DIRECTIONS OF IMPROVEMENT OF REGIONAL POLICY OF STATE IN MODERN ENVIRONMENT

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Abstract

The main aims of the research work are to define directions of the improvement of government's regional policy and to investigate development problems of depressive and outlying districts on the base of the organization of clusters. In the research work there have been used scientific-research methods like as scientific abstraction and complex analysis, the monitoring, experts' evaluation, program-aimed, systematic, the logical generalization, historical approach. Results of the research work. As a result of the scientific work there have been systematized and generalized following problems: the statement of the government as a community of systems on economical relations, which guarantee economical purpose of the activity of structures, occupied with the economy, developed as a regional economical area in the regional economical policy; the existence of the sustainable territorial labor division between these systems; their characterization by the regional economical inter areal contradiction, the variety of state regulation objects of the economy in the region and their main directions; the restoration of depressive and outlying districts. Restrictions of the research. It consists of the practical information demands on specific regions. The practical importance of the research consists of the enrichment of investigations, which are held on the fields of the effective development and implementation of government's regional policy, its management and regulation. The originality and the scientific innovation of the research are that there have been held the practical analysis by the using of scientific investigations of different organizations in regions, and presented recommendations to develop government's regional policy by new principles.

Keywords: free competition, scientific approach, firm.

JEL Classification Codes: R11; R58

Introduction

Nowadays the regional policy of the government considers the minimization of regions' regulation from the unique center, the strengthening of financial independence of the regions, change the relations between center and local regulatory bodies and their reorganization.

The formation of regional policy of Azerbaijan Republic in near future in following way is considered to be the most appropriate:

- Creation of equal conditions for social and economic development of regions and realization of all rights and obligations reflected in Constitution of Azerbaijan Republic and other legislative documents;

- All citizens of Azerbaijan Republic should be provided with minimum social standards and equal social, legal protection;

The realization of mentioned above aims requires creation new economic relations and appropriate conditions for them. Anyway simplifying the activities of economic entities is a milestone of the process. The regional policy of the government should include realization of interests of population living in the regions, collaboration with governmental structures and local municipality, reconstruction of infrastructure in the regions in accordance with average level existing in the country, distribution and integration of social labor in equal manner in all regions, development of market relations, acceptance of the regional policy as priority for economy of the country.

The state regional policy is realized in following ways:

- Formation of legal basis for state and local authorities (segregation of duties between central government and local authorities); at the same time provision of practical legal parity in accordance with constitutional principles for all political entities.
- Establishment on regular basis social-economic development prognosis and on purpose programs, provision of normative and methodical basis for the activity of state, governmental and local authorities; consideration of political and social-economic development of the regions during segregation of the area into administrative regions.

The realization of regional policy has following necessary conditions:

- The leadership of Azerbaijan Republic, money, tax, budget and financial information system should be provided by unique economic space consisting of institutional structure;
- Bring the production level in all regions to permanent level, by the means of this level increase living standard.
- Increase the professionalism of exiting staff in governmental organizations and creation of basis for future substitution; the coordination of the work of organizations engaged in personnel trainings, re-qualification and increase in professional level.

The elimination of inconsistencies in macroeconomic ratios as part of regional policy plays the important role in overall economic development strategy of the state. Thus regional policy includes political, economic and social development and mechanism of its realization.

Innovative scientific approach to the problems and methodology of regional policy is reflected in the book written by Russian scientists M.C.Chaguchshyev and M.M. Sokolov. In this book named

«Регионы, экономика и управление» shwos necessity of realization of reforms in the realm of regional policy in following way: "… the major problem is a creation of pathological situation oin allocation of productive forces and scientific-technological potential, repetition of ecological disasters and economic deformation in some regions" [Chaguchshev and Sokolov. 2001: 271].

The basic principles of regional policy in our country is reconstruction of economy of the regions, creation of market infrastructure here, use of different forms of administrative and social management. Mentioned above principles may be realized in following ways:

- Allocation of large scale governmental need on order base;
- Participation of different governmental structures in the various investment projects. Application of competition and contractual systems here would increase of optimization and quality of competition environment. From this point of view the role of the government in financing of such activities plays the crucial role. The more financial funds are provided by the government, the larger scale projects are implemented and more accelerated the projects are.

1. Regulation of economy based on application of clusters.

Application of the clusters in set-up of regional policy will allow distribution of productive activity among the region in such a way, that the total employment of capital and natural resources will be provided. On other hand the industrial overload of developed regions should not be accepted as normal case. In other words, the main purpose of the regional policy is stimulation of new industry development in regions with economic regress.

In Azerbaijan the objective of the state regional policy is an area divided into economic-political regions. It includes administrative divisions, local self-regulation authorities and collaboration mechanism among them. If following tolls are applied in the regional policy, more efficient outcomes can be obtained as a result:

- Financial stimulation of the companies/firms which are willing to establish their business in the regions. For these purposes following tools can be used: investment grants, lending at low interest rates, tax releases or partial tax payments, release from rental payments and etc.
- Transfer of production units from the central offices to developing regions, towns or agglomerations;
- Investment into transportation network and the realms affecting living standards of the population.

There is close relation between aims of governmental bodies and goals of the regional policy. Therefore before considering the aims of regional policy, let's look at aims of economic development, current and expected position of the region in state's economy. The main purpose of the regional policy is utilization of scarce resources at maximum economy, benefiting from labor segregation between the regions and agglomerations. In social realm the main purpose of the regional policy is provision of normal life standards for all citizens of the country, opportunity to carry out business activities, right to choose the place for living and working, elimination of internal social tension.

While application of cluster approach at the stage of transfer to market relations following important tasks are set behind the government of Azerbaijan Republic. They are following:

1. Establishment of continues development of the economy in conditions when regions are equally developed; in this case the success of regional policy should be by level of development achieved in the regions;

2. Development both in center and regions suitable for Azerbaijan reality post-industrial society, where market relations are based on multi-sided and flexible technologies and such a structure brings new qualitative changes into the living standards of the population;

3. Carrying out purposive structure, investments and technological policies, encouraging business activities in real sectors of the economy and resolution of the problems caused by economic reforms;

4. Provision of economic safety for the regions. In this case we mean continues and stable economic development of the region, productive and temporary current situation and factors and circumstances affecting it.

The state regional policy should serve the purpose and the aims of the macro-economic strategy of the whole country. In this case during the crisis the priority will be economic matters, during prosperity periods the social matters will be more emphasized. It is not possible to determine the directions of the regional policy without identification of its aims, objects, tools and forms; otherwise the differentiation in economic levels of the regions can turn into not manageable forms.

From regional administration point of view the goals of the regional policy should first of all consists effective utilization of natural labor and capital, systematic approach to development of social and natural-ecological complex.

Application of clusters to regional policy of Azerbaijan Republic makes it multisided and multi-directed. These directions are following:

- Straightening of social-economic basis of the state governance of Azerbaijan Republic; protection of its integrity, military and economic safety, ecological sustainability;
- Apply all possible methods and ways in order to improve the life style of the local population;
- Creation of all necessary conditions for cultural development of nationalities living in the country;
- Creation of equilibrium between living standards of various social groups and balance between their interests and aims of state's social-economic policy;
- Formation in regions of market economy with social features, formation of mechanisms providing social detection of the population.

Activities of the regional authorities in respect of realization of regional policy's aims are directed to the resolution of following matters:

- The regulation of population's development should be in line with the general strategy and goals of social-economic reforms;
- The regional specifics and their role in allocation of the economy should be considered and estimated;
- The mechanism of agreement of interest economic entities should be prepared. The creation and realization of such mechanisms is possible only in case for consideration of regional specifics. This condition is considered the main factor in government regulations with the regions.
- Regulation of regional economy should be based on social aspects and production-resource potentials of each particular region.

The resolution of matters mentioned above influences the directions and nature of further developments. As a result the economy of the region reaches its prosperity level under the influence of multisided effects. In order to provide the scientific background to internal problems of the regions, furthermore we suggest applying the terminology of "development potential of the regions".

2. Basic elements of regional development potential

The regional development potential consists of following elements: primary capacity of the region, development willingness of regions' components, application of technological and managerial innovations, and level of preparation of internal social economic and democratic subsystems. The basis contents of regional development potential are its industrial development, social factors, financial determinants, recourses capacity.

Indexes showing the industrial development of region reflect its industrial capacity as well. This group of indexes includes the following: output volume of industrial product, industrial capacity of the region, investment volumes (capital investments), investment activity and amortization of fixed assets and etc. Regions can be divided into three groups according to their industrial development level.

First group includes regions with big cities and developed industries.

The second group includes the regions with average level of industrial development. This group includes both developing and attractive from investment point of view regions and depressive ones.

The third group includes the regions with very low industrial development level. The majority of regions here are agricultural and economically low developed. However, there can be high investment activity and high rates of fixed asset amortization along with high industrial potential.

The lower development indexes of some particular region the higher efficiency will be derived from any applied project there. At the same time in order to improve the quality of technology base within already developed regions huge capital investments are required to be made into the existing assets.

Continues development and improvement of infrastructure in the regions should be always in agenda of the government. Thus the prosperity of population in the regions (market infrastructure, environmental monitoring, health, science and education, culture, trade, public catering, public transportation, telecommunications, agriculture, construction, modern conveniences, household services, industry and etc.) depends on it level of development. In his book named "Strategic Management" Russian scientist R.A. Fatkhutdinov expressed the following opinion: "the higher development level of infrastructure in the regions, the more efficient outputs are generated by the industry (there will be not congestions in transportations

and markets), the higher level of professionalism will be gained, the better psychological condition will be observed within personnel the better health conditions and safety will be obtained. The higher such activities, the larger amounts will be withdrawn from business to budget of the region. The last point plays the curtail role in development of the region" [Fatkhutdinov. 1999: 416].

The extend of social development in region can be measured by ratios like income per capita, migration turnover, unemployment and other demographic indexes. Standard of life of population highly depends on difference money determinants. The less population in the regions the higher infrastructure provision is in place. Such situation can be observed in the regions with high migration rates. Increase in migration rates in the depressive regions depends on reduction of production realms, expenditures on the social infrastructure, transfer of production to the hour base and etc. Structural unemployment affects not only the standard of life, but also accelerates the migration process. Social problems, increase in foreign migration, unemployment, low standard of life hamper the development of regions with high capacity, at the same time regions with stable social conditions gain additional opportunities.

The financial status of the regions can be estimated in following directions:

- Portion of donations made from the state budget to the local budget of the region; the amount of deficit in local budget, tax and other inputs made to the local regional budget and budget versus actual comparison;
- Comparison of salaries of staff employed in local budget organizations with other expenses, current material expenses and capital investment into the social realms;
- Volume and structure of accounts receivable and account payable within industrial, agricultural, transportation, telecommunication and construction entities.

The first group reflects the budgetary dynamics of the local budget; the second group reflects the donations and ejections made to the local budget and its dependence on such investments.

Based on determinants mentioned above we can identify development capacity of each particular region. Therefore regions can be classified in following three groups:

1. Regions with high development capacity. These regions have necessary opportunities for their further development.

2. Neutral, or regions experiencing transitional period. These regions are in position between crises and prosperity. In these regions high standards of life are combined with high migration and low level of investment activity. At the same time low living standards can be accompanied with stable industry and investment environment.

3. Depressive regions. The opportunities of these regions to be developed by the means of internal forces are limited. Depressive regions are not only agricultural ones; depressive can be also regions with high unemployment and migration.

Classification and gradation of the regions in this manner play important role in investment decision making and realization of investment project.

The principles of the regional policy play important role in organization and implementation regional economic projects. In Azerbaijan these principles are based on internal and external factors and consist of following points:

- Ecologic protection of Azerbaijan Republic and based on this approach complex resolution of problems in the regions. The protection of ecology is based on traditional utilization of natural resources;
- Regional specialization. This principal should reflect the technical and investment policy of the country and infrastructure should be adjusted accordingly.
- Utilization of advanced forms of public production and quantified personnel during allocation.
- Formation of equal institutional conditions for all regions, elimination of differences in social and ecological differences in structure of the region.

According to published articles and researches during the transition period to market relations significant discrepancies in development of the regions took place. As per conclusions from these sources creation of unique state regulatory system provides important base for development of the regions. In this case coordination of two mechanisms (straightening of vertical management in local governance and expand of independence of the regions) will play significant role in increase of efficiency in planned projects and programs.

In general regulation areal economics requires application of rational proportions and regional economic policy in development of regional infrastructure.

State regional policy also includes systems of economic relations which are always developing, expanding, collaborating with business carrying entities and providing them with

economic advisability. Continues labor division always exists between these systems. There are also some controversial moments here. These controversial moments are characterized by contradictions within the collaborating economic entities.

There is variety of objects for governmental regulation in the regions – economic cycle, territorial and areal structure of economics, conditions for capital savings, employment, money turnover, prices, competition conditions, scientific researches and practical engineering works, social relations, preparation of the personnel, environment, foreign economic relations and etc. Nowadays we can advice following forms of long-term governmental regulations:

1. Rational utilization of governmental property over industrial and natural resources;
2. Encouraging and supporting increases in different realms of the industry;
3. Carrying nationwide innovation policy;
4. Regulation of commodity, resources and financial markets.
5. Regulation of regional development.

3. Methods of regulation of regional development

The regulation of regional development is implemented both directly and indirectly. Direct regulation is realized by the administrative methods and tools applied by the local authorities. This includes permissions, rules and mandatory points. Indirect regulation is in contrast implemented by the means of economic policy.

Direct regulation is based on the structure of authorities and relations between its components. Regional regulation is implemented in following administrative ways:

- Orders and decisions made in respect of widely repeating events;
- Rules regulating the activity of some particular group of entities in the region (normative regulation);
- Recommendations, audits (financial, budgetary, tax and etc) and controls (for example, mining, epidemiology and etc.).

Administrative methods deal with entities which did not fulfill the requirements of commonly accepted rules, application of mandatory points and actions for the entities, they also regulate the privatization process, resolve the problem of attraction of foreign capital, efficient utilization of natural resources and other social problems existing in the regions.

However it is not possible to resolve all problems by the means of administrative methods. Therefore administrative methods should be combined with economic ones [Closer Neighbors: Proposal for a New Strategy for the Nordic Co-operation with the Adjacent Areas Kopenhamn, 2000: 11].

The sense of the economic methods is indirect regulation of economic process with the regions. These methods include taxes, discounts, loans, subsidies and etc. Indicated methods do not influence the economic interests of the entities in direct way, however they make the local authorities the support these interest within the existing legal framework. Thus economic methods of regulations are based on responsibilities of the entities – companies and organizations.

The other method of the direct regulation is governmental orders. According to the current legislation, governmental orders can be made in respect of acquisition of commodities, materials and services at account of state or local budgets. The governmental orders are implemented between governmental and market agencies and considers duties and responsibilities of all involved sides. The basic principles, rules, financing and placement of the governmental orders are defined by the state legislation. The financing of governmental orders is limited and defined by the approved state/local budgets. Foreign countries and firms can act as interested parties in this process as well.

4. Behavior of entities of regional management and regional economic interests

The behavioral pattern of regional management entities can be identified through examination of their economic interests.

Regional economic interest is an economic interest of any entity which has property in some particul

ke companies and organizations, and formed under the influence of activity of population living in the regions, their habits, motives and preferences. These interests are directed to formation production and social-economic structure of the region, meeting demand of local population by the means of efficient production and division of labor.

Economic interests are might tool in management of the economy. By the means of this tool it is possible to influence the formation, characteristics and development of economic entities existing in the region. Provision of wide independence for business activities in the

regions helps not only establish market relations, but also brings about formation of contradictions. From this point of view detailed examination of regional economic interest plays very important role in our research. Regional interest consists of two parts: direct and indirect. Direct part relates to general demands and requirement of the region: improvement of country's living standards, meet demand of widely used products, creation normal environmental conditions, social infrastructure services, meet labor demands of the population and etc.

The indirect component of the regional interest consists of higher level demand. In this case region acts as subsystem. Indirect interest system includes products meeting first of all demand of the region. Specialized realms serve to this aim and this is inherent part of realm interest. Direct interest are generated between acting objects, however indirect interests are formed from mutual relations occurred between the entities.

On the regional level the direction of the interest is identified by objectives if economic policy. The subjects of the economic policy in the regions can be divided in to three parts: carrier, reflectors and performers of economic interests – all of them differ from each other by particular factors. The carriers of economic interest are the following entities: employees, owners of the companies, farmers and land lords, small and medium entrepreneurs, managers and shareholders, flexible specialists, government employees, personnel of defense realm and etc. Each of mentioned groups has its own interests which are defined by social-economic and in some cases political activity of the entities. The representatives of this group express their interests through mass media and public speech; they apply to governmental agencies by the means of appeals, protest and requests. The reaction of the governmental agencies for these requests can be different from economic regulation point of view.

Trade unions, entrepreneurs, farmers and other unions are entities which derive benefit from the execution of their interests.

During the transition period to market economy local systems experienced significant changes. While in the past only governmental agencies could act as economic entities, nowadays there is variety of types of economic entities – among them are entities with various type of property and foreign entities as well.

State institutions being a part of regional economy are actively integrating into the market structure of the region. In this case state institutions interact with different structures of property like labor exchange, foreign intermediary companies, trading houses and other entities.

5. Stimulation of depressive and remote regions based on the clusters

In most of cases modern economic regulatory systems applied in the regions are not able to deal with depressive condition in the regions.

Stimulation of the depressive and remote regions by the means of the clusters is based in the following principles:

- Justification of objects in respect of which assistance works are planed;
- Selectivity of state policy in respect of assistance to development of the regions;
- Precise address and location of the assistance;
- Provision of legislative and control basis.

Justification of objects for assistance is implemented in accordance with social-economic conditions, forecast of future development in the region, principle of selection of the worst case among existing ones. The forecast scenario includes current and developing trends as well as non-manageable events, which can affect the final outcomes. Based on mentioned above methods it is possible to estimate the current development status and future diagnostics of depressive regions.

Each scenario includes information regarding quantities of attracted resources, changed in depressive situation of the regions and mechanism for elimination of such factors. In other words scenario approach suggests several options for change of existing situation and required for this quantity of resources, changes in management approach. Scenario approach provides not only variety of options with different possible outcomes but also gives view on existing development opportunities and their evaluation.

Selectivity of state policy in respect of assistance is explained by the huge number of economic entities in the regions and limitations of local and state budgets.

During stimulation of depressive and remote regions by the means of clusters especially in condition of social-economic, natural resources and ecological crises it is very important to pay specific attention to small groups with the region. This structure should include state institutions and unions as well as entities engaged in business activity, living areas, limited areas. Only structures with extreme bad economic conditions and expectations should be included into the mentioned above list of priorities. In the production realm in such list we should include the entities experiencing bankruptcy and stagnation. In the regional system only depressive regions have such features. In other words these regions interrupt their development activities due to

economic, political, social, environmental and other reasons, as a result the critical situation cannot reveal itself.

At the same time unlike in case of individual institutions it is impossible to make decision on interruption of social-economic, natural, resource, environmental, cultural and historical activities of population and eliminate the functions of the whole region as internal part of state administrative structure. Existence of depressive regions makes it harder to realize rights and duties considered by the constitutional law. In this case the primary obligation and responsibility of local authorities is preparation and implementation of complex of anti-depressive measurements. Otherwise the sources of depressive condition in the region will bring about economic, political or environmental consequences.

Reanimation of some particular region form depressive condition considers system of preventive and corrective measurements.

The reanimation of depressive regions in Azerbaijan Republic during transition period was limited territorial integrity and shortage of resources for necessary measurements. This approach also included accumulation of the funds in the most depressive areas, reanimation mechanisms and preparation of necessary projects for commencement of the development system. Implementation of the works in such way assisted in resolution of the most extreme problems.

There can be variety of methods for reanimation and stimulation of the regions. For example, closing of Chemistry factory in Sumgayit totally changed the life style of the local population. It is quite possible to apply agency elements and standard procedures during the reanimation of the regions. For example, change the specialization of some part of population with labor ability, activation of other alternative realms of economy, transfer of population to other regions with shortage of labor forces.

The other most important part of reanimation process of supporting creditability of state and private institutions existing in the regions. Russian scientist M.Chaguchiyev considers that any economic measurement which can affect the creditability of entities within the economy should be totally eliminated [Chaguchiyev M. 2001: 229]. However analysis of accounts receivable and accounts payable within the institutions and implementation of necessary measurements can improve creditability of the market participants.

As a result of Nagorno Garabagh conflict 20% of area is now under the occupation and more than one million people have a status of refugees. Population experienced losses in amount

of 10 mlrd US dollars is now located in different regions of the country. While the resolution of this ethnic conflict is under the progress, location of thousands of people in different regions, the problem of their employment and allocation created depressive conditions in number of regions, however the works implemented the government shows the resolution of depressive conditions in the regions.

Nowadays encouraging of creation of the clusters in order to reanimate the depressive and remote regions can be considered as the most optimal solution. The reanimation of depressive regions based on cluster approach should not be implemented only by high level of governmental agencies; in contrast the process should involve local authorities and organizations. Clustering process provides the basis for continues stable conditions for the regions and less dependence on external funding for assistance of continues development. Practically in the depressive regions each designed cluster is considered only for some particular sector for some particular period of time.

During application of cluster method the governmental bodies should consider the following aspects:

- Organization of effective performance of governmental bodies in social protection of the population
- Realization of measurements in respect of prevention of bankruptcy of companies;
- Regulation of migration
- Influence extraordinary events/cases
- Provision of governmental assistance for realization designed clusters;
- Regulation of property relations within the clusters;
- Regulation of land relations
- Formation and utilization of budget and taxation;
- Signature of multisided agreements.

Application of clusters in the depressive regions during crises, transitional period and simply during regressive period is possible only in cases when following principles are satisfied:

1. Orientation to goals. No mechanism should stay indifferent in respect of its regulation objective; in this case consideration of reality is very important and reanimation of depressive regions should the ultimate aim.

2. Systemization of measurements. The mechanisms of reanimation should be structured so that they were able to participate in all aspects of reanimation; the elements hampering the general process and staying apart from the process should be immediately removed from the process;

3. Multilevel support. The reanimation mechanisms should be established in accordance with requirements of local authorities, self-regulatory bodies, autonomic institutions and etc.; collaboration areas and specific competence areas are of great importance;

4. Accumulation of resources. It is very important to accumulate resources coming from different source and effectively reallocate them during reanimation process;

5. Prevention processes. Such procedures prevents occurrence of depressive situations; instead of resolution of social and other problems, the primary goal is prevention of events bringing to creation of depressive events;

6. Operational excellence; all provided measurements should be in accordance with requirements of normative documents and accepted standards;

7. Reality. It is very important to realize all programs considered in the program. It is more appropriate to refuse the implementation of failure project instead of profitable one;

8. Controllability. All projects should be implemented in such a way, so that it will be possible to carry out the control activities; at the same time obtained results should be in accordance with reanimation goals.

9. Transparency. The basic problem of the depressive regions is their abnormal social tension, especially during reanimation period; the success of reanimation process also depends on publication of its objectives and results, discussion of issues raised during the process, publication of funds used for the reanimation.

The reanimation of remote regions has other feature then the depressive ones. If depressive regions experience economic regression, the remote ones have low developed infrastructure, lack of communications, labor forces, and hard climate and geographic conditions.

The reanimation of remote regions is supported by the measurements implemented under the program named “Social-economic development of regions of Azerbaijan Republic”. This program considers the reanimation not only remote, but also economically depressive regions. Different governmental organizations, self-regulatory bodies and private entrepreneurs participate in realization of these measurements.

Medium and large scaled projects presented by firms and companies are provided by required normative and legislative framework by the government. Mentioned above factors have already played important role in development of whole economy, as well as in reanimation of depressive and remote regions based on implementation of cluster methodology.

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