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## MANAGEMENT AND MARKETING

**EFFECTS OF COVID-19 ON HUMAN RESOURCE MANAGEMENT FROM THE PERSPECTIVE OF DIGITALIZATION AND WORK-LIFE-BALANCE***Iza Gigauri*

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**ABSTRACT**

Extraordinary changes caused by COVID-19 have enforced companies around the globe to accelerate transition to digital business processes. Human resource management (HRM) is in the heart of these transformations helping organizations to navigate in the vague present and unforeseeable future. HRM needs to manage people in companies during the crisis in order to enable business continuity and ensure work-life balance. Since the future will bring more flexible, remote-friendly, digital working norms, the changes in policies, processes, workspaces, collaboration systems, and employee wellness are of increasingly urgent importance.

The paper discusses the challenges HRM is facing due to the current crisis in terms of remote working, and identifies the implications the pandemic has on human resources. The expert interviews conducted in Georgia indicate that HRM should consider ways to develop new policies for hybrid working models as a response to the current pandemic crisis.

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**Introduction.** The recent changes brought by the worldwide pandemic (Covid-19) have imposed organizations to accelerate transition to digital operations. This shift has compelled the human resource management (HRM) to navigate employees in this extraordinary situation. Human Resource Management has an important role to play on the one hand to help employees in using digital platforms to access to their jobs, and on the other hand to support organizations in their efforts to continue business processes.

In the digital ecosystem, employees need to upgrade their knowledge, or obtain new skills.

This research is determined by the influence of the recent unexpected crisis on companies and business continuity. The aim of this research is to identify the changes occurred in the companies in Georgia as a response to the crisis. The qualitative research method was used to understand how companies respond to the pandemic lockdown, how digitalization and employee wellbeing have been managed during the crisis, and how HRM processes were interrupted by the Covid-19. For this reason, expert interview method was employed. In order to investigate the transition to the remote, acceleration of digitalization especially in the Georgian companies, and their impact on work-life balance of employees, the research questions were designed in an open-minded way.

For this research, existing theoretical foundation in the literature gave direction to the research questions. The primary data collection implemented by semi-structured face-to-face video interviews,

and analytical procedure was determined by theoretical framework as well as the qualitative characteristic of the gathered data.

Research questions for this manuscript are as follows.

RQ1: Why and how did the Covid-19 pandemic affect the Human Resource Management generally, and in particular in the Georgian companies?

RQ2: Why remote working can be the adequate respond to the pandemic crisis and how HRM can help companies in digital transformation?

RQ3: How did HRM respond to the crisis in Georgia and how they create conditions for adaptability of employees to the new reality?

The research results have a significant impact on managers and organizations in terms of crisis management from the HRM perspective. Overall, the manuscript contributes to scholarship by emphasizing that digitalization is the future of the business, yet remote working has an effect on work-life balance of employees, as shared spaces for work and private live can be a major source of stress.

The remainder of this manuscript is organized as follows. First, literature and theory are reviewed on digitalization, work-life balance, Covid-19 implications, as well as crisis consequences in Georgia. Then, the primary data collection methods are presented, followed by the research findings and discussions. Finally, conclusions and future research areas are suggested.

## **Literature Review**

### ***The role of HRM in digital transformation***

The current crisis of the new coronavirus pandemic initiated dramatic changes around the world. In this context, both companies and customers switched instantly to digital models. The Covid-19 has intensified digital transformation for companies, and many workers around the world need to have necessary skills to use technologies (Sheppard, 2020) in order to perform their jobs remotely. The digital technologies enable virtual work as well as to automate tasks and make decisions (Parry & Battista, 2019). The pandemic has made it visible that the most demanded skills for the employees are digital, but also collaborative (Sheppard, 2020).

Any problems happening in the interconnected world encourage organizations of any size to respond and adapt to the change, as well as manage their employees accordingly (Carnevale & Hatak, 2020). Recently, the Covid-19 pandemic has shaped extraordinary demanding conditions for human resource management. HR managers have to help their employees to handle with the rapid changes in both the workplace and the society (Carnevale & Hatak, 2020).

Moreover, Covid-19 will impact profoundly on the employment, and can cause career shock for people (Akkermans, Richardson, & Kraimer, 2020). HRM needs now to deal with the increasing stress of their workforce caused by remote working when work and family boundaries have blurred (Giurge & Bohns, 2020).

Previous reports anticipated that the trends towards online workers and platform workforces increase, which presents reskilling needs from employers and workers (World Economic Forum, 2018). According to the Sheppard (2020), businesses should prepare to changes and turbulence in the future by introducing and adopting platform-based technologies, and develop business models accordingly (Sheppard, 2020).

The studies from previous years confirmed that emerging technologies including digital platforms, Artificial Intelligence, robotics, augmented reality, and blockchain – would change the functions HR professionals perform (Parry & Battista, 2019).

To adapt to the digital work, employees should learn new skills that increases their employability (Sheppard, 2020). Based on the study, Parry and Battista (2019) demonstrated that human resource management should help employees to use the advanced technologies in organization. Since employees alone cannot cope all the challenges the recent pandemic crisis brought, HR professionals should help them to upgrade their digital skills, and to arrange their wellbeing (Parry & Battista, 2019). In this respect, leaders acknowledge the importance of lifelong learning and developing talents; consequently, they are planning training sessions online (Narayandas, Hebbar, & Liangliang, 2020). The recent survey of Chinese companies showed that they invest resources rather than preserve funds, in strengthening their competitive ability (Narayandas, Hebbar, & Liangliang, 2020).

It is also noteworthy that business continuity, employee wellbeing, and customer orientation are considered to be the main challenges (Singer-Velush, Sherman, & Anderson, 2020).

Moreover, as new technologies increase flexibility and allow the workforce to work remotely, HR management needs to create appropriate policies and performance systems to ensure that employees meet standards, but at the same time eliminate the negative effects of digital working in particular with regard the social interactions (Parry & Battista, 2019).

The large-scale research of 869 teams and 11,011 workers in 9 European countries confirms that remote working is not beneficial for all employees; especially team performance is reduced and sharing knowledge suffers when coworkers are working from home (Van der Lippe & Lippényi, 2019). However, job characteristics, satisfaction, and commitment are the factors that influence individual performance, while team performance declines when members work from home more than 8 hours per week (Van der Lippe & Lippényi, 2019). Agile teams, earlier confirmed to be effective with remote working, can be inefficient when working fully remotely (Comella-Dorda, Garg, Tharej, & Vasquez-McCall, 2020). These findings suggest that HR function should address those issues and accordingly organize flexible work.

While workplace stressors intrude into personal life disturbing mental health, the reverse dynamics are also noticed. The studies found that remote workplaces reduce boundaries between work and personal life causing personal stress to spread to work, and ultimately resulting in burnout (Peasley, Hochstein, Britton, Srivastava, & Stewart, 2020). Peasley and colleagues (2020) indicate that although remote work has many advantages, employees experience "mix of business and home life", which causes troubles for both managers and workers in terms of long-term wellbeing (Peasley, Hochstein, Britton, Srivastava, & Stewart, 2020). It is worth noting that wellbeing has impact on motivation and performance outcomes of employees.

The pandemic has centered the physiological and mental health of people in the organization as priorities (Spence, 2020). Since many employees will be happier to return to their offices while others prefer continue working remotely, companies reframing the workplaces should take into consideration these differences (Spence, 2020).

The research based on Workplace Analytics at Microsoft revealed that workdays prolonged as the employees working from home signed into work earlier and signed off later as they assigned time in the meantime for personal issues (Singer-Velush, Sherman, & Anderson, 2020). Although time of meetings online has reduced to 30 minutes, managers had to help employees to prioritize work and lessen potential negative effects caused by the shared space of work and home (Singer-Velush, Sherman, & Anderson, 2020). However, jobs performed at night and weekends increased, which indicates the disruption of work-life balance (Singer-Velush, Sherman, & Anderson, 2020).

Furthermore, social isolation has a negative impact on employees. Therefore, HR practitioners need to maintain social interaction among employees who are working remotely. Small-group meetings, networking, virtual connections should be arranged to conquer isolation as work relationships are source of motivation (Singer-Velush, Sherman, & Anderson, 2020).

There is also shift towards keeping video meetings and virtual events, and many HR leaders are trying to maintain the flexibility and collaboration by redesigning jobs, duties, and work processes (Narayandas, Hebbar, & Liangliang, 2020). For example, for PwC flexibility means to encourage employees to work in a different way in compliance with their lifestyles, and they believe flexibility "results in a happier, healthier, and more productive workforce" (Donovan, 2019). The survey of Chinese companies reported that communication was more personal during the pandemic lockdown as employees have used audio apps more frequently than emails (Narayandas, Hebbar, & Liangliang, 2020).

For evaluate workload and performance of human resources, managers have used digital data and online dashboards with the intention of assessing for example number of sales, tickets closed, calls made, hours logged on, or number of customers served (Narayandas, Hebbar, & Liangliang, 2020).

Thus, HRM should help companies to transform their business processes into the digital space by upgrading employee skills, create organization culture for adaptability to digitalization, and keeping work-life balance to maintain employee health, motivation, and efficiency.

#### ***Tendencies during the Covid-19 crisis in Georgia***

According to the survey of PricewaterhouseCoopers (PwC) Georgia, disruption in the supply chain and decrease in demand among Georgian companies resulted in revenue decrease (PwC Georgia, 2020). 53% of companies report that sales have declined (GCCCI, 2020), and 63% of surveyed organizations confirm that their incomes reduced by more that 50% to compare with the same session of the last year (PwC Georgia, 2020). Under these circumstances, about 50% of Georgian companies

have reduced personnel, while 40% of companies in Tourism industry dismissed all their staff on grounds of redundancy (PwC Georgia, 2020).

The survey of the Georgian Chamber of Commerce and Industry shows that 53% of the surveyed companies intend to maintain their employees for the next 6 months, but 43% of the employers have reduced the salaries (GCCCI, 2020).

Interestingly, the way out of the situation from the point of view of the Georgian companies is in financial aid from the government as well as in long-term/ soft loan (GCCCI, 2020).

As for shifting to remote working, 17% of surveyed companies want to move online, but admit to not having the necessary skills, while 7% of them plan to transfer to online working systems in the near future (GCCCI, 2020). Remarkably, the interest of Georgian companies in working online increased from 0.33% to 17% in the last 3 months (GCCCI, 2020).

In this vein, how organizations should maintain employee wellbeing and work-life-balance during working remotely from the perspectives of the human resource experts. By the same token, HR managers being at the forefront of development organizational culture as well as human resource policies created deliberately for remote working should pave ways for the digital transition and work-life balance simultaneously.

### **Data Collection Methodology**

As the aim of this research is to understand the impact of the Covid-19 pandemic crisis on the Human Resource Management, digitalization, and work-life balance, qualitative research approach was used. The semi-structured open interview with experts provides the space to reveal opinions, thoughts, and reflections of an expert, and hence, it was considered to be appropriate for this study. The following procedures were applied to collect primary data from the experts. After selecting a research topic, and preparation and planning phase, conduction series of interviews begun followed by transcriptions of the recorded interviews, then data were analyzed and interpreted, and finally conclusions and recommendations based of the results was made.

### **Data collection Instrument: Expert Interview Method**

To collect the primary data for this study, expert interview method was used. Expert interviews conducted in April and May 2020. The selection of the experts was based on the purposive sampling method; interview participants were chosen based on their characteristics.

Corbin and Strauss (2008) state that research question dictates the methodology employed to carry out a research. Besides, qualitative research enables to "discover rather than test variables" (Corbin & Strauss, 2008).

Expert interviews is a legitimate method for some research, especially in the exploratory phase it presents an efficient and concentrated way to collect data, and quickly gain good results (Bogner, Littig, & Menz, Interviewing Experts, 2009).

An expert is defined a person who possess technical as well as interpretative and process knowledge in a specific competences field (Bogner, Littig, & Menz, Introduction: Expert interviews - An introduction to a new methodological debate, 2009). Experts have not only systematic and organized knowledge, but also experience (Mergel, Edelmann, & Haug, 2019). An expert has relevant knowledge about processes, decisions, behaviors, as well as access to information, and they have an ability to solve problems in their field of expertise (Meuser & Nagel, 2002). Researchers highlight the following criteria for assessment of the competences of the expert: education and skills, position, work experience in the field of research topic, the level of public recognition (Libakova & Sertakova, 2015)

Based on the abovementioned principles, the following criteria were elaborated to invite experts for the interview: An expert should (1) have theoretical knowledge and expertise in the field of human resource management, (2) have work experience with organizations on human resource management issues, (3) be engaged in research at an university, in consulting or training business and therefore, have direct contacts with HR managers in Georgian organizations (Figure 1).

Thus, the experts invited to participate in this research are in close connection with the various organizations in Georgia, have frequent and immediate relations with HR managers in the course of their day-to-day work, so that they see present conditions imposed by the pandemic.

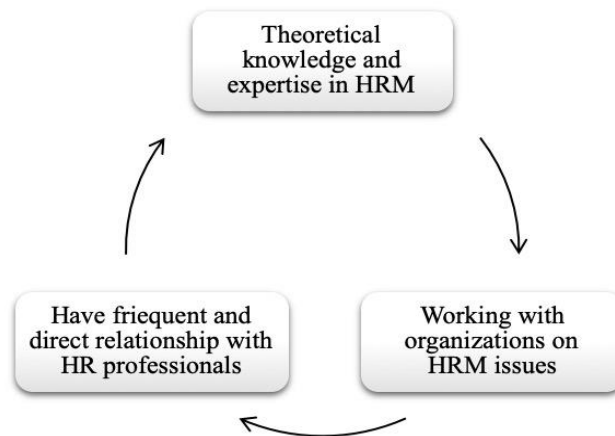


Fig. 1. Criteria for Selecting Experts for the Interview

### Sampling

The number of interviewees is defined by both the research question and accessibility to experts (Baker & Edwards, 2012). The researchers suggest ten interviews with experts in order to analyze properly (Glaser & Strauss, 1967). According to Guest, Bunce & Johnson (2006), the size of purposive sampling as the widely applied method of nonprobability sampling depends on the saturation concept (Guest, Bunce, & Johnson, 2006). As soon as saturation has been reached, data collection should stop (Glaser & Strauss, 1967). Sampling in expert interviews should be kept as long as the knowledge of the issue is increasing, and stop when there are no new insights gained (Cooper & Schindler, 2014).

In total, 33 experts were invited to the interview for this research, and 10 of them were actually interviewed. Experts were recruited through the professional contacts of the researcher. Initially, we contacted them via Email explaining the purpose of the research and sending general interview questions.

The experience and insight of the experts allow gathering primary data from various background and experience in order to study the impact of the crisis.

They are experts of the field of HRM, and the information they provided is true reflection of current state in this area. They come from diverse organization ranging from consulting companies to training centers to universities. Their working experience in HRM consulting, training, and research field ranges between 9 and 25 years (Figure 2).



Fig. 2. Expert characteristics

### Interview guideline

The face-to-face expert interviews were carried out using online video platform Zoom. Interviews were conducted in the Georgian language. After each session, transcripts of the interview



were made, and later translated into English by the researcher. The depth interview with an individual expert took between 23 and 46 minutes. The interview was prescheduled. The experts were asked to allow video-recording in Zoom in order to transcript it later. They were ensured that their personal data will be protected, thus their identities remained confidential as well as will not be available for any third parties.

The semi-structured interview followed similar outline that allowed to compare data, and to keep the interview within the topic boundaries; all questions were open. At the end of the interview, the last question was about their additional comments or viewpoints they thought it could be important to the research.

The questions were based on the current literature, and relied on the expert answers to pose additional questions. The questions were open-ended and comprehensive answers were expected. Overall, the interview guideline consisted of 9 questions covering the 6 main themes (Table 1).

Table 1. Main Interview Themes

Part	Theme
I	General question about the expert experience and exact field of expertise
II	Questions about Covid-19 effect on organizations and challenges HRM have faced
III	<b>Questions about changes caused by the crisis (e.g. Work-life balance, Digital transformation)</b>
IV	<b>Questions about the company response to the pandemic crisis from HRM perspective</b>
V	Expert opinions regarding the future of HRM, and their recommendations to HR managers
VI	Additional thoughts/ views if applicable

In the framework of this manuscript, questions in the part 3 and 4 are analyzed.

The experts were asked what they think about the major alterations in organizations and with HR management, which took place due to the pandemic, what exactly was the company's response to the sudden changes, and whether any opportunities are considered for Georgian companies.

#### **Data Analysis**

At the stage of the analysis, the collected data through the expert interview were interpreted and analyzed with the approach of qualitative content analysis.

The systematic analysis includes concepts, themes, and categories derived from the data, which are discussed (Silverman, 2000). The thematic parts and passages with similar elements need to be noticed (Bogner, Litting & Menz, 2009). Additionally, the data were grouped and labeled by category; relevant themes to the research questions were determined to make connections (Flick, 2014).

Thus, themes, issues, categories were identified, patterns were discovered in the content, and were labeled appropriately. Then, data were sorted according to similar themes and subthemes as well as conflicting points of view. Thematically similar passages from different expert interviews were put together as described by Bogner, Litting and Menz (2009) to further conceptualize and reveal the commonly shared expert opinions.

#### **Findings and Discussion**

##### ***Remote Working as a Response to the Pandemic Crisis***

The pandemic lockdown imposed many challenges to the organizations, human resource management, and employees. The interviewed experts indicate that the main difficulties companies have to deal includes suspended operations or business closure as well as financial problems. In addition, systemic deficiencies and unpreparedness have been reported in many cases in terms of business continuity. Instead of quickly adapting to new reality and beginning operations under the pandemic circumstances, the companies were forced to shut down, so they started waiting for the pandemic to pass.

“I do not see that companies have any organized approach to learn living and operating with the virus” (R3, *my translation*).

Besides, corporate brand and organizational culture are under question, while the management have less experience in crisis management. Further, they need to consider flexibility and digitalization when employees begun working remotely.

As stated by the experts one of the biggest problems was the vague and inconsistent regulations in line with the lack of communication with the governmental agencies.

“When regulations change frequently and there is no direct contact with the regulators, the risks of imposing fines on companies increase if a company does not meet every aspect of the legislation requirements because of its ambiguity and possibility of various interpretations” (R4, *my translation*).

With regard to employees, the experts claim that their stress, fear and anxiety increased. They now need to adapt to the new reality with digital processes and remote working, and therefore upgrade their skills in online tools. Moreover, the workforce has to handle with unemployment or salary reductions due to the recessions caused by the pandemic.

The respondents believe that HRM carries out an unequivocal commitment to companies' success and employees' wellbeing. According to the experts, main challenges HR managers have faced during the pandemic are lack of knowledge in new technologies as well as in crisis management. Besides, they needed to manage people online while monitoring employees' job performance. At the same time, HRM has dealt with dismissals, turnover, and managing panic within the organization. Additionally, new safety regulations must be interpreted for company and employee standpoints. The experts noted that some Georgian companies have already introduced a labor safety consultant to help organization and its workforce to obey the safety regulations.

Furthermore, work-life balance must be also addressed as the most employees were working from home where the space between work and personal life may not exist causing increasing stress.

When it comes to remote work the experts mention that some companies have already had a flexible working schedule especially those in IT industry or consulting business. Consequently, their employees have adapted easily and relatively painlessly to work from home. Moreover, many employees want to be allowed to continue working online after the post- pandemic period.

As stated by experts in the interview sessions, Georgian organizations and HR systems were not ready to work remotely neither technologically nor mentally. Besides, the management of many companies has lacked experience in managing stress and in change management.

Another key challenge the experts highlighted is the ability of HR professionals to manage autonomously, result-oriented, and remotely. Previously, many processes and works have been done on paper, and Management was interpreted as control and monitoring of employees. During the remote working conditions those old approaches have been questioned, and requirements towards new procedures emerged. Yet neither HRM nor HR professionals nor employees are ready for developing and introducing novel management systems.

"We live in an age of artificial intelligence and how to exist without technology. This pushes a person towards self-development" (R2, *my translation*).

#### ***Tackling Covid-19 Crisis from viewpoint of HRM: Digital Transformation***

In the course of the pandemic crisis, HRM has taken up leadership and more responsibility at many organizations concentrating their resources on solving problems. The respondents expressed their views how Georgian companies have dealt with the pandemic crisis from HRM perspective.

Digitalization was seen as a tool to make business activities possible during the pandemic. Moreover, the importance of digitalization has increased during the crisis period. Consequently, remote management of companies has been allowed, and potential of e-commerce has expanded. The pandemic accelerated digitalization of business processes also in Georgian companies. It is no more unimaginable for managers to work from home. Nevertheless, digitalization in Georgia is not in mainstream as after reopening many companies returned to the traditional offline way of operations.

While some Georgian companies see the online platforms merely as a transition bridge to get back to their usual reality, others used the whole potential of online technologies during the crisis to retain relationship with workers through online team meetings, and even to integrate new employees more quickly.

HRM should help companies to make decisions whether some positions will be moved partly or entirely remotely, whereas other positions need to be identified which are unable to be performed from home.

In the opinion of the experts, despite the negative impact in terms of stress, unemployment, business closures, some companies have been affected still positively as they have become more effective by using digital channels, and take care of development. The experts emphasize that the pandemic situation and safety regulations accelerate the process of working remotely coupled with transformation using digital channels in Georgian companies.

Jobs will be significantly transformed. Therefore, both the companies and the workforce need to obtain more technological knowledge and experience, develop digital skills, as well as be flexible, more adaptable to changes, and prepare for future uncertainties.

#### ***Effect of Remote Working on Work-life Balance from the Perspective of HRM***

During the pandemic lockdown, the remote working issues were observed by the experts. The employees being at work are concentrated on their jobs for about 7-8 hours, while working from home involves major distractions such as child care, household chores, and hence, employees have to perform the assigned tasks at night. Many Georgian employees have complained that they did not understand when they started and when they finished the job i.e. where was the line between work and home. “The area where they rested, the house, is mixed with the work relationships” (R6, *my translation*). At the same time, if other members of the family also worked remotely and the study has been done online as well, there has been a lot of psychological pressure and tension.

Therefore, HRM should help the workforce to arrange the space and schedules for working remotely taking into consideration the individual differences or conditions to maintain work-life balance.

Although working online can be profitable for companies, its biggest disadvantage is a lack of socialization. The respondents noted that there should be a room left when switching to the remote mode with the purpose of organizing meetings in offices occasionally. This will lead to more comfortable state of mind and mental health resulting in improved motivation and productivity of the staff.

In the opinion of the experts, even if some positions remain fully remotely there should still be arranged face-to-face meetings occasionally to conquer isolation and facilitate social relations for employees.

Figure 3 summarizes the main results of the research and provides answers of the research questions.

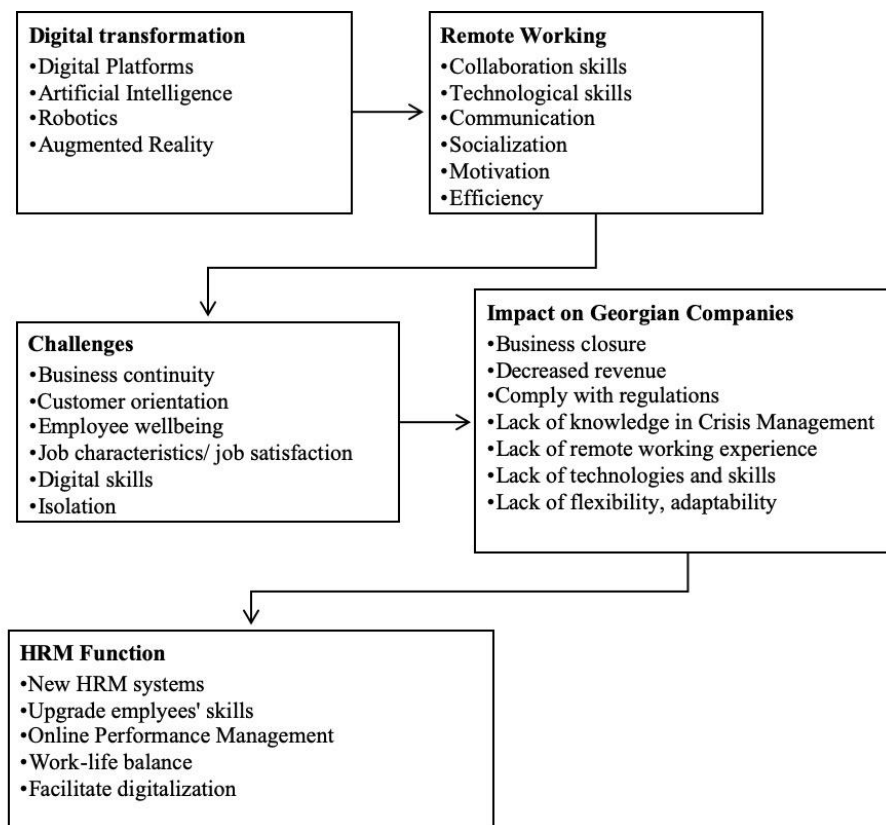


Fig. 3. Impact of the pandemic crisis on HRM

**Conclusions.** In this paper, the focus was on the influence of Covid-19 crisis on HRM as well as digitalization and its accompanying work-life balance issues.

Qualitative expert interview method was applied for this research as a first direction to better shape the difficulties caused by the current pandemic crisis. The aim of the research was to reveal the organizational decisions and to learn about the role of HRM during the crisis.

The experts' judgments were founded on their knowledge and personal experience. During the analysis, comparisons were made followed by data interpretations, discussions of findings, and conclusions.

The researchers have theorized the similar trends experienced during the crisis situation regarding human resource management and impact on employee wellbeing. The interviewed experts also noticed that job requirements filled the private space that has been previously reserved for personal life. Many employees in Georgia performed their jobs at night. They have been straggling to unplug from work and relax. Therefore, eliminate online meetings on certain days will solve this issue.

As remote working has risen during the lockdown, it is needed to adapt the new working life. In order to adapt quickly to changes, enhancing communication is of primary importance.

The HR managers do not need to monitor closely the employees work activities during remote working as they can perform tasks independently with responsibility. The workforce has increased requirement to safeguard health, and employees' health and safety is also decisive for companies to create organizational values and long-term brand. Thus, taking into account employees work-life balance during digitalization process is crucial.

Given that some employees prefer to keep working from home while others strive to return to offices, the new HR policy should allow the workforce to choose the work mode. HR managers are therefore encouraged to develop strategies accordingly. Moreover, the policy regarding travel, business trips, and corporate events need also to be transformed.

Today, the main goals companies set in association with HR management are to organize hybrid model to allow the workforce to continue working remotely, to revise organizational culture correspondingly, to hire remote employees, and create digital office spaces.

Future Research: Founding on the results of expert interviews, the questionnaire will be designed for the future quantitative survey of HR managers to study thoroughly the impact of Covid-19 pandemic crisis on the companies, employees, teams, and on the HRM system in Georgia. Besides, it would be interesting to gain data about the influence of digitalization and remote work on employee behavior, on employees' family members, and on the society at large.

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# FUTURE MARKETING IN B2B SEGMENT: INTEGRATING ARTIFICIAL INTELLIGENCE INTO SALES MANAGEMENT

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## ABSTRACT

The technological phenomenon of artificial intelligence transforms B2B marketing and approaches to the formation of product value, sales and service. The case study allowed the author to examine and summarize the experience of large companies in integrating artificial intelligence into the sales management system, marketing and service. The article identified three problems of B2B companies' sales system: incomplete, unreliable data, lack of interaction between marketing and sales systems, dynamic growth of personal data volume. The study proves economic efficiency of the integration of artificial intelligence, which solves these problems. The future of marketing was identified based on the latest trends in the B2B segment. In the future, industrial marketing will be determined by the accuracy, reliability of customer information, a high level of accuracy of demand forecasts, a shortened cycle of trade agreements, increasing level of effectiveness of cooperation between marketing and sales departments. The integration of artificial intelligence into sales management will finally complete the era of digital marketing in the B2B segment and will be the beginning of the era of "human" marketing. The latter will mean that in the context of a regulated digital private B2B data market, marketing will be focused on human needs with an accurate predictable understanding of customer needs.

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**Introduction (Problem Statement).** Sales management in the B2B segment is complicated by increasing pressure on the sales management system to ensure a sustainable income and at the same time a shortage of hard skills specialists. The latest trend determines the need for consistent training of salesmen (trainings, seminars, training videos), and is exacerbated by the difficulty of maintaining the required level of competence of professionals in terms of staff turnover. These problems are addressed through business digitization and the integration of artificial intelligence, which supports a sales management system to ensure a stable income.

In the glass industry, sales management problems are exacerbated by the continuous production cycle, seasonal demand for products that require long-term planning, low level of culture of consumption of glass products and knowledge of end consumers about the properties of glass. With a high turnover of sales professionals, these problems require technological solutions to automate sales processes. The integration of artificial intelligence into sales management can solve a number of problems in this area, including shifting the focus from the functional responsibilities of salesmen to optimizing interaction with the customer when concluding a transaction.

**Review of recent research and publications.** The use of data in industrial marketing is not a new phenomenon, but issue of digitalization of business models has recently studied more often [13]. The following works deal with B2B marketing: Brennan, R., Canning, L., & McDowell, R. (2020), Cortez, R. M., & Johnston, W.J. (2017), Gilmore, A., Gallagher, D., & Henry, S. (2007), Hall, S. (2017), Harker, M. J., & Egan, J. (2006), Lindgreen, A., Di Benedetto, C.A., Geersbro, J., & Ritter, T. (2018), Noori, B. and Hossein Salimi, M. (2005), Pandey, N., Nayal, P., & Rathore, A. S. (2020), Paschen, J., Kietzmann, J. and Kietzmann, T.C. (2019), Ritter, T., & Pedersen, C. L. (2020), Sharma, A. (2002), White T. (2019), Wise, R., & Morrison, D. (2000), Wright, L. T., Robin, R., Stone, M. & Aravopoulou, E. (2019).

Ritter, T., & Pedersen, C.L. [13] created the concept of “digitization capability” of B2B companies, and determined the development of the interaction of this ability of the company to ensure data-enabled growth. Technology and data have changed the value proposition of companies’ products and the way they are sold. The use of applications based on technology and data, artificial intelligence began in 1935, and in 1956 the first conference on artificial intelligence was held in Dartmouth, USA. Thus, the research has dealt with the issue of “big data” and artificial intelligence in B2B marketing since the early 1950’s of last century [13]. However, today, there is much more data than ever before thanks to access to powerful big data processing equipment that provides a high analytical ability to study consumer information.

Table 1. Stages of research of digitalization of B2B companies’ business

	Stage 1	Stage 2	Stage 3	Stage 4
<b>Period</b>	Before 1990	1990-2000	2000-2010	After 2010
<b>Phenomenon</b>	Digital data	Digital platforms and communications	Increasing the efficiency of digitalization	Digital as a “new norm”
<b>The main focus</b>	Experimental	“Release” from intermediaries	Operation	Integration
<b>The main activities of companies</b>	Digital technologies are used as a new way of business development	Digital technologies provide communication with consumers through platforms or digital channels	Digital technologies optimize business flows to increase the efficiency of existing business processes	Digital technologies are widespread and accepted as a fact in business

Source: Ritter, T., & Pedersen, C. L. (2020) [13].

Research considers digitalization as a digitalization capability of B2B companies or as a digital way of value formation, value creation of a product (value propositions). In our article, we integrate these concepts and consider digitalization as an opportunity to provide a competitive advantage of the B2B companies to shape product value, product consumption culture, and facilitate the interaction of sales management system with the customer.

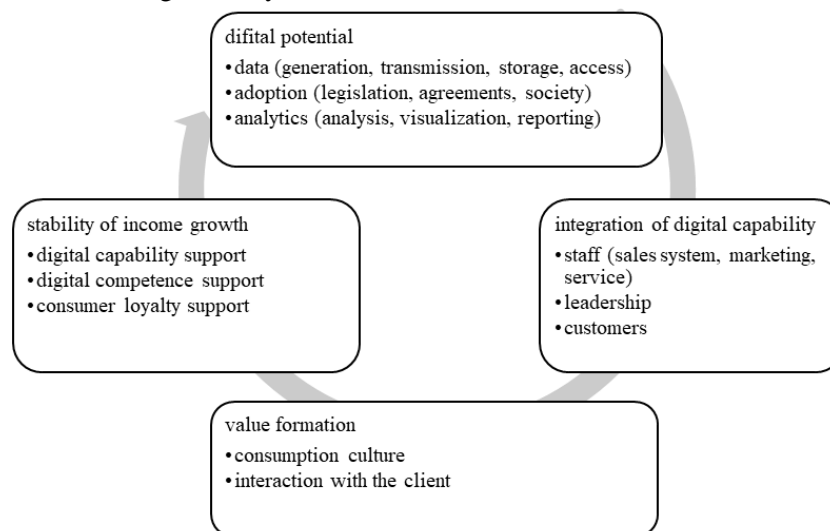


Fig. 1. Conceptual model of digital business model formation. Source: supplemented by the author based on [13].

**The article intends to** forecast trends in B2B marketing in terms of integrating artificial intelligence into sales management.

The main objectives of the article are the following:

1. Studying the experience of international companies in sales management, integration of artificial intelligence and CRM, ERP systems.
2. Analysis of economic and financial effects of integration of CRM, ERP systems.
3. Study of the features of the transformation of B2B marketing under the influence of the integration of artificial intelligence, personal data about customers and artificial intelligence in sales management.

**Research methods.** In this article, we rely on the concepts of content and digital marketing, digital capability and value creation, integrated marketing, customer focus, and customer relationships (Harker, M. J., & Egan, J., 2006 [5]), and a local approach to B2B marketing (Globalization local model, Glocal model), covered in the research by Hall, S. (2017) [4], Cortez, R. M., & Johnston, W.J. (2017) [2]. The local approach of future B2B marketing means focusing on a narrow circle of end users and detailed segmentation of customers, business partners, providing the consumer with detailed information about the product, which allows forming a culture of consumption. In industrial marketing, segmentation takes into account the customer behaviour, industry and size of the client company.

The study is based on a qualitative methodology, which includes the study of trends in B2B marketing, the integration of artificial intelligence in sales management of multinational companies. The technological phenomenon of artificial intelligence (Paschen, J., Kietzmann, J. and Kietzmann, T.C., 2019 [12]) is a central concept in our study that influences the future of industrial marketing.

The article uses the case study methodology of two companies that have integrated revenue analysis systems into sales management based on artificial intelligence. Next, we consider the case of integration of CRM and ERP systems in the Russian glass industry company (ABC company, the name is confidential). The effects of artificial intelligence integration are considered based on the analysis of the integration of CRM (Customer Relationship Management) and ERP (Enterprise Resource Planning System) in companies.

**Results.** Recent studies indicate the active transformation of marketing in the B2B segment and the subsequent change in approaches to sales in the future [2]. The era of integration of technological applications (“digital or application age”) [4], in particular CRM, ERP, began in the 2000’s.

Hall, S. (2017) [4] identifies the following marketing trends in the B2B segment:

1. Growth of customer-centricity. In the glass industry, such a trend will be due to the formation of a culture of consumption, informing consumers about the properties of glass, changing trends in consumption through changing tastes of consumers in related industries (approaches to architecture and design). The culture of consumption is directly related to the competence of sellers in selling the product.
2. The growing role of content and digital marketing. This trend is directly related to the formation of culture. The right content influences sales, digital sales channels are also a way to place content about the product and influence consumer decisions.
3. Multi-channel marketing. Digital marketing allows expanding the number of sales channels, but in the glass industry, the main sales channels are viral marketing, “buzz marketing”, thought leaders, the Internet, blogging, TV repair programs.
4. Increasing pressure on optimization of marketing performance, including sales plans. In the glass industry, the glass manufacturer consistently provides sales of 20% to customers and 80% of products. The pressure increases due to seasonality: in winter, the implementation of plans is complicated by the decline in demand.

In this article, we identify two more trends — the first is the formation of a digital private market of personal data, which in particular allow predicting consumer behaviour, can be integrated into sales management. Large companies are the owners of information as a factor of production, which has recently become increasingly important due to “destructive” innovations. Another trend is the integration of artificial intelligence to manage personal customer data. In this case, the first trend is a consequence of control over the confidentiality of personal data, protection and unauthorized access in the context of business digitalization. The second is a response to the complex challenge of managing a growing volume of customer data in the context of integrating technology solutions into sales management. These trends are interrelated — the growing data volume necessitates the use of a



local approach to doing business and data protection, as well as automating data management to ensure accuracy, reliability, completeness, and predictability.

With the growing role of customer orientation, in particular the orientation of companies in the B2B segment to the needs of end users of their own customers, the integration of personal data into marketing is a way to understand the customer, the ability to form a culture of consumption in “customer language”. The integration of personal customer data also solves the problem of ineffective communication between seller and buyer, as well as incorrect communication of product information by the seller. In addition, the integration of personal data and customer experience solves the problem of incompetence of sellers in terms of staff rotation.

Technological solutions in response to the outlined problems in sales management cause other challenges for organizations. The integration of CRM and ERP improved the accuracy of demand forecasts based on customer activity information. In turn, new problems and challenges arise that require new solutions.

International companies in the B2B segment in sales management face the following problems: incomplete customer data, lack of cooperation between marketing, sales, service, outdated data. Companies are under increasing pressure to achieve revenue growth and sales organization. Ensuring speed and efficiency of sales slows down due to loss of time for customer data management, tracking of customer and seller activities, manual determination of agreements. This means reducing the time to form and deliver the value of the product to the end customer in the constant operation of sales departments with large data sets. In this case, only 20% of the activity is usually recorded in CRM.

Another problem is that the filling of customer data in CRM systems is incomplete, a certain volume of customer information is missing due to the human factor. Artificial intelligence solves this problem of lack of knowledge about the client. The integration of artificial intelligence into the CRM system is a tool for collecting information, which is the basis for automatic analysis of all contact data and activities from the group that works with customers and forms a single source of customer information. Large companies use such artificial intelligence-based analysis systems to address the lack of complete, outdated customer information. At the same time, this allows the sales department to focus on delivering the value of the product to customers.

The sales management system based on artificial intelligence solves three main problems:

1) Incomplete data. Prior to the integration of artificial intelligence into sales management, the analytical data is kept in the sales, marketing and service departments, which were responsible for entering all contacts, customer interaction data in the CRM system. The integration provided automatic collection of contact and action data from groups working with customers, filling CRM with the right capabilities and accounts. This eliminates manual data entry and ensures CRM accuracy.

2) The collected data is sent to marketing, sales or customer departments. Lack of cooperation between marketing and sales means that the company does not receive data about the customer. The sales management system provides data collection by function and combines in a single platform. Reliable data is a source of information for all employees of the company to make decisions.

3) Outdated data. The database in the average company usually doubles in 12-18 months, and is quickly transformed. Staff rotation and lack of frequent updating of information in the CRM-system lead to inaccurate information. The revenue analysis system automatically finds and updates contacts, customer data. Thus, artificial intelligence is responsible for automatically updating data, which ensures the credibility of information in the CRM system.

Thus, the sales management system based on artificial intelligence (Revenue Intelligence System) is a technological solution that automates the collection of data on contacts and customer activities, dynamically updates the CRM system and provides sales, marketing, service departments with real intelligent data for sales management. As a result, it provides a comprehensive implementation of a customer-oriented approach in the development of digital marketing.

Examples of the use of such systems are a new stage in the marketing of the B2B segment. Table 2 provides basic information based on the case studies of two companies in the B2B sector.

Gainsight Inc. integrated an artificial intelligence-based sales management system to address the accuracy and efficiency of the Sales Department in forecasting and closing trade transactions. An additional goal is to increase the level of cooperation between Marketing and Sales Departments. The main challenge for the company is the lack of clear data on the activities of individual sellers, problems in concluding agreements with customers, unreliable forecasting [7].

Gainsight's Sales Department needed access to key data on the dynamics of transactions, problems that arise during the conclusion of the transaction, ways to improve sales performance and sales forecasting. The lack of clarity of this data in the company is due to the lack of resources for real-time data collection in order to understand the level of productivity of the Sales Department. Another need of the company is the need of the Marketing Department in the exact understanding of sales. The integration of the sales management system based on artificial intelligence provided [7]:

1) Display of the procedure for conducting trade activities, which ensures the speed and efficiency of closing transactions.

2) Understanding ways to increase win rates.

3) Elimination of the key problems of closing trade agreements.

4) Determination of factors of the transaction cycle reduction.

5) Identification of trends in the activity of potential customers, which are generated by the marketing department. Greater efficiency of sales service is ensured, key information is provided to ensure effective salesmen training and to check the effectiveness of closing transactions.

Table 2. Case study of integrating artificial intelligence into sales management: New Relic, Gainsight

<b>Company characteristics</b>	<b>New Relic</b>	<b>Gainsight</b>
<b>Industry</b>	Software in the B2B segment	Software in the B2B segment
<b>Number of customers</b>	17,000, including 50% of Fortune 100 customers	More than 360 companies in the B2B segment (Adobe, Box, DocuSign, HP, Marketo, Nutanix and Workday)
<b>Annual income</b>	\$ 600 million	\$ 50 million
<b>Number of employees</b>	More than 2,000 people	More than 700 people
<b>Subsystems of integration of artificial intelligence</b>	Sales: automation of activity data collection, integration of data-based sales training. Marketing: automation of contact creation, CRM optimization. Customer success: identifying customer information, monitoring customer coverage.	Sales Analysis: provides analysis of data on 360 customers to whom Gainsight ensures revenue growth.
<b>Key results, effects</b>	Solution launch the within 14 days. 100,000 contacts are automatically downloaded from sales team mailboxes during the first six months of operation of the solution The accuracy of the CRM system and data has improved by 80%. 300% increase in the activity of high-value data (for example, display of customer behaviour data in CRM).	People.ai SmartMatch technology detects 15,000 contacts from trade group mailboxes in 9 months Gainsight has achieved 90% accuracy in sales forecasting Productivity of sales representatives increased by 15%

Source: based on [7; 9].

Another case study is New Relic, which integrated an artificial intelligence-based system into sales management to access sales metrics, data reliability, develop a sales cycle for revenue growth, and conduct training to improve sales productivity [7].

New Relic offers customers technological solutions (cloud software) and innovations based on software for introducing innovation, business transformation. In a rapidly growing environment, New Relic's Sales and Marketing Departments needed a way to reconcile contact collection and activity data to retain and expand customers. The lack of customer data, including sales, required accuracy to increase the productivity of Sales and Marketing Departments. The sales management system based on

artificial intelligence was launched within 14 days and provided: sales and marketing development, optimization of customer service [9].

Platforms based on artificial intelligence automatically collect sales activity in real time and provide useful information to increase the productivity of sales, marketing, service (Table 3). All sales activity is recorded on the platform, activity is synchronized with CRM. This reduces data collection time and increases sales time by 20% [9]. Pre-built dashboards give managers a real-time view of trading, trends, forecasts and red flags.

Table 3. Differences in sales management before and after the integration of the artificial intelligence platform

<b>Element of the sales management system</b>	<b>Before the integration of artificial intelligence</b>	<b>After the integration of artificial intelligence</b>
<b>Marketing</b>	Manual data collection and registration, data analysis. Errors in data collection. Insufficient segmentation of demand and consumer behaviour.	Automated collection, registration and analysis of data. Segmentation of demand formation and marketing campaigns based on accurate customer data. Tracking the impact of marketing on sales. More personalized strategies for concluding agreements, tracking the status of the agreement, determining procedures for accelerating agreements.
<b>Sales Department</b>	Lack of clear data on the activities of individual sellers, problems in concluding agreements with customers, unreliable forecasting. The need for training and coaching of salesmen. Lack of understanding of clear actions in concluding agreements.	More personalized strategies for concluding agreements, tracking the status of the agreement, determining procedures for accelerating agreements. Improving sales methodology. Increasing productivity. Personalized customer analysis. Reducing the time of concluding an agreement and determining the priority of agreements.
<b>CRM system</b>	Inaccurate, incomplete, outdated customer data, customer activity data.	Increasing data accuracy and reliability by 80%. The volume and quality of data in the system has increased. Automatic system update. Increase in the percentage of system capacity from 50% to 90%. Automatic analysis of all contact and activity data from the group that works with customers and forms a single source of customer information. Track of salesmen performance.
<b>ERP system</b>	Inaccurate forecasts of product demand, unreliable forecasting.	Increasing forecasting accuracy.

Source: author's research.

In general, the integration of artificial intelligence in sales management provides accuracy, completeness, reliability of data, accurate demand forecasts. Distance learning systems integrated into the CRM system increase the productivity of sales and marketing departments by establishing cooperation and eliminating the functions associated with the collection and updating of customer data.

In Russia, it is highly likely to have no similar experience in the integration of artificial intelligence due to lack of information and adaptation. At the same time, we can observe the trend of integration of CRM with ERP system, a system of statistical planning, which provides high accuracy of product demand

forecasts. Forecasting in the glass industry company<sup>1</sup> is based on product article, sales channels, dates and other product characteristics. There is no experience in integrating e-learning systems. In the B2B segment, companies form a personnel development department (coach), or hire a salesmen competence development manager. The E-Commerce component in the CRM-system also plays a significant role. The company processes requests manually, but there is a transition to electronic document management, automation of request processing through E-commerce component of the integrated CRM-system (Sales Force). Direct and indirect customers are segmented, and Customer Journey roles and typical scenarios are described. At each point of contact between the seller and the customer, the expectations, needs of the customer and the seller's actions are determined to minimize manual sales management.

The Harvard Business Review Analytic Services – Pulse Survey, involving more than 320 respondents, surveyed future trends in the transformation of marketing through the integration of artificial intelligence into business [6]. Companies that have already integrated artificial intelligence also took part in the survey. The main findings of the study indicate the following future trends (Figure 2) [6]:

- 1) 51% of large companies expect automation of manual processes using artificial intelligence over the next three years;
- 2) 82% of large companies believe that artificial intelligence will significantly improve the consistency of work between the sales system and marketing through the introduction of reporting;
- 3) 43% of large companies believe that data-based coaching is the biggest advantage of artificial intelligence.

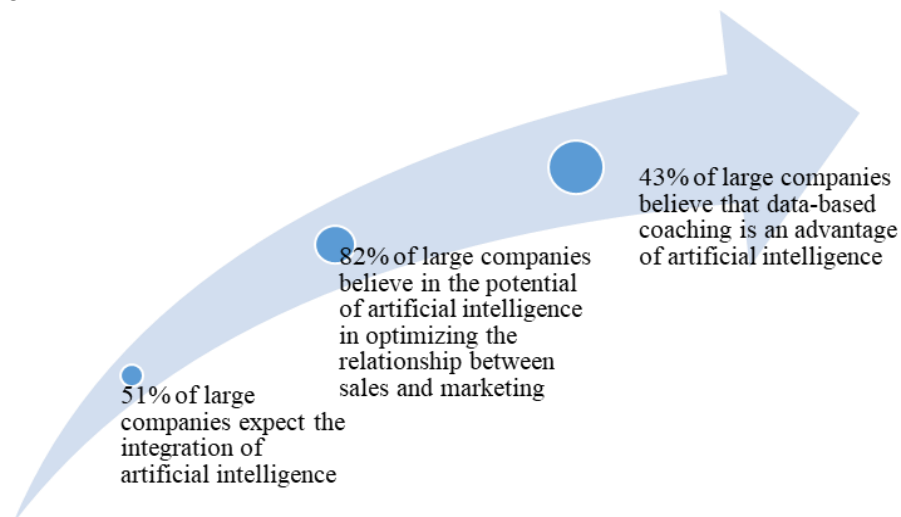


Fig. 2. Future trends in the integration of artificial intelligence in sales management. Source: [6].

The growth rate of salesmen productivity due to artificial intelligence at the same time provides an increase in customer satisfaction. The problem of competence is also solved — artificial intelligence is a “coach” who instructs the seller to enter into a transaction, eliminating routine work, lack of knowledge about the next stage of the transaction, providing effective support and customer service. About 85% of large companies believe that artificial intelligence will improve the quality of customer service. About half of companies plan to use artificial intelligence to detect growing customer dissatisfaction. About 47% believe that artificial intelligence technologies will provide a higher level of customer personalization. According to Wise, R., & Morrison, D. (2000), traditional marketing skills will become relatively less important, while the ability to understand the customer and customer behaviour will determine the success of B2B companies. The company's digital capacity will be replaced by the ability to understand the buyer, which will determine digital transformation.

Thus, the study of marketing in the B2B segment in the context of analysing the experience of integrating artificial intelligence into sales management indicates the influence of technological, informational factors on the formation of demand. These factors will depend on socio-economic development and political, legal readiness for the integration of artificial intelligence. These technologies are “destructive”, because they completely transform the approaches to marketing and

<sup>1</sup>ABC company, the confidentiality of inside information is the reason for the conditional name

doing business. This requires the government and society to consciously accept these trends, as well as develop new legal regulations governing the emerging digital data market.

**Conclusions.** B2B marketing is influenced by “destructive” innovations, forming critical trends in the integration of artificial intelligence in business management. The considered trends of B2B marketing are supplemented by formation of the digital data market which will become the accelerator of digital changes. The case studies of large companies indicate three main problems that are solved by integrating artificial intelligence: incomplete, outdated, inaccurate data; lack of cooperation of subsystems of sales, marketing, service; accumulation of big data, which complicates their processing in terms of the need for rapid decision-making. Due to the integration of artificial intelligence, the functions of salesmen and marketers are shifting from filling data to optimizing the sales process, forming product value and consumption culture, improving customer interaction, increasing customer satisfaction. In the future, industrial marketing will be determined by the accuracy, reliability of customer information, a high level of accuracy of demand forecasts, a shortened cycle of trade agreements, increasing the level of effectiveness of cooperation between marketing and sales departments. The integration of artificial intelligence into sales management will finally complete the era of digital marketing in the B2B segment and will be the beginning of the era of “human” marketing. The latter will mean that in a regulated digital B2B data market, marketing will be focused on human needs with an accurate predictable understanding of customer needs.

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## ECONOMY

**RESEARCH ON REGIONAL ECONOMIC COOPERATION BETWEEN CHINA AND MONGOLIA**

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**ABSTRACT**

Regional economic integration has become inevitable to promote the further development of regional economy in China and Mongolia. Since China's reform and opening up and Mongolia's democratic revolution, China Mongolia regional economic cooperation has been developing continuously. This paper summarizes the trend of economic cooperation between China and Mongolia through the analysis of economic and trade cooperation between China and Mongolia and the influencing factors of regional economy.

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**1. Theoretical mechanism.****1.1. Concept of regional economic cooperation.**

Regional economics is one of the most rapidly developing new applied economics disciplines in the field of economics. Regional economics is a branch of economics which includes spatial dimension into market analysis. Through logical program, laws and models include space to achieve prices, demand, production capacity, output and development levels, growth rates and income distribution under unequal regional resource endowments. In addition, when the local growth model regards space as an economic resource and an independent factor of production, regional economics becomes the main focus of analysis from space to territory, which provides both static and dynamic advantages. For example, it is critical to determine the competitiveness of local production systems.

The theory of regional growth was first developed in the middle of last century. Geographic space is divided into areas, namely the limited natural geographical area (mainly matched administrative units), within the area are unified, thus can be synthesized with social, economic, demographic nature of the overall characteristics of the carrier: international trade terms, but different from country, is characterized by movement of factors of production has obvious external openness. Table 1 summarizes the two main 'mega-trends' that, in our view, largely characterize the theoretical developments over the last two decades in regional economics, and that are common to urban economics and to many other disciplines: the need for more realism, and the move towards dynamic rather than static approaches. These theoretical perspectives are presented in Table 1 for both regional growth and regional development theories, the former aiming at explaining the aggregate growth rate of income and employment in a formalized and quantitative way, the latter oriented towards the identification of all tangible and intangible qualitative elements of the growth process of regions.

Table 1.1. Major trends in regional economic theory

<b>Theories</b>	<b>Regional growth theories</b>	<b>Regional development theories</b>
<b>Tendencies in theories</b>	Endogenous growth determinants	Reasons for success and failure of clusters of SMEs, local districts, milieux.
	A role in growth models for the complex non-linear and interactive behaviour and processes that take place in space	Non-material resources as sources of regional competitiveness
	Imperfect market conditions in growth models	An active role in knowledge creation
	Growth as a long-term competitiveness issue	
	Technological progress as an endogenous factor of growth	
Dynamic rather than static approaches	Evolutionary trajectories of non-linear interdependencies of complex systems	Dynamic rather than static agglomeration economies

Sources: Roberta Capello, Regional growth and development theories revisited, Department of Management, Economics and Industrial Engineering, Politecnico di Milano, Italy, 2008 year

The first tendency which has accompanied the theoretical development in the field is the need for more realism in sometimes rather abstract conceptual approaches, by relaxing most of the glaringly unrealistic assumptions of the basic theoretical models. This tendency is justified by the need to broaden the interpretative capacity of the theoretical toolbox in this research field by searching for theories that are better able to reflect issues and policy strategies for the real world.

### 1.2. Regional Division Theory.

Regional division of labor theory is divided into classical division of labor theory and modern division of labor theory. Classical division of labor theory is represented by Smith and Ricardo, etc. It mainly explains the division of labor theory from the perspective of advantages and factors, but it requires many assumptions. Modern division of labor theory is represented by product life cycle theory, diamond theory, and endogenous comparative advantage theory. Modern theories of division of labor have continuously revised predecessor assumptions and theories, adding more influential factors. Modern theory of division of labor studies inter-industry trade and intra-industry trade, which is manifested in horizontal and vertical division of labor, but is not mature.

#### 1.2.1 Absolute Advantage Theory.

The economist Adam Smith (1776) put forward the theory of absolute advantage, thinking that has basis of international trade lies in the absolute difference of labor productivity between countries. His theory based on the every country has absolutely favorable conditions for the production of certain specific products, and that it is in the interest of all exchange countries to specialize in the production and exchange with each other. The theory of absolute advantage also applies to the division of labor between the domestic regions, because he believes that domestic trade is free, and under the premise of free trade, regional division of labor can be realized naturally.

#### 1.2.2. Comparative Advantage Theory.

Based on the theory of absolute advantage, David Ricardo (1817) proposed the theory of comparative advantage. Compared with absolute advantage theory, comparative advantage theory is more universal. According to the theory of comparative advantage, the basis for regional division of labor and interregional trade is not limited to absolute differences in production technology. As long as there is a relative difference in production technology between regions, there will be a relative difference in production costs and product prices. Different products have comparative advantages in production, making regional division of labor and inter-regional trade possible, and thus obtaining comparative benefits.

### 1.2.3. Product Life Cycle Theory.

Product life cycle theory was proposed by Raymond Vernon in 1966. Product life cycle is the market life of a product, that is, the whole process of a new product from entering the market to being eliminated by the market. In his theory, product life refers to the marketing life in the market, which has to go through the stages of formation, growth, maturity, and decline. However, the time and process of this cycle in countries with different technical levels are different. There is a large gap and time difference during this period. It is this time difference, which is expressed as the gap in technology between different countries, which reflects difference in the competitive position of the same product in different national markets determines the changes in international trade and international investment. Vernon divided the countries into innovative countries, general developed countries, and developing countries according to such differences.

### 1.2.4. Diamond Theory.

The diamond theory of the American economist Michael Porter was put forward in 1990 to analyze why a certain industry in a country is more competitive internationally. Porter's theory, there are four factors that determine a country's industrial competitiveness: production factors (including human resources, natural resources, knowledge resources, capital resources, infrastructure); demand conditions (mainly the demand of the domestic market); Performance of related industries and supporting industries; corporate strategy, structure, performance of competitors. Porter believes that these four elements have a two-way effect to form a diamond system. In addition to the four elements, there are two variables—government and opportunity. Opportunity cannot be controlled, and the influence of government decisions cannot be ignored.

### 1.3. Regional Economic Integration.

Regional economic integration has become an important means for countries around the world to maintain their own economic and trade interests. Regional economic integration is proposed relative to economic globalization. Conceptually, it refers to two or more countries or regions that are relatively close in geographical area. In order to maintain common economic and political interests, the government comes forward Within a specific integration framework, a regional economic organization formed by coordinating the conclusion of a treaty or agreement, implementing unified policies or measures, and benefiting each other in order to achieve economic union. Regional integration can bring considerable economic benefits. Regional integration enables countries to improve market efficiency, share the cost of public goods or large-scale infrastructure projects, cooperate to decide policies, and have a foundation for global integration based on reforms and obtain other non-economic benefits such as peace and security. However, the risks of regional integration need to be identified and managed. Countries may have different preferences in the priority of regional integration, depending on their connectivity gaps, economic geographic environment or preferences of specific regional sovereignty. The impact of regional integration on trade and investment flows, economic activity distribution, growth, and income distribution is often difficult to assess. Lack of appropriate supplementary policies and systems may lead to invalid results. For example, policy barriers at the border may offset the benefits of transportation infrastructure cooperation. Regional integration has created winners and losers, especially within countries. Policies and institutions are needed to ensure that regionalism is inclusive and manages society, environment, and governance risks.

### 1.4. Regional Economic Integration and Mongolia.

Since middle of the last century, regional economic alliances have begun to emerge, and today there are more than 60. Regionalism and regional integration are rapidly becoming key determinants of political and economic realities today and in the future. For Mongolia, integrating economy, trade and investment into a larger regional cooperation structure may be the only way to accelerate its economic growth and reduce poverty on a long-term and sustainable basis. Mongolia caused the first wave of globalization. In the 13-14<sup>th</sup> century, most known worlds were under the protection of Mongolian rulers, with a single currency, open borders, and free exchange of goods across Eurasia and people. The degree of openness, religious tolerance and cultural diversity at that time were unprecedented, and they can still serve as a shining example for present and future generations. Today, Mongolia is the country with the most free trade and currency exchange system and has faithfully fulfilled its international obligations and obligations. Foreign policy focuses on creating the best external environment for its domestic growth and prosperity. It poses a threat to no one, and no one threatens our borders or independent survival, because Mongolia has good neighborly relations with its huge neighbors Russia and China.



Mongolia used to be a communist country that emphasized Marxism-Leninism, but since the transition to multiparty democracy and market economy in 1991, Mongolia has undoubtedly achieved socioeconomic development. Mongolia, like other communist countries at the time, experienced a sharp economic contraction after the collapse of the Soviet Union. However, the GDP of Mongolia increased from 2.6 billion USD in 1990 to 13.67 billion USD in 2018, and the per capita GDP increased from 1172 USD to 4,121 USD in 2018. At the same time, the average life expectancy increased from 60.3 years old in 1990 to 69.5 years old by 2018. In addition, Mongolia is rich in mineral resources and is one of the world largest exporters of copper, gold and coking coal deposits. These achievements are only one aspect of Mongolian development story. After the disintegration of the Russia Mongolia economic and trade dependence were transferred from Russia to China, only between its two neighboring countries. Mongolia has become a country that depends on exporting minerals to China.

Since the early 1990s, the relationship between foreign trade and diversification has been a priority for Mongolia. So far, Mongolia has remained relatively isolated from the international community. Although Mongolia is a member of the World Trade Organization, it did not participate in the regional free trade initiative and signed a bilateral free trade agreement. Landlocked countries face more difficulties than countries that have direct access to seaports, such as higher transportation costs, heavy customs procedures, and lack of proper infrastructure connectivity, which are essential for integration into regional production networks promoted higher economic development.

## **2. China Mongolia Regional Economic Cooperation.**

Since the establishment of diplomatic relations between China and Mongolia, the cooperation between the two countries has experienced many twists and turns. At the beginning of the establishment of diplomatic relations, Chinese Premier Zhou En Lai and Mongolian Prime Minister Yu. Tsedenbal started China Mongolian friendship after their first mutual visits. In 1956, China and Mongolia established a true cooperative relationship. Since then, China Mongolia economic and trade cooperation has been constantly advancing through twists and turns. Since the 1980s, the bilateral relations have gradually recovered, and economic and trade cooperation has also deepened. Especially since the 21st century, the cooperation between China and Mongolia has been fully launched, which has become a bright spot in the development of relations between Mongolia and neighboring countries. In the 70 years of cooperative development, good neighborly and friendly relations have always been the mainstream, but the development of China Mongolia regional economic cooperation has been relatively slow and the level of cooperation is low. China Mongolian relations have undergone three important upgrades in the early 21st century. In 2014, they were upgraded to a comprehensive strategic partnership. The relationship between the two countries entered the best period in history.

At that time, bilateral relations were on the rise, and the legal basis for the relationship between the two countries was signed, such as “Trade Cooperation Contract” in 1951, “Bilateral Trade, Economic and Cultural Cooperation Agreement” and “About Bilateral Trade Payment and Settlement protocol” in 1952, “Agreement on China workers to participate in the construction of the Mongolia” in 1955, “Friendship and Mutual Assistance Contract” in 1960, “Trade Negotiations” in 1961, “Transit Agreement”, “China Mongolia Border Railway Agreement”, “Radio Mail Parcel Exchange Agreement”, “Air Freight Agreement” , “China assistance to Mongolia agreement” in 1962 etc. In addition, on the basis of the agreement on economic, trade and cultural cooperation between China and Mongolia, the two governments established the agreement on supply and payment of products in 1953, which was the first agreement between China and Mongolia. Since then, official visits between China and Mongolia have expanded, and bilateral relations have grown steadily, developing in the context of economy, foreign trade, culture and education.

Through the development of China Mongolian friendly relations, the trade volume between the two countries reached 24.6 million rubles (1 million rubles equivalent to 2 million USD) in 1961, nearly 67 times the total trade in 1951 (1 million rubles equivalent to 1.5 million USD) and achieved unprecedented good results. When the trade volume between China and Mongolia was converted into USD, it increased from 750,000 USD to 49.94 million USD, of which China exports were 41 billion USD. In terms of trade structure, primary products and consumer goods are the main products. The products imported from China are mainly food, silk and fabric, tobacco, construction materials, trucks, industrial equipment and pharmaceuticals. The products exported to China are mainly for livestock products, cashmere products, animal and plant medicines and wood.

Table 2.1. China Mongolia trade volume from 1952 to 1961. Unit: (million Russian ruble)

Year	1952	1953	1954	1956	1957	1959	1961
Total trade	0.5	1.7	3.6	9.5	20.5	22.9	24.6

Sources: L.Begzjav, Mongolia China Relations 1949-1999, Ulaanbaatar, 1999: 36

In 1952, delegations from China, Mongolia and Russia signed the railway contract in Moscow. In 1956, the railway linking Moscow, Ulaanbaatar and Beijing was established, which was very important for expanding cooperation between China, Mongolia, Russia and the communist countries of eastern Europe. At that time, the Russia and Mongolia exported to China by railway, and Mongolia received transit payments. Through the trade negotiations between China and Mongolia, China paid 3 million, 6 million, 11 million, 17 million and 18.8 million rubles for railway transportation to Mongolia in 1956, 1957, 1958, 1959 and 1960. The scale of trade between the two countries increased, in 1959, China accounted for more than 15% of Mongolian foreign trade.

After the world second war, national liberation movements took place in Asian and European countries, democratic countries emerged and socialist system was established. At that time, the trend of world development was determined by the Russia. China Mongolian relations deteriorated through Russia China relations, which stopped Chinese investment and aid. In addition, the Russia was able to fill China's gap in Mongolia and strengthen its position. From 1966 to 1971, Mongolia continued to make efforts to normalize its relations with China. In the future, Mongolia will seek friendly cooperation and good-neighborly relations with China. Since the 1960s, the deterioration of China Russia relations had a profound impact on China Mongolian relations, and economic and trade relations have declined sharply. In 1962, China provided Mongolia with us 26.85 million USD, but in 1963, it dropped to us 7.9 million USD, and in 1967, the trade volume between the two countries dropped to 350000 USD. Since 1969, the between China and Mongolia trade volume has gradually increased. From 1973 to 1975, it fluctuated by 4-5 million us USD, and from 1982, it exceeded 4.5 million USD.

With the improvement of China Russia relations, China Mongolian relations have improved, and great progress has been made since 1982. From 1982 to 1983, cooperation in the railway and trade fields was resumed. In September 1984, the Chinese and Mongolian delegations exchanged views on improving bilateral relations at the 39th UN General Conference in New York. This was the first meeting in more than 20 years. Since 1985, the Russia began to reduce assistance and cooperation to the Mongolian economy, which has brought a heavy blow to the economic situation of Mongolia. But opportunities have emerged to increase cooperation with China to a higher level. The performance of this situation is that in 1986, the mutual border inspection and border trade settlement agreements were reestablished under the 1964 border protocol. The visit of the Chinese and Mongolian Foreign Ministers in 1989 was important for the restoration of bilateral relations. In order to further expand the level of cooperation, the two sides signed the "Establishment of China Mongolian Economic and Technical Cooperation Agreement", which achieved a comprehensive and formal restoration of China Mongolian economic and trade cooperation. Since then, China Mongolia economic and trade cooperation has entered a new stage, and the total trade volume has gradually increased slowly, as shown in Table 2.2.

Table 2.2. 1980-1990 China Mongolia trade volume table. (Unit: Million USD)

Year	1980	1984	1985	1986	1987	1988	1989	1990
Trade volume	11.64	19.6	26.0	24.9	26.7	21.79	17.97	41.02
Annual growth rate	-	1.68	1.32	-4.2	7.2	-18.3	-17.5	28.3

Source: L. Begzjav, Mongolia China Relations 1949-1999, Ulaanbaatar, 1999:48

In the early 1990s, Mongolian mission was to build a democratic society and human rights and freedoms, and major countries such as the United States and Japan were key factors in Mongolian foreign policy. The expansion of cooperation between the United States and Japan under the "Third Country" policy has led to changes in the volume of trade with China. During this period, the Economic, Trade and Technical Cooperation Committee was established, a reciprocal travel agreement was signed, and efforts were made to restore the Mongolian council in Hohhot. Therefore, it is very important to develop relations with Inner Mongolia, expand cross border trade, and establish trade and direct relations with the southern province of Mongolia and Inner Mongolia. Relations between the two countries have returned to normal and economic, trade cooperation has begun to expand.

Since the end of 1990, the trend of economic globalization and regional economic integration has been increasingly expanded, and the relations between countries have been deepened, resulting in a new world economy pattern of interdependence, mutual integration and high integration. Mongolia has established a democratic system, and its society has undergone profound changes. In June 1992, the eight ports of Zamyn Ude-Erlian, Takeshkan-Bulgan, Havirga-Arkhashaat, Bichigt-Zuunkhataavch, Master Temple-Burgastai, Beitag-Uilastai, Hong Shan Zui-Dayan, Gashuun suhait-Gantsmod opened the door for the people of the two countries to travel, trade and expand friendly relations in the border area. Chinese President Jiang Ze Min, President Hu Jin Tao, Premier Wen Jia Bao, Chairman of the Standing Committee of the National People's Congress Wu Bang and others visited Mongolia in 1999, 2003, 2010, and 2013 respectively. At the same time, the chairman of Mongolian National Khural R. Gonchigdorj, Prime Minister N. Enkhbayar, Prime Minister, G. Enkhbold, President N. Bagabandi, and the President Ts. Elbegdorj, Prime Minister S. Batbold and others visited China in 2000, 2002, 2004, 2005, 2006, 2010 and 2011 respectively. Through these visits, the two countries reached consensus on deepening mutually beneficial economic and trade cooperation, and negotiated and established a cooperation strategy in the field of resource development and infrastructure construction; further cooperation in various fields including infrastructure, customs cooperation, energy development, cultural exchanges, and education with a consensus, good-neighborliness, mutual trust and partnership have taken a step forward. During the period of cooperation and development between the two countries, they signed the "Joint Declaration of the People's Republic of China and Mongolia on the Establishment and Development of a Comprehensive Strategic Partnership" and reached consensus on a series of issues such as major project cooperation and development cooperation in the field of minerals, thus achieving a China Mongolia strategy partnership has been upgraded to a comprehensive strategic partnership. The establishment of a comprehensive strategic partnership has pointed out the direction and laid the foundation for China Mongolia economic and trade cooperation.

With the rapid development of China economy and the acceleration of the geo-economic cooperation with neighboring countries, high level visits have continued, and the results have been remarkable, entering the best development period in the history. Since 1989, China and Mongolia trade volume has increased, from 33.6 million USD in 1990 to 285.9 million USD in 1999, exports from 11.3 million USD to 208.2 million USD, imports from 22.3 million USD to 77.6 million USD. In other words, between 1990-1999 years, China Mongolia trade volume increased by 8.5 times, and imports and exports increased by 3.5 times and 18.4 times. The share of China Mongolia trade in Mongolian foreign trade has increased, and in 1999 it was 32.8%. With the continuous improvement of China opening to the outside world, investment in Mongolia has continued to rise, especially since 1998, direct investment in Mongolia has entered a new stage.

Table 2.3. China Mongolia trade volume in 1990-1999. (Unit: Million USD)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Mongolia's total foreign trade	1584.7	708.9	806.7	761.6	625.9	888.6	875.2	919.8	848.4	871.1
China Mongolia trade volume	33.6	69.1	127.0	186.1	97.1	122.3	147.0	164.9	176.7	285.9
Mongolian exports to China	11.3	52.8	69.4	120.2	73.2	77.8	81.0	101.6	110.1	208.2
China's imports to Mongolia	22.3	16.3	57.6	65.9	23.9	44.5	66.0	63.3	66.6	77.6
Position in the Mongolia's foreign trade	5	2	2	2	2	2	2	2	2	1

Source: Data compiled by the Mongolian National Statistical Office's Bureau from 1990 to 1999

At the beginning of the 21st century, the share of China Mongolia trade in Mongolian foreign trade increased sharply. From 2000 to 2008, Mongolia's exports to China increased. However, data show that the total trade volume between China and Mongolia reached USD 6.46 billion and USD 5.93 billion from 2011 to 2012, a decrease of 8.2%. The trade situation between China and Mongolia during this period is shown in Figure 2.1.

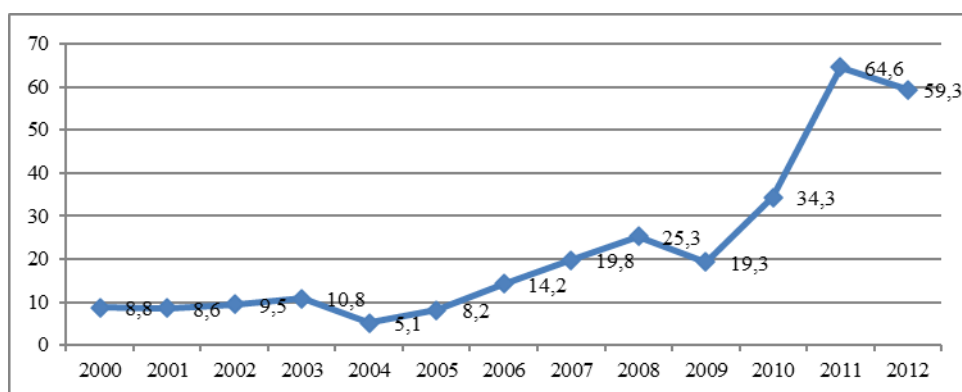


Fig. 2.1. 2000-2012 China Mongolia trade volume growth (100 million USD)

Source: Data collected by the Mongolian National Statistical Office's Bureau 2000-2012.

As can be seen from Figure 2.1, from 2000 to 2012, the growth of China Mongolia trade volume has declined due to the impact of the world financial crisis in 2009, but Mongolian economic situation has improved through mining industry development and investment environment since 2010 after the reforms were resumed, China Mongolian trade has resumed since 2011.

Since Mongolian transition from a centrally planned economy to a market economy in 1993, the "Foreign Investment Law" was revised in 2008, laying the foundation for attracting foreign investors. According to the Ministry of Foreign Investment, direct investment in Mongolia from 1980 to 2004 was 1.2 billion USD, from 2005 to 2009 it was 2.7 billion USD, and in 2009 alone it reached 800 million USD. This shows how fast investment flowing into Mongolia is growing. In addition, since 1990, mining alone has accounted for more than 60% of total foreign direct investment. Due to large scale mining projects, the inflow of foreign direct investment is expected to increase in the future. With the deepening of China Mongolia economic cooperation, the investment fields of the two countries have expanded year by year, and the total investment has also slowly increased. Since 1998, China has been the largest investor in Mongolia. In recent years, enterprises in 79 countries and regions such as China, Russia, Japan, United States, and Luxemburg have made direct investments in Mongolia, and investment projects have continued to expand.

Table 2.4. Statistics of China's direct investment in Mongolia. (Unit: Million USD)

Year	Total investment	China's investment in Mongolia	Growth rate	Total investment projects	China's investment projects in Mongolia	Growth rate	Number of registered companies
1998	45.9	22.5	49.1	276	108	39.1	98
2000	90.3	32.9	36.4	291	115	39.5	118
2001	125.5	47.3	37.9	350	131	37.4	132
2002	172.5	135.3	78.4	390	161	41.3	161
2003	205.3	46.9	22.8	635	323	50.9	343
2004	237.1	112.6	47.5	805	438	54.4	349
2005	311.7	235.8	75.6	988	568	57.5	532
2006	280.3	227.9	81.3	1021	671	65.7	827
2007	215.6	172.0	79.8	1079	702	65.1	876
2008	431.5	339.6	78.7	1181	829	70.2	859
2009	604.9	497.8	82.3	1205	901	74.8	299
2010	630.4	521.3	82.7	1326	922	69.5	376

Source: Data collected by the Mongolian Foreign Investment Bureau from 1998 to 2010

From Table 2.4, China's investment in Mongolia has been increasing slowly. According to Mongolia's foreign trade statistics, the growth rate of investment from 2000 to 2010 has been slow. This is the share of foreign investment in Mongolian total investment. The proportion of the total is increasing; at the same time, the number of investment projects increased from 108 in 1998 to 922 in

2010, this proportion rose from 39.1% to 69.5%, which has a positive impact on improving local employment conditions and promoting local wage growth.

With the development of China Mongolia politics and economic and trade relations, China Mongolia regional economic cooperation has developed steadily and entered a new historical period. During President Xi Jin Ping visit to Mongolia in August 2014, the two sides announced the establishment of an all-round strategic partnership in China and Mongolia, and set a goal of increasing trade to 10 billion USD by 2020. In November 2015, Mongolian President Ts. Elbegdorj visit to China. The two sides signed 11 cooperation documents and published the “Concerning the Deepening of the Comprehensive Strategic Partnership between Mongolia and the People’s Republic of China”. At the same time, China’s “Belt and Road” initiative and Mongolian “Steppe Silk Road” initiative have opened up many new opportunities for cooperation in various aspects. In 2016, Chinese Premier Li Ke Qiang visit to Mongolia during the Asia Europe Meeting and signed more than ten documents on trade, economy, technology, energy, infrastructure development, banking and financial cooperation, and a comprehensive strategic partnership take a step forward. Mongolia is an important part of the historic Silk Road. One of the countries along the “Belt and Road” is a mutually beneficial and continuously developing economy. In May 2017, Mongolian Prime Minister J.Erdenebat signed a “Memorandum of Understanding” when attending the “Belt and Road” International Cooperation summit in order to reach the possibility of reaching a free trade agreement between the two countries. The two sides exchanged views on raising the regional economic cooperation between the two countries to a new level. Through this multilateral visit, the Mongolia-China-Russia summit mechanism was established and the economic corridor between the two countries was established. This is an unprecedented opportunity to promote regional economic cooperation between China and Mongolia.

At the beginning of the new century, Mongolian economy recovered and China's share of foreign trade increased dramatically. Although the trade volume between the two countries declined due to the financial crisis in 2009, Mongolia has resumed its economy through reforms such as the improvement of the mining and investment environment since 2010, and trade between China and Mongolia has increased since 2011. Due to the decline in mineral prices in the world market, Mongolian foreign trade and China Mongolia trade declined in 2012 and 2013. Through actively promoting and docking the “Belt and Road” and “Steppe Silk Road” initiatives, China Mongolia trade volume has reached a new level. In 2018, Mongolian total trade with 159 countries and regions in the world was 12.9 billion USD, an increase of 22.3% over the previous year, of which, exports totaled 7 billion USD and imports totaled 5.9 billion USD, an increase of 13.1% and 35.4 %.

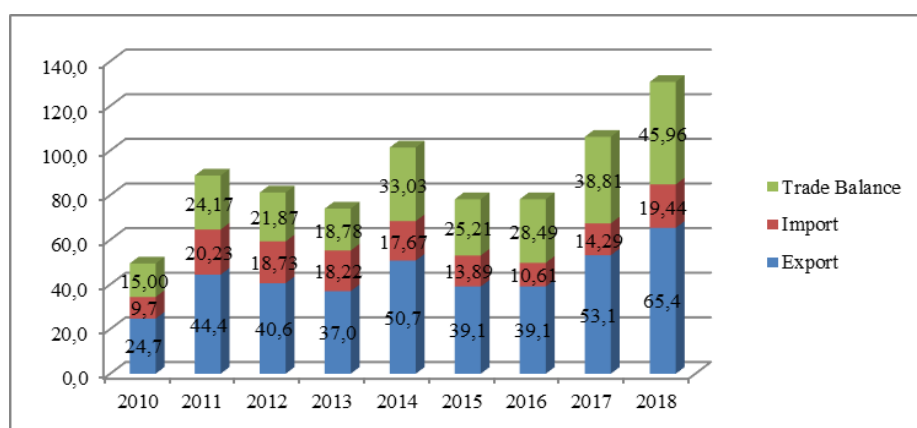


Fig. 2.2. 2010-2018 China-Mongolia total trade situation

Source: Data compiled by the Mongolian National Statistical Official Bureau 2010-2018

Since 2010, the share of China Mongolia trade in Mongolian foreign trade has increased by more than 50% on average. Due to the fluctuations in Mongolian foreign trade, the trade volume between China and Mongolia accounted for 47.8%, 52%, 62.1%, 64% and 65.77% of Mongolian foreign trade in 2012, 2013, 2014, 2017 and 2018, respectively. This shows that the combination of the “Belt and Road” initiative and the “Steppe silk road” has created conditions for the sustainable growth of bilateral trade. China mainly exports value-added products to Mongolia, such as gasoline, garments, textiles, industrial and mining machinery, equipment, household appliances, building materials and consumer goods.

Mongolia exports more than 20 products to China, such as herbal medicine, leather, wood, scrap metal, as well as coal and iron ore. As China economy grows, demand for energy resources such as wood, coal and oil are growing, and China domestic supply cannot meet demand. But Mongolia is rich in minerals and raw materials. As a result, China will be able to supply energy and minerals. Foreign direct investment flowing into Mongolia in the past decade has been volatile and unstable. From 2000 to 2010, due to the rapid growth of the mining industry, Mongolian foreign direct investment increased substantially. However, since 2012, due to the decline in international commodity prices and insufficient investor confidence, foreign direct investment inflows have declined sharply. The combination of FDI concentration has a major impact: First, China and Canada, which account for more than half of Mongolian FDI, have made Mongolia overly dependent on its economy and increased investment instability. Second, from an industry perspective, FDI is highly concentrated in a single unit, with mining and quarrying accounting for 71% of FDI inflows. In 2011, foreign investment rose sharply to USD 4.99 billion, and investment in Mongolia reached 110 million USD.

### 3. Analysis of Influencing Factors of China Mongolia Regional Economic Cooperation

#### 3.1. Influence of the factors of the world economic crisis

Since 2008, the world economic crisis has affected Mongolian mineral, cashmere, petroleum and other commodities in the world market. In 2009, Mongolia signed the “Oyutolgoi Investment Agreement”, which brought about the development of mining, but made it clear that Mongolian economy depends on minerals and mining. This means that Mongolia is directly dependent on foreign markets, especially China. In financial crisis, demand will drop sharply, commodity prices will fall, investment will slow down, companies and factories will close, and unemployment will rise. When the crisis occurred, the price of Mongolian state owned oil rose to per barrel 140 USD, while the price of minerals fell sharply, and China’s GDP also fell in many areas. In addition, the foreign trade deficit, currency reserves fell by 2 times, loan balances increased by 20%, non-performing loans increased by 2.8%, the development of Bank of Mongolia and financial institutions fell into crisis due to the halt. For Mongolian GDP, the growth rate was -8.7% in 1991 and 2.1% in 1994, the first positive growth after the economic transformation. In 1995 it reached 6.4%, but in 2000 it fell to 1.1%, in 2009 it fell to 1.269%, and in 2011 it was 17.7%, which can be regarded as the peak growth rate in Mongolian economic history. Since then, economic growth has not been very high, but unstable.

Table 3.1. Mongolian GDP growth (Unit: %)

Year	Growth rate	Year	Growth rate	Year	Growth rate	Year	Growth rate
2000	1.1	2005	7.3	2010	6.4	2015	2.4
2001	3.0	2006	8.6	2011	17.3	2016	1.2
2002	4.7	2007	10.2	2012	12.3	2017	5.3
2003	7.0	2008	8.9	2013	11.6	2018	7.2
2004	10.6	2009	-1.269	2014	7.9	-	-

Source: www.data.worldbank.org

During the economic crisis, the inflation rate fell sharply in 2009, and the Central Bank of Mongolia lowered the official interest rate. As energy prices rise, the inflation rate rises slightly. At that time, the influence of the fiscal and monetary policies implemented by the Mongolian government caused the government income and expenditure to become more and more unbalanced, and its debts increased, resulting in a high inflation rate.

Table 3.2. Inflation rate table of Mongolia. (Unit: %)

Year	Growth rate	Year	Growth rate	Year	Growth rate	Year	Growth rate
2000	8.1	2005	9.5	2010	13.0	2015	1.9
2001	8.0	2006	6.2	2011	8.9	2016	1.3
2002	1.6	2007	17.8	2012	14.0	2017	6.4
2003	4.7	2008	22.1	2013	12.5	2018	8.1
2004	11.0	2009	4.2	2014	10.4	-	-

Source: www.data.worldbank.org

### 3.2. Influencing factors of the strategy of developed countries.

The international financial crisis that began in the United States in 2007 became a global financial crisis. Since then, the world political and economic system has changed. The economic development of Japan, United States, Europe countries and other developed countries has gradually declined. Weak economic and investment deficits, production and technology stagnation, high unemployment and high government debt have led to a slowdown in global economic growth and economic growth. The economic crisis has reached its lowest point and has stabilized. But Asia Asian countries are overcoming the crisis relatively steadily. Due to continued currency expansion and strong fiscal expansion, the Chinese economy grew by 7.9% in the first quarter of 2009. External economic shocks led to a decline in the current account balance, but in the second half of 2009, due to the development of the Chinese economy, Mongolia's balance of payments situation has improved.

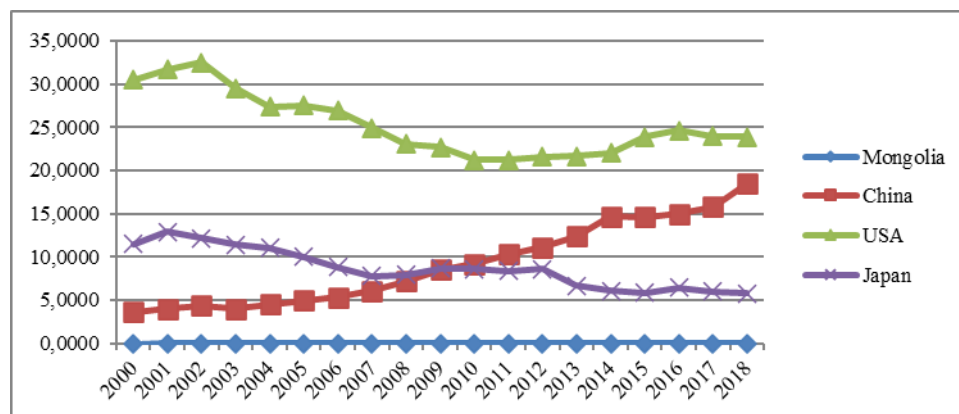


Fig. 3.1. Proportion of GDP of the United States, Japan, China and Mongolia in the total world GDP (%)

Source: [www.data.worldbank.org](http://www.data.worldbank.org)

During the world financial crisis, it brought about major changes in the world economic system. Practice has proved that developed economies, led by the United States and Japan, are severely impacted and affected by factors such as the lack of investment opportunities, the stagnation of the evolution of the industrial technology system, the high unemployment rate and high government debt. The leading role in economic growth has been shaken, and the rate of economic growth has continued to decline. However, due to the combination of their national conditions, developing economies actively promote reform and opening up measures, strengthen the guiding role of the government, encourage industrial technological innovation, and continuously deepen the correct selection and implementation of development strategies such as regional economic cooperation with neighboring countries, making these economies It has always maintained a relatively high growth rate, continuously optimized its industrial structure, gradually improved its industrial technology system, greatly contributed to the growth of the world economy, and has become an important engine for the rapid growth of the world economy.

### 3.3. Influencing factors of poor regional economic integration conditions.

The economics of China and Mongolia have developed rapidly, but the conditions for regional economic integration between the two countries are still very poor. Regional economic development in the border regions and border cities of the two countries is relatively slow. At present, the total population of Mongolia is insufficient, and the living standard and population growth rate are relatively slow. In addition, most private industries and populations are gradually shifting from inner cities to the capital Ulaanbaatar, making the border area a "hollowing out" of population and industries. Therefore, there is a small population in the border area between Mongolia and China, and most of the current population is not residents, but passes through the border. In terms of infrastructure, the facilities in the border area of Mongolia are not perfect, the conditions for attracting domestic and foreign investment at the ports are inadequate, the transportation infrastructure and logistics infrastructure construction funds are insufficient, and the maintenance and protection capabilities are weak.

### 3.4. Influence of cultural factors.

Although economic development is important in any region, it is important not to forget culture. If the traditional culture cannot be developed, the country's economy cannot be further developed. The real foundation of development is the use of manpower and material resources.

Therefore, the purpose of development must be found in the culture. Although China and Mongolia have different cultures, and cultural customs are difficult to change. Russian culture and tradition play an important role in Mongolian cultural education. After Mongolia declared independence, it established diplomatic relations with the Russia, so most of us in the age of parents had Russian culture and education. In addition, Mongolia uses scripts from Russia, which means that some of Mongolian traditions have changed. Since the beginning of the 21st century, the strategies of countries such as China, South Korea, Japan, the United States and European countries have a certain impact on the cultural heritage of Mongolia. Therefore, the influence of Chinese culture is showing a declining trend. Similarly, it can be gradually introduced into Mongolia from the potential of Chinese cultural development. I think that some cultures have become localized in Mongolia.

### 3.5. Influence of lack of the human resource.

The main reason for Mongolian slowdown in development not only in the economy but also is under population and uneven population distribution. Mongolian population reached 3.23 million (as of 2018), about 50% of the population is working age, but the unemployment rate is relatively high. Animal husbandry is an important part of Mongolian industrial structure, and most of the population living in rural areas engaged in animal husbandry. Study abroad and work conditions are very common. The most important issue is to rapidly increase the population in a relatively short period of time, rather than being able to train businessmen with economic talent, talent and social responsiveness. Therefore, the government needs to expand the coverage of population growth policies. Within the framework of the Mongolian government's population growth policy, the more births, the more subsidies are provided, and each child is given money every month. On the contrary, China has a large population, a large market, advanced technology, and a world leading level of industrialization.

Table 3.3. Employment Structure and Unemployment Rate of Mongolian Population from 2000 to 2018 (Unit: Thousand person, %)

Year	Employed population	Proportion of agricultural employees	Proportion of industrial employees	Proportion of service industry employees	Unemployment rate
2000	808.99	48.64	14.14	37.22	6.07
2001	832.3	48.35	13.66	37.99	5.97
2002	870.8	44.94	14.32	40.74	6.20
2003	926.5	46.69	11.92	41.38	6.80
2004	950.5	40.16	16.14	43.70	7.28
2005	968.3	39.88	16.81	43.30	7.60
2006	1009.9	28.76	17.34	43.89	7.03
2007	1024.0	41.58	13.68	44.74	7.20
2008	1041.7	40.59	15.22	44.18	5.57
2009	1006.3	40.01	14.94	45.05	5.86
2010	1033.7	33.53	16.24	50.24	6.55
2011	1037.7	33.03	17.34	49.63	4.77
2012	1056.4	35.02	18.17	46.81	3.91
2013	1103.6	29.81	20.42	49.76	4.23
2014	1110.7	27.97	20.72	51.30	4.80
2015	1151.2	28.45	20.29	51.26	4.86
2016	1147.8	30.36	18.99	50.65	7.23
2017	1238.3	28.72	19.22	51.99	6.36
2018	1253.0	28.61	19.08	52.20	6.32

Source: [www.data.worldbank.org](http://www.data.worldbank.org)

As can be seen from Table 3.3, most people in Mongolia are employed in the service industry, while Mongolian industrialization level is low, and the annual unemployment rate is more than 4.0%.



3.6. Influence of urbanization factors.

Urbanization affects regional development and regional economic cooperation. Urbanization is likely to represent the population of a country or region. In 1996, the urban population's share of the Mongolian population was 52%, increased to 57.13% in 2000, and increased to 67.8 in 2018. About 48% of the population lives in Ulaanbaatar, only 3% of the country’s territory, and it is expected to grow to 54.7% by 2030. Large companies are centrated in cities. Factors that affect population entry into cities include government, social and service centers and support for active economic activities, social welfare services, good infrastructure development, high-quality job opportunities, and rapid health care.

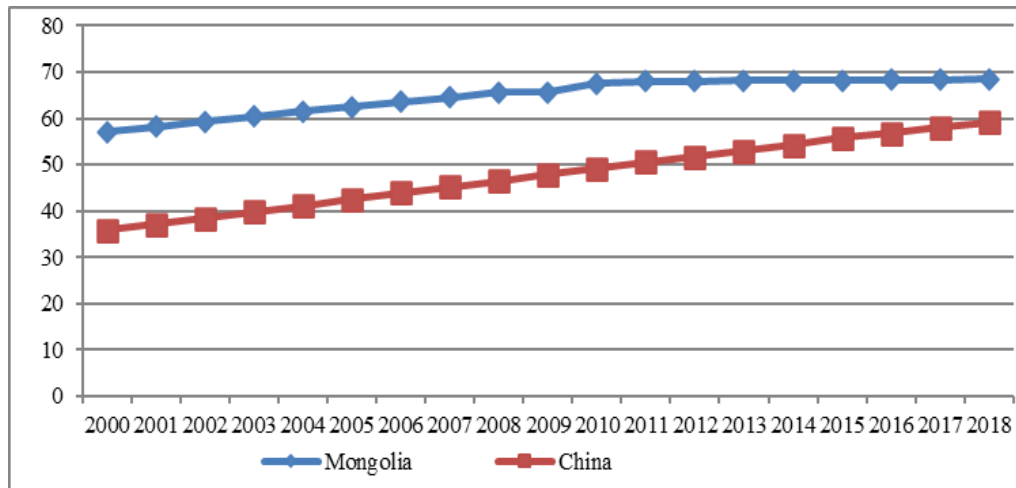


Fig. 3.2. Situation map of urbanization rate in China and Mongolia (%)  
 Source: [www.data.worldbank.org](http://www.data.worldbank.org)

Mongolia is increasingly emigrating, but the government has been implementing policies for rural areas, including west, east, gobi, central and khangai regional centers. In recent, Increasing population of Ulaanbaatar, Darkhan and Orkhon city. China urbanization is characterized by a high centration of economic activities in cities that are closely related to the international market and rapid growth. Most of the population is concentrated in Beijing and Shanghai.

3.7. Influence of economic factors.

In last 40 years of China reform and opening up, the economy has kept the economic rate at 9.5%, and the economy is not short of crisis. The Organization for Economic Cooperation and Development (OECD) pointed out that the Chinese economy is becoming balanced. Through the development of the “Belt and Road” initiative, provinces in western China are open to the door, and these provinces are likely to become new drivers of the Chinese economy. From 2000 to 2017, China has reached 35% of the world total output. At present, China has become the largest export market of 33 countries and the largest importer of 65 countries.

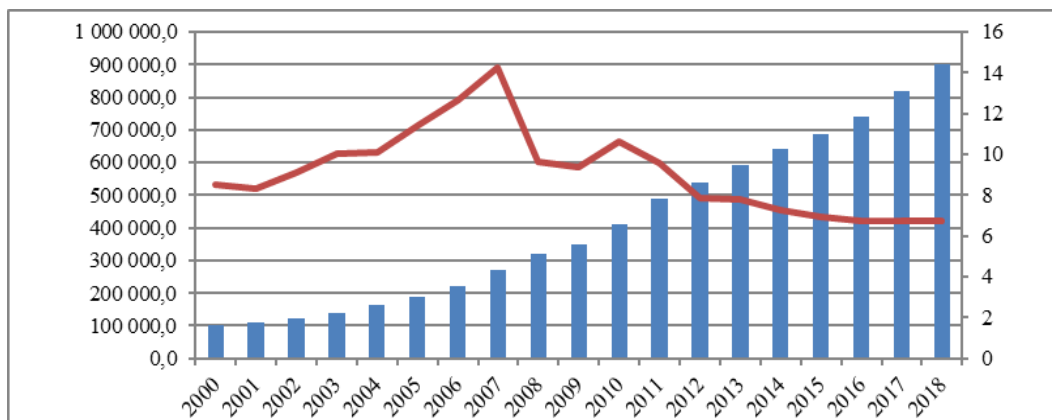


Fig. 3.3. China GDP and growth rate (million USD, %)  
 Source of information: [www.data.worldbank.com](http://www.data.worldbank.com)

In recent, China economic growth has slowed, but the growth rate has maintained leading position in the world. With the growth of major economic indicators, economic growth shows signs of moderate and high growth. National income has grown steadily. Income is the source of people's livelihood and consumption. In some years, China national income growth rate has exceeded GDP growth.

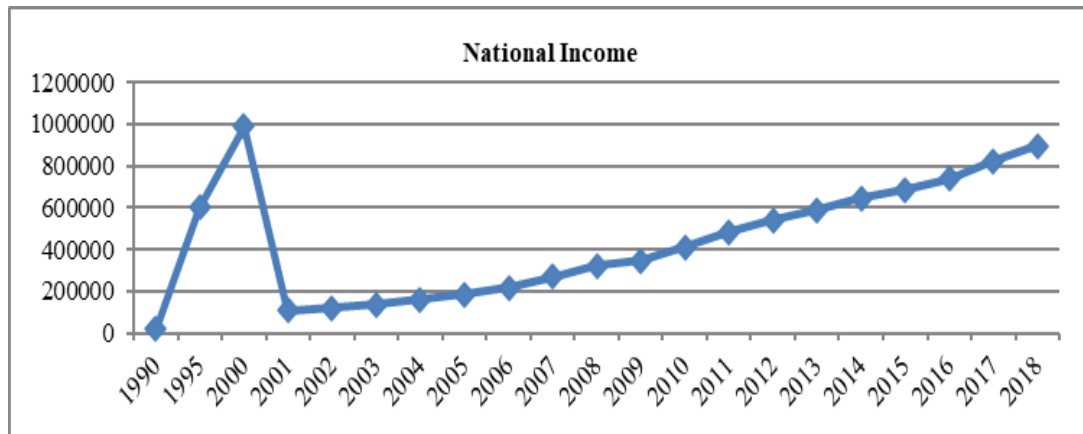


Fig. 3.4. China per capita national income growth (million USD)  
Source: www.data.worldbank.com

Since the democratic revolution in 1990, Mongolia has transformed into a new political system, entered the stock market and gradually resumed its economic growth. In 1996, the level of economic growth reached 2.1%, which was the first positive growth after the transformation of the new political system. Economic growth is unstable, and in some years is below GDP growth. After the world economic crisis, China's manufacturing output will reverse, and there will be a trend to create favorable conditions for my country. However, at that time Mongolian trade deficit narrowed and imports contracted faster than exports. The main reason for the decline in exports is changes in prices. At present, large-scale foreign direct investment in the mining industry is expected to continue to grow, and the Mongolian economy is expected to grow by an average of 7-8% by 2020-2021.

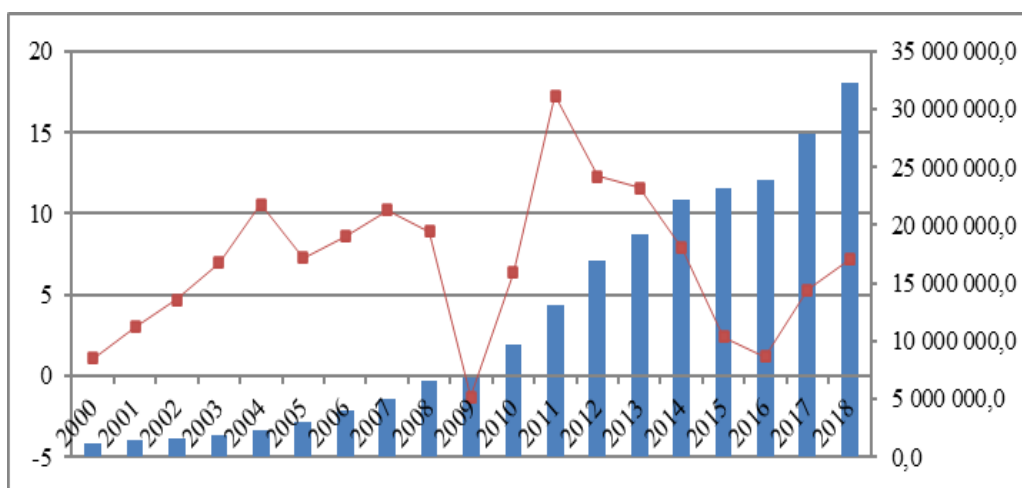


Fig. 3.5. Situation of Mongolia's GDP and GDP growth rate (million USD, %)  
Source: Mongolian Statistical Yearbook (2000-2018)

At that time, Mongolian economy was revived, but the income was low and the standard of living was low.

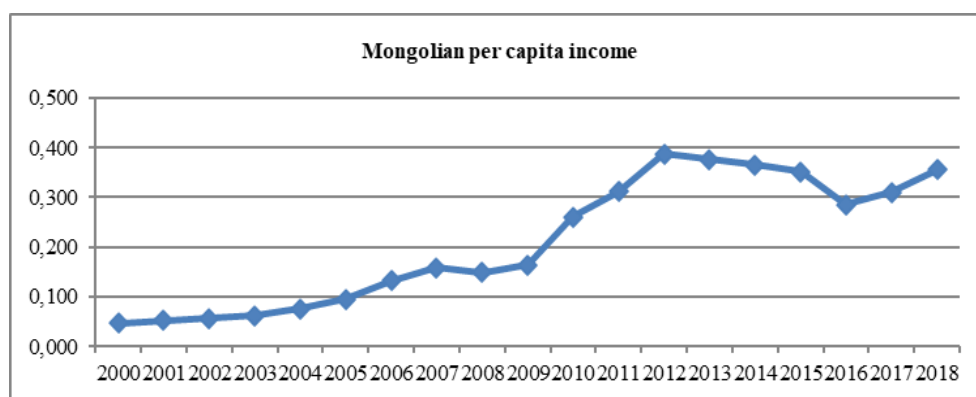


Fig. 3.6. Mongolian per capita income growth trend (USD)

Source: Compiled by the Mongolian Statistical Yearbook (2000-2018)

### 3.8. Influence of structural complementarity factors.

The development of regional economic integration in East Asia and the development of China and Mongolia regional economy, the economic structure of China and Mongolia also been continuously improved. In terms of commodity trade structure, most of the imported commodities to Mongolia are mainly low value-added grain, oil, food, chemical products, textiles, sugar, machinery and transportation equipment, capital and technical products. The Mongolian exports to China mainly primary products, and more than 90% of mineral products are exported to China.

## 4. An empirical analysis of the influencing factors of China Mongolia regional economic cooperation.

### 4.1. Index system of influencing factors of China Mongolia regional economic cooperation

Table 4.1. Index system of influencing factors of China Mongolia regional economic cooperation

Dimension	Selection of indicators and measurement units
Bilateral trade	Take the total import and export trade of the two countries as the measurement indicator, expressed by $T_{ij}$ , unit: million USD
Economic scale	Measure the economic scale in terms of GDP, expressed in $G$ , unit: USD
The level of economic development	Measure the economic development level of the two countries in terms of GDP per capita, denoted by $D$ , unit: USD / person
Openness	The ratio of direct investment to its GDP is used to comprehensively reflect the degree of openness to the outside world, denoted by $K$ , unit: %
Population size	The population size is measured by the total population, denoted by $P$ , unit: person
Urbanization level	The urbanization level is measured by the proportion of urban population to the total of people in the country, which is denoted by $U$ , unit: %
Export trade	The export trade is measured by the total export trade of a country, expressed in $E_{ij}$ , unit: million USD
Import trade	The import trade is measured by the total import trade of a country, expressed by $I_{ij}$ , unit: million USD

### 4.2. Data source.

The data in this article is derived from the original data of the relevant statistical yearbooks such as "China Statistical Yearbook" and "Mongolia Statistical Yearbook" (2000-2018), World Bank database. Bilateral trade data, GDP of the two countries, GDP per capita, population of the two countries, and direct investment are obtained from the World Bank database (<http://data.worldbank.org>).

### 4.3. Pearson correlation analysis results.

According to the analysis, SPSS 25.0 statistical analysis software is used to perform correlation analysis on panel data of relevant factors, and the results are shown in Table 4.2.

Table 4.2. Correlation analysis results of influencing factors of China Mongolia regional economic cooperation

		$T_{ij}$	$G$	$D$	$K$	$P$	$U$	$I_{ij}$	$E_{ij}$
$T_{ij}$	Pearson Correlation	1	.414**	.297	.205	-.591**	.818**	.694**	.905**
	Sig. (2-tailed)		.010	.070	.217	.000	.000	.000	.000
	N	38	38	38	38	38	38	38	38
$G$	Pearson Correlation	.414**	1	.277	-.250	.812**	-.574**	.193	-.658**
	Sig. (2-tailed)	.010		.092	.130	.000	.000	.246	.000
	N	38	38	38	38	38	38	38	38
$D$	Pearson Correlation	.297	.277	1	.179	.354*	.156	.672**	-.007
	Sig. (2-tailed)	.070	.092		.281	.029	.350	.000	.968
	N	38	38	38	38	38	38	38	38
$K$	Pearson Correlation	.205	-.250	.179	1	-.083	.285	.202	.151
	Sig. (2-tailed)	.217	.130	.281		.619	.083	.225	.366
	N	38	38	38	38	38	38	38	38
$P$	Pearson Correlation	-.591**	.812**	.354*	-.083	1	-.807**	.124	-.851**
	Sig. (2-tailed)	.000	.000	.029	.619		.000	.459	.000
	N	38	38	38	38	38	38	38	38
$U$	Pearson Correlation	.818**	-.574**	.156	.285	-.807**	1	.344*	.872**
	Sig. (2-tailed)	.000	.000	.350	.083	.000		.034	.000
	N	38	38	38	38	38	38	38	38
$I_{ij}$	Pearson Correlation	.694**	.193	.672**	.202	.124	.344*	1	.322*
	Sig. (2-tailed)	.000	.246	.000	.225	.459	.034		.049
	N	38	38	38	38	38	38	38	38
$E_{ij}$	Pearson Correlation	.905**	-.658**	-.007	.151	-.851**	.872**	.322*	1
	Sig. (2-tailed)	.000	.000	.968	.366	.000	.000	.049	
	N	38	38	38	38	38	38	38	38

\*\* . Correlation is significant at the 0.01 level (2-tailed). \* . Correlation is significant at the 0.05 level (2-tailed).

The correlation analysis results shown in Table 4.2, the following conclusions:

1. From the empirical analysis results, there is a positive correlation between the scale of China Mongolia economy and the scale of bilateral trade. At a significance level of 0.01%, the correlation coefficient is 0.414\*\*. The correlation coefficient has a significant effect on promoting trade between the two countries. As the economies of both countries grow larger, the role of promoting China Mongolia regional economic cooperation will increase. It can be said that for every percentage point increase in the GDP of the two countries, the total bilateral trade flow increased by 0.414%.

2. There is a positive correlation between the economic development level of China Mongolia and the scale of bilateral trade. This means that the level of economic development has a positive effect on the scale of bilateral trade. For every percentage point increase in GDP per capita, the total volume of bilateral trade increases by 0.297%. Judging from the actual situation, developed and developing countries have a high level of economic development, relatively close trade exchanges, very close regional economic cooperation. But, the low level of economic development among developing countries is not large, so bilateral trade is inactive, regional economic cooperation is not close, and it is always in the initial stage of regional economic cooperation.

3. There is a positive correlation between the degree of opening up of China and Mongolia and the scale of bilateral trade, with a correlation coefficient is 0.205. This relationship number indicates that the bilateral trade is not close enough to some extent, not only is the regional economic cooperation between China and Mongolia not close enough. For China, although it has been implementing the policy of opening to the outside world since its opening in 1978, compared with other developed country, it has a lower degree of opening to the outside world and has a lower ability to absorb foreign capital. For Mongolia, since the 1990's democratic revolution open policies have been adopted since then. The reason is that due to the instability of the political system and the repetition of policies, the effects of the open policies of China and Mongolia have not fully reflected.

4. There is a negative correlation between the population of China and Mongolia and bilateral trade at a significance level of 0.01. Because it is population growth that deepens the domestic division of labor, the low per capita income levels of countries and regions with large populations are significant, which reduces consumption capacity and leads to a reduction in import demand for foreign

trading partners. On the other hand, a country with a large population obviously has a larger market size than a sparsely populated country, so the corresponding market demand is greater. From this situation, this effect may be significant for countries with small populations.

5. There is only a strong positive correlation between the level of urbanization and the scale of bilateral trade at a significance level of 0.01. From the municipal analysis, there is a positive correlation between the level of urbanization and total exports, and there is a correlation between the rate of urbanization and total imports. Therefore, there is a strong correlation between the scale of bilateral trade and the level of urbanization.

6. There is a significant positive correlation between the scale of bilateral trade and the volume of imports and exports. As the economies of the two countries continue to expand, the volume of imports and exports to the two countries continues to increase, while the scale of bilateral trade expands. As Mongolia's increased export diversification reflects the expansion of the economy, potential import demand or potential consumer demand increase. Therefore, increasing export diversification and the flexibility of China Mongolia economic and trade cooperation mechanism have a certain role in promoting the expansion of bilateral trade.

**Conclusions.** Although China Mongolia regional economic cooperation always has been a state of non-stability in the region, and the two countries have also faced stagnation in the process of cooperation development, it is still necessary to see the benefits that such cooperation can bring to the two countries. Because of this, the efforts of the two countries from top to bottom are needed. The cooperation between China and Mongolia in various fields such as politics, economy, trade, culture, education and environmental protection has also entered a stage of steady development. Through an empirical analysis of the impact of China Mongolia regional economic cooperation, it can be seen that the bilateral trade scale between the two countries and the China Mongolian economic scale are positively correlated at a significance level of 0.01, the bilateral trade scale between the two countries and the China Mongolia economic development level, there is a positive correlation between the volume of imports and exports and the degree of opening to the outside world, and there is a negative correlation between the scale of population and bilateral trade at a significance level of 0.01. There is a strong positive correlation between the scale of bilateral trade between the two countries and the level of urbanization at a significance level of 0.01. This result shows that some factors have played a positive role in China Mongolia regional economic cooperation, and some have played a negative role.

As the second largest economy in the world, China has led the progress of bilateral cooperation in the development of regional economic cooperation between China and Mongolia, and played a key role in promoting China Mongolia cooperation. However, Mongolian lack of population, policy repetitiveness and instability, technological system evolutionary stagnation, economic growth instability, and vigilance against China have, to some extent, directly or indirectly restricted the relationship between China and Mongolia Regional economic cooperation and development.

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# RESEARCH ON CHINA MONGOLIA ECONOMIC AND TRADE COOPERATION

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China, Mongolia, Economic and Trade Cooperation, Countermeasures and Suggestions Economic integration.

## ABSTRACT

Since 1978, China's economy has opened to the world. Over the past 40 years, China's capital stock has grown at an annual rate of 6.9%. China began to implement the "Going out" policy in 2002, mainly to promote its overseas investment activities. The Chinese government launched a rescue plan of 4 trillion yuan in 2008, hoping to shift from export led growth to promote the expansion of the internal market. In this paper, China imports to Mongolia have increased year by year, accounting for 33.5% of its imports in 2018. China has pledged to invest globally by 1.25 trillion USD in 2025, and has increased investment in Mongolian mineral deposits. When the Chinese economy was in the "New Normal", it proposed the "Belt and Road" initiative. To strengthen the connection between the "Belt and Road" and the "Steppe Silk Road" initiative, 32 projects will be implement in Mongolia. After reform and opening up, China has made great achievements. But, the upgrading of industrial structure and technological progress are still slow, economic growth continues to slow down, the aging population is becoming more serious, and the production capacity is seriously surplus. From Mongolia, there are abundant natural resources, and the mining industry is driving economic growth. The economic growth rate is relatively fast, but the industrial structure is single, the evolution of the industrial technology system is stagnation, and the human resources are insufficient, resulting in excessive dependence on foreign trade. The economic situation depends on the neighboring countries, the inflation is serious, and the unemployment rate remains high. Therefore, under such circumstances, China and Mongolia should make good use of the geographical advantages of their neighbors, enhance mutual trust, strengthen economic trade cooperation, maintain the unity of their countries and maintain the strategic balance of international power and jointly create political mutual trust and economic cooperation. This paper takes China Mongolian cooperation as the main research line, and explores new ways for economic and trade cooperation to promote the upgrading of industrial structure and sustained economic growth of the two countries. In addition, as the main component of the "Belt and Road" initiative, Mongolia strengthens economic and trade cooperation with China and promotes the improvement of the level of cooperation between the two countries, and can also achieve long term common development.

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## 1. Introduction.

Mongolia is one of the earliest countries to agree China's independence. The two countries have never stopped cultural, economic and trade cooperation since ancient. As the trend of globalization continues to deepen, China Mongolia political relation getting closer and the economic

trade cooperation between the two countries has increasingly played an important role in the security and economic prosperity of Mongolia's periphery. With the proposal of the "Belt and Road" initiative and the continuous deepening of regional economic integration, the level of economic trade cooperation between the two countries has been continuously improved, especially the construction of the China Mongolia Russia economic corridor, which has ushered in greater development of China Mongolia economic, trade cooperation. There are currently have 152 contracts, including the 2014 "Mongolia and China Medium Term Plan for the Development of Economic and Trade Cooperation". Its goal is to deepen the principle of equality and mutual benefit based on good neighborly friendship and mutual trust between China and Mongolia, and to deepen bilateral and multilateral trade on the basis of favorable conditions for cooperation. The plan will implement between 2014 and 2044 year, and the set goal of reaching a trade volume of 10 billion USD between China and Mongolia by 2020 is expected to be achieved as scheduled. In order to achieve this, Mongolia is trying to diversify its economy, hoping to increase the import of agricultural products and exports of mineral products, so that it tends to no longer rely on the needs of China related industries. Over the past 20 years, China Mongolia trade volume has been on the rise. In 2019, China and Mongolia trade volume exceeded 8.85 billion USD, accounting for 64.3% of Mongolian foreign trade. In today's international environment, the prospects for trade development between the two countries are very broad.

## **2. China Mongolia Economic and Trade Cooperation.**

Mongolian foreign trade has become an important part of its social and economic development and has expanded. China Mongolian cooperation without borders and political disputes is not always good, but so far, cooperation has been maintained. Since the establishment of diplomatic relations between China and Mongolia, the cooperation between the two countries has experienced many twists and turns.

At the beginning of the establishment of diplomatic relations, Chinese Prime Minister Zhou En Lai and Mongolian Prime Minister Yu.Tsedenbal began the China Mongolian friendship after their first mutual visit. Mongolia has been holding economic and trade cooperation with the Russia from 1930s to 1950s. After the World Second War, the political, economic, and trade situation on the international stage changed, and Mongolia was able to establish relations with other countries. In 1956, established economic and trade cooperation with European countries. Since 1960, has traded with Switzerland, Japan, Britain, France, Australia and other countries. Although economic, trade cooperation has improved in the early 1950s, due to the influence of Russia, relations between the two countries have deteriorated, leading to a cold period for China Mongolia economic and trade cooperation.

In 1956, China and Mongolia established a truly cooperative relationship. Since then, China Mongolia economic, trade cooperation has been advancing continuously through twists and turns, and has now attracted the attention of the world. Through the development of China Mongolian friendly relations, two countries trade volume reached 24.6 million rubles, between 1952 and 1961, nearly 67% of the total trade in 1951. When the trade volume between China and Mongolia was converted into USD, it increased from 750,000 USD to 49.94 million USD, of which China's exports were 41 billion USD. In terms of trade structure, primary products and consumer goods are the main products. The products imported from China are mainly food, silk and tobacco, construction materials, trucks, industrial equipment and pharmaceuticals. The products exported to China are mainly for livestock products, cashmere products, animal and plant medicines and wood. From 1966 to 1971, Mongolia continued its efforts to normalize relations with China. In the future, Mongolia will seek friendly cooperation and good neighbour relations with China. Since the 1960s, the deterioration of China Russia relations has a profound impact on China Mongolian relations, and economic, trade relations have declined sharply. In 1962, China provided 26.85 million USD to Mongolia, which dropped to 7.9 million USD in 1963, and the trade volume between the two countries dropped to 350,000 USD in 1967. The trade volume between China and Mongolia has gradually increased since 1969, fluctuating 4-5 million USD between 1973 and 1975, and surpassed 4.5 million USD since 1982. In the early 1990s, Mongolian mission was to build a democratic society and human rights and freedoms. Large countries such as the United States and Japan were the key factors in Mongolian domestic and foreign policy. The expansion of cooperation between the United States and Japan under the "Third Country" policy has led to changes in the volume of trade with China.

At the beginning of the transition period, Mongolian foreign trade volume fell, and by 1991, the trade volume reached 7 million USD, a steady increase compared with the mid 1990's. The scale of China Mongolian trade was only 1.414 billion USD in 2007, but since 2010, Mongolia has been

committed to reforming its mining industry and improving the investment environment. With the implementation of this policy, the economy has recovered and trade between China and Mongolia has risen again. With the decline in the prices of mining products in the world market, from 2012 to 2013, Mongolian total foreign trade and China Mongolia trade both declined. But, as China and Mongolia actively promote and coordinate the integration of the “Belt and Road” and “Steppe Silk Road” initiative, China Mongolia trade has reached a new level. In 2018, Mongolia traded with 159 countries and regions, and the total trade volume reached 12.9 billion USD, an increase of 22.3% over the previous year. Among them, total exports were 7 billion USD, and total imports were 5.9 billion USD, an increase of 13.1% over the previous year. For exports, it increased from 267 million USD in 2000 to 6.51 billion USD in 2018, and imports increased from 610 million USD to 1.96 billion USD, accounting for Mongolian foreign trade growth to 7% and 65.4%. In terms of trade structure, China exports to Mongolia are mainly gasoline, clothing, textiles, industrial and mining equipment, electrical appliances, construction materials and consumer goods. Mongolian exports to China are mainly more than 20 products such as leather, animal and plant medicines, wood, scrap metal, coal and iron ore. As China economy continues to develop, the demand for trees, coal, and energy is also growing, and it can no longer meet the demand for domestic resource supply. However, Mongolia is rich in minerals and raw materials, and the trade between China and Mongolia is very active. Therefore, Mongolia can provide China with mineral resources. China and Mongolia have less overlap in export product structure and market. This shows that the export trade competition between China and Mongolia is weak, and the product structure has unparalleled complementary advantages.

Loans and grants are a means of cooperation between China and Mongolia. China Mongolia economic and technical assistance negotiations were established in 1956. From 1956 to 1959, China provided a grant of 160 million rubles to Mongolia and negotiated the construction of 18 buildings. Chinese Premier Zhou En Lai visit to Mongolia in May 1960, signed the “Friendship and Mutual Assistance contract” and decided to provide Mongolia with a loan of 200 million rubles. The loan is used to construct buildings, roads, bridges, factories, enterprises and social and cultural places. China has once again provided assistance and special loans to the development of Mongolia to strengthen its friendly relations. In return, the Mongolian government sent 20,000 horses, 26,000 tons beef and mutton, flour, wheat and other things to China. At the same time, China granted a loan of 100 million rubles to Mongolia and negotiated the construction of six buildings from 1959 to 1964. At that time, more than 10,000 Chinese were employed in Mongolia. Since the establishment of diplomatic relations between China and Mongolia, the first ten years have served the interests of the peoples of China and Mongolia and the peace and security of Asia and the world. In 1996, when the Mongolian Prime Minister P. Jasrai was visited to China, the Chinese government provided 20 million yuan in grants to Mongolia, and provided a total of 180 million yuan loan in interest free between 1991 and 1998. These are all aimed at overcoming Mongolian transitional challenges, restoring the economy, and improving people’s living standards and construction.

As China's opening to the outside world continues to increase, direct investment in Mongolia has continued to rise, especially since 1998, China's investment in Mongolia has entered a new stage. Since Mongolian transition from a centrally planned economy to a market economy in 1993, the “Foreign Investment Law” was revised in 2008, laying the foundation for attracting foreign direct investors. According to the Ministry of Foreign Investment, direct investment in Mongolia from 1980 to 2004 was 1.2 billion USD, from 2005 to 2009 was 1.572 billion USD, and in 2012 alone it reached 320 million USD. This shows how fast investment flowing into Mongolia is growing. In addition, since 1990, mining alone has accounted for more than 60% of total foreign direct investment. Due to large scale mining projects, the flow of foreign direct investment is expected to increase in the future. With the deepening of China Mongolia economic cooperation, the investment fields of the two countries have expanded year by year, and the total investment has also slowly increased. Since 1998, China has been the largest investor in Mongolia. In recent, enterprises in 79 countries and regions such as China, Russia, Japan, the United States, and Luxembourg have made direct investments in Mongolia, and investment projects have also continued to expand.



Table 1. Statistics of China's direct investment in Mongolia (Unit: Million USD)

Year	Chinese investment in Mongolia	Mongolia's investment in China	Year	Chinese investment in Mongolia	Mongolia's investment in China
2001	47.3	12.0	2010	521.3	12.0
2002	135.3	18.0	2011	1100.0	0.0
2003	46.9	15.0	2012	3200.0	25.0
2004	112.6	134.0	2013	3500.0	207.0
2005	235.8	322.0	2014	800.0	322.0
2006	227.9	94.0	2015	2300.0	289.0
2007	172.0	141.0	2016	2400.0	218.0
2008	339.6	231.0	2017	4100.0	232.0
2009	497.8	325.0	2018	3900.0	115.0

Source: Data report of China Statistics Bureau and Mongolia Statistics Bureau from 2001 to 2018

It can be seen from Table 1 that China's investment in Mongolia decreased significantly in 2014 due to the revision of the Mongolian investment law, that is, the increase in the investment threshold and the reduction in profit space. On the contrary, Mongolia's relatively small investment in China means that the gap between the economic level of China and Mongolia and Mongolia's investment capacity are weak.

### 3. Opportunities of “Belt and Road” Initiative to China Mongolia Trade Cooperation

The “Belt and Road” initiative proposed by Chinese President Xi Jin Ping in 2013 is an ambitious concept in China's historical development process, and a grand strategy for China opening to the outside world under the new situation. Mongolia is an important participant in the northern part of the “Belt and Road” and a good neighbor of China. Since the proposal of the “Belt and Road” initiative, high level interaction between China and Mongolia has become more frequent, and pragmatic cooperation between the two countries has been closer. President Xi Jin Ping and Prime Minister Li Ke Qiang visited Mongolia, Mongolian leaders visited China and to attend important international conferences. China and Mongolia have reached a series of important consensuses in the economic, trade field, which has vigorously promoted the development of China Mongolia economic and trade cooperation to a wider field and deeper levels. So far, 150 countries and international organizations are have signed cooperation coordination, and the documents of important international mechanisms such as the United Nations, the Group of 20, and Asia Pacific Economic Cooperation have embodied the concept of cooperation. As the number of countries joining the initiative increases, aspirations are being put into practice and ideas are being realized. According to preliminary estimates, 800 billion USD will be invested in 900 projects in 64 countries. Since 2016, the implementation phase has begun, and infrastructure work is ongoing, reaching consensus with countries along the route. In 2024, will be formed first step of integration, and countries along the route will establish a high standard free trade zone network. The strategic route to the Baltic Sea, Mediterranean Sea and Indian Ocean will be to enter safely. In 2049, a comprehensive alliance of interests, responsibilities and fate were established, and the “five links” has been basically implemented. Through the “five links” or policy communication, facility connectivity, trade application, capital, finance, and people's hearts, created a new trend to be systematic, networked, and people-oriented.

China and Mongolia have reached an important consensus on the “Belt and Road” and “Steppe Silk Road” initiatives, and 32 projects will be implemented in Mongolia. The “Belt and Road” and the “Steppe Silk Road” initiative are consistent in concept, content and interests are converging. After docking, the mutual trust between the two countries will be greatly enhanced, and bilateral mutually beneficial cooperation will be deepened. The premise of stable development is also an important measure to further promote the economic corridor. At the same time, the signing of the “Outline of China-Mongolia-Russia Economic Corridor Planning” also marked the official launch of the first regional economic corridor under the “Belt and Road” initiative. The integration of the “Belt and Road” and “Steppe Silk Road” initiatives have helped deepening China Mongolia economic, trade cooperation. China is Mongolian largest trading partner. According to the statistics of Mongolia, from 2013 to 2018, total foreign trade was 61.82 billion USD, and China Mongolian total trade was 34 billion USD, accounting for 55.1%. This initiative promotes the implementation of major cooperation

projects between China and Mongolia. As of 2018, China's direct investment in Mongolia exceeded 3.9 billion USD accounting for about 30% of Mongolian total foreign investment.

Wang Yi, Permanent Secretary of the State Council of China and Minister of Foreign Affairs, visited Mongolia in 2018 to strengthen China Mongolia comprehensive strategic partnership, deepen mutually beneficial cooperation, and advance cooperation agreements. According to Minister Wang Yi's speech at a press conference, "The further development of the Belt and Road Initiative is to accelerate the infrastructure construction of Mongolia; second, to remove obstacles that hinder the development of the country, improve living standards and everyone can benefit from the initiative; third, cooperate with Mongolia to build the "Green Silk Road" in the field of environmental protection; fourth, make full use of Mongolian resource advantages and help improve the sustainable development of the supplying country". With the continuous deepening of cooperation within the framework of the "Belt and Road" initiative, the China Mongolia Cross Border Economic Cooperation Zone, China Mongolia negotiations on free trade agreements have been actively promoted, and Mongolia has become a member of APEC with the support of China. China has completed a contracted engineering business of approximately 9 billion USD in Mongolia and implemented projects such as bridges, roads, municipalities, factories and mines. Among them, projects such as Tumurtei Zinc Mine, Cement Plant, Amgalan Thermal Power Plant, Baganuur Power Plant have become successful models in the fields of mineral development and production capacity cooperation. China actively supports the development of Oyutolgoi Copper Mine has provided strong support in energy supply and project development. The two sides have cooperated closely in the development of the Tavantolgoi Coal Deposit. Chinese companies have accumulated direct investment and contracted project, it has created nearly 100,000 jobs for the local area and paid nearly 2 billion USD in taxes and fees.

The "Belt and Road" initiative promotes the implementation of aid to Mongolia and loans. Since the proposal of the "Belt and Road" initiative, China has increased its efforts to provide Mongolia's free assistance and preferential export buyer's credit, implemented important projects that have contributed to local social and economic development, and constructed the country's first expressway, the first cross-region high-voltage power transmission and transformation line, two overpasses crossing railroad crossings, reinforced two concrete bridges across the Tuul River and multiple interprovincial highways; help Mongolia build a backbone communications network and education and electronic medical network covering Mongolia; Implemented projects such as schools, shantytown housing renovation, disabled children development center, 1008 sets of housing and so on.

The "Belt and Road" initiative has helped China Mongolia financial cooperation achieve major breakthroughs. In September 2017, Bank of China, Industrial and Commercial Bank of China were successively setup representative offices in Mongolia to provide convenient financial platform support for pragmatic cooperation between the two countries; the China Development Bank, the Export Import Bank of China and major state owned commercial banks have accumulated loans in Mongolia more than 10 billion yuan, which has effectively promoted enterprise development and project construction; the scale of bilateral local currency swaps between China and Mongolian central bank has expanded to 15 billion yuan become the main settlement currency of China and Mongolia; the comprehensive use of financial means such as financing has established a funding bridge for bilateral economic and trade cooperation.

The "Belt and Road" initiative has boosted China Mongolia humanitarian exchanges and cooperation. From 2013 to 2018, China's human resources training for Mongolia increased. In 2016, it completed the five year training target for 1,000 people in Mongolia announced by President Xi Jin Ping during his visit to Mongolia in 2014. China supports Mongolian citizens to study, travel, doing business and receive medical treatment. 250 journalists visited China and will translate 25 Chinese movies. In 2015, 382 people from 58 teams from Mongolia's agriculture, hospitals, sports, food safety, hydrology and meteorology, radio and television, information, trade, ecology, finance and technology received vocational training in China. This has strengthened the understanding and friendship between the two countries. Compared with developed countries such as Europe, the implementation of the "Belt and Road" initiative is a development gap. As Asian countries are in the process of economic transformation and transition, they are adapting to environmental changes and ensuring sustainable economic development. China Mongolia cooperation faces the problems of Mongolian infrastructure, constantly changing government members, unstable public policies, and

poor investment conditions. China's "Belt and Road" and Mongolia's "Steppe Silk Road" initiative benefit the people of both countries.

China and Mongolia are important neighbors. After years of development in friendly relations and pragmatic cooperation, a solid foundation has been laid. The two countries have extensive cooperation space in the fields of mineral resources development, infrastructure construction and financial cooperation. The "Belt and Road" initiative strengthens political mutual trust, draws closer to the bond of interests, deepens the connection with the "Steppe Silk Road", gives full play to the role of major projects in pragmatic cooperation between the two countries, and to construct new breakthroughs have been made in the negotiation of trade agreements and the establishment of operating by Mongolian financial institutions in Mongolia, which has continuously pushed China-Mongolia economic and trade cooperation to a new level.

#### 4. An Empirical Analysis of China Mongolian Economic and Trade Cooperation

##### 1) Given data and interpretation

TRADE - Total trade flow between Mongolia and partner countries. The unit is millions USD. The variable GDP- measures the scale of the economy in terms of gross domestic product and represents the gross domestic product of Mongolia and its partners in millions USD. The variable POP- represents the population of Mongolia and partner countries at the end of the year, in millions person. The variable ULEVEL- indicates the level of urbanization in Mongolia and partner countries, unit is %. The variable FDI- represents the amount of direct investment in Mongolia and partner countries in millions USD. The variable INF- indicates the inflation level of Mongolia and partner countries. The variable DIST- represents the distance from Ulaanbaatar to the capital of the trading partner country in thousands of square kilometers. The variable DUMMY2 is a dummy variable indicating whether this trading partner country is a member of the World Trade Organization. If it is a member state, the value is 1, not a member state, the value is 0. DUMMY1 is a dummy variable that indicates whether Mongolia and partner countries are neighboring countries. If neighboring countries, the value is 1, if they are not neighboring countries, the value is 0.

##### 2) Data source

Relevant data of China and Mongolia are from "Statistical Data Report of the General Administration of Taxation", "Mongolian Statistical Yearbook" and "China Statistical Yearbook" (2000-2018), "Mongolia's Foreign Trade Blue Book" (2017), World Bank database. The original data of relevant statistical yearbooks are selected. Data from other countries are selected from the World Bank database. DIST related data was obtained from the website (<http://timeanddate.com>).

Data related to GDP, INF and FDI are obtained from the World Bank database (<http://data.worldbank.org>).

Use the gravity model to write the equation for foreign trade total flow:

$$\begin{aligned} \ln(\text{TRADE}_{ijt}) = & \beta_1 + \beta_2 * \ln(\text{GDP}_{ij}) + \beta_3 * \ln(\text{POP}_{ij}) + \beta_4 * \ln(\text{ULEVEL}_{ij}) + \beta_5 * \ln(\text{FDI}_{ij}) + \\ & + \beta_6 * \ln(\text{INF}_{ij}) + \beta_7 * \ln(\text{DIST}_{ij}) + \beta_8 * (\text{DUMMY1}_{ij}) + \beta_9 * \ln(\text{DUMMY2}_{ij}) + \varepsilon_{ij} \quad (1) \end{aligned}$$

In the equation,  $\text{TRADE}_{ijt}$  represents the total trade volume of countries  $i$  and  $j$  at time  $t$ ,  $\text{GDP}_{ij}$  represents the GDP of countries  $i$  and  $j$  at time  $t$ ,  $\text{POP}_{ij}$  represents the total population of countries  $i$  and  $j$  at time  $t$ , and  $\text{ULEVEL}_{ij}$  represents the countries  $i$  and  $j$  at urbanization level at time  $t$ ,  $\text{FDI}_{ij}$  represents the total direct investment of countries  $i$  and  $j$  at time  $t$ ,  $\text{INF}_{ij}$  represents the inflation level of countries  $i$  and  $j$  at time  $t$ ,  $\text{DIST}_{ij}$  represents the distance between countries  $i$  and  $j$ , and  $\text{DUMMY1}_{ij}$  and  $\text{DUMMY2}_{ij}$  represent countries  $i$  and  $j$ , respectively whether neighboring countries and member countries of the International Trade Organization.  $t$  represents the time between 2000-2018 year,  $\beta_1$  represents the model constant, and  $\varepsilon_{ij}$  is the random error. Using Mongolia, China, Russia, North Korea, Japan, the United States, Germany, Canada, Kazakhstan, Italy, France, Singapore and other 20 countries and regions, 2000-2018 relevant foreign trade 380 panel data, through the trade gravity model, the calculation Factors in China Mongolian economic and trade cooperation. The standard gravity model is as follows:

Table 2. Standard Trade Gravity Model Structure

Source	SS	df	MS	Number of obs	=	380
Model	167.244593	3	55.7481978	F(3, 376)	=	2375.45
Residual	8.82416138	376	.023468514	Prob > F	=	0.0000
Total	176.068755	379	.464561358	R-squared	=	0.9499
				Adj R-squared	=	0.9495
				Root MSE	=	.15319

Trade	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
Export	.3997378	.0286596	13.95	0.000	.3433846 .4560909
Import	.5828089	.0279034	20.89	0.000	.5279427 .6376752
Dist	-.0068412	.0098738	-0.69	0.489	-.026256 .0125736
_cons	.4133225	.0552081	7.49	0.000	.3047672 .5218778

$$\ln(\text{TRADE}) = 0.413 + 0.399 * \ln(\text{EXPORT}) + 0.582 * \ln(\text{IMPORT}) - 0.006 * \ln(\text{DIST}) \quad (2)$$

The Stata 14 program was used to run the standard gravity model estimation. The results can be explained as follows:

1. Mongolian exports are positively correlated with trade flows. For every percentage point increase in exports, trade flows will increase by 0.399%.
2. The partner country's exports are positively related to Mongolia's trade flows. For every 1 percentage point increase in imports, trade flows will increase by 0.582%.
3. The distance between Mongolia and partner countries is inversely related to trade flows. If the distance increases by 1 percentage point, the trade flow will increase by 0.006%.

In order to conduct in-depth research and determine the relationship between Mongolian foreign trade and economic scale of partner countries, the linear fitting of 2000-2018 panel data of Mongolia and 20 partner countries is mainly made through STATA 14 (see Figure 1). From the graph, GDP is positively correlated with foreign trade flows.

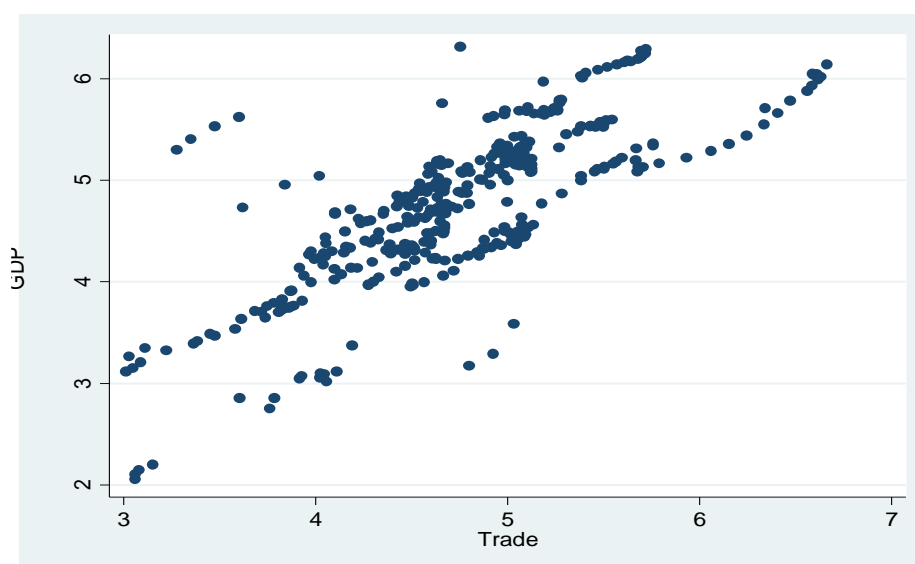


Fig.1. Scatterplot of the relationship between GDP and trade flow

Descriptive statistics of the main variables are shown in Table 3.

Table 3. Descriptive statistics of main variables

Variable	Obs	Mean	Std. Dev.	Min	Max
Country	380	10.5	5.773884	1	20
Trade	380	4.745418	.6815874	3.012	6.664
GDP	380	4.757052	.7838523	2.055	6.313
FDI	380	3.315242	.8815875	-3.4	5.46
Pop	380	49.87811	46.38027	2.39	145.9
Inf	380	4.069034	5.867183	-3.68	54.9
Dist	380	3.49245	.8373747	0	4.029
Ulevel	380	73.29321	16.19698	27.61	100
Dummy1	380	.1	.3003955	0	1
Dummy2	380	.9210526	.2700121	0	1

## (3) Empirical analysis and results

Table 4. Model results

Source	SS	df	MS	Number of obs	=	380
Model	142.14121	8	17.7676512	F(8, 371)	=	194.29
Residual	33.9275452	371	.091448909	Prob > F	=	0.0000
				R-squared	=	0.8073
				Adj R-squared	=	0.8031
Total	176.068755	379	.464561358	Root MSE	=	.30241

Trade	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
GDP	.4497192	.0304991	14.75	0.000	.3897465 .5096919
FDI	.0992504	.0195759	5.07	0.000	.0607569 .137744
Pop	.0020063	.0006083	3.30	0.001	.0008101 .0032025
Inf	-.0173374	.0029732	-5.83	0.000	-.0231838 -.011491
Dist	-.0005929	.0215231	-0.03	0.978	-.0429155 .0417296
Ulevel	.0063863	.0011441	5.58	0.000	.0041365 .0086361
Dummy1	.9190977	.0756055	12.16	0.000	.7704287 1.067767
Dummy2	.2515566	.0672041	3.74	0.000	.1194079 .3837053
_cons	1.457908	.1393384	10.46	0.000	1.183916 1.7319

From the above view, the value of the determined coefficient of determination (R-squared) is high. It can be said that the joint effect of the eight unrelated variables that affect the so-called correlation coefficient on foreign trade flow is 80.7%. Only when the probability values of all variables are less than 0.05, it shows that those variables have great influence. China Mongolia foreign trade gravity model is China Mongolia gross domestic product (GDP), total population (POP), direct investment (FDI), urbanization level (ULEVEL), whether it is a member of the World Trade Organization (DUMMY2), whether it is a neighbor (DUMMY1) and other variables are positively correlated. Inflation level (INF) is negatively correlated with the distance between two countries (DIST). Using the gravity model formula to calculate the total trade volume between China and Mongolia in 2020, the calculation process is as follows:

$$\begin{aligned} \ln(\text{Trade}) = & 1.457 + 0.449 * \ln(\text{GDP}) + 0.099 * \ln(\text{FDI}) + 0.002 * \ln(\text{POP}) - 0.017 * \ln(\text{INF}) - \\ & - 0.0005 * \ln(\text{DIST}) + 0.006 * \ln(\text{ULEVEL}) + 0.919 * \text{DUMMY1} + 0.251 * \text{DUMMY2} \quad (3) \end{aligned}$$

Table 5. China Mongolia trade status and forecast in 2020, 2030 and 2050

Index	2020 year	2030 year	2050 year
Ln(GDP)	21.25	21.59	21.92
Ln(FDI)	7.694	8.393	8.694
Ln(POP)	7.64	7.70	7.73
Ln(INF)	1.32	1.55	1.57
Ln(DIST)	7.06	7.06	7.06
Ln(ULEVEL)	4.13	4.27	4.33
DUMMY1	1	1	1
DUMMY2	1	1	1

Source: China and Mongolia Statistics Bureau Yearbook Data Report, World Bank Report

Using the gravity model formula to calculate the total trade volume between China and Mongolia in 2020, the calculation process is as follows:

$$\begin{aligned} \ln(\text{Trade}_{C\&M}) = & 1.457 + 0.449 * 21.25 + 0.099 * 7.694 + 0.002 * 7.64 - 0.017 * 1.32 - \\ & - 0.0005 * 7.06 + 0.006 * 4.13 + 0.919 * 1 + 0.252 * 1 = 12.9 \end{aligned} \quad (4)$$

It is widely used in the field of using gravity model, and it is used in many research fields abroad. However, many researches don't mention the inflation and urbanization levels of Mongolia and partner countries. Therefore, this research refers to the variables of inflation and urbanization in Mongolia and partner countries. At the same time, the 19 year data of 20 countries and regions that accounted for high and low in Mongolian foreign trade added 8 variables to the gravity model equation. The gravity model proves that the GDP, population, urbanization level, inflation level, distance between the two countries, and whether the two countries are adjacent to each other in the partner country have a great influence on Mongolian foreign trade. 80.7% of the total trade flow is determined by the factors listed above, and the rest is determined by other factors. In 2020, total trade flow  $\ln(\text{Trade})^e = e\ln(\text{Trade}) = 2.72^{12.9} = 400561$  million USD, and the total trade flow between China and Mongolia in 2030 and 2050 year may be 514,100 million USD and 573,790 million USD.

**Conclusions.** China Mongolia economic and trade cooperation faces many challenges, but there are still many possibilities for development. The two countries have established a comprehensive strategic partnership and expanded the scope of cooperation by strengthening the connection between the "Belt and Road" and "Steppe Silk Road" initiative. Prevent risks of economic and trade cooperation and make cooperation more successful. Therefore, the two countries must mobilize opportunities according to world development trends and support each other's sustained and healthy development of bilateral economic and trade cooperation. Both sides are increasing the frequency of high level visits and actively promoting regional cooperation. At the same time, on the basis of the "Joint Declaration on the Establishment of a Strategic Partnership between Mongolia and China", actively promote the "China Mongolian Economic and Trade Cooperation Medium Term Development Plan" and establish an intergovernmental economic, trade and scientific cooperation committee to develop minerals, energy, telecommunications and other mechanisms and infrastructure construction are key directions for economic and trade cooperation. Strengthen regional cooperation, develop cities along the "Belt and Road" initiative, establish economic development model cities between the ports, and develop friendly relations between major cities in China and Mongolia to deepen mutual understanding between citizens of the two countries, the strategic partnership will be further developed. The investment and legal environment need to be improved, and infrastructure needs to be accelerated. Under the comprehensive strategic framework, legislative cooperation needs to be strengthened. Establish a mutually beneficial mechanism to mutually accept legal and policy issues. In addition, bilateral economic and trade cooperation also supports the environmental development system, ensuring reliable and high quality cooperation is a healthy development path for government cooperation. In the past, investment in the mining and construction industry has also increased, but necessary to increase investment in wool, cashmere, telecommunications and primary processing. Judging from the international economic situation and Mongolian economic trends, China Mongolia cooperation has complementary potential. Mongolia has huge mineral resources, while China has scientific and technological advantages, but due to lack of resources per capita, the two sides are cooperating in a complementary way.

This paper used 380 panel data from 20 countries and regions, including China, Mongolia, Russia, North Korea, Japan, the United States, Germany, Canada, Kazakhstan, and Singapore. The results of the research indicate that China Mongolia trade is positively related to GDP, total population, urbanization level, inflation level, neighboring countries and other factors, and the distance between the two countries is negatively related. At the same time, it is estimated that the total trade flow between China and Mongolia in 2020, 2030 and 2050 will be 400,561 million USD, 514.1 million USD and 573,790 million USD respectively.

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# EMPIRICAL ANALYSIS OF IMPACTS ON CHINA AND MONGOLIAN TRANSPORT SERVICE TRADE OF INTERNATIONAL COMPETITIVENESS

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## ABSTRACT

This paper aims to make an empirical analysis of the impact of international competitiveness on China and Mongolia's transportation service trade. First, calculating the RCA competitiveness index, China, Mongolia and some developed countries are compared and analyzed, and then an empirical analysis of the main factors influencing China and Mongolia transportation service trade is conducted, and it is concluded that the port freight export volume increased by 1%, China-Mongolia port freight export volume increased by 0.798%. When the opening of the transportation service industry in China and Mongolia increased by 1%, the export value of the transportation service trade increased by 1.232%. Therefore, the port exports of the two countries have a positive impact on the international competitiveness of the transportation service trade and the opening degree of the transportation service industry in China and Mongolia.

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**1. Introduction.** In recent years, some scholars in Mongolia have begun to study the international competitiveness of transportation service trade from different perspectives. Due to the current status and challenges of transportation logistics in Mongolian transportation countries, and the fact that transportation logistics is limited to railways and Zamyn Uud port, Mongolian economic scientists S. Batkhurel, S. Munkhchimeg and T. Tuvshingerel (2012) was research policies and laws environment, unified regulations, and the responsible for these issues have suggested that the solution to the problem is a management issue, not a source of funds and capital. They also emphasized the need to work closely with an international organization as a landlocked country. Mongolia Post Co., Ltd. explained in a securities manual (2014) that the price of Mongolian consumer goods is relatively high and fluctuates largely because of the development of the logistics industry. It also proposed the establishment of a Mongolian transportation and logistics center in the Zamyn Uud Free Trade Zone. It is possible to provide logistics services in the direction of Zamyn Uud-Ulaanbaatar, Zamyn Uud-Rural, and Ulaanbaatar-Rural.

The head of the Mongolian Logistics Association A. Munkhbold (2012) was research the development level of the logistics industry in Mongolia, determined further measures and expected results, and considered the factors that determine the logistics performance index.

Yo. Manlaibayar (2014), Director of the Railway and Maritime Transport Policy Implementation and Coordination Bureau of the Ministry of Road and Transportation of Mongolia, explained the transportation routes through two neighboring countries to Mongolia's transit corridors and ports, calculating that Mongolia is not only a railway between two large countries, the main transit area for transportation, but also an important time-saving place for two neighboring countries. Professor P.K. Mukherjee (2014) explained in detail the names, formulas, definitions and agreements



related to transportation logistics between the Mongolian government and the People's Republic of China. He emphasized the need to develop strategies and countermeasures aimed to improving Mongolia's status, proposed alternative options for entering the sea through China, and focused on infrastructure development. He also emphasized the positive impact of maritime transportation and marine insurance on the economy and made relevant recommendations.

Mongolian mid-term (2020-2025) sustainable development policy focuses on explaining the potential of professional organizations responsible for implementing the national policy objectives of the road sector in order to strengthen the implementation of the road development policy system, establish an innovative research structure in the sector, and computerize the database. Continuous operation, non-governmental organizations performing some government functions, establishing a system for planning roads and road facilities construction that closely cooperates with the sustainable development concept of Mongolia and population resettlement and industrialization policies.

Taking into account the quality of transportation infrastructure and the high cost of exports, transportation may limit the development of certain sectors, such as agriculture and tourism. But it was concluded that transportation is not a factor limiting economic growth. Recently, the road network has been continuously improved, most of the main roads have been paved, and the economic sectors that depend on transportation are also evolving. Transportation costs for mining operations may be high, but it is not important to the country. However, proper transportation issues, such as railway availability in the mining sector and remote areas, remain a challenge (2016). R. Dagva, Chairman of the Citizens Representative of the Capital, and Koizumi Taiga (2018), a Mongolian national official of JICA, discussed the possibility of developing a new city. Through the development of the city, it can become a transportation and logistics center in Northeast Asia.

Liu Shan (2016) introduced the current status and problems of China's transportation trade in terms of trade scale, structure, and main objectives. Huang Rong (2017) calculated and compared the competitiveness indexes of transportation services trade between China and the United States, Japan and other developed countries, combined with these competitiveness indexes and China's national conditions, analyzed the causes of transportation services trade competitiveness, and proposed a number of countermeasures and suggestions. Meng and Li Yuting (2018) found that some of the main factors affecting China's transportation service exports include cargo trade, transportation capacity structure, transportation and related production auxiliary industries, and the openness of the domestic transportation market.

## **2. Analysis of the current situation of transportation service trade**

Mongolia's economic growth depends on the development of the transportation sector, and its main business and people are largely dependent on the quality and accessibility of entering the country and abroad. As a landlocked country, Mongolia relies on neighboring countries for international trade by sea or rail. Trade facilitation is closely related to the development of transportation routes and the laws, regulations and systems of trade. Although the need to expand the network in the transportation sector is becoming more apparent, the ensuing demands for network management and sustainability are more obvious than ever. As the political and economic dynamics of the 1990s changed, the transition to political democracy and a market-based economic system put new pressure on the country's relatively small transportation network. Although the actual demand for transportation infrastructure is still very low compared to other Asian countries, the Mongolian economy has developed rapidly in recent years, mainly driven by mining and traditional animal husbandry. Insufficient transport infrastructure and services continue to restrict the growth of economic activities in remote areas such as the western and southern regions.

Driven by the scientific and technological revolution and economic globalization, service trade has achieved rapid development, the export structure has been accelerated, the scale of commercial presence is increasing, and the competition in various countries is becoming fiercer. The focus of global competition is shifting from trade in goods to trade in services. The level of development with service trade has become one of the important indicators of the country's competitiveness. Transportation service trade is one of the important components of China's service trade. Since the reform and opening up, China's transportation service trade has maintained a rapid development trend for a long time. After China's accession to the WTO, foreign trade has developed rapidly, and China has become the most important driving force for the development of world shipping. In recent years, China's total transportation service trade has increased significantly compared with 19 years ago.

Table 1. Statistics of the Mongolia's transportation service trade import and export from 2000 to 2018 (unit: 100 million USD, %)

Years	Sum	Growth rate	Export	Growth rate	Import	Growth rate
2000	0.80	-	0.13	-	0.67	-
2001	0.93	16.3	0.26	20.0	0.67	1.0
2002	0.97	4.3	0.25	-3.85	0.72	10.8
2003	1.08	11.3	0.21	-16.0	0.87	20.8
2004	0.45	-58.3	0.09	-57.1	0.36	-58.7
2005	1.63	38.1	0.47	22.2	1.16	22.3
2006	2.32	42.3	0.83	76.6	1.49	28.5
2007	2.61	12.5	0.14	-83.1	2.47	65.8
2008	1.84	-29.5	0.15	7.2	1.69	-31.8
2009	1.12	-39.1	0.17	13.3	0.95	-43.8
2010	0.45	66.6	0.17	1.0	0.28	-70.5
2011	0.75	45.3	0.19	11.76	0.56	20.0
2012	1.09	20.2	0.18	-5.26	0.91	62.5
2013	1.31	96.2	0.21	16.7	1.10	20.8
2014	6.50	-40.8	0.35	66.7	6.15	59.1
2015	3.85	-40.8	0.17	-51.5	3.68	-40.2
2016	5.06	31.4	0.70	11.8	4.36	18.5
2017	7.92	56.5	1.70	42.9	6.22	42.7
2018	11.44	44.7	2.48	57.6	8.96	44.1

Source: 2000-2018 Mongolian transportation service trade import and export statistics.

In the recent years, China's total transportation service trade has increased significantly compared with 19 years ago. However, the ratio of its average growth rate to the total value of service trade is gradually decreasing. China's total transportation import and export service industry increased from 14.14 billion USD in 2000 to 150.059 billion USD in 2018. From the overall situation, the growth rate is not stable, especially from 2010 to 2016 year by year. Since then, there has been a clear recovery trend. As of the end of 2018, the growth rate of total imports and exports rebounded to 15.79%, entering a new stage. The export volume was 4.68 billion USD in 2000 to 42.3 billion USD in 2018. In contrast, imports increased from 9.46 billion USD in 2000 to 108.29 billion USD in 2018, an increase of 11.45% in 19 years.

Table 2. Statistics of China's import and export of transportation services in 2000-2018 (unit: billion USD, %)

Years	Sum	Growth rate	Export	Growth rate	Import	Growth rate
2000	14.14	-	4.68	-	9.46	-
2001	16.00	13.15	5.17	10.47	10.83	14.48
2002	19.45	21.56	5.62	8.70	13.83	27.70
2003	26.22	34.80	13.79	45.7	12.43	-10.13
2004	36.72	40.05	15.32	11.09	21.40	72.16
2005	43.96	19.72	15.43	0.72	28.45	32.96
2006	55.40	26.02	22.48	45.69	34.26	20.42
2007	74.70	34.84	25.08	11.56	33.74	-1.52
2008	88.75	-18.81	38.42	53.19	50.33	49.17
2009	70.14	-20.96	23.57	-38.65	46.57	-7.46
2010	97.47	38.96	34.21	45.15	63.26	35.82
2011	116.02	19.03	35.57	3.97	80.45	27.17
2012	124.77	7.55	38.91	9.40	85.86	6.73
2013	131.97	5.77	37.65	-3.25	94.32	9.86
2014	134.38	1.83	38.24	1.59	96.16	1.94
2015	123.25	-7.77	38.59	0.92	85.34	-11.25
2016	114.53	-7.60	33.83	-12.35	80.58	-5.58
2017	130.05	13.55	37.10	9.66	92.95	15.34
2018	150.59	15.79	42.30	14.02	108.29	16.51

Source: Calculated from China's of transportation service trade import and export statistics.

### 3. Analysis of International competitiveness

#### 3.1. RCA index (Revealed Comparative Advantages)

The explicit comparative advantage index was proposed by Balasa in 1965 to explain international competitiveness, and then widely used in the field of international trade research. The RCA index represents the ratio of a country's product or service exports to the global export of that product or service divided by the proportion of the country's total exports of all services in the world's total exports of all services. In this article, if a specific product or service is a transportation service, the value of the total export value of the product or service is the total export of the service trade. Therefore, the calculation formula is as follows:

$$RCA_{ti} = \frac{\frac{X_{ti}}{\sum_{i=1}^n X_{ti}}}{\frac{X_{si}}{\sum_{i=1}^n X_{si}}} \quad (1)$$

In this formula,  $RCA_{ti}$  represents the comparative advantage index of the country's transportation service trade.  $X_{ti}$  represents the country's exports of transportation services trade,  $\sum_{i=1}^n X_{ti}$  represents the total exports of world transportation services trade.  $X_{si}$  represents the export volume of the country's service trade,  $\sum_{i=1}^n X_{si}$  represents total export volume of service trade in the world.

#### 3.2. Measurement of RCA Index and Analysis of Revealed Competitiveness of Transport Service Trade

Table 3. RCA Index of Transport Services Trade in six countries

Years	China	Mongolia	Russia	Japan	Korea	USA
2000	0.25	0.77	1.12	1.41	0.34	0.17
2001	0.26	0.13	0.72	0.68	0.35	0.19
2002	0.27	0.21	1.25	0.74	0.44	0.19
2003	0.15	0.38	1.27	0.70	0.47	0.14
2004	1.00	0.12	1.11	0.63	0.49	0.16
2005	0.90	0.54	0.59	0.62	0.49	0.12
2006	1.13	0.85	0.41	0.67	0.51	0.18
2007	0.91	0.19	0.49	0.67	0.48	0.18
2008	1.22	0.12	0.43	0.60	0.44	0.63
2009	0.97	0.20	0.29	0.54	0.59	0.63
2010	1.41	0.17	0.31	0.62	0.58	0.61
2011	0.91	0.55	0.59	0.63	0.67	0.63
2012	0.98	0.14	0.54	0.73	0.51	0.64
2013	0.95	0.16	0.57	0.67	0.56	0.64
2014	0.93	0.33	0.47	0.53	0.51	0.64
2015	1.00	0.14	0.72	0.53	0.65	0.64
2016	0.97	0.59	0.69	0.55	0.60	0.65
2017	0.99	0.42	0.79	0.51	0.69	0.64
2018	1.06	0.49	0.65	0.52	0.48	0.66
average	0.86	0.34	0.68	0.66	0.52	0.48

Source: www.worldbank.org calculated by the data author.

As shown in Table 3, China's RCA index is still at a relatively high level, and the average value of RCA is higher than that of the other five countries. Similar to China, Russia and Japan have high average trade in transportation services between 2000 and 2018, which shows that Russia and Japan have a comparative advantage in transportation service trade. The RCA of the United States and South Korea has been stable at around 0.4-0.6, which shows that although these countries have no obvious comparative advantage in the transportation service trade, the overall level is relatively stable. For Mongolia, from 2000 to 2018, the RCA value of the transportation service trade has always remained below 0.5, which shows that Mongolia's comparative advantage is very weak.

### 3.3. Empirical Analysis of Impacts on China and Mongolian Transport Service Trade of International Competitiveness

#### A. Variable selection

Table 4. Variable selection

Variable	Selection of indicators and measurement units
Export volume of transportation services	It is regarded as a quantitative indicator of the competitiveness of China's and Mongolia's transportation services trade. Expressed by Y, unit: 100 million USD
Export volume of goods	Take the export volume of goods from China and Mongolia as the demand factor, expressed by X <sub>1</sub> , unit: 100 million USD
Port cargo export volume	Take the export volume of major ports in China and Mongolia as the main factor, expressed by X <sub>2</sub> , unit: ten thousand USD
Number of employees in transportation services	Take the staff of the transportation service industry of the two countries as the key factor of production, expressed by X <sub>3</sub> , unit: thousand people
Openness of transportation service trade	Take the ratio of the total import and export of China's and Mongolia's transportation services trade to its GDP as a comprehensive reflection of the opening degree of transportation services trade, expressed by X <sub>4</sub> , unit: %

#### B. Data Sources

The data in this article was obtained from the original databases (<http://data.worldbank.org>) of the relevant statistical yearbooks such as “China Statistical Yearbook” and “Mongolia Statistical Yearbook” (between 2000 and 2018) and the World Bank database. The formula for the competitiveness of China and Mongolia’s transportation services trade is:

$$\ln Y = \beta_1 + \beta_2 \ln(X_1) + \beta_3 \ln(X_2) + \beta_4 \ln(X_3) + \beta_5 \ln(X_4) + \varepsilon \quad (2)$$

#### C. Regression analysis

Table 5.

Dependent Variable: Y  
 Method: Least Squares  
 Date: 06/22/20 Time: 21:24  
 Sample: 1 38  
 Included observations: 38

Variable	Coefficient	Std. Error	t-Statistic	Prob.
lnX1	0.089146	0.057652	1.546288	0.0000
lnX2	0.540169	0.072306	7.470622	0.1313
lnX3	0.308467	0.048328	6.382831	0.0900
lnX4	1.396781	0.509562	2.741142	0.2597
R-squared	0.992588	Mean dependent var		15.84474
Adjusted R-squared	0.991934	S.D. dependent var		2.964284
S.E. of regression	0.266230	Akaike info criterion		0.290389
Sum squared resid	2.409867	Schwarz criterion		0.462766
Log likelihood	-1.517385	Hannan-Quinn criter.		0.351719
Durbin-Watson stat	1.312001			

It can be seen from the regression analysis table that the F statistic is significant, and R-squared and Adjusted R-squared show good fit. Both  $X_4$  and  $X_1$  values are not important. Therefore, in order to eliminate multicollinearity between explanatory variables, so first, needs to calculate the correlation coefficient between each variable.

Table 6. Correlation coefficient

Variable	$\ln(X_1)$	$\ln(X_2)$	$\ln(X_3)$	$\ln(X_4)$
$\ln(X_1)$	1.000	0.927	0.081	0.784
$\ln(X_2)$	0.927	1.000	-0.183	0.940
$\ln(X_3)$	0.081	-0.183	1.000	-0.353
$\ln(X_4)$	0.784	0.940	-0.353	1.000

According to the data in the table, there is a high correlation between  $\ln(X_4)$  and  $\ln(X_2)$ ,  $\ln(X_1)$  and  $\ln(X_3)$ , and  $\ln(X_1)$  and  $\ln(X_4)$ , so stepwise regression is used to eliminate multicollinearity. Through a separate regression, it can be seen that the export volume of China and Mongolia's transportation service trade is greatly affected by the export volume of merchandise trade, so a gradual regression has been gradually made. The following table shows the results of the first stepwise regression.

Table 7.

Model	$\ln(X_1)$	$\ln(X_2)$	$\ln(X_3)$	$\ln(X_4)$	P	R <sup>2</sup>	Durbin Watson	T-Statistic
$Y=f(X_1)$	0.635				<0.05	0.848	0.59	-4.54
$Y=f(X_1, X_3)$	0.851		-0.443		<0.05	0.918	0.61	-1.004
$Y=f(X_2, X_4)$		0.798		1.232	<0.05	0.975	0.61	8.899

The explanatory variables are introduced into the model to compare the fitting results and select the best linear combination. It is verified that the related  $\ln(X_1)$  and  $\ln(X_2)$ ,  $\ln(X_1)$  and  $\ln(X_3)$ ,  $\ln(X_1)$  and  $\ln(X_4)$ ,  $\ln(X_2)$  and  $\ln(X_4)$  are used to replace  $\ln(X_1)$ . These regression effects are not as good as the combination of  $\ln(X_2)$  and  $\ln(X_4)$ . Therefore,  $Y = f(\ln X_2, \ln X_4)$  is the optimal linear combination, and the fitting results are shown in the following table.

Table 8.

Dependent Variable: Y  
Method: Least Squares  
Date: 06/26/20 Time: 18:19  
Sample: 1 38  
Included observations: 38

Variable	Coefficient	Std. Error	t-Statistic	Prob.
$\ln X_2$	0.798201	0.053010	15.05744	0.0000
$\ln X_4$	1.232970	0.644945	-1.911744	0.0341
C	1.792096	0.759873	2.358416	0.0241
R-squared	0.977496	Mean dependent var		15.84474
Adjusted R-squared	0.976211	S.D. dependent var		2.964284
S.E. of regression	0.457206	Akaike info criterion		1.348290
Sum squared resid	7.316298	Schwarz criterion		1.477573
Log likelihood	-22.61751	Hannan-Quinn criter.		1.394288
F-statistic	760.1566	Durbin-Watson stat		0.734372
Prob(F-statistic)	0.000000			

$$\ln Y = 0.798X_2 + 1.232\ln X_4 + 1.792 \quad (3)$$

**The empirical analysis results show that:** Under other conditions unchanged, the port freight export volume increased by 1%, and China and Mongolia's port freight export trade volume increased by

0.798%. When the opening of the transportation service industry in China and Mongolia increased by 1%, the export value of the transportation service trade increased by 1.232%. Therefore, the port exports of the two countries have a positive impact on the international competitiveness of the transportation service trade and the opening degree of the transportation service industry in China and Mongolia.

**Conclusions.** China's international competitiveness in transportation services trade is stronger than other countries, but its level is still less than 1. Mongolia's international average competitiveness in transportation services trade is particularly weak. The most influential factors for the national competitiveness of the transportation service trade between China and Mongolia in this article are the export volume of goods at the ports of China and Mongolia and the degree of openness of the transportation services between the two countries. 0.8% and 1.232%. Therefore, the Chinese and Mongolian governments may support the border trade between the two countries and improve the border trade conditions and infrastructure.

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# SOME ISSUES ON THE SOCIO-ECONOMIC CONTENT OF THE STATE BUDGET AND ITS IMPORTANCE IN SUSTAINABLE DEVELOPMENT

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## KEYWORDS

socio-economic content, state budget, budget expenditures

## ABSTRACT

The article discusses the state budget, its economic significance and the importance of budget expenditures for sustainable development. At the same time, a literature review on the formation of the state budget was conducted, and foreign experience was studied. The next section of the article describes in detail the formation of the state budget in Azerbaijan, the dynamics of development and the impact of budget expenditures on sustainable development and makes relevant generalizations.

At the same time, the article also reflects the trends in the human development index in Azerbaijan as a result of measures taken at the expense of budget expenditures.

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**Introduction.** One of the main tools in the implementation of economic and social policy of the state, ensuring sustainable development is the availability of financial security, as well as ensuring the systematic and efficient use of this funding. This source of funding is the state budget. The budget is a historical economic category that reflects financial relations. The budget, as an economic category, reflects monetary relations as an integral part of the financial system, as well as is the main source of funding for the implementation of social policy, state regulation of the state through the creation and use of centralized and decentralized monetary funds of the state, and organizes the distribution of gross domestic product. It is clear that the budget has an exceptional role in the management of the state. Therefore, the budget system inherent in the economic and state structure of all states has been formed.

### **Theoretical approaches.**

As the central link in the country's financial system, the budget reflects all the qualitative aspects of the financial category. Finance reflects the monetary relations associated with the creation and use of monetary funds of the state and individual economic entities as a result of the distribution and redistribution of gross domestic product, national income.

The state budget reflects the system of monetary relations related to the establishment and use of the centralized monetary fund of the state, monetary relations related to the establishment, distribution and use of the monetary fund included in the centralized disposal of the state in the process of distribution and redistribution of GDP. In this process, financial relations are formed between the state and enterprises, organizations, as well as between the state and the population. In this process, both the state fund is created, and this monetary fund is used to cover the general expenses of the state, many needs of society, defense, social, governance, etc. used to meet their needs. [8] The use of the term "budget" in the economic literature is well known. However, in some cases, the term "budget" is more appropriately defined as the formation of financial security for the performance of functions belonging to public authorities. Such a characterization is more specific and

expedient. Because both central and local governmental bodies serve the general needs of society. The financial resources required for the implementation of the functions of public authorities represent the formation and use of the state budget and all its links. [7]

It is necessary to clarify the fact that the "budget" includes both financial relations and the form of creation and use of the centralized monetary fund of the state, as well as the notion that the state is the main financial plan. The essence of each economic category, as we know, is expressed by the functions it performs. The state budget, being an economic category, also performs certain functions, and by opening the content of these functions, it is possible to clarify the socio-economic content of the "budget" of the state budget. Many economists point out that the main criterion in revealing the essence of an economic category is the functions it performs. The budget category also includes all the functions related to finance, as it reflects a broad system of public relations. However, the specifics of the budget can also be distinguished from general financial relations. [6] Thus, first of all, we must look at the budget as an integral part of financial relations, secondly, the budget should be characterized as a financial plan, and thirdly, the budget is a centralized monetary fund. Taking into account such characteristics, it becomes clear to us that the budget category is characterized by certain specific directions. These are: [3]

- creation of budget fund (formation of budget revenues)
- use of budget fund (financing of budget expenditures).
- control over the formation of budget revenues and expenditures.

It performs the first function with the generation of income, the receipt of taxes from economic organizations (legal entities, individuals), the sale of bonds, state property are examples. However, we must take into account that the main source of budget revenues are the funds of economic entities created during the initial distribution of gross domestic product. These include:

- employees' salary fund
- profit earned as a result of entrepreneurial activity
- Salary fund of nonemployees
- rental income of landowners
- interest on loan fund (bank profit)

Such a general scheme of budget revenues, of course, is not permanent, but varies depending on the specific economic and social conditions. It is known that the state acts as a general economic entity in society. In this case, the general interests of producers are taken into account, and therefore the budget effects the regulation of economic processes, taking into account the interests of the development of the entire economic system of the country. Development of non-production and service sectors, meeting the general needs of the population, economic development of various forms of ownership, etc. in order to maintain macroeconomic proportions in all economic entities of the country make it necessary to use the budget for the benefit of the country as a whole.

Budget expenditures are based on certain conditions, such as its revenues. However, it is more flexible to change the direction and structure of expenditures than revenues. When the economic and political situation changes, budget expenditures also change in accordance with the interests of military, social, economic and political goals. Thus the proportions of budget expenditures allocated for military and social purposes may change dramatically in some cases. During economic crises and military conflicts, budget expenditures change more to meet military needs.

Thus, the socio-economic content of the budget is determined by the composition and structure of its revenues and expenditures. The control function of the budget is also carried out in different directions depending on the current situation. However, it should be noted that the control function of the budget is carried out both during the formation of revenues and the financing of its expenditures. At the same time, the control function of the budget creates conditions for the proper formation and targeted use of monetary funds by influencing economic processes. However, the control function is carried out systematically both as general financial control and as a control function of financial institutions. The control function of the budget is an integral part of the control function of finance. The economic and social content of the budget is also determined by its role in large-scale reproduction. The state uses the budget fund for the development of progressive economic sectors that serve the common interests of the country. In order to develop the most important areas, the state distributes and redistributes the gross domestic product through the budget in the interests of the country's long-term economic development. The need for financial resources of non-manufacturing



sectors is met through budget funds. Through budget funds, the gross domestic product is distributed and redistributed among the economic regions of the country. In some economic regions, the budget is used as an economic tool for different purposes as the development of the economy, productive forces and the development of infrastructure in the country, and so on.

The budget system, which is inherent in the economic and state structure of all states, has been formed. The budget system inherent in the economic system of the Republic of Azerbaijan and its state structure has been established.

The relationship between the establishment of the budget system and all its types is called the budget structure.

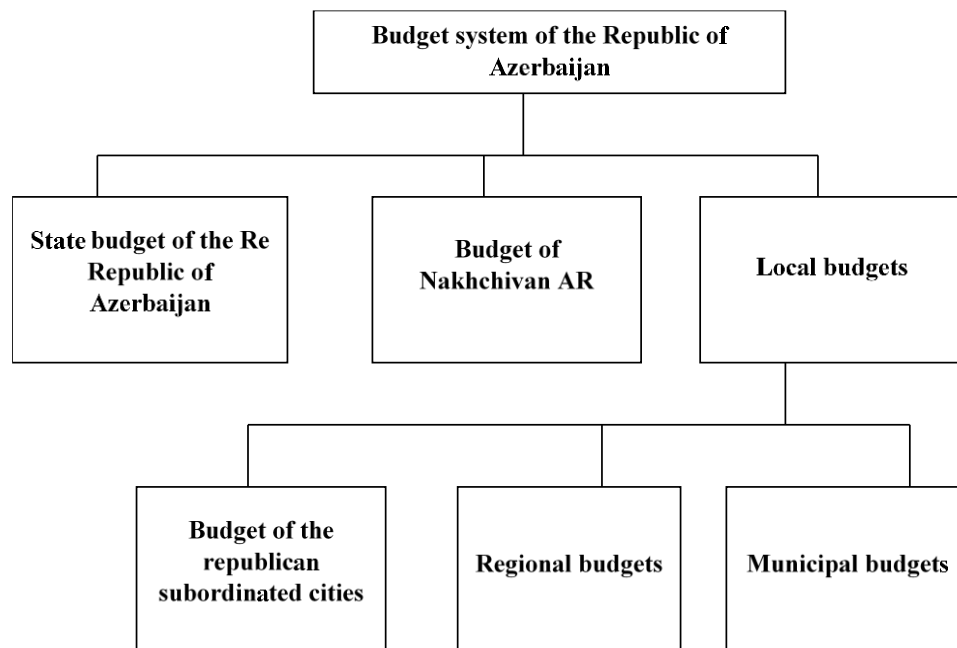
The sum of separate independent budgets and state funds combined in the budget system forms the state budget system. The budget system includes the sum of all types of budgets. [5] The basis for the organization of the country's budget system is reflected in the Constitution and laws on the budget system. The organization of the budget system is based on certain principles, which are also based on the economic, political and social foundations of the country. The budget system is based on the operation of the budgets included in this system on the basis of common principles and their independence.

External experience. In developed countries (unitary states), for example, in the United Kingdom, France, etc., the budget system consists of the central budget of the state and the budgets of local governments, local municipalities. The budget system of federal states consists of three rings, ie the central federal budget, the budgets of the subjects included in the federation and the budgets of local authorities.

For example, in the United States, Russia, the Federal Republic of Germany, etc., the budget system consists of three rings. The federal budget in the United States consists of the budgets of the states, in Russia of the republics, the budgets of the provinces, and the budgets of the central federation. [11]

Budget system in Azerbaijan. Budget system of the Republic of Azerbaijan as stated in Article 3 of the Laws of the Republic of Azerbaijan "On Budget System" dated July 2, 2002 and "On State Budget" dated May 18, 1999: "The budget system in the Republic of Azerbaijan consists of the state budget of the Republic of Azerbaijan, the budget of the Nakhchivan Autonomous Republic and local budgets." The purpose of the state budget of the Republic of Azerbaijan is to ensure the collection and use of funds for the solution of economic, social and other strategic programs and problems of the country, the implementation of state functions in the manner prescribed by law. The budget system of Azerbaijan is regulated by the Constitution and the Law of the Republic of Azerbaijan "On State Budget". [1, 3]

The budget structure of the Republic of Azerbaijan can be shown in the form of the following scheme: [Law of the Republic of Azerbaijan "On State Budget 2016"]



*Fig. 1.*

So, the budget system of the Republic of Azerbaijan consists of the state budget, ie the central budget, the budget of the Nakhchivan Autonomous Republic and local budgets. Local budgets consist of the budgets of the republican subordinated cities, regional budgets and municipal budgets.

The current situation in Azerbaijan. As a result of consistent and purposeful measures taken, sustainable and continuous development has been achieved in our country. This development is reflected in the dynamics of revenues and expenditures of the state budget. This can be seen more clearly in the picture below.

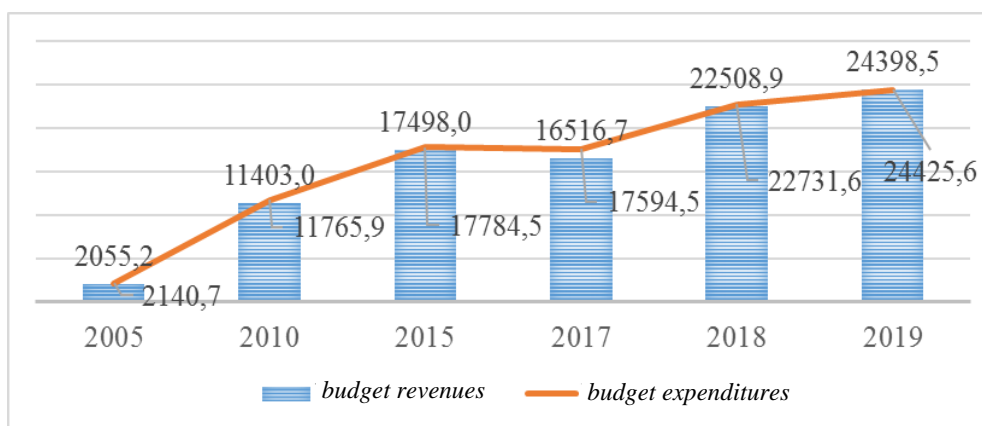


Fig. 2.

As can be seen, 2019 was characterized by an increase in economic activity, the continuation of the tendency to expand the directions of aggregate supply. Socio-economic reforms in the country, factors such as including measures taken to reduce the shadow economy, informal employment and increase transparency, increase the minimum salary, including those of employees of state-funded organizations, and the impact of other social reforms on consumption, control of import operations played an important role in the formation of the country's revenues in 2019, had a positive impact on the dynamic development of the non-oil sector, which is one of the main priorities of fiscal policy.

Revenues of the state budget in 2019 amounted to 24218.1 million manat, which is 1709.2 million manat or 7.6 percent more than in 2018, and about 12 times more than in 2005.

The share of state budget revenues in GDP in 2019 was 29.6 percent, which is 1.4 percentage points more than in 2018. [10]

Table 1.

	2005	2010	2015	2017	2018	2019
Expenditures - total	2140,681	11765,9	17784,5	17594,5	22731,6	24425,6
including:						
Economy	444,7267	4889,9	6408,8	4394,3	7822,7	7961,5
Education	372,4962	1180,8	1605,1	1742,7	1966,6	2195,7
Health	115,2546	429,2	708,2	704,7	709,9	873,6
Social protection and security	304,9256	1123	1857,2	2350,2	2150,7	2281
Activities in the field not related to culture, science, art, information, physical education and other categories	50,58912	168,4	272,4	253,3	299,5	335,8
	28,8	92,8	113,2	109,8	117,8	122,3
Judiciary, law enforcement and the prosecutor's office	206,3526	668,5	1105,7	1177,6	1316,4	1505
Expenditures on maintenance of legislative and executive power, local self-government bodies	123,9	303	430,9	552,2	627,4	774,5
	493,6	2910,3	5283	6309,7	7720,6	8376,2

Priority areas of socio-economic development, which form the basis of long-term sustainable and continuous development of the country in 2019, including the implementation of education, health, social, cultural, sports and physical infrastructure projects, social protection of the poor population, improving their living conditions, the solution of problem loans of individuals, strengthening the national security and defense capacity of the state, stimulation of agriculture, ensuring food security, payment of public debt and membership fees to international organizations and financing of other necessary state measures were provided within the approved state budget.

Expenditures of the state budget in 2019 amounted to 24.5 billion manat, which is 1694.3 million manat or 7.5 percent more than in 2018. According to the structure, 55.4% of the 2019 state budget expenditures were directed to current expenditures, 38.4% to capital expenditures, 6.2% to public debt and liabilities related to servicing. Compared to 2018, the share of current expenditures in the structure of state budget expenditures increased by 4.6 percentage points, the share of capital expenditures decreased by 1.0 percentage points, and the share of public debt service decreased by 3.6 percentage points.

AZN 7342.8 million or 30.1% of the state budget expenditures for 2019 (283.5 million manat or 4% more than in 2018) was directed to the acquisition of non-financial assets (purchase and construction of fixed assets, state capital investment), AZN 4997.1 million or 20.5% to salary (AZN 584.7 million or 13.3% more than in 2018), AZN 3836.8 million or 15.7% to goods (works and services) (AZN 299.6 million or 8.5% more than in 2018), AZN 2153.6 million or 8.8% to pensions and social benefits, AZN 3086.8 million or 12.6% to other expenses (rent and hire services, housing, overhaul of various facilities and roads, bank expenses, reserve funds) (AZN 1119.5 million or 56.9% more than in 2018), AZN 1122,8 million or 4.6 % to financial transactions on liabilities, AZN 1421.4 million or 5.8 % to subsidies and current transfers (AZN 212.6 million or 17.6% more than in 2018), AZN 401.5 million or 1.6 % to interest payments, AZN 62.5 million or 0.3% to grants and other costs, and AZN 0.6 million to operations on financial assets (the amount of the difference arising on the revaluation of foreign exchange positions in 2019). In 2019, the execution of extra-budgetary expenditures of organizations financed from the state budget amounted to AZN 573.1 million (AZN 133.5 million or 30.4% more than in 2018).

AZN 19.8 million was allocated to finance a number of measures of national importance, including the participation of the majority of the country's population, including the census, AZN 55.6 million for the conduct of municipal elections and related events.

Poverty eradication and support for other socially oriented issues, which are the main goals of sustainable development, are also considered as one of the key items in the expenditure side of the state budget. This can be seen more clearly in the chart below.

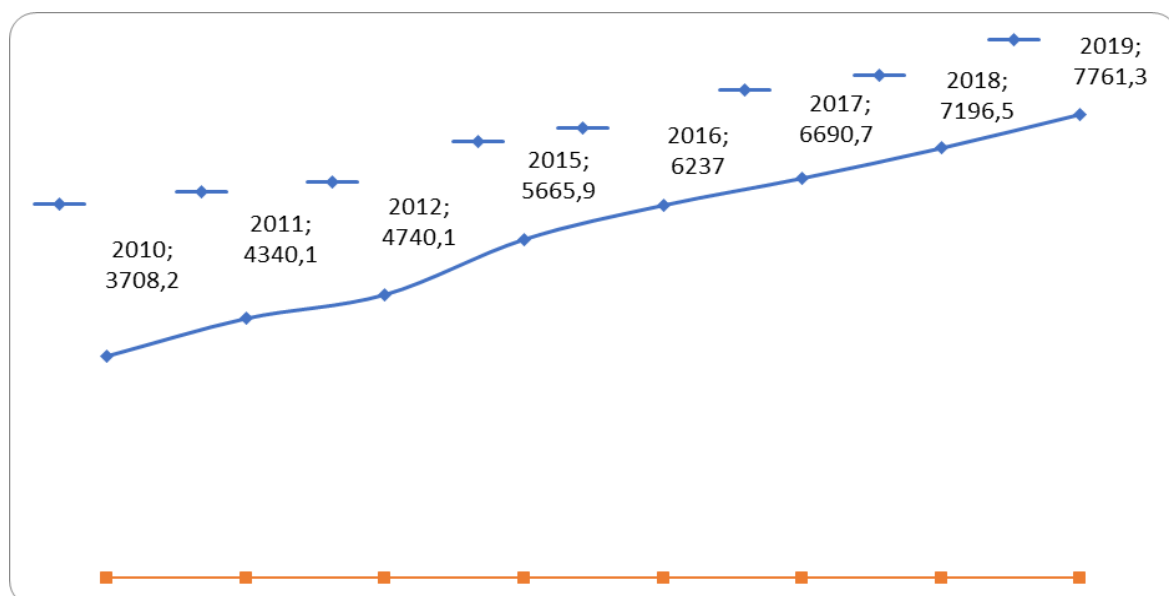


Fig. 3. Dynamics of social expenditures allocated from the state budget, million manat [10]

4997.1 million manat for labor costs (584.7 million manat or 13.3 percent more than in 2018), 2153.6 million manat for pensions and social benefits, 226.1 million manat for expenditures of purchasing materials for medicines, dressings and for the (11.0 million manat or 5.1 percent more than in 2018), 384.5 million manat for the purchase of food products (40.9 million manat or 11 compared to 2018, More than 9 percent) was allocated.

In order to strengthen the social protection of the population in 2019, in particular, to increase the purchasing power and real incomes of the poor, the amount of social benefits paid to them, including salaries, pensions, social benefits and pensions, has been increased.

Thus, in order to further strengthen the social protection of the country's population in 2019, a number of important decisions were made to increase social benefits and pensions by an average of 92.0 percent, the minimum pension by 72.0 percent, the minimum salary by 92.0 percent.

In 2019, AZN 6561.0 million was directed to expenditures in the field not related to education, health, social protection and social security, culture, art, information, physical education and other categories (including funds from state capital investment). This is 394.4 million manat or 6.4 percent more than in 2018. These expenditures accounted for 26.9% of the state budget expenditures.

In 2019, 0.5 percent of state budget expenditures or 122.3 million manat were directed to science, which is 4.5 million manat and 3.8 percent more than in 2018. In 2019, the dynamic implementation of expenditures in the education sector was ensured, including financing of the implementation of state programs on education, regulation of labor costs and financing of other social measures, rehabilitation and reconstruction of a number of educational infrastructures, the provision of free textbooks to students of secondary schools, informatization of the education system, for the first time the development of inclusive education for people with disabilities and funding for other educational activities.

Taking into account the funds allocated from the state capital investment (294.1 million manat), 10.2 percent of the state budget expenditures in 2019 (0.4 percentage points more than in 2018) or 2489.8 million manat funds were directed to education expenditures, which is 272.9 million manat or 12.3 percent more than in 2018.

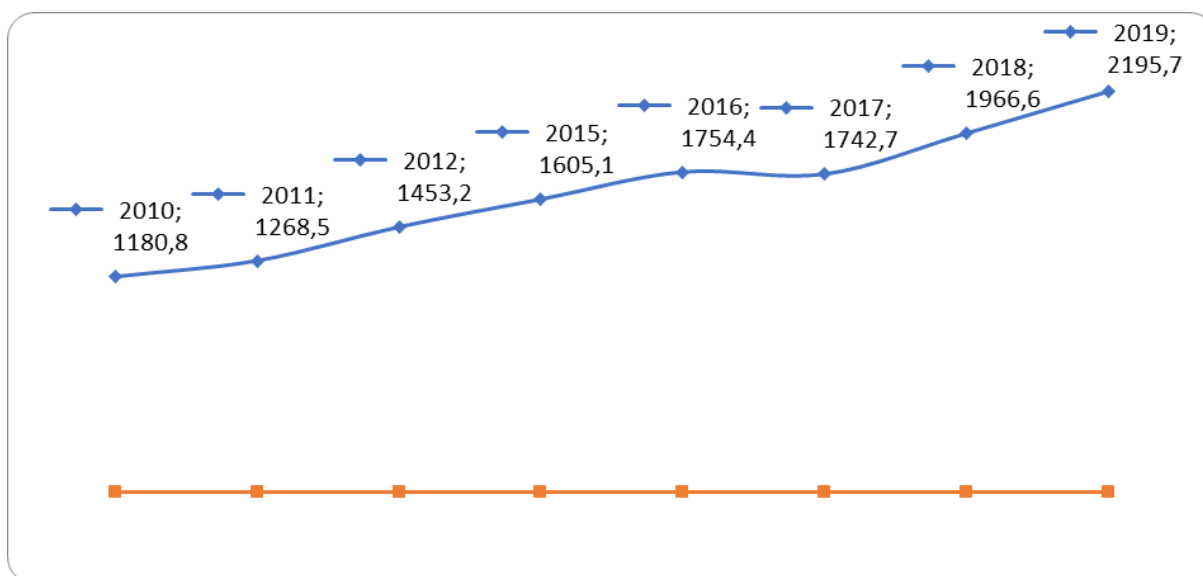


Fig. 4. Dynamics of expenditures from the state budget for education, million manat [10]

Taking into account the funds allocated from the state capital investment expenditures (74.6 million manat), 3.9 percent of the state budget expenditures (at the level of 2018) or 948.2 million manat were directed to health expenditures in 2019, which is 71.9 million manat or 8.2 percent more than in 2018.

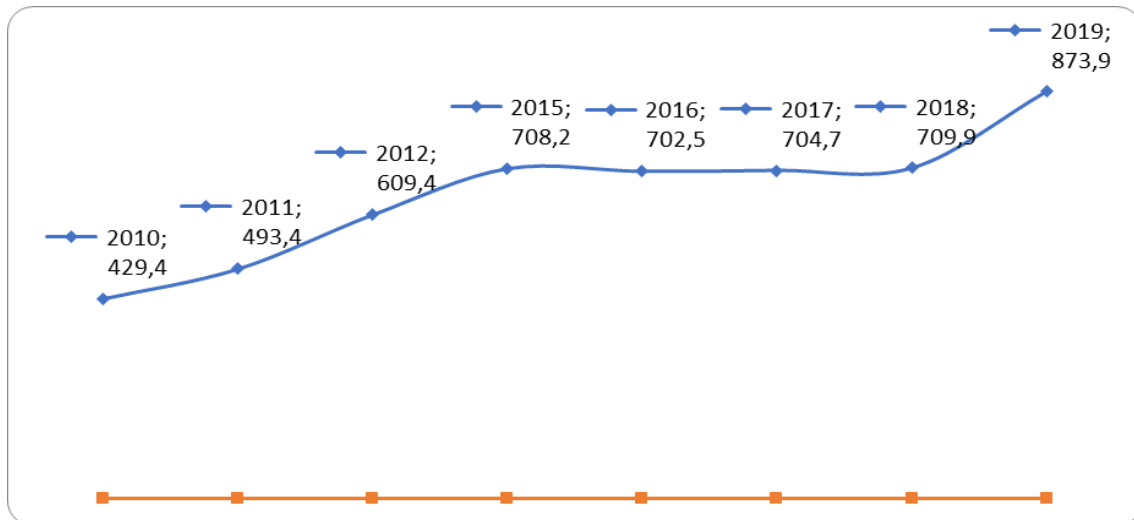


Fig. 5. Dynamics of health expenditures (in million manats) [10]

According to the functional classification (excluding funds allocated from the state capital investment) in 2019, 2243.1 million manat or 98.3 percent of the funds used for social protection and social security expenditures (123.5 million manat or 5.8 percent more than in 2018), 38.0 million manat or 1.7 percent for social security (2018 6.8 million manat or 21.9 percent more than the previous year) were allocated. 918.7 million manat was directed to capital repairs.

All these positive trends have also contributed to the increase in the human development index, which is one of the criteria for sustainable development. Economic development includes income growth, education and health, productivity, technological development and many other factors. The basis of the fact of economic development is human development in parallel with the process of transition to the information society. Human development is defined as the process of increasing people's choice alternatives, and instead of endless choices, it focuses on only three of them: a long and healthy life, access to information, and access to sufficient resources for a minimum standard of living. It should be noted that in 2019, the human development index in our country reached 0.754, which increased by 0.002 points compared to the same period of last year. During the period under review, a dynamic increase was achieved in the main components that determine the human development index. [9]

**Conclusions.** Thus, as can be seen from the figures of the state budget, budget expenditures have a significant impact on the socio-economic development of the country. The budget policy pursued in Azerbaijan is socially oriented and plays a key role in the development of various sectors of the economy, which is one of the key links in sustainable development. The budget policy implemented in Azerbaijan is based on the UN Sustainable Development Program. Taking into account that the Human Development Index, which is the main criterion for sustainable development so far, and the indicators of the individual indices that determine this index are developing at a dynamic growth rate, we can say that budget expenditures are based on results-oriented principles.

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# THE FINANCIAL SYSTEM CHALLENGES OF THE REPUBLIC OF MOLDOVA IN THE PANDEMIC COVID 19 CONTEXT

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the health crisis caused by the COVID 19 pandemic; global financial conditions; international financial flows; CAGR.

## ABSTRACT

This study's main objective is to analyze the challenges faced by the Republic of Moldova in the economic crisis, which was caused by the COVID 19 pandemic. The vulnerabilities of the Republic of Moldova's economy and especially its financial system are related mainly to the specifics of the country's economy, which is small, open, with a continuing current account deficit and a strong subordination to international financial flows.

This study's conclusions consist in the fact that the external risks related to the COVID19 pandemic can be transmitted in the economy of our country through two channels. First, due to uncertain financial conditions in the international economy, difficulties with international financing may arise. Secondly, the vulnerabilities in the economies of the Republic of Moldova's trading partners will undoubtedly influence the slowdown in exports of goods and services.

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**Introduction.** In the conditions of globalization, the challenges faced by the economy of the Republic of Moldova are becoming more and more pronounced. Solving these complex challenges requires creating the foundations for implementing progressive structural changes in the economy, capable of contributing to sustainable economic development.

The financial system's fundamental mission is to provide financial services, which must meet the economy and society's requirements in increasing the level of investment and social stability. The degree of development of the financial system is influenced, on the one hand, by international macro-financial developments, and on the other hand, by the real economic possibilities of the Republic of Moldova.

If we refer to both the world economy and the world's states' national economies, the main item in 2020 is the health crisis caused by COVID 19. The shock to the global economy at COVID-19 was much more significant, faster, and more severe than that caused by the global financial crisis of 2008 and even the Great Depression. In the case of the mentioned crises, the effect has accumulated in about three years. The equally severe macroeconomic and financial consequences of the current crisis have materialized in a few weeks. To overcome the pandemic, a large number of countries in the world have had to introduce a series of restrictions, most of which related to the closure or slowdown of economic activities, as well as unprecedented measures regarding cross-border traffic. These actions could not but affect the value chain of production, which in turn harmed global demand. Thus, uncertain expectations about the near future of the global economy have intensified.

**Purpose of the study:** This publication aims to analyze the impact of the health crisis caused by the COVID 19 pandemic on the national financial systems of developing countries on the example of the Republic of Moldova.

**Literature review.** Following the Western Balkans Regular Economic Report, the escalating COVID-19 outbreak constitutes both a supply and a demand shock whose full magnitude, duration, financial, fiscal, and social ramifications are still unclear. The rapid global spread of the virus has reached pandemic proportions and prompted a flurry of emergency measures— rate cuts, liquidity support, tax deferrals, travel bans, mandatory closure of businesses, limitations on gatherings—to contain the spread, mitigate disruption to economic activity, and avert a dislocation in financial markets. [1]

According to Baret et al, with ongoing shocks to the supply and demand, there is potential for further market disruption. [2]

The COVID-19 pandemic, Tobio, and Natalucci notes, has caused an unprecedented human resource and health crisis. The measures needed to limit the spread of the virus have triggered an economic recession, and at the same time, there is massive uncertainty about its depth and duration. In some cases, volatility has risen to levels last seen during the global financial crisis amid uncertainty about the pandemic's economic impact. [3]

**Materials and Methods.** The dramatic tightening of global financial conditions since the onset of the COVID-19 outbreak – along with a fundamentally deteriorating economic outlook – has led to a massive shift to the left in the statistical distribution of global growth projections for next year. These situations indicate significant risks of deteriorating economic growth and financial stability. [3]

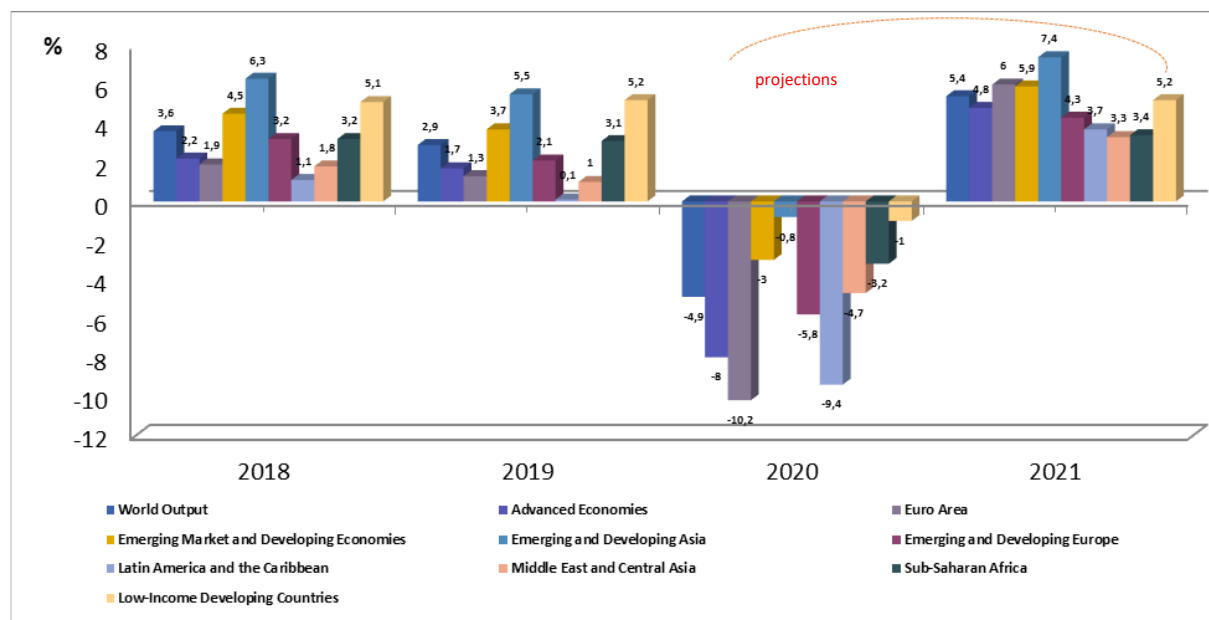


Fig. 1. Economic growth in selected groups of countries

Source: [4]

If we briefly analyze the global economic situation, before the COVID 19 crisis, we can see that the global economy's growth has moderated and amounted in 2019 to 2.9% (3.6% in 2018), in 2020 of up to 3.5%. But unfortunately, the COVID 19 pandemic brought its corrections. Thus, in June 2020, the IMF reviews the growth prospects of the world economy. According to the World Economic Outlook Update, global economic growth is forecast at -4.9% in 2020, 1.9 percentage points below the April 2020 World Economic Outlook (WEO) forecast. The COVID-19 pandemic had a more negative impact on business in the first half of 2020 than anticipated, and the recovery expected to be more gradual than previously forecast. In 2021, global growth projected at 5.4%. Overall, this would leave GDP for 2021 about 6.5% lower than in previous COVID-19 projections in January 2020. The negative impact on low-income households is particularly acute, hindering significant progress in extreme poverty reduction in the world, the 1990s. [4]

Regarding the impact of macro-financial developments on the Republic of Moldova's national financial system, the most significant vulnerabilities are related to global uncertainties following the COVID 19 pandemic. Currently, it is undeniable that the pandemic is not only a health crisis but also an economy. The most significant risks in this regard are related to the possible incapacity of the non-financial sector to pay, which can lead to the transformation of the health crisis into a financial crisis,

which by its nature is contagious. At the same time, it should be noted that, unlike the financial crisis of 2008, the international financial system has made a qualitative leap as a result of the new financial regulations, and it remains to see how it will withstand the pressures caused by prolonged global economic stress.

**Results and discussion.** The Republic of Moldova is a country with a small, open economy, a continuous current account deficit, and a strong subordination face to international financial flows. Our country's economy can be characterized by a series of structural features, which expose it a lot to external developments. For these reasons, any imbalances in the global economy trigger more pronounced external vulnerabilities in the Republic of Moldova.

One of the most prominent characteristics of our country is the dependence on remittances. The Republic of Moldova is one of the top ten countries globally with the largest shares of remittances in GDP, being also the first in Europe in this regard. Simultaneously, the graph shows that the inverse relationship between the share of remittance in GDP and the value of GDP per capita is well outlined.

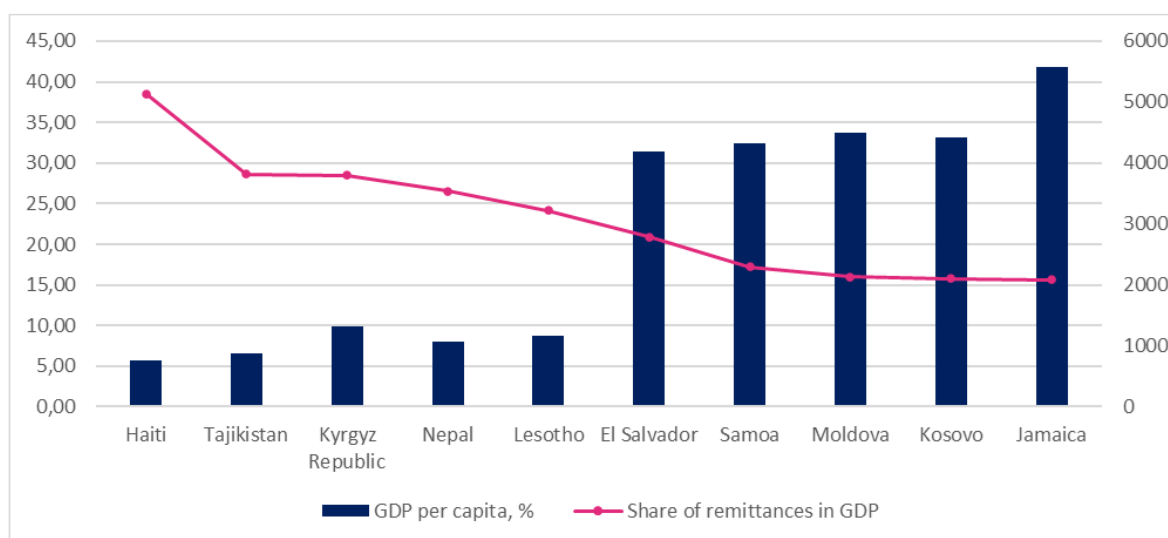


Fig. 2. Share of remittances in GDP, 2019  
Source: [5]

Current developments in the world economy under the COVID 19 pandemic are spreading risks to developing countries' financial systems. These risks can be transmitted in the economy of our country through several channels. First, due to uncertain financial conditions in the international economy, difficulties with international financing may arise. Secondly, the vulnerabilities in the economies of the Republic of Moldova's trading partners will undoubtedly influence the slowdown in exports of goods and services (according to official data in January-June 2020 / January-June 2019, exports accounted for 86% and imports 85.2), developments that will therefore lead to a deterioration of the external balance. This situation disadvantages the economy of our country, which is very dependent on international financial flows. The primary source of financial flows for the Republic of Moldova is the export of goods and products.

To analyze the evolution of exports and imports in the Republic of Moldova, we used the CAGR indicator. CAGR is an indicator of the compound annual growth rate (Compound Annual Growth Rate). Its value allows us to estimate the growth rate of any parameter, and most often, this calculated indicator is used to work with objects whose behavior is expressed by complex dependencies. The main advantage of CAGR is that it gives a simple estimate in the form of an average percentage of growth, and, accordingly, can be used for a quick analysis of the past period and obtaining the first predictive approximation.

If we analyze the evolution of exports and imports of the Republic of Moldova, through the CAGR indicator, we can see that two periods are outlined in the last seven years. The first period (2013-2015) of decrease of foreign trade, GACR constituting - 10% for imports and - 7% for exports, and its second period of increase (2016-2019) where CAGR was 10% for imports and 8 % of exports.



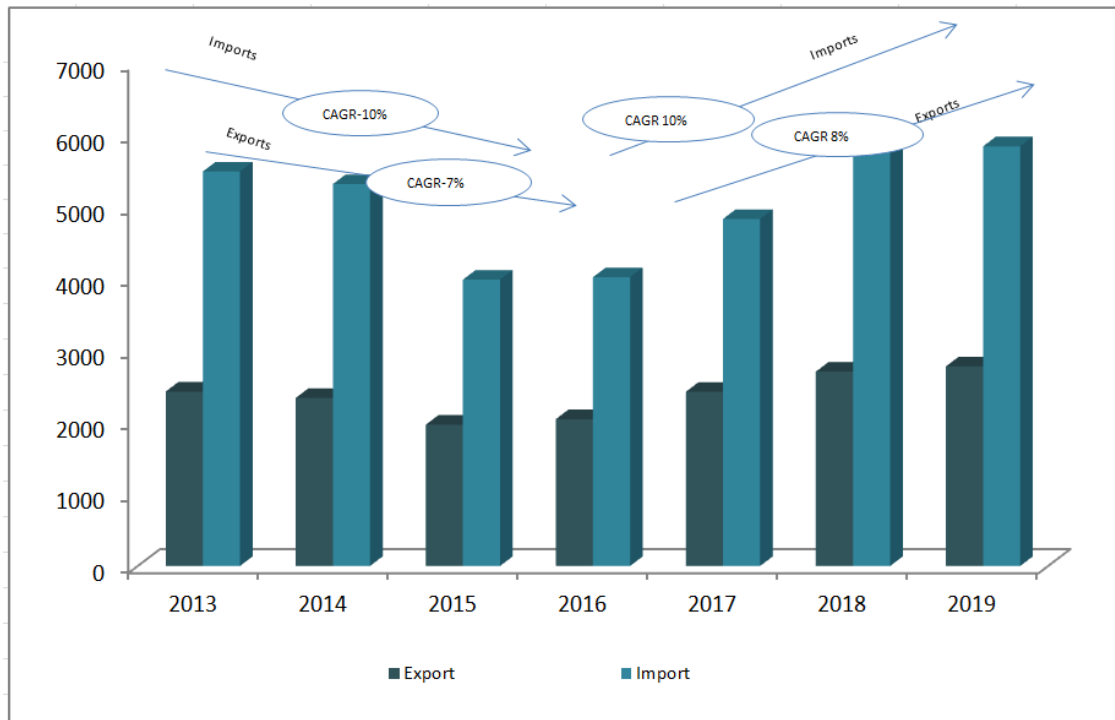


Fig. 3. Evolution of exports and imports in the Republic of Moldova  
Source: [6]

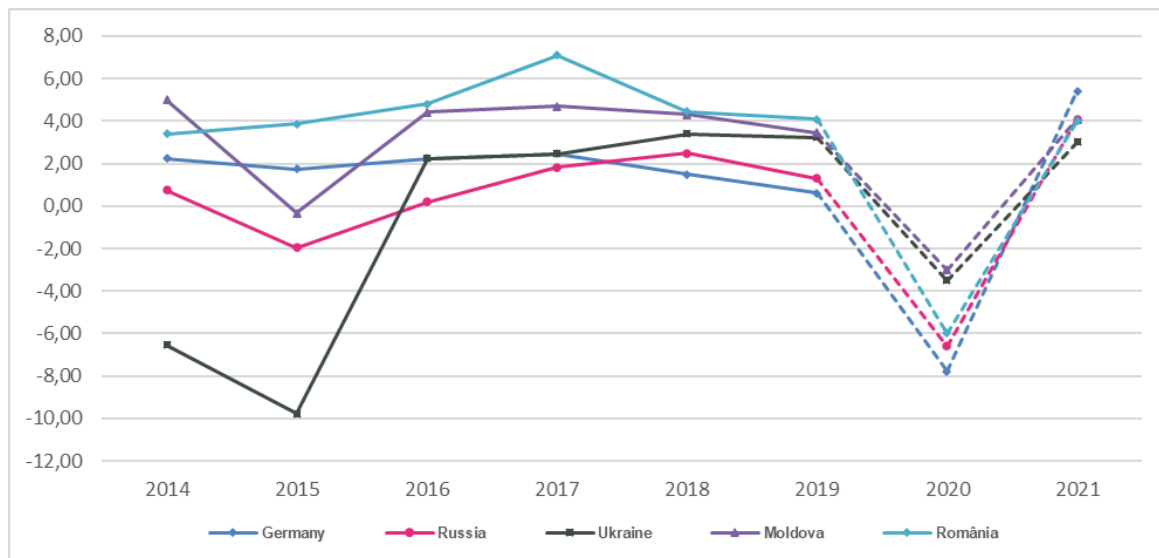


Fig. 4. The economic growth of the main trading partners of the Republic of Moldova  
Source: [4]

Based on the importance of export flows generated in the Republic of Moldova, it is necessary to analyze the economic situation of the main trading partners of the country (Romania, Russian Federation, Germany, Ukraine).

If there are distortions in foreign trade, the external balance of the Balance of Payments of the Republic of Moldova will deteriorate, which will cause internal imbalances, which can be demonstrated by previous episodes of the evolution of our country's economy. If we analyze figure 4, we can see a period of declining inflows, accompanied by the decline in GDP. It follows that imbalances in foreign trade can have a material effect on GDP growth. Therefore, the Moldovan economy's current situation also creates risks for the Republic of Moldova's financial system.



Fig. 5. Share of remittances in GDP, 2019

Source: [6]

**Conclusions.** In the current context of the world economy, anticipating possible developments in the international financial phenomenon is becoming an integral part of assessing national financial systems' processes.

From the analysis carried out in the study, based on the current situation of the world economy's evolution under the impact of the COVID19 pandemic, it can be mentioned that persistent risks are not excluded. Therefore even worse results can be registered. If we refer to low- and middle-income countries, then they are the most vulnerable. Thus, even after the 2008 financial crisis, they needed a more extended period to recover due to external demand shocks fully. In this context, the biggest problem in these groups of countries is the lack of domestic financial resources to stimulate the economy. That is why the support provided by international financial institutions and countries with advanced economies to developing countries, among which our country also has enormous importance in mitigating the economic blow.

In the Republic of Moldova, as the disruption was highlighted, the financial flows have consequences on the increase of production. Therefore, to take into account the existing risks and understand the probability of negative results, it is appropriate to assess all external vulnerabilities.

Nevertheless, on the other hand, the pandemic crisis can also be an opportunity to implement structural measures that position our country in a new paradigm of economic growth, more resilient, innovative, and more elasticity to shocks.

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# ТЕОРЕТИКО-КОНЦЕПТУАЛЬНА СУТНІСТЬ СТРАТЕГІЇ ТА СТРАТЕГІЧНОГО УПРАВЛІННЯ БІЗНЕСОМ В УМОВАХ СУЧАСНОЇ ЕКОНОМІКИ

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strategy, strategic management, strategic business management, business, entrepreneurship.

## ABSTRACT

The purpose of the scientific research is to study the theoretical and conceptual aspect of strategy and strategic management in the operation of private business, and develop recommendations on their actual interpretation in the modern economy. The methodological aspect of the work is formed by theoretical conclusions and generalizations of the economic science and scientific works on the basis of strategy and strategic management in the operation of private business. The work applies logical, comparative and complex approaches as well as empirical research, comparison and complex analysis methods.

During the research, significant scientific developments regarding the core of strategy and strategic management were analyzed and structured. The aspects of the main structural elements of the strategy were described: policy, tactics, management procedures, planning and budgeting. The essence of the subject (solutions), which are recommended for creating effective business management strategies, is proposed. Scientific approaches to understanding the core of strategic management are studied.

On the basis of the conducted research, scientific approaches to strategy and strategic management are offered to group on the basis of complexity and the consideration of aspects of enterprise activity on: point approaches, approaches of relativity, panoramic approaches. The author's definition of the concept of "strategy" and "strategic management" is presented and the attention is focused on their short-, medium- and long-term perspective.

The scientific value of the research results lies on their focus on solving the problem of searching for the concepts of an effective strategy and strategic business management, which can ensure the competitiveness and improvement of the financial results of the private sector, as well as the growth of the national economy.

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**Вступ.** В умовах сучасної економіки одним із ключових напрямків прогресивного розвитку підприємницької діяльності приватного сектору є наявність якісно побудованої стратегії управління бізнесом. В реаліях сьогодення окремі одиниці бізнесу абстрагуються до використання стратегії як спонтанного розв'язання питань або ж будують стратегію як планування діяльності, що через деякий час може створювати негативні наслідки для бізнесу. Недосконала стратегія робить бізнес негнучким до змін, формуються «затримки» у розвитку, які локально або глобально обмежують діяльність суб'єкта господарювання, не дозволяючи досягти бажаного рівня прибутковості та поставлених цілей. Ефективна стратегія управління бізнесом повинна орієнтуватися на досягнення місії та цілей бізнесу і будуватися на основі

конкретних коротко- та довготермінових рішень для здійснення підприємницької діяльності, а також має сприяти гнучкості бізнесу до змін та бути корегуючою у просторі, що дозволить досягти поставлених завдань і максимізувати показники діяльності. Відтак, актуальним залишається питання розуміння теоретико-концептуальної сутності ефективної стратегії та стратегічного управління бізнесом у контексті динамічного розвитку економіки.

**Аналіз останніх досліджень та публікацій.** Сьогодні все більше науковців присвячують свої праці розв'язанню проблем теорії та практики формування стратегії та стратегічного управління. Найбільш вагомими за тематикою нашого дослідження є наукові напрацювання таких авторів як: А. Баланович, Р. Бруханський, А. Грушина, О. Довгаль, М. Коваленко, Л. Кустріч, А. Лерфі, Р. Марті, С. Побігун, І. Райковська, В. Харченко, Н. Яшкіна тощо. Однак приватний сектор економіки розвивається досить динамічно, що зумовлює необхідність здійснення нових наукових пошуків для продуктивного розуміння стратегії та стратегічного управління бізнесом. До того ж кожен науковець має індивідуальний підхід до трактування сутності стратегії та стратегічного управління і їх ролі у розвитку бізнесу. Але не зважаючи на це, дані поняття здебільшого аналізуються з точки зору їх окремих структурних елементів, абстрагуючись від їх комплексності та призначення.

**Мета дослідження.** Метою наукового дослідження є вивчення теоретико-концептуальної сутності стратегії та стратегічного управління у діяльності приватного бізнесу та розробка рекомендацій щодо їх актуального трактування в умовах сучасної економіки.

**Матеріали і методи дослідження.** Методологічну основу роботи становлять теоретичні висновки й узагальнення економічної науки та наукові праці з розвитку теоретико-концептуальної сутності стратегії та стратегічного менеджменту в діяльності приватного бізнесу. У роботі застосовано логічний, порівняльний та комплексний підходи, а також методи емпіричного дослідження, порівняння та комплексний аналіз.

**Результати дослідження.** Проведемо аналіз найбільш вагомих, на нашу думку, наукових поглядів на поняття «стратегія». Так, такі дослідники як О. Гордієнко, Л. Дідковська, І. Ковтун, Н. Розумович, Н. Яшкіна стратегію порівнюють із планом управління [1, с. 9; 2, с. 27]. З думкою вказаних авторів погоджуємося не повністю, адже план є елементом стратегії і показує сукупність дій на період часу та не дає чіткого розуміння того, яким чином суб'єкт господарювання створюватиме, наприклад, конкурентну перевагу.

А. Грушина, яка під стратегією розуміє «комплексну програму правил, орієнтирів і рішень, які корегують діяльність організації з метою досягнення довгострокових цілей» [3, с. 81]. Не можемо повністю погодитися з автором, адже правила не є стратегією – це елемент стратегії, до того ж стратегія має враховувати різну періодичність управління.

П. Клівець під стратегією розуміє «узагальнену програму діяльності (модель дій), спрямовану на досягнення підприємством бажаного етапу, мети (статусу на ринку, соціально-економічних показників) завдяки ефективному розподілу, координації та використанню ресурсів» [4, с. 7]. Автор вдало підкреслює цінність стратегії, однак зводить її поняття до визначеної моделі дій. З іншого боку, І. Ігнат'єва стратегію визначає як сукупність заходів, які підприємство має намір використовувати у майбутньому для досягнення пріоритетних цілей своєї діяльності [5, с. 220]. Науковець Б. Мізюк під стратегією підприємства розуміє комплекс принципів його діяльності та відносин із зовнішнім середовищем, перспективних цілей і відповідних рішень з вибору інструментів досягнення цілей [6, с. 10]. Як бачимо, твердження зазначених авторів також розглядають стратегію як локальне поняття з точки зору її елементів. Ми вважаємо, що стратегію потрібно розглядати як комплексне поняття.

О. Тридід стратегію розуміє як спосіб реалізації підприємством своєї мети, яка визначає його поведінку у просторі та вирішує протиріччя, що породжує взаємодію внутрішніх компонентів підприємства, які перебувають на різних стадіях свого життєвого циклу [7, с. 80]. Не повністю погоджуємося із автором, адже дане твердження швидше описує політику управління, лише як елемент стратегії.

Більш доречним, на нашу думку, є визначення О. Довгаль, що стратегія – це «довгострокове якісне визначення напрямку розвитку підприємства, що сприяє досягненню поставлених цілей» [8]. Або, як зазначає Міністерство економіки України, «стратегія є картою, яка допомагає підприємству зрозуміти, в якому напрямку воно рухається» [9].

На нашу думку, науковець А. Баланович стратегію підприємства розглядає найбільш ширше – «як систему формування та втілення довгострокових цілей підприємства стосовно забезпечення його стабільного функціонування шляхом ефективного залучення і використання ресурсного потенціалу підприємства, коригування його стану на основі врахування змін факторів зовнішнього і внутрішньосередовища» [10, с. 40]. Але автор аналізує лише довгострокове призначення стратегії. А ми вважаємо, що маючи в активі досконалу стратегію тривалого розвитку в її рамках чітко можна визначити і локальний, або короткотривалий, набір стратегій управління бізнесом.

Досить влучним є також твердження С. Кустріч, що «... стратегія – це якісна послідовність дій, що здійснюється вищим менеджментом для реалізації сукупності цілей підприємства у майбутньому за допомогою врахування впливу маркетингових і виробничих факторів у сьогоденні» [11, с. 429]. Однак не зовсім зрозуміло, чому у даному трактуванні автор акцентує увагу саме на вищому менеджменті як учаснику формування і реалізації стратегії, адже враховуючи теоретичну і практичну сутність даного поняття, вважаємо, що стратегія охоплює всі ланки управління та дії персоналу. Також автором вдало підкреслено, що «стратегія відрізняється від плану тим, що вона розробляється в умовах невизначеності зовнішнього середовища ...», проте викликає запитання продовження цієї тези, що «... коли головна ціль підприємства з достатньою для практики визначеністю поки залишається нез'ясованою і тому не дозволяє виробити конкретне завдання для того чи іншого підрозділу підприємства на перспективу» [11, с. 429], що в цій частині потребує додаткових уточнень автора.

Отже бачимо, що більшість сучасних науковців стратегію аналізують з точки зору її структурних елементів (тактика, політика, процедури, правила, план, програма), однак не повністю розкривають її комплексної основної сутності та призначення. Однак, ми звернули увагу на працю А. Лефлі та Р. Марті «Безпрограшна стратегія. Як уникнути промахів у бізнесі», у якій автори стратегію трактують як «... вибір рішення... інтегрований набір рішень, який забезпечує унікальне позиціонування компанії в її сфері діяльності для створення стійкої переваги й надзвичайної цінності, яка дає змогу перевершити конкурентів ... як скоординований комплексний набір п'яти рішень стосовно вибору прагнень до перемоги, поля гри, способів досягнення перемоги, ключових компетенцій і систем організації праці» [12, с. 8–10]. Вважаємо, що дане твердження найбільш точно відображає сутність поняття «стратегія». Також автори вважають, що для побудови успішної стратегії управління бізнесом керівнику необхідно відповісти на п'ять пов'язаних між собою запитань:

1. Яке у вас прагнення до перемоги? Мета вашої діяльності й ваша мотивація.
2. Де ви гратимете? Поле гри, на якому ви можете втілити своє прагнення у життя.
3. Яким чином ви можете здобути перемогу? Спосіб досягнення перемоги на обраному полі гри.
4. Які компетенції можуть вам знадобитися? Набір і структура компетенцій, які потрібні для перемоги.
5. Які системи організації праці можуть вам знадобитися? Системи та заходи, які дають змогу використати компетенції й допоможуть ухвалити правильне рішення [12, с. 20].

Отже, під прагненням до перемоги розуміємо намір бізнесу створити ідеальні умови його функціонування у майбутньому. Прикладом прагнення до перемоги є лідерство на ринку певного регіону, поліпшення рівня життя споживачів через випуск унікального продукту, створення бренду світового рівня тощо.

Під полем гри доцільно розуміти набір рішень про конкретні дії бізнесу щодо реалізації прагнень, зокрема це рішення про галузь і напрямки діяльності, ринки і канали збуту, клієнтоорієнтованість, споживчу політику тощо. Наприклад, виведення «престижної» продукції на ринок, орієнтованість на певну демографічну категорію споживачів, вихід на міжнародні ринки тощо.

Під способами досягнення перемоги розуміємо набір способів досягнення успіху на полі гри або способи використання переваг бізнесу у деяких сферах діяльності для створення унікальної цінності для споживача відрізняючись від конкурентів та для отримання максимального прибутку. Наприклад, розвиток нових продуктів, позиціонування бренду, впровадження акцій на продукти, зміна рекламної кампанії та пакування товарів тощо.

Під ключовими компетенціями розуміємо план або набір дій та сфери діяльності бізнесу, що дозволяють забезпечити якість цих дій і бути успішними на полі гри. Прикладом ключових компетенцій може бути, наприклад, глибоке розуміння споживачів, інноваційність, налагодженість каналів збуту тощо.

Під системою організації праці треба розуміти умови та порядок здійснення трудових процесів, зокрема взаємодії учасників трудової діяльності між собою та із засобами праці для досягнення поставленої мети. Сюди можна віднести внутрішній бізнес-клімат, гнучкість планування робочого часу, особистісний розвиток персоналу, підбір спеціалістів високого професіоналізму тощо.

Стратегія повинна орієнтуватися в першу чергу на досягнення місій та цілей бізнесу, тому розглянемо також сутність її складових елементів.

Так, після визначення місії і цілей діяльності та вибору суб'єктом господарювання загальної стратегії управління бізнесом та її підпорядкованих різновидів відбувається перехід до етапу її розробки та реалізації. Адже на кожному рівні стратегії визначаються та впроваджуються її складові елементи: політика, тактика, процедури, плани, бюджети управління тощо.

Під політикою управління бізнесом слід розуміти комплексний набір принципів, які використовуються у прийнятті управлінських рішень для досягнення поставлених цілей.

Під тактикою управління розуміємо комплексний набір методів та прийомів управління, що використовуються для реалізації стратегії, адаптовані до змінних умов та є найбільш «виграшними» для застосування в умовах розвитку конкретних подій.

Під процедурами управління розуміємо різновиди наборів алгоритмів виконання конкретних управлінських операцій, тобто моделі бізнес-процесів.

Під плануванням та бюджетуванням слід розуміти комплексний інструмент формування планових показників діяльності бізнесу та контролю за їх виконанням, виявленням відхилень, що є основою для прийняття управлінських рішень та досягнення поставлених цілей бізнесу.

У зарубіжній літературі науковцями А. Лефлі та Р. Марті наведено вдалий приклад, що «керівники визначають стратегію як оптимізацію існуючого стану речей ... багато керівників намагається оптимізувати ті процеси, які нині відбуваються в їхніх компаніях. Але це не стратегія. Адже компанія може оптимізувати непотрібні ресурси, що в результаті призведе до виснаження ресурсів та активів і програшу конкурентам, які мислять стратегічно ... Деякі компанії вбачають стратегію, порівнюючи свої результати з результатами конкурентів, відтак настає ефективне виконання дій, яких додержувалися конкуренти. Однаковість – це не стратегія. Це пряма дорога до посередності. Причиною появи цих неефективних підходів є неправильне розуміння стратегії та небажання робити складний вибір» [12, с. 9–10].

Проаналізуємо також основні наукові погляди стосовно розуміння сутності поняття «стратегічне управління». Так, Є. Бєлий та І. Романова розуміють стратегічне управління як програмний спосіб мислення й управління, що забезпечує узгодження мети, можливостей організації й інтересів працівників [13]. Погоджуємося із авторами у визначенні цілей стратегічного управління. Однак виникає запитання щодо порівняння стратегічного управління з «програмним способом мислення». Адже не зрозуміло чи автор має на увазі набір наперед визначених управлінських рішень від яких не можна відхилитися, чи програмне забезпечення у контексті прийняття управлінських рішень.

Більш змістовніше трактує стратегічне управління Т. Гавриленко, розуміючи його як процес, що складається з вибору сфери та характеру дій для досягнення довгострокових цілей організації під впливом внутрішнього та зовнішнього середовища [14, с. 8]. Однак, на нашу думку, визначення автора не повністю розкриває сутність «стратегічного управління», у тому числі в частині періодичності даного процесу.

З іншого боку, І. Райковська трактує стратегічне управління як «... процес управління підприємством, який враховує людський потенціал, запити споживачів задля здійснення гнучкого регулювання господарської діяльності та своєчасного і швидкого реагування на зміни зовнішнього середовища з метою досягнення конкурентних переваг, що в результаті забезпечує стабільне функціонування і розвиток підприємства в довгостроковій перспективі» [15, с. 115]. Автор також виділяє процесний, цільовий та комплексний підходи до трактування сутності «стратегічного управління». Схожої позиції дотримується також С. Побігун [16, с. 105] Дані

твердження є доцільними, однак варто додати, що стратегічне управління має враховувати і управління бізнесом також в короткостроковій перспективі.

Л. Кустріч під стратегічним управлінням розуміє, що це «...не місія, а реальний набір управлінських дій вищого менеджменту, пов'язаних з впливом на фактори реалізованих ринкових стратегій шляхом розподілу ресурсів, адаптації і мобілізації справжнього потенціалу підприємства для розвитку його в майбутньому (досягнення бажаних цілей)» [11, с. 429]. В цьому твердженні автор акцентує увагу лише на участі тільки вищого керівництва у стратегічному управлінні, хоча, на нашу думку, учасниками цього процесу мають бути всі рівні управління. До того ж виникає питання чи не про «шаблонність» говориться під поняттям «реалізованих ринкових стратегій», адже кожен суб'єкт господарювання повинен формувати стратегію та здійснювати стратегічне управління залежно від особливостей його напрямків діяльності, організаційної структури тощо. Відповідно повністю однакових стратегій і процесів стратегічного управління априорі бути не може. Можуть бути схожими хіба підходи, методологія, принципи побудови процесів. Тому вважаємо, що дане твердження потребує додаткових уточнень.

Найбільш точним, на нашу думку, є твердження Р. Бруханського, що стратегічний менеджмент одночасно є і явищем, і процесом, оскільки передбачає як формування сутності стратегії підприємства, так і її реалізацію – процес. Тобто стратегічний менеджмент є раціональним підходом до управління підприємством, який варто розглядати як постійний процес оцінки і управління діяльністю компанії, галузі, в якій вона працює, цілей та стратегії існуючих та потенційних конкурентів, що передбачає необхідність здійснення регулярного перегляду обраних стратегій та аналіз їх реалізації [17, с. 164–165].

Досить доцільним є також твердження З. Галушки, що «стратегічне управління можна визначити як діяльність, що ґрунтується на стратегічній орієнтації як компоненті філософії підприємництва та має спрямованість на досягнення цільових орієнтирів у перспективі, забезпечення конкурентоспроможності, стійкості конкурентних позицій та довготривалого успіху підприємства». Особливостями стратегічного управління автор визначає «... відсутність надмірної деталізації розпорядництва; симбіоз інтуїції і мистецтва вищого керівництва; гнучкість планів; відсутність універсальності рішень; потреба у відповідних організаційних підрозділах. Крім того, стратегічному управлінню притаманний підприємницький (заохочення ініціатив, забезпечення творчого підходу, завзятість), інтеграційний (збалансований розвиток потенціалу, компетенцій) та інноваційний (стимулювання нововведень, новаторського підходу) характер». Автор також вдало підкреслює, що «успішне досягнення стратегічних цілей підприємства забезпечується за умов чіткої координації діяльності всіх його структурних підрозділів у системі стратегічного управління та ефективного використання його можливостей» [18, с. 23-24].

Для коректного аналізу та вироблення пропозицій щодо конкурентної моделі стратегічного управління пропонуємо зазирнути «за куліси» [19], тобто розглянемо основні підходи щодо розуміння сутності стратегії та стратегічного управління. Наукова література виділяє 10 основних шкіл:

- Школа дизайну – представники якої ототожнюють стратегію та стратегічне управління із процесом осмислення. Даний підхід згодом був взятий за основу постулатів інших шкіл, а одним із визначальних досягнень цього напрямку стало введення SWOT-аналізу, який утвердився як один із методів аналітичного забезпечення стратегічного управління бізнесом.

- Школа планування – представники якої ототожнюють стратегію та стратегічне управління із формальним процесом. Значним досягненням школи було розмежування (введення) стратегічного управління на довго-, середньо- та короткострокове. Проте надмірна формалізація, автоматизм підходів, бюрократизм, відкидання вагомості практичної складової діяльності бізнесу внесли негативну лепту в практичне визнання використання даного підходу.

- Школа позиціонування – представники якої ототожнюють стратегію та стратегічне управління із аналітичним процесом. Школа внесла вагому лепту в розвиток науки стратегічного управління, надавши одну із ключових ролей в даному процесі аналітичному забезпеченню бізнесу інформацією. Проте обмеженість (генетизм) стратегій, шаблонність і формальність процесів стратегічного управління стали негативною рисою цього підходу, тому у чистому вигляді його недоцільно використовувати в сучасних реаліях.

- Школа підприємництва – представники якої ототожнюють стратегію та стратегічне управління із процесом передбачення. Можна сказати, що дана школа є фактично основоположником початку використання поняття гнучкості бізнесу у стратегічному управлінні. Велика роль також відводилася інтуїтивності стратегічного управління та стимулюванню ідейності. Проте негативною стороною цього підходу, на нашу думку, є перебільшення ролі керівника у стратегічному управлінні, адже даний процес не може виключати участі також інших ланок управління та безпосередньо персоналу.

- Когнітивна школа – представники якої ототожнюють стратегію та стратегічне управління із ментальним процесом. Вводиться використання карт, концепцій, схем та фреймів в управління бізнесом. Проте представники школи ініціюють відхід від адаптації бізнесу до змін зовнішнього середовища, що негативно вплинуло на перспективність практичного розвитку цього підходу.

- Школа навчання – представники якої ототожнюють стратегію та стратегічне управління із процесом розвитку. Позитивними характеристиками школи є стратегічна ініціативність та наявність ретроспективного мислення. Проте негативними рисами цього підходу стали надмірний теоретизм та відкидання практичної сторони діяльності бізнесу. Вважалося нормою, що стратегічне управління бізнесом будувалося управліннями-теоретиками, з чим ми категорично не згодні.

- Школа влади – представники якої ототожнюють стратегію та стратегічне управління із процесом ведення переговорів. Позитивною рисою даного підходу є надання великої уваги практичній стороні ведення бізнесу та його маневреності. З іншої сторони представниками школи недооцінюється роль бізнес-культури у стратегічному управлінні, наявний високий рівень бюрократизму.

- Школа культури – представники якої ототожнюють стратегію та стратегічне управління із колективним процесом. На відміну від попередньої школи, даний підхід велику увагу звертає на культуру бізнесу, стиль мислення та аналізу, а також значне місце відводиться теорії ресурсної бази і стратегічній маневреності. До негативних рис школи можна віднести неузгодженість положень, а також надмірну «гонитву» за змінами.

- Школа зовнішнього середовища – представники якої ототожнюють стратегію та стратегічне управління із реактивним процесом. Представники даного підходу значне місце надають теорії ситуаційних факторів у стратегічному управлінні. Проте негативними рисами цього підходу є надання ключової ролі у стратегічному управлінні впливу зовнішніх змін, пасивна роль керівництва в управлінні бізнесом та деяка безальтернативність у діяльності.

- Школа конфігурації – представники якої ототожнюють стратегію та стратегічне управління із процесом трансформації. Даний підхід у стратегічному управлінні спирається на концепцію життєвих циклів організації, тобто фактично бізнес порівнюється із конфігурацією або із певним набором складових частин, яка характеризується циклами стабільного розвитку та трансформацій. Також представники школи вітають делегування повноважень як один із процесів стратегічного управління. Негативними рисами цього підходу є порівняно значна формалізація бізнес-процесів, жорстка вертикальність управління, певною мірою ігнорування засад конкурентоспроможності та контекстність понять.

Згадані підходи до здійснення стратегічного управління мають місце і у сучасному підприємницькому просторі. Проте більшість з цих підходів є надто «прямолінійними», тобто зосередженими на врахуванні у стратегічному управлінні кількох ключових факторів, ігноруючи комплексність та динамічність підприємницької діяльності. Серед згаданих підходів, на нашу думку, найбільш вагомим є положення школи конфігурації, які за якісного доповнення прогалін можна інтерпретувати до умов сучасної економіки.

Проаналізуємо також найбільш вагомим, на нашу думку, підходи науковців поточного сторіччя на стратегічне управління. Так, на думку І. Райковської підходи до стратегічного управління можна поділяти на: процесний – коли управління здійснюється з метою здійснення місії підприємства за допомогою взаємодії його із зовнішнім середовищем; цільовий – набір рішень з формулювання і використання ефективних стратегій, з метою досягнення довгострокових цілей підприємства; комплексний – реалізація управлінських рішень на основі використання стратегії підприємства з врахуванням можливостей її динамічного оновлення, що



забезпечує конкурентні переваги [15, с. 109]. З іншої сторони, Н. Яшкіна актуальними в умовах сьогодення вважає такі підходи до стратегічного управління: системний – як сукупність взаємопов'язаних елементів; процесний – як послідовність реалізації дій процесу; ситуаційний – як врахування сукупності можливих обставин [20, с. 210]. Доповнюють цю думку також дослідження М. Харченко [21, с. 158]. Дослідження даних авторів є досить доцільними, дещо схожі до загальних підходів управління бізнесом, проте не можемо погодитися з тим, що у трактуванні сутності стратегічного управління робиться акцент лише на довгостроковості стратегічного управління, ігноруючи необхідність здійснювати стратегічне управління також в середньо- та короткострокових періодах.

Вагомими є напрацювання М. Коваленко, який проаналізував та систематизував підходи до стратегічного управління, які сформувалися на початку цього століття [22, с. 195-196]. Зокрема, автором виділено такі підходи: школа реальних варіантів – дослідження поєднують наукові напрацювання шкіл-попередників, спрямовані на постійні пошуки унікального стратегічного рішення, стратегія утотожнюється із портфоліо варіантів, проте на практиці існує складність застосування цього підходу через високу математичну переважаність; парадоксальний підхід – стратегія розглядається як множинність схожих та повністю протилежних варіантів (рішень), стратегічне управління базується на логіці, творчості, спонтанності, ризиковості, рефлексивності, синергії тощо; реляційний підхід – доповнює теорію ресурсів, орієнтується на ситуаційність, дослідження акцентують увагу на необхідності у стратегічному управлінні постійної взаємодії з іншими компонентами управління; мережевий підхід – схожий до реляційного підходу, але має більш локальне значення, акцентується увага, що ідентифікацію відносин (горизонтальних, вертикальних) диктує структура мережі таких відносин. Із зазначених у цьому абзаці підходів досить хорошого результату, на нашу думку, можна досягнути застосувавши сукупність парадоксального та реляційного підходів.

Загалом підходи до стратегічного управління пропонуємо групувати за ознакою комплексності та врахування аспектів діяльності суб'єкта господарювання, що відобразимо та охарактеризуємо на рисунку 1.

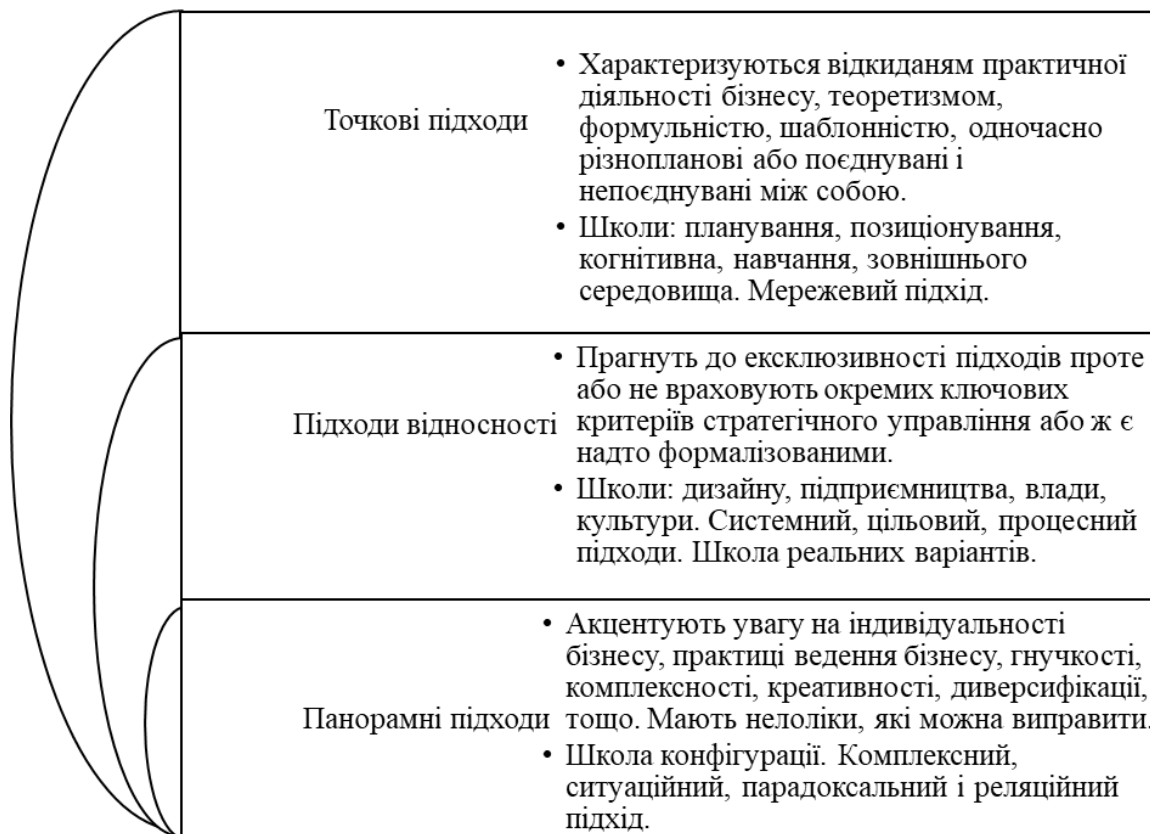


Рис. 1 Групи підходів до стратегічного управління бізнесом  
Джерело: розроблено автором

У доповнення до сказаного варто акцентувати увагу, що універсального наукового «рецепту» у вигляді ідеального підходу до стратегічного управління не існує. Можуть бути сформовані базові стратегічні рішення і процеси, які можуть бути взяті за основу стратегічного управління будь-якого суб'єкта господарювання, але вони обов'язково мають доповнюватися індивідуальними елементами з урахуванням особливостей кожного бізнесу, зокрема практичних аспектів та культури діяльності суб'єкта господарювання. Доцільність використання того чи іншого стратегічного набору рішень і процесів залежить також від величини бізнесу. Якщо ми говоримо про домогосподарства, що здійснюють пряме або опосередковане управління підприємницькою діяльністю, то суб'єкти господарювання великого та середнього бізнесу в основному характеризуються масштабними процесами стратегічного управління, адже у їх арсеналі масштабовані рівні стратегій управління бізнесом. В свою чергу, середній бізнес за необхідності може використовувати або складні або спрощені процеси стратегічного управління. А малому та мікробізнесу (ФОП, малі підприємства, самозайняті особи, підприємці без реєстрації тощо), оскільки вони не характеризуються масштабованістю рівнів стратегій, доцільно використовувати спрощені стратегічні процеси.

**Висновки і перспективи подальших досліджень.** За результатами проведеного дослідження пропонуємо доповнене авторське визначення поняття «стратегія». Під стратегією доцільно розуміти інтегрований комплексний набір рішень, які на коротко- та довгострокову перспективу: відображають прагнення бізнесу до перемоги та способи її досягнення, поле гри, ключові компетенції та систему оплати праці; забезпечують позиціонування компанії на ринках; координують поведінку бізнесу у просторі; зорієнтовані на створення унікальної цінності і стійкої переваги над конкурентами; мають враховувати прогностичний комплексний вплив факторів зовнішнього та внутрішнього середовища; можуть та повинні періодично переглядатися (уточнюватися, змінюватися), а їх головним призначенням є забезпечення досягнення місії та цілей бізнесу.

Під стратегічним управлінням пропонуємо розуміти комплексний процес управління бізнесом у коротко- та довгостроковій перспективі щодо планування, організації, регулювання, контролю, інноваційного та гнучкого розвитку діяльності суб'єкта господарювання, що дозволяє коректно будувати та компонувати набір рішень щодо прагнення до перемоги та способів її досягнення, поля гри, ключових компетенцій і системи оплати праці, передбачає інтервальну оцінку отриманих результатів та коригування стратегічної поведінки у просторі, вигідно позиціонувати бізнес на ринку, ефективно задіяти у бізнес-процесі усі рівні управління (діяльності), створити унікальну цінність та досягти високої конкурентоспроможності, вдало позиціонувати бізнес на ринках, що у підсумку забезпечить досягнення поставлених цілей та здійснення місії.

Звертаємо увагу, що у визначенні понять «стратегія» та «стратегічне управління» нами акцентовано увагу на їх довго-, середньо- та короткотерміновості. Це пояснюється тим, що багато науковців та практикуючих керівників вважають, що стратегічне управління має місце лише у довгостроковому плані, а поточне управління здійснюється хаотично, або ж навпаки – що стратегічне управління можливо застосувати лише у короткотерміновій перспективі. Однак це не так. Якщо бізнес ставить перед собою певні цілі (місію), то стратегія і здійснення стратегічного управління як в коротко- так і в довготерміновій перспективі повинні бути спрямованими на їх досягнення. Бізнес не повинен очікувати певної бізнес-події для прийняття рішень, а має розуміти курс свого розвитку та бути готовим ефективно (в тому числі завчасно) реагувати на зміни середовища і приймати якісні рішення для здійснення діяльності.

З метою подальших наукових досліджень стосовно стратегії та здійснення стратегічного управління доцільно також провести аналіз та актуальну і доцільну в умовах сучасної економіки класифікацію рівнів та різновидів стратегій, а також дослідити та запропонувати базову модель стратегічного управління сучасним бізнесом.

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