support of Investment Activities in the Nizhny Novgorod Region dated 31st December, 2004 [3].

In 2002 the Nizhny Novgorod region started implementing the project Research of Administrative Obstacles in the Way of Investments in the Nizhny Novgorod Region within the framework of the partnership program between the Government of the Nizhny Novgorod region and the Department for International Development of Great Britain (DFID). Project executives are the Government of the Nizhny Novgorod region and the Foreign Investment Advisory Service, a joint service of the International Financial Corporation and the World Bank.

Project's objective is supporting the Government of the Russian Federation in its efforts to remove administrative obstacles at regional and federal levels [3].

The project will make it possible to analyse procedures an ordinary investor has to go through before investing, as well as co-operation processes between entrepreneurs and various state bodies, including:

- procedures for registration of a new enterprise (immigration procedures for foreign investors, registration procedures for domestic and foreign investors, acquisition of certificates from the antimonopoly body, etc.);
- procedures for making choice of a site for the future enterprise (basic requirements for construction, allocation of land, co-ordination of the project at the "primary stage", acquisition of the authorisation for construction, laying of communications, auditing and acquisition of the authorisation for start-up);
- procedures for the realisation of entrepreneurship (co-operation with the fiscal administration , regulations for import/export and currency transactions, certification of production, inspections and audits by various state departments) [3].

One of the priority goals of the Government of the Nizhny Novgorod region is to create a favourable investment climate in the region by eliminating administrative barriers through simplification of procedures and expediting investment applications. The Investment Council under the Governor of the Nizhny Novgorod region began working in February 2006. Since its inception, it has made a lot of positive decisions concerning land allocation and many projects have been granted the status of priority investment project [3].

To secure development of the Nizhny Novgorod region, the Government of the Nizhny Novgorod region offers guarantees to attract investments and credits in any form, not contradicting legislation of the RF, as well as takes all the necessary actions to develop regional economy and create a favourable image of the Nizhny Novgorod region. The Government of the Nizhny Novgorod region defines legal and economic basis of state support of investment activity

in the Nizhny Novgorod region, stipulates forms of state support of investment activity as well as its procedure for governmental bodies of the Nizhny Novgorod region, aiming at support and development of investment activity, security of rights, interests and property of investment activity participants. This provides investors with guarantees against unfavourable changes in the Nizhny Novgorod region's legislation.

The Government of the Nizhny Novgorod region sets the basis for the provision of benefits to users of investment objects in Nizhny Novgorod by conclusion of an investment agreement with the City Administration of Nizhny Novgorod.

Investment agreement terms are the following:

1. The total sum of an investment project shall equal not less than \$1 mln.
2. An investment project shall be completed within 3 years period starting from the date of signature of the investment agreement.

The time limit of an investment project completion may be increased up to 5 years if the investment total sum is not less than \$7 millions [3].

The Administration of Nizhny Novgorod creates a database for investment projects subject to prospective realisation in Nizhny Novgorod. It also grants support to the most promising and significant projects being realised on the territory of the city on behalf of the City Administration.

One of the major lines of work of Nizhny Novgorod authorities is the creation of a favourable investment climate.

The notion of investment climate incorporates a wide range of components, such as:

- regulations of investment activity;
- tax system;
- removal of administrative barriers to investments;
- support of entrepreneurship [3].

Possible types of state support used by the Nizhny Novgorod region's authorities are:

1. Tax remissions (profit tax, property tax, land tax)
2. Investment tax credit
3. State guarantees of the Nizhny Novgorod region
4. Real estate lease benefits
5. Setting of minimum rental fee rates for land leasing
6. Property tax exemption as regards the municipal budget share (for 5 years)
7. Reduction of the land tax as regards the land subject to investment
8. Reduction of land rent charge as regards the municipal budget share (for 3 years)
9. Elimination of excessive administrative obstacles in the way of investments [3].

#### 10. "One window" principle implementation.

The most popular methods of governmental investment support are tax benefits, rent exemption, loan interest refund and non-financial support.

##### Tax Benefits

Tax benefits are a world-wide popular governmental investment support vehicle.

The province affords tax benefits within the amount of tax liabilities due to the consolidated regional budget.

Consequently, the benefits refer to profits tax and property tax to the extent payable to the regional budget.

In accordance with the federal fiscal legislation the benefit on profits tax payable to the Nizhny Novgorod region consolidated budget depends on the ratio of sales generated by the implemented priority investment project to company's total sales.

The total reduction in the rate of the profit tax payable to the Nizhny Novgorod region budget cannot exceed 4,5%. A profit tax benefit is afforded on the completion of a fiscal period.

An investor can be exempt from the corporate property tax to the extent payable to the regional budget, if the property was created, purchased, or used to implement a priority investment project. The list of such property shall be agreed with and approved by the province's Ministry of Investment Policy.

Tax benefits afforded to investors are only valid within the project's payback period and not longer than five years from the date stipulated by the investment agreement, but not before a regional law confirming the agreement becomes effective. An investor can at its own discretion determine the start date for tax benefits that can differ from the day on which the enactment enters into force.

The House of Assembly upon the regional government's recommendation may, on an exceptional basis, decide to extend to a maximum of 2 years the validity of tax benefits of an investor's implementing an industrial or infrastructure project in the Nizhny Novgorod region, including transportation infrastructure, with a payback period exceeding five years.

##### Rent Exemption

Investors implementing a project in the Nizhny Novgorod region can be exempt (during the validity of the investment agreement) from rent for lands used for investment purposes to the extent payable to the regional budget [3].

##### Loan Interest Refund

Investors implementing their projects on a loan basis can be refunded the interest on their borrowings.

A part of the interest paid for bank loans is refunded by the regional budget through a transfer to the investor from budgetary funds amounting to a half of the interest accrued pursuant to the loan agreement, but not more than a half of the interest accrued at the RF Central Bank discount rate in force at the date of the loan agreement.

The total amount of benefits afforded to an investor cannot exceed the funds invested in this particular investment project.

#### Non-Financial Support

With the broad range of non-financial support arrangements available an investor can reckon on authorities' assistance in any matter [3].

#### *Russia's Best Cities for Business*

A lot of factors can influence investor. Some cities of Russia are more attractive for investors, others are less (Table 15).

Table 15

#### **Russia's Best Cities for Business in 2010**

Rank	City	Total score	Market size	City financ	Construction	Trade	Citizens' welfare	Security	Previous rank	Rank change
1	Krasnodar	3,315	14	29	6	1	1	5	2	1
2	Yekaterinbur	3,238	2	30	15	3	3	53	1	-1
3	Sochi	3,049	28	3	2	11	12	6	20	17
4	Ufa	3,023	5	42	36	2	2	35	3	-1
5	Novosibirsk	2,984	1	23	21	29	10	41	6	1
6	Surgut	2,948	34	1	23	4	21	38	5	-1
7	Omsk	2,784	8	36	43	18	15	23	7	0
8	Rostov-on-Don	2,772	9	27	9	26	4	51	8	0
9	Volgograd	2,766	12	44	44	36	6	9	15	6
10	Krasnoyarsk	2,758	4	16	32	8	11	58	9	-1
11	Kazan	2,729	3	63	14	12	5	47	4	-7
12	Chelyabinsk	2,692	6	35	22	10	17	46	14	2
13	Stavropol	2,672	33	26	1	7	32	19	25	12
14	Voronezh	2,665	10	19	10	43	23	28	17	3
15	Tyumen	2,652	13	8	4	5	16	64	10	-5
16	Samara	2,592	7	18	59	17	7	49	12	-4
17	Perm	2,578	11	2	46	34	14	56	16	-1
18	Ryazan	2,448	35	57	5	45	33	3	26	8
19	Ulyanovsk	2,432	25	32	34	20	37	12	-	-
20	Tolyatti	2,429	16	34	58	6	45	16	11	-9

Source: based on [3]

Forbes magazine published a ranking of Russian cities in terms of convenience for the business, which includes 30 cities with the best, in the editorial board opinion, conditions for running a business. The magazine published the ranking for the fourth time. This year Moscow and St. Petersburg were included for the first time and were at the end of the list. The leaders of the rating are those of the lowest administrative pressure, with tax officials that are tolerant to the business plus available finances.

The top spot went to Sochi. According to experts, this is a very good advertisement for the future capital. Businessmen and Sochi government are confident that the city is worthy of the assigned position, and the well-known international rating publications will have a big impact on its world status and promotion as a resort city.

The second place in the rating went to Ufa, the third - to Chelyabinsk. In addition to them the top ten are Tyumen, Nizhny Novgorod, Yekaterinburg, Makhachkala, Kazan, Ulan-Ude and Krasnodar.

To determine the most favorable city for the business, Forbes used three major studies: checking the business climate in Russia's regions (New Economic School and Ernst & Young), study of the entrepreneurial climate in Russian regions conducted by Support of Russia and Doing business in Russia of the World Bank. The authors asked entrepreneurs figuring out what prevents them from doing business in Russia. The obstacles are: staff shortage, lack of financial resources, lack of adequate infrastructure, administrative barriers and tax administration [58].

## **TOPIC 8. REGIONAL SOCIAL POLICY**

*Questions for the lectures and the seminars:*

*Regional Social Policy: definition, structure, methods. Regional labor market: employment and unemployment, migration in regions. Regional demography: fertility and mortality. Regional Policy in the Health care system. Social Protection in Regions. Regulation of Services, Water, Electricity and Other Utilities in regions. Educational system in Regions. Environmental problems in regional economy.*

Regional social policy primarily refers to guidelines, principles, legislation and activities that affect the living conditions conducive to human welfare in a region.

Regional social policy is focused on those aspects of the economy, society and policy that are necessary to human existence in a region.

These basic human needs include: water, food, housing, a sustainable and safe environment in a region, unemployment in a region, social security, the promotion of health and education in a region, etc.

Regional social policy aims to improve human welfare in a region and to meet human needs.

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