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Dear friends,  
that's the moment of our second birthday!

Two year just passed since we published our first issue and, probably, it is already possible to sum up first results!

It is pleasant to report that more than 110 excellent and reviewed papers by the authors from Russia, Thailand, Germany, Indonesia, Serbia, the Czech Republic, Slovakia, Mexico, Argentina, India, Taiwan, China, Vietnam, Ukraine, Pakistan and other countries were published in 13 issues of “The EUrASEANs”.



Our journal was an informational sponsor of four international conferences in Hungary, Austria, Italy and Japan, and also received international recognition - was included in ICI Journals Master List, evaluated by Index Copernicus system, deposited in World Cat and RePEc data bases.

Currently, we are actively working on inclusion of our journal into national science and citation bases of Russia, India, China, Thailand, in order to continue to provide not only the high quality of published papers, but also the maximum conveniences for all our authors.

In 13<sup>th</sup> issue, that is opening a third year of our life, 6 papers are presented.

International Russia-Kazakhstan team by Patlasov Oleg and Zharov Yerzhan conducted a deep theoretical and methodological analysis of the factors and conditions for the creative economy development, led the author's method of determining the innovation processes dynamics, creative sectors of the modern economic system formation.

The problem of the innovation economy and the prospects for the labor intellectualization continues in the study by Denis Ushakov, which characterizes the main economic and social trends and contradictions of the post-industrialization processes.

Indonesian experts - Mohammad Benny Alexandri and Raeny Dwisanti -conducted a study of the factors, causes and conditions for the development of financial crisis in Indonesia in the late 90s, formed a set of author's recommendations for overcoming the effects of the financial crisis, creation of tools to stabilize and develop the national financial system stability.

In an analytical study Nikolova Lyudmila identifies the main problems of international trade financing in Russia in the modern conditions.

The team of Thai authors - Kanyanant Ananmana, Panida Ninaroon, Cholpassorn Sittiworongchai, Suwita Pruksaarporn - studied the content requirements to improve English communication skills of Thai laborers who are preparing to enter the labor market in Ranong province, Thailand.

Finally, our regular authors - Vietnamese scholars Tran Huu Ai, Luu Hoang Giang continued the educational topic by analyzing the immediate teachers' function as the means of increasing students' motivation to learn.

I am sure that this issue of our journal will be interesting for all our readers!

I also would like to congratulate you all on the upcoming 2019 year, wish to implement all professional plans, good luck, great health and new meetings with "The EUrASEANs"!

Sincerely yours,

Editor – in - Chief  
Dr., Professor Denis Ushakov

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## THEORETICAL AND METHODOLOGICAL ASPECTS OF CREATIVE ECONOMY DEVELOPMENT

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*The work presents the review of the theoretical and methodological aspects of creative economy formation and development, in all the variations and peculiarities of its functioning. It is highlighted that the level of technological development has its significant impact on how soon a particular economy is able to transfer to the phase of its creative development. Different criteria are reviewed in this regard, using which it would be possible to determine the presence of creative phenomena in economy along with their impact on the state and dynamics of socioeconomic relations. The authors' analysis covers the reasons that are leading to formation and development of creative economy, its development factors are defined. Results of the authors' sociological survey concerning creativity are also presented. Pre-requisites of its further development in Russia are defined.*

**Keywords:** creative economy; creative class; creative industries; creative product; creativity criteria.

### Introduction

Modernization of the traditional industrial industries and of the services sector, organization of intellectual operations, changes in the consumption structure along with the creative ideas' generation and information technologies' deeper penetration in all the sectors and business operations - all have contributed to formation of the background and the basis for market's functioning under brand new conditions.

Formed as a result of economies' modernization, new intellectual products are based on individual and collective creations, skills and talents of the master level, thus becoming the leading assets of the governments, businesses of all sizes and sector and of the general public too.

Considering this, from our viewpoint, "creative economy" shall be understood as a contemporary type of economic management, the key development driver of which is the discovery of personal creative abilities, new knowledge-generating technologies, which can be materialized as innovative products, having equally high creative and commercial value.

At that, creative economy is based on intellectual labor, bringing income not only from the end product, but from trading its results and rights for intellectual property as opposed to production of more traditional factors (Gazeta, 2018).

Creative economy represents the basis for the development of such diversified industries as trading, education, handicraft, architecture, mass media, cinematography, fashion and many others (UNESCO, 2013). New directions in development of creative

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economy are emerging all the time. As of today, they include electronic books, digital radio and television, Internet production in all its variety, computer games, mobile sector, digital video etc.

Although the role of creative resources and technologies in transformations of the socioeconomic systems is quite evident, many related issues remain understudied. Insufficient attention, inter alia, is devoted to the institutional aspects of creative economy's development, problems and perspectives of business development in the course of creative economy formation. The place of creative economy within the more general system of contemporary economic relations remains to be not specified. Thus, the aim of this work includes reviewing the key aspects of creative economy development along with its role within the system of global economic relations overall.

### **Theoretical concepts of creative economy development**

In the era of scientific-technological transformations, mass digitalization and the increasing role of intellectual property, creative industry represents one of the most significant economic sector and, to some extent, a social sector too.

The UNCTAD statistics clearly demonstrates the sustainable growth of creative economy products worldwide and their trading too. On average, the annual growth of creative products' export and import equals to 18%, thus, it is exceeding the rate of creative services provision (UNCTADSTAT, 2016).

According to the data, announced at SPIEF-2018 during the panel session "Export potential of Russia's creative industries", the capitalization of creative industries worldwide equals to 2.3 bln USD. Moreover, this sector is currently creating more than 30 mln workplaces. As experts state, the rapidly growing creative industries today become the major drivers of both developed and developing economies, thus directly affecting the processes of earnings' formation, creation of new workplaces and export income growth (Exportcenter, 2018).

Governments of many countries are forecasting and expecting such changes, thus more and more efforts are invested in developing creative economies, since all benefits of the latter can be easily applied when responding to contemporary challenges, such as reducing the unemployment level, fighting poverty and environmental degradation etc. Contemporary national strategies for creative industries' development are directly related to economies' development overall, to creation of truly innovative enterprises, raising population employment rates, formation of more effective public sector and so on. For this reason, the importance of creative economy development is increasingly often highlighted in Russia too.

Generally speaking, we can differentiate the following list of actions, already taken by the government in an effort to target the creative sector development: development of infrastructure for creative entrepreneurship formation; removing barriers to development of creative industries; increasing the volumes of internal investments in R&D and also increasing the efficiency of these R&D projects; encouraging, promoting and supporting the creation of new manufacturing; development of own/national strategic technologies (Kontrimiene, 2018).

In today's conditions, all problems of the creative sector tend to have their immediate effect on the national economy's competitiveness since reduced role and share of the creative class (which is known to be the engine of all innovations) in both research operations and in

business (including art business and design) will always eventually lead to the loss of already achieved market positions. From the viewpoint of the international trade asymmetry, when one country is lagging behind another in terms of creative sector development, this will eventually lead to the increased gap in economic development between these two countries. The peculiarity of such a structural dependence is that it is extremely hard to overcome it once the opportunity is missed, simply because the progress in creative technologies demonstrated a really high speed, and also because all new technologies can be reproduced only on the basis of the already achieved results. If a country does not have own technical and technological solutions, then it would be nearly impossible for this country to create something truly new and original and thus make one more step in its development. For this very reason, the state of creative sector in a country and the state of its infrastructure in the first place are supposed to assure sufficient support and effective functioning of all creative processes. And they, in turn, become the defining factor in development of the whole society. Delivery of creative goods and services through import can partially solve the related problems but only for some time, and considering that updates and new releases in this sector are coming in nearly every day, even permanent import of creative products cannot become the basis for creation of a truly resilient competitive position of a country (Patlasov, Zharov, 2016).

Significant impact on the quickness of transfer to the stage of creative development also have the structure of the creative sector and the character of its functioning. If the economy is still based on traditional industries, mainly, on raw materials' extraction, then it would be rather difficult to develop the creative sector in this country as quickly as today's economy requires. In the countries with well developed services sector and wide spread of information technologies, the objective capabilities for creativity are usually higher and significantly. This can be explained by the fact that to form creative economy it is necessary to reach and maintain a certain volume of resources in the form of highly qualified specialists, information databases and communications, scientific knowledge base etc. Countries with significant share of the servicing sector, information economy, knowledge economy are usually in the center of all newest trends since they quicker adapt themselves to the constantly changing conditions of creative economy. Let's take Japan as a good example in this regard: production and manufacturing in this country are not so much material-consuming, while the rate of human resources' development is rather high, and the latter is actually the major prerequisite for the national creative sector development (Patlasov, Zharov, 2017).

On the other hand, in Russian Federation the share of oil, gas and other raw materials in national export equals to over 75%. This means that Russia's transmission to the stage of creative development would be for sure accompanied by a wide range of various complications, related to the objective reasons of structural character.

In today's conditions, companies and enterprises of the creative sector are often coming to the top level and becoming the points of growth, providing local and regional economies with new and updated intellectual and creative resources. Throughout the previous century the main drivers of most economies worldwide were large oil & gas, metallurgic, car building and trading enterprises, while today the largest and the most recognizable worldwide companies are those from the creative sector (to name only a few, see Tab. 1).



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Table 1 - Rating of the most expensive companies, as of 2018  
(Source: SharkFX)

№	Company	Area of operations	Value of brand, bln USD	Market capitalization, bln USD
1	Apple	Information technologies and electronics	170	1,0
2	Alphabet Inc. (Google)	Internet services, applications, video-hosting	101,8	857,3
3	Microsoft	Software	87	833,98
4	Facebook	Social network	73,5	507,2
5	Coca-Cola	Manufacturing of non-alcoholic drinks	56,4	194,6
6	Amazon	Retail business in the Internet	54,3	938,9
7	Samsung	Mobile devices, household appliances, PC	38,2	304
8	Disney	Entertainment industry	43,9	167,7
9	McDonald's	Catering	40,3	124,2
10	Toyota	Car manufacturing	41,1	198,1

This increasing impact of the creative industries on the contemporary socioeconomic systems globalwide has found its theoretical grounding in the theoretical concepts of the post-industrial/information/knowledge society. Serious changes in manufacturing processes, re-orientation of production on creative goods mostly and also on the provision of creative services along with the ongoing processes of economic globalization are highlighted by the postindustrial theorists as the most fundamental features of this new type of society (Kloudova, 2010).

### Methodological aspects of creative economy analysis

To measure the rate of the creative economies' development the OECD countries have developed their system of indicators, with the following directions: investments in scientific research and developments; the number of issued patents for inventions; expenses on education and retraining; creation of new workplaces in sciences and the sphere of high technologies; international cooperation in sciences and innovations; mobility of scientists, engineers and students; dynamics of the Internet distribution and coverage; the share of creative class in the society overall and the percentage of adult population with secondary and tertiary specialized education; the volume of population residing in the largest cities of the region.

In general terms, it is possible to differentiate four criteria which can be useful for creative economy analysis. These criteria are, in this or that way, offered by various researchers representing different countries: the criterion, related to operations; spatial criterion; technological one; and finally, industrial one. In parallel, we can also differentiate complementary criteria to all four of the above.

#### *Criterion, related to operations.*

This approach is closely related to the works of R. Florida, who paid a lot of attention to the input generated by talented people, their creative thinking and their ability to generate unique, out-of-box ideas. Transformations of socioeconomic relations usually happen when there is a sufficient number of people involved in operations within the creative sector. When

we observe, in parallel, the reduction in the number of people involved in traditional productions and the increasing number of people working in the creative sector, we can interpret this trend as transfer to the stage of creative economy.

The labor concept of R. Florida has been based on the definition of creative class, consisting of two sub-classes: super-creative core and creative professions. The core of creative class consists of the people, directly involved in scientific and educational processes and operations, such as those in technical sphere, architecture, design, arts and entertainment industry. The key economic function of all these people includes the creation of brand new ideas, new technologies and new creative content. Apart from this core, the creative class includes a huge group of other creative professions. These people are working in business and finance, law, healthcare and some other adjacent fields (Florida, 2006).

Statistic observations demonstrate an increase in the share of people, directly or indirectly involved in the creative sector operations (in Western Europe, USA and Japan this share is already reaching 30% and goes further). In this decade already the creative class will become the major pushing force of economic growth for many countries globalwide. This new class will grow sharply and expand, gradually getting the largest share of all workplaces (Patlasov, Zharov, 2016).

The major problem with this approach is related to the complexity of the creative class identification. There are already quite many discussions on the issue of who is related to creative class, what labor can be classified as creative and how (why) does a certain level of income becomes the basis for segregation of creative class.

#### *Technological criterion.*

The background for this criterion is formed by the number of technological innovations, primarily in the field of information and communication technologies, which have already become available for a wide range of users worldwide. New technologies are usually the most noticeable signs of radical changes in the economic system overall, and for this very reason they often are named the drivers of economic development (Fuchs, 2008).

Simultaneously, a question arises about how is it possible to measure the development level of creative economy, using this technological criterion only. First of all, it would be rather difficult to trace how profound is a certain technology due to their large number and especially due to their permanent transformation. Secondly, there is no reliable measurement scale or method. In other words, it would nearly impossible to detect what is that point on a technological scale, reaching which an economy can be called creative. This complicated issue is avoided by many contemporary researchers who are limiting their studies only to some sort of general description of technological innovations, considering that this would be sufficient for the description of this brand new type of economy.

There is also another issue with this quantitative-only measurement of the technological criteria when defining how creative a certain economy is: for example, shall we consider that the economy of India, at least according to the number of submitted patent requisitions for inventions, is thus more creative than the economies of Australia, Great Britain and Canada?

Obviously, technological factor taken alone cannot be considered as the defining one when it comes to changing socioeconomic relations and formation of creative economy and creative social class in a certain country.

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Still, many researchers concentrate on these and other quantitative characteristics of development and insist that creative economy becomes a dominating trend in a particular country only at the point when certain quantitative thresholds have been reached (Irawan, 2014).

Table 2 - The number of patented applications for inventions, submitted by residents and non-residents to national patent authorities

(Source: WIPO; Ministry of Education and Science of the Russian Federation)

Country	2000	2005	2010	2015	2016
Russia	28688	32254	42500	45517	41587
Australia	22001	23857	24887	28605	28394
Great Britain	32747	27988	27988	22801	22059
Germany	62142	60222	59245	66893	67 899
Canada	39622	39888	35449	36964	34745
Republic of Korea	102010	160921	170101	213694	208830
USA	295895	390733	490226	589410	605571
China	51906	173327	391177	1101864	1338503
Japan	419543	427078	344598	318721	318381
India	8538	24382	39762	45658	45057
Vietnam	1239	1947	3582	5033	5228
Malaysia	6227	6286	6383	7727	7236
Thailand	5049	6340	1937	7930	n.d.

### *Industrial criterion.*

Grounding for this criterion of the creative economy status was initially suggested by J. Hopkins, who had reviewed the model of creative economy, consisting of 15 sectors: advertisement, architecture, decorative art, handicraft, design, fashion, cinema, music, performance art, publishing business, R&D, software, toys, television and radio, video games. Indeed, for all these industries, included into the classification, the top priority role belongs to the authorship rights, trademarks, brands, patents and the like (Hopkins, 2011). This approach to understanding the essence of creative industries has been followed and is now actively used by the World Intellectual Property Organization ([www.wipo.int](http://www.wipo.int)).

One of the interpretations for this industrial concepts is provided in the concentric model of D. Trosby. The core of this model is formed by the arts in the traditional understanding: music, ballet, theater, visual arts, handicrafts, literature. The following groups can be presented as expanding in concentric circles; here belong the industries that are manufacturing both artistic and non-artistic goods and services in parallel to each other, for example, books publishing, journalism, movie, television, radio and so on. Further from the core are located the industries which are functioning beyond the cultural field, but still include cultural content. This group includes advertising business, tourism and architectural services etc. (Throsby, 2008).

A system for evaluation of export and import volumes in creative industries has been developed by the UNCTAD. The key aim of its development has been to evaluate the depth of various countries' inclusion into the world creative economy. However, this does not automatically mean that the data provided for measuring these indicators is always accurate. This is related to the fact that data processing methods in different countries, quality and

scope of the data these countries provide might be insufficient for full-scale analysis and calculation of the final indicators.

The existing today industrial concepts demonstrate very different ways of interpretation for structural parameters of the creative industries. Approaches to construction of such statistically measurable classifications are important because they enable more precise evaluations for the levels of creative economies' development.

#### *Spatial criterion.*

Understanding of creative economy essence should not be limited to separate sectors and research frames only, it may also have spatial interpretation - in the form of creative cities, creative clusters, creative capitals etc. Among other things, in accordance with the vision of C. Landry, cultural resources will become raw materials in the near future already, they will also turn into the basic assets of any more or less large city. Thus, cultural resources will also become the necessary precondition for the development of cities as creative spaces within innovative ecosystems. Creative city, according to Landry, is always formed by: a) innovative enterprises; b) effective cooperation between universities and entrepreneurship; c) developed infrastructure; d) opportunities for human leisure and self-development; e) well-developed mechanisms of social support (Landry, 2006).

One of the methods of how to transform a certain territory into "creative space" is through creative clusters and their inclusion in regional/local economic activities. Today in many countries such creative cluster are being formed and reformed on the basis of various industrial territories. Creative clusters thus become closely interconnected societies of creation-oriented entrepreneurs, who are interacting with each other on a very limited territory (Harvey, Hawkins, Thomas, 2012).

At that, stimulating creative clusters' development shall be seen not only as a means of urban space modernization, but also as an additional stimulating factor of creative industries' development.

In addition to theoretical research on spatial creativity, at the moment there are also methods being actively developed these days that would eventually enable the measuring of regions, countries, cities and other populated areas in terms of their creativity. However, any of the indicators offered in this regard bring in a lot of disputes, because the available, as of today, data is not always sufficient and/or revealing what we really need to know.

Additionally, at the moment there are many discussions still going on concerning a number of more general issues, such as what actually is a "creative city", for example? How can we differentiate between different levels of the creative cities development? What criteria should be considered in this context? What is the threshold number of creative cities in a country which would mean this country's successful transfer to the stage of creative economy?

#### **Authors' own sociological research on creativity**

To evaluate the level of creative economy development in Russian Federation, the authors of this article have arranged an online sociological survey. For this, we have used the online platform Survey Monkey. The total number of our respondents was 212 people. Our sample consisted mostly of business representatives, university staff, government and municipal employees, representatives of various creative professions, university students etc.

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Below we present the selected fragments of our, directly related to the issues of creative industries' development in Russia.

The survey respondents were asked to state what are, in their opinion, the most significant economic and social advantages, which may appear in the course of creative economy development in Russia (see Fig. 1).

According to the respondents' opinions, creative economy development will enable the creation of new workplaces (67,3%), development of innovative processes in other economic sectors (51,2%), creation of new capabilities and extra opportunities for businesses (42,6%), economic diversification (44,5%), increase in life standards (34,1%), growth of export volumes and incomes (24,6%), raise in labor output (24,6%), more resource-saving (17,5%), expansion of taxation base (12,3%).

Further, the respondents were asked to name specific actions and mechanisms, which could expedite the process of transferring Russian economy to the stage of creative development.

Tab. 3 demonstrates the response options and the results we got (the respondents had the option of indicating more than three answers).

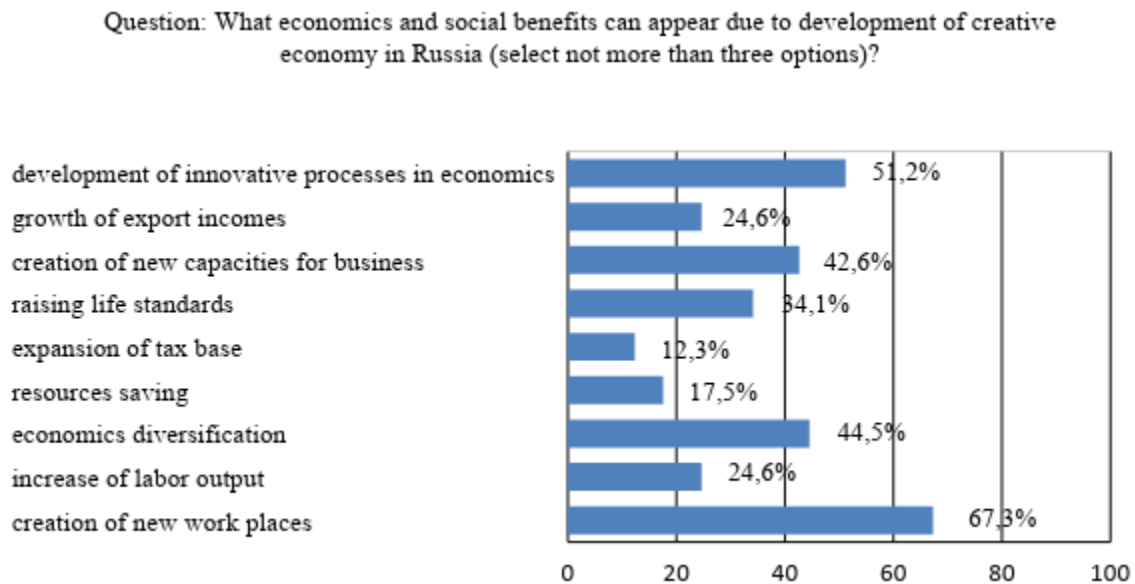


Figure 1 - Socioeconomic effects from creative economy development in Russian Federation, in % from all submitted answers (calculated and constructed by the authors)

Table 3 - Actions, enabling the development of creative economy in Russia  
(respondents' answers, calculated and presented by the authors)

#	Response options	Percentage, in %
1	Preferential loans and tax preferences for the enterprises of creative sector	66,9
2	Comfortable accommodation conditions for the creative class representatives	25,4
3	Reinforcing the legislation basis, particularly, launching and supporting governmental programs for creative economy development	47,8
4	Founding and supporting the functioning of creative clusters	52,1
5	Providing sufficient creative space for creative entrepreneurs, e.g., provision of sites with low rental rates	46,8
6	Strengthening the sociocultural potential of the local general population	27,7

One of the mandatory conditions for sustainable development of creative economy, as many respondents have stated, is governmental provision of preferential loans and tax preferences for the enterprises from the creative sector. Other important factors include: founding the creative clusters and their further development; reinforcement of institutional and legislative basis in this sector; and also, making sure there is sufficient creative space for entrepreneurs, more specifically - attention should be paid to the provision of business sites for renting out under low preferential rates (within business incubators, for example).

## Conclusions

Creative economy has already become one of the drivers in the development of world economy and also in the progress of both developed and developing nations. Moreover, we have reasons to believe that today creative sector is gradually replacing traditional industries and even agriculture. Strategic development plans of many already developed countries are now targeting creation and maintenance of sufficient and comfortable conditions for people's creative potential development which, in turn, would be supporting the development of creative industries and protection of people's intellectual property rights at the same time.

Significant role in this context belongs to the development of education institutions of various levels since the latter are expected to provide society with human resources capable of non-standard, creative thinking. For this very reason we can already observe a certain shift in education processes away from rather traditional means and methods. Education today should become more professional and "business-like", this also concerns the professions which previously were seen to be rather distanced from "doing business". Also, special place in the process of education/teaching should belong to the development of individual creative thinking, independent search for innovations and the like.

When it comes to academic research of creative economy development, more attention should surely be paid to the analysis of risks, current and potential, that are already hindering the development of full-scale creative economy. There are indeed countries and regions that are actively developing creative industries, at the same time, there are also regions, separated from these global tendencies of creative production and manufacturing, these regions are not using all the advantages that may enable the shift to a brand new type of economic system functioning. Differences between these two types of countries/regions (supporting the creative sector development and those neglecting it) include not only the level of their technological development, or the lack of investment resources available to them, or low

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level of human resources' development, but also the lack or underdevelopment of all related institutes.

Within the whole range of the prerequisites necessary for creative economy development in Russian Federation, there are several aspects which need to be distinguished separately.

Firstly, Russian education system has high enough potential for training all sorts of specialists needed for creative economy. It is important because under the current conditions of creative economy new capabilities and new ideas' implementation become the most decisive factor. Thus, we need more specialists with the highest levels of qualifications, specialists that are able to think creatively and develop special, customized solutions per specific situations.

Secondly, special attention should be paid to the development of original organizational and technological solutions designed specifically for making infrastructure of the creative sector more effective.

Thirdly, the already existing potential for creative industries' development in Russia can create the synergy effect for the whole economy of the Russian Federation.

Fourthly, we surely need to take into account the presence and the prominent role of two megacities – Moscow and St. Petersburg. There is also a certain number of other huge cities (with millions of residents in each). All these cities already have quite developed innovative ecosystems which enable them concentrate creative enterprises, universities and research centers on the territories of these cities. Urban areas in this case themselves become an important factor attracting hundreds and thousands of (potentially) creative specialists to these supercities.

Fifthly, Russia proudly owns rich cultural heritage which itself represents a significant element, able to stimulate further intellectual and creative development of the whole country.

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## POSTINDUSTRIALIZATION IN THE DYNAMICS OF SOCIOECONOMIC TRANSFORMATIONS

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*The article operates the evolutionary approaches to study the fundamental reasons for instability phases in social order and further present the theoretical prospects of postindustrial progress. These prospects can be considered as a development of horizontal - vertical partner relationships between economic agents and inter-countries and inter-territorial integration. The authors' present main factors of instability and irregularity of economy development, also offer the potentially efficient instruments of economic stabilization which could be applied by both national governments and also owners/managers of transnational capital.*

**Keywords:** posindustrialization; cluster-network models, transition from phase to phase; virtualization of the economy; Intranet; transnational corporations

### **Post-Industriality = Post-Instability**

The industrial phase of economic system has been described by extremely uneven levels of development preconditioned by feedback relations in local economies. This unevenness has caused the drastic stratification of countries worldwide, and thus, the world today consists of super states, developed countries of the West and countries of the colonial type (at least, according to one classification among too many).

For example, in some countries an innovation policy is still implemented based on the model of industrial clusters', which are characterized by high dependence of cluster-network system activity on the center (nucleus) of formed cluster (Lara Cervantes & Dubrovskaya, 2016).

Contrary to the common view, vertical mobility at the industrial phase has been quite low: any social system, once reaching the privileged level, remains there for good. However, any industrial boom inevitably ends in a crisis, sooner or later, and this is often accompanied



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by hegemony transition to another economy. Still, accumulated during the prosperity times resources allow former leader to “remain in the game” for some. Speaking theoretically, under certain favourable conditions a colonial or semicolonial state would be able to go up and get the status of the “European class state”, but in fact, throughout the whole modern history only Japan has managed to do this transition, and its costs were rather high (Delyagin, 2003).

As a result of the postindustrial phase coming to its end, the world today is split into “black” and “golden” billions, and the gap in consumption between the citizens of these two large groups is only getting bigger and bigger (Eslamian & Biabanaki, 2008).

The postindustrial phase in development was supposed to lead to some sort of the world’s economic equalization, thus making it a one huge social system with rather vague distribution of labour and nearly full absence of cross-country differences. However, as it turned out now, postindustrialization has become the mechanism to enlarge the economic and social gap between the Global North and Global South. At the same time it also reduced the dependence of economies’ from resources’ consumption, thus providing more opportunities for those states which do not have large natural reserves (Grilli, Russo & Sfrecola, 2011). Today the infrastructure for efficient production becomes more and more virtual, while postindustrialization is shaping a new borderline within global population – between incorporated and non-incorporated population groups, and this borderline essentially has nothing in common with geographical borders between states.

Economy’s virtualization has radically changed our rather industrial imaginations concerning production, its costs, trade, other external economic activities and the role of state in them.

Industrial conditions of clustering also transformed - in the new economy the value of geographic location greatly devalued, possibilities of formation of cluster-network models with access to geographically remote natural resources, that are actively exploiting innovation and human potential of different territories, accumulating competitive advantages of many states, industries, regions and so on significantly increased. In addition, the innovative potential of the territory is a basis for formation of post-industrial cluster-network models, that involving horizontal and vertical partnerships of economic agents, and inter-territorial integration (Dubrovskaya, 2016).

Despite all these significant transformations, still quite visible are the borders in postindustrial society functioning.

Unlike the industrial development phase at its peak (manifested through the emergence of corporations and global industrial production networks), today’s postindustrialism has no limits when it comes to resources. Mostly because intellect along with its all global information capacities are endless and cannot be consumed to the very end. However, this is only an illusion. In reality, the dependence of economic growth and prosperity on natural resources consumption and on commodities being produced from these resources is still stably strong, since the basis for postindustrial development as such was shaped at the climax of industrial development – this is the society of consumption, the appetites of which simply must grow for further progress of information and other technologies.

Under conditions of the postindustrial system industries or agriculture are not really pushed out by the information economy, they are only being relocated to the peripheral countries with further reorganized import of readymade goods for continuous consumption. The citizens of postindustrial countries are actively consuming goods produced somewhere

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in China or Mexico, starting from food and ending with airplanes, and in exchange they produce goods with high intellectual properties.

### **Postindustrialism = Neo-Instability**

Rearranging labor distribution, postindustrialism has also caused significant re-evaluation of costs and prices of high-tech products and basic, raw products, to the disfavor of the latter. New added value produced in the countries which are intellectual global leaders is manifold, thousand times higher the value added created in the primary and secondary sectors of peripheral countries. Therefore, postindustriality as such has become the privilege of the leading countries, their entry ticket to the world of tomorrow's prosperity. Two-polar world shaped as a result of industrialization has not changed dramatically due to postindustrial revolution, it became only slightly corrected (as it is already mentioned above, now the borderline between the rich and the poor has nothing to do with geographical attributes, now it goes between corporations on one side and everything else on the other).

However, this situation is obviously not stable. The core is actively using the services of the periphery. It is very much interested in peripheral exports of everyday commodities which are extremely cheap but at the same time comply to the global quality standards. Periphery which has lost nearly all opportunities for vertical mobility, for transition to higher levels in this global pyramid of labour distribution, is also heavily dependent on the core, because this is its only buyer and client. This mutual dependence is quite rigid, but at the same time it is rather unstable, mainly due to constant development of globalization and total spread of information technologies worldwide.

Stabilizing opportunities of the industrialism were based on the constant control over capital which was purposefully concentrated in only three world financial centers, thus maintaining and guaranteeing the leadership of industrially developed countries. Other countries being at the stage of catching-up development did not have opportunities to accumulate own capital because transnational networks had very efficient instruments for capital's repatriation. Therefore, the periphery never had enough resources or stimuli for the economic growth on its own. Is it still the same at the age of postindustriality? Clearly, not.

Control over education quality and information distribution has become the key prerequisite for global domination in information networks and for leadership as such. It can also be treated as a means to avoid potential restructuring and instability. Opportunities and means of absolute control are reducing with every new year, and this is applicable to both public authorities and top management of transnational corporations.

Intermittent growth of education quality in the countries of catching-up economic development is happening on the background of lowering education levels in the countries which once were the initiators of technological progress. Many Western economists find this to be alarming (Moiseev, 2005). Back in 2010 nearly half of all full-time professors in the USA were ethnical Chinese, and 15% more were from India. Some people in the American society find this to be disturbing, to say the least. Encouraging this "brain drain" (which is actually "brain gain" for the welcoming country, strictly speaking) as a tool to maintain current and guarantee future intellectual leadership potentially has a wide range of hidden social problems for the receiving country. Some countries already realized that, thus limiting the migration of labour force, even highly qualified one (Privarova, Privara, 2016). For them, this might be the first step on the way to losing the title of high-tech and R&D centers. At the

same time countries-followers are still encouraging and welcoming this migration. Potentially, this one day may lead to nearly total “chinazation” or “indiazation” of technological sectors in many countries.

For the last 20 years, maybe more, China has been actively “pushing out” its most talented students for various internships in the USA, even encouraging them to stay for further longer-term contracts in American labs and research centers. This can be treated as Chinese counter measure on the economic expansion of the US, known as “brain expansion”. As a result, the “chinazed” science in the US very soon may be serving the interests of People’s Republic of China, rather than US themselves (Naisbitt, 2001).

In a very similar way are already behaving India, Russia and some countries of the Middle East, all of which are starting to “invade intellectually” using their excellently prepared specialists in many fields, from programming to film-making.

The West, still propagating global intellectualization and education technologies’ export, is basically depriving itself of the monopoly for preparation of highly specialized professionals. The major cause of this situation lays in the specific of information as a production resource, its inability to be fully consumed. Thus, intellectual leadership of the West became threatened because the West is already unable to stop these processes, neither even to hinder them. Permanently growing intellectualization demands stable supply of “fresh brains”, and this in turn promotes competition in the field of education, to which peripheral countries are also part of already.

Postindustrialism cannot remain stable also due to copyright issues, namely, the impossibility to keep the copyright for any intellectual product as such. As many scientists state today (Inozemtsev, 2000), intellectual property and intellectual rights do not promote development and growth, on the opposite, they hinder the progress. Today’s copying technologies and constant updates of the existing programs and devices as well as new opportunities for really cheap global distribution of all novelties online have finished the era of Western dominance in the field of technologies’ development. Copyright today, in a matter of minutes, can be shared with the millions of global citizens.

This makes all corporations pay extra for the protection of their copyright. Corporations are also forced to launch and promote their new products much quickly and globally from the start, and more importantly, all corporate R&D centers today are concentrated to the constant search for always new directions in further modernization. For the first time, since the Age of Discovery, the West is not establishing the rules of this game, on the contrary – today it is forced to adapt to the rules obtruded by the global periphery.

Finally, in the postindustrial age, obviously, only a postindustrial man can survive, and upbringing of this new type is a long and complex process, and in it, to everybody’s surprise, the casting vote belongs not to the initiators of postindustrialism, but to its followers.

### **Postindustrialism = Anthropocentrism**

Today it is already clear that the society of consumption is unable to bring up the next generations, the postindustrial ones, because the latter are more flexible in their thinking, much more mobile in all sense, more ready for internal restructuring and are more able to re-evaluate the reality comprehensively and strategically.

The Western system of education as well as Western system of values have played their rather dramatic role for the many by destroying their “moral backbones” due to

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propaganda of today's pleasures as the top priority in life. Obviously, this could not have favourable preconditions for postindustrialism residents.

Actively propagated ideas about the supremacy of technocracy (Naisbitt, 1985) or netocracy (Kolin, 2001) as the only means to achieve and maintain global leadership are in fact only a weak attempt to cover the oncoming HR crisis on the West (Patlasov, 2016).

Of course, optimization of internal corporate interaction, liberalization of job responsibilities and all related regulations (including teamwork introduction and the like), flat structure of labour organization – all this indeed contribute to higher efficiency of corporate performance. However, even with this higher efficiency corporations today are unable to streamline their achievements and successes for the better of the society, more and more often they tend to work against the society, and even against themselves. Notorious corporate scandals in the USA and in Europe has indeed proved that technostructures are efficient, so efficient that dozens of auditors, policemen and intelligent officers have to spend months of their working time to investigate who is really responsible for fraud and losses worth millions.

A person with knowledge, information and skills accumulated as a result of long-term investments in oneself is the kingpin of the postindustrial era. Even the most efficiently built organization structure uniting feeding on mediocrity would not be able to substitute weeks or years of individual work by one really highly qualified professional (who can spend it, for example, on software or other innovation development). Thus, the key task of any postindustrial (or striving to be one) state is to provide conditions for bringing up postindustrialized members of the society, and the West, clearly, is gradually losing its capacity to perform this vital function.

Since the 1970s, economic growth as such became either accidental, or speculative in nature. The investment overheating of the knowledge industries caused the slowdown in many Western industries, therefore, a large share of industrial production has moved to China, India, Thailand etc. This, in turn, provoked a range of structural shift in the education sector development. Western education, previously oriented on the modernization of industries and agriculture, started stagnating (it simply made little sense for an American graduate who had spent five or seven years studying genetics, to go to China or Mexico for his/her field experiments and further work. Thus, American and Western overall students became choosing more appropriate for the familiar context majors, like Finance or Law). Simultaneously, peripheral countries got enormously huge practice grounds for testing new technologies which today are already global and well known. Enormous funds, once invested in the system of Western education, paradoxically lead to rapidly decreasing quality of this education, down to the level which was no longer able to support the local industrial productions (Pereslegin, 2006).

Further, this phenomenon has lead to critical staff shortages: highly intelligent production chains operating now in the US, Japan and some of the EU countries are constantly consuming more and more of arriving HR resources, while the education systems of these countries are not able to provide human resource even for traditional industrial sectors, let alone high-tech.

Obviously, this crisis is being solved by means of HR import. And this logically leads to the final serious problem which actually manifests in itself the threshold of postindustrialism and intellectual economy as such: civilizational identity of the West is getting weaker and its transition phase is accompanied by the engendering global cross-

civilizational conflict. And whatever would be the final outcomes of this conflict, it would eventually mean the fall of globalization as a strategy as well as the bankruptcy of the ideas of postindustrialism and intellectual expansion.

In the conflict (which may become partially or fully military) most probably the West will lose. As of today it is still trying to maintain its industrial leadership, for example, through dollar expansion or through excessive money supply provision, or by means of minimizing the refinancing rate to the absolute possible limit. But year after year it is getting more and more clear that it is losing the postindustrial supremacy, first of all, because it has already lost the quality of its education systems, attributing, in exchange, strong dependence on consumption imports.

The real sector of the economy, for example, in the USA has already proved to be rather inefficient when during the falls of USD rate in relation to EUR and other world currencies, American export did not only grow, but on the opposite, it continued to fall (Valensky & Kalyuzhniy, 2006). The society of consumption, already traditional for the West, was indeed able to create the postindustrial economy; however, it is not now able to maintain its own technological leadership within this postindustrialism.

### **Postindustrialism = Soft Skills Of Leadership**

There are many potential tools and means to maintain the stability of today's postindustrial world and global economy. Among them, there are soft tools, for example, the policy of deepening intellectual expansion. And also hard ones, which could mostly serve to prevent the potential clash of civilizations, such as, limiting the freedom of information and technologies' transfer, reducing the role of states in the world economy and policies to its very minimum.

Deepening intellectual expansion is very much related to the notion of artificial intelligence which eventually would be able to perform the thinking function same as human ones, operating though not the individual knowledge base but the huge information resource base of the whole human civilization. In the longer term, cybermachines might be able to form this information resource independently, excluding humans from the very process of information production.

This wide range of interrelated inventions would reduce the demand of intellectual economy in highly qualified human personnel, since instead of dozens directions in modernization works only one would be left – related to the improvement of artificial intelligence. This would help the technologically advances states to solve the most important problems of postindustrial transition – the dependence on qualified labour imports along with the related social tensions in their societies due to migration.

However, an important question remains open here: where exactly will all these inventions be located? Will it still be the West, or Russia, India, China? There is a high probability that a major share of the related inventions would happen on the territory of the US, however, with active participation and engagement of Chinese developers. Therefore, there is also a probability that they would dedicate their discoveries to the Middle Kingdom, thus making it the technological superpower.

It is obvious already now that artificial intelligence is doomed to become the revolution in the world economy, policy and social life. And its further consequences are hard to predict, but it is already clear that the discovery of this size is quite comparable to the

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emergence of Hollywood or to the invention of Internet. It is indeed a guarantee of global leadership.

Artificial intelligence will become the tool for both virtual, but also real life expansion, since it is able to open hundreds and thousands of new directions and subsectors for its application. And of course, it will have millions of supporters as well as millions of opponents straight from the very beginning. Already now, actually, there are opponents among those people who think that artificial intelligence goes against all traditional values (of Islam, or Christianity, or democracy).

Globalization in this regard can be treated as the mechanism and an attempt to prolong the industrial phase in economic development, but as a result, it still ended in postindustrialism. Same can happen to artificial intelligence in the future: now it is often viewed as a merely a tool of postindustrialism, but later on it can provoke the transition to a new stage, with its declarations of cyberspace independence and Bills of robots' rights, for example (Barlow, 1996).

### **... and Other Tools of Indefinite Redistribution**

Today we can clearly observe that the attempts to maintain the stability of postindustrial era are getting more and more harsh. For example, more and more instruments and tools are introduced and formally approved to limit the distribution of information. Regarding information a final solution is required for the dilemma: what is intellectual property actually? The engine or the deterrent of the world technological progress? High chances are, this dilemma would be solved in favour of the former.

World dissemination of information can be possible already today, due to availability of Intranets – the networks which have all the needed features of global web, but at the same time also having the absolute control of some sort of Moderator. This moderator is monitoring what sort of information is disseminated, its quality and also membership within a given network. We can imagine as highly possible the situation in which the traditional Internet would gradually become some sort of “information dump” (casinos, porn videos etc.), while truly valuable information resources would be redirected to corporate networks, intranets. Of course, these intranets would do their best to protect their intellectual potential and intellectual capital because for them, materials available within these networks are precious production resources and the security deposit for their global or regional leadership. The non-incorporated part of the humanity, in this case, would lose its right for quality information, therefore, any potential economic and/or social success would greatly depend on corporations as the owners of precious information resources.

Unlike today's worldwide web, the Intranet would be much less attractive from the viewpoint of commercial cost of cyberspace, due to reduced traffic, rather limited numbers of users and problems with free access. At the same time, Intranet impacts would be more targeted, more capable to establish stable and successful communication with rather limited numbers of users, but specifically those users which are needed and appropriate.

Obviously, Intranet as a phenomenon is interesting only for the companies which are 100% sure in their technological capacities and economic leadership. Moving nearly all their activities to such an Intranet (from the worldwide web), these companies are closing the door to their developments for many users, and at the same time they are also depriving



themselves from new knowledge on what is going on in the rest of the world, thus, there is a risk to lose valuable information.

Localization (in this context – leaving the Internet field) leads to the loss of access to always new information and updates, thus, the company is not able to secure its own competitive advantages anymore, is not able to guarantee long-term future technological leadership for itself. Taking into account the fact, that already today a larger share of software products are not of Western origin anymore, it is quite easy to imagine who would be the future winner in a potential “battle” between, say, Indian IT intranet and an American IT intranet.

Many years ago the West got the opportunity for global leadership due to Internet access which has served as a gateway to the needed intelligent labour force worldwide. But would it agree to abandon its hyper-presence online on the background of improving quality of the labour force in so many peripheral countries?

Of course, Internet abandonment in favour of multisystem information field would have both positive and negative consequences for economic leaders and also for the peripheral countries. And if under globalization the winner was often known long in advance, the collapse of information globalization and its transition to a new phase – that of information flows’ glocalization, clearly, does not assume any winner at all. Most probably, Intranet networks would be gradually created with a great deal of carefulness: just separate information resources, still within the Internet, would strengthen their borders and complicate their access, while still a larger chunk of information would remain easily accessible.

In any case, even the corporations’ attempts to introduce their own intranets would be a strong evidence that, first of all, globalization is bankrupt as a notion, including information globalization, and secondly, that we experience the beginning of the new rearrangement of the world, a transition to a brand new stage in civilizational development. And as the result of this transition, the humanity would be again divided, but not on the Global North and South, as it used to be, an and not on “golden” and “black” billions – totally new two global social systems would arise – the incorporated population and the one not incorporated. And the income gap between them would be not 7-9 times (as back in the 1960s), and even not 70-90 times (as in 2000), it would truly manifold. This new phase in the humanity’s development, of course, would have its own social, political and administrative crises, but their volumes and the time of their origin would depend on so many factors: starting from the appetites of global architects and ending with flexibility of the transformed societies and their social institutes, including the state.

## **Conclusion**

Summarizing all of the above, we can state that the analysis of prospects in economic relations’ intellectualization on a global scale demonstrates there are several significant “failures” in today’s intellectual economic and in postindustriality overall. And these “failures” can really change the future structure of world production, world trade, and the principles of socioeconomic functioning of the world as such.

The formation of post-industrial innovative clusters models based on collaboration and reciprocal relationships of horizontal nature, will contribute to generation, reproduction, and active using of intellectual, scientific and technical resources, and will also serve as a



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prerequisite to accelerate the pace of socio-economic development and to improve living standards.

Despite the fact, that intellectualization of production relations is indeed the instrument of growth and higher efficiency which truly helps overcoming the dependence on finite natural resources, in a longer term it could also have quite negative, if not to say destabilizing consequences for the global economy. And these consequences are related, first of all, to the specificity of intellectual potential as a production factor, to the instruments of leadership maintenance under constant intellectualization, and finally, to the unpredictability of human behaviour, actually, since human is still the only owner, exponent and user of intellectual potential today.

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## GLOBAL FINANCIAL CRISIS: THE BUBBLE EFFECT IN INDONESIA

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*US and Indonesia stock markets are entering record heights without being offset by economic growth and profitability growth of their traded companies. There are several indicators for the stock market bubble: (1) Price Ratio (Ear Ratio); (2) Price Ratio / Book (PB Ratio), the latter comparing the nominal price of one share at a market with the book value (the value of company's assets). The current PB ratio of the composite stock price index being 3.3 means that for each shares the asset value of which is 1 IDR, the stock would be worth 3.3 IDR. This is one of the most expensive price in the world today. Based on the above, for Indonesian stock market sharp decline is just a matter of time and waiting. This decline will be much sharper if triggered by the US financial crisis. We can also also see a bubble emerging from increasingly irrational investment attitudes. Currently, in addition to high prices for stocks and bonds, investors have started looking at investment opportunities in digital currencies. This research tries to know the potential of financial crisis and its effect for the financial market in Indonesia. The research uses descriptive and verification methods as applied to time series data analysis.*

**Keywords:** global financial crisis, bubble economy, stock market, Indonesia

### Introduction

According to Joseph E. Stiglitz, the economic crisis that occurred in Indonesia and other ASEAN countries was the result of bubble economic effect due to the influence of globalization in the early 90s. As it turned out, with globalization of the economies worldwide, the world does not become more prosperous. This happens because capitalism is transforming into neoliberalism. The agenda of globalization continues to be based on the



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idea of political and economic dominance of the US and Britain. It is a luxurious new model of imperialism with a machine called corporatocracy - corporations, banks and governments are jointly using financial and political strengths in order to get global power.

The global financial crisis affected Indonesia's trade with its partners. In 2009 Indonesia's exports decreased by 18%, this was the biggest decline in 10 years. The biggest decline for fuel was observed for fuel products - worth USD 13 billion. And if using the percentage terms, the largest decrease occurred in the category of transportation products - about 37% of the total decline in Indonesian exports.

Economic globalization and capitalism together have led to the creation of an economic bubble that bursts easily, and its bursting results in economic havoc for many countries including the United States as well as the economies of small and developing countries.

Indonesia's exports to other ASEAN countries declined by 13% for non-oil and gas exports during this period of the global financial crisis. This crisis also affected Indonesia's export destination countries, in Europe in particular.

In 2008 and 2009 there was again a decrease observed for Indonesia's non-oil and gas exports to European countries, especially to Germany, France and the UK which became the main export destinations of Indonesia in Europe. The decrease of 5.34% in case of Germany costed Indonesia USD 2.3 billion, 10.42% in case of France amounted to USD 840.7 million, and 7.34% in case of the UK means USD 1.4 billion lost (BPS, 2009).

Indonesia's exports to the United States also declined due to the impact of the global financial crisis. Exports of non-oil products to this superpower fell by 16.51% to the level of USD 10.4 billion. Indonesia's non-oil exports to Australia also decreased - by 18.57%, or USD 1.7 billion. The decline also involved exports to Taiwan which fell by 1%, or USD 2.8 billion during the same crisis period.

Meanwhile, Indonesia's exports to China continue to rise throughout the whole period of the global financial crisis. Indonesia's exports remained growing by 14.35%, or USD 8.9 billion, for non-oil and gas exports. This increase was driven by continued positive growth in China's economy during the global crisis. Indonesia's total exports to Japan decreased by 13% during the global financial crisis which means the loss of USD 11.9 billion. Indonesia's exports to South Korea increased during the period of the global financial crisis, namely, non-oil exports increased by 10.9%, or USD 5 billion.

The continued growth of China's economy and other developing countries after the global financial crisis helped boosting Indonesia's exports. Indonesia's export performance in 2009-2010 increased in almost all export sectors. For Indonesian agriculture, industrial production and the mining sector, respectively, these increases were 14.92%, 33.49% and 35.36%, or in many terms - almost USD 5 billion, USD 98 billion and USD 26.6 billion as of 2010. In terms of contribution to total exports back in 2010, the export of industrial products was 62.14%, while the contribution of agricultural products' export was only 3.17%; the contribution of mining and other extracting products was 16.91%, while oil & gas exports amounted to 17.78%.

In 2010 to 2011, Indonesia's exports rose across all sectors. Increases in agriculture, industry, mining and other sectors amounted to 3.27%, 24.64%, 30% and 30.3% respectively, reaching accordingly almost USD 5.1 billion, USD 112.1 billion, USD 34.6 billion and USD 12.9 million in 2011. In terms of contribution to total exports as of 2011, the exports of industrial products amounted to 60.01%, while agricultural exports amounted to 2.54%, the

contribution of mining and other extracting products was 17.02%, and finally oil & gas contribution to total exports was 20.43%.

This research attempts to determine the potential effects of the financial crisis on the financial market of Indonesia.

### **Literature Review**

Globalization as a phenomenon goes back to the United States and the American continent in general, it began with the establishment of free trade areas such as North America Free Trade Area (NAFTA), Asia-Pacific Economic Cooperation (APEC), ASEAN Free Trade Area (AFTA) and others.

Free market and globalization are the two things that cannot be separated from the United States policies, sometimes imposed on other countries, especially developing ones. With free market, the economy of one country is no longer unaffected by the economy of another country. As a result, the economy of a country, especially a developing one, is highly dependent on the economy of other countries, especially on the economies of such powerful countries as the United States. Thus, the question arises whether under the globalization the world economy will be better or vice versa?

Economic globalization, according to Joseph E. Stiglitz, became the locomotive of the beginning of catastrophic destruction of the world economy in the decade of the 1990s. The destruction of the world economy in the early 1990s was marked by the euphoria of new economic emergences in the United States with high productivity spikes. Dot-com companies in the US were revolutionizing the way the Americans were doing business. This emergence of a new economy was often paralleled to the industrial revolution two centuries ago that has changed the entire structure of the economy. But in fact, this new economic phenomenon was quickly followed by a decline in the late 1990s already.

The economic bubble, or the speculative bubble, or the financial bubble means "trading in large volumes at prices very different from their intrinsic value".

Although some economists deny the bubble economy phenomenon as such, the cause of bubbles remains a challenge to be examined for those who believe that asset prices very often deviate from their intrinsic value.

Although there are many potential explanations for the causes of this economic effect, it is now known that bubbles can emerge even without precedence of uncertainty, speculation, or limited rationality. Another explanation is that bubble economy may ultimately be caused by a price coordination process or by newly emerging social norms.

Observation of intrinsic value is often difficult in real-life situations at the market, so bubbles are often only recognizable with some retrospective certainty, when a sudden price drop occurs. The falling state of a price is called a collapse (crash) or a "bubble burst". The economic and recessionary phases in a bubble economy are the examples of positive feedback mechanisms that distinguish them from negative feedback mechanisms that determine the equilibrium price under normal market circumstances. Prices in case of an economic bubble can fluctuate erratically, and it becomes impossible to predict them on the basis of supply and demand only.

This research uses descriptive and verification methods for time series data analysis.

## GLOBAL FINANCIAL CRISIS:

### Discussions

The financial crisis that hit Europe in 2011 has resulted in the tightening of the Euro zone countries budget which is one of the triggers for the decline of Indonesian exports between 2011 and 2012. The slowdown in China's economy also affected the decline of Indonesian exports, with economic growth of only 7.7% in 2012, down from 9.3% in 2011. Based on the BPS data, back 2012 there was also a decline of exports in the industrial and mining sectors, which decreased by 4.95% and 9.59%, respectively, each thus reaching the levels of USD 116.1 billion and USD 31.1 billion accordingly. However, the exports of Indonesia agriculture and other sectors still recorded a positive increase respectively of 7.84% and 44.96%, each worth USD 5.5 billion and USD 18.7 million accordingly. In terms of contribution to total exports back in 2012, the contribution of industrial products' export was 61.11%, while the contribution of agricultural export was 2.94%, while the contribution of mining and other exports was 16.50%; the contribution of oil and gas exports was then at the level of 19.45%.

Increase in oil and gas imports happened mainly due to an increase in crude oil imports in the amount of USD 1.12 billion (15.16%) and oil imports in the amount of USD 6.89 billion (61.93%). Similarly, gas imports increased by USD 374.1 million, or by 76.49%. Increased imports also occurred in 10 other key categories of goods, their overall increase was from USD 49.595 billion to USD 69.2683 billion. The share of these ten main categories thus reached 63.99% of the total non-oil and gas imports, or 51.08% of the total imports overall.

Among Indonesia's total non-oil and gas imports back in 2010, the imports of machinery and mechanical equipment had the largest share - 14.44%; iron and steel got 5.89%; motor vehicles and its parts had 5.30%; organic chemicals - 4.92%; plastic and plastic goods - 4.45%; aircraft and parts - 3.26%, and finally, goods made of iron and steel reached the level of 3.19 percent. Meanwhile, imports of the remaining two categories of goods had the volumes below 3%, these were cotton with 2.06% and cereals with 1.99%.

Between 2008 and 2009 there was a decline in Indonesian imports of consumer goods, supporting raw materials and capital goods. These three categories decreased respectively by 18.68%, 30.01%, and 4.50%, thus, their values were USD 8.3 billion, USD 99.49 billion and USD 21.4 billion respectively.

The drop in imports was triggered by the global financial crisis that caused the exchange rate of Indonesian rupiah to the US dollar to fall.

The increase in imports occurred in 2010, it was quite noticeable as compared to the previous year. Increases in the categories of consumer goods, supporting raw materials and capital goods were 47.97%, 41.77% and 31.69% respectively, and their values were USD 9.9 billion, USD 98.72 billion and USD 26.9 billion accordingly. The increase in imports was triggered by the onset of improving global economic conditions and supported by the strengthening of the rupiah against the US dollar.

The economic growth of major trading partners also had its impact on Indonesian economy. The empirical tests show, however, that only India's GDP growth had a notably positive impact on Indonesia's GDP. The growth of GDP of the United States and Singapore had a negative impact, and noteworthy, the negative impact of Singapore was quite large.

Concerning the growth of non-oil exports, India's GDP growth had a positive and significant impact while Japan's had a minor negative impact, and Singapore's growth had a very large negative impact.

The best way to reduce non-oil imports is to increase Indonesia's GDP growth. GDP growth in the United States increased Indonesia's non-oil and gas imports considerably while GDP growth in Japan reduced it. On the FDI side, Indonesia's GDP growth led to a huge increase followed by China's GDP growth. The growth of Japan and Singapore GDPs significantly reduced FDI inflows to Indonesia.

Only non-oil export growth to Singapore has a positive impact on Indonesia's GDP growth. The growth of exports to the United States, India, Japan and China all have a negative impact. On the non-oil export growth side, only export growth to Singapore and Japan had a positive impact, while the same to the United States, India and China had a negative impact. Based on the impact on non-oil and gas import growth in Indonesia, the growth of export to the United States, India and China has a positive impact, and in the case of Japan - negative. The growth of exports to all major trading partners has a positive impact on FDI flows.

On the non-oil and gas import side, only imports from India and China have a positive impact on Indonesia's GDP growth, imports from the United States, Singapore and Japan have negative impacts. All imports from major trading partner countries had positive impacts on Indonesia export growth, except China. This indicates that Indonesia's imports concern mostly various raw materials and basic machinery. Imports from major trading partner countries have a positive impact on FDI, except, again, for China.

When it comes to the financial sector alone, only Singapore FDI has a large and positive impact on Indonesia's GDP growth. China's FDI triggered exports and encouraged FDI to Indonesia, while FDI of other major partner countries had a negative impact. However, China's FDI is also the biggest trigger of imports while the US FDI mostly reduce imports in Indonesia.

When we consider the commodity prices' influences, the greatest role in increasing GDP belongs to arabica coffee followed by liquid gas while the price of beef has the greatest negative impact. However, increases in beef prices also play the second highest negative role in the decline of exports, straight after the prices for robusta coffee. Also positive impacts have the prices of arabica coffee, liquefied gas and metals. The increasing prices for cattle have their very big impact on the reduction of imports followed by the price of rubber. At the same time, arabica, robusta and gas prices are increasing the imports. The increasing beef prices greatly impacted the decrease in FDI flows, going second, straight after coffee prices. What else tend to trigger the rise in FDI is the rising prices for metal and liquid gas.

### **The Impact of the Global Financial Crisis on the Global Economy**

The wave of defaults in the US and Europe that occurred in securities related to the US subprime mortgage, gave rise to a severe crisis of confidence in global financial markets as such. Amid losses borne by financial institutions due to placement into the US subprime mortgage, the risk aversion arising from this crisis of confidence among financial market participants has created very tight conditions at nearly all financial markets.

The crisis that started in the financial sector then quickly became a snowball rolling quickly through all other economic sectors. Falling housing prices in the US, rising home foreclosures due to the debtor's inability to make payments, as well as huge losses at

## GLOBAL FINANCIAL CRISIS:

financial markets left most of consumers both in the US and in Europe with much weaker purchasing power. This quickly hit all related business activities. In addition to the drop in consumer purchases, the crisis at financial markets has caused many businesses lose access to financing through banking, capital markets and other forms of financing. Sluggishness of business activities has led to a massive wave of layoffs, which decreased people's purchasing power even further. In line with weakening demand in developed countries, the world commodity prices continued to decline in absolutely all product categories.

### **The Impact of the Global Financial Crisis on Indonesia's Economy**

The impact of the crisis going through financial channels can be direct or indirect. Direct impacts will arise if banks or other financial institutions have direct exposure to “toxic” assets, or if they do not have problem assets themselves but are linked to financial institutions with such a large exposure to problem assets. In addition, transmission of the crisis impact through direct financial channels may also arise due to deleveraging activities, when foreign investors are experiencing liquidity difficulties and thus are forced to withdraw funds previously invested in Indonesia. In addition to this linking to troubled assets and deleveraging, the direct impact of financial path also arose through qualitative changes, the portfolio adjustment of assets considered risky as compared to safer assets. This condition is triggered by excessive risk aversion behavior of investors following the shocks that occur at financial markets. Meanwhile, the indirect impact will arise due to lower availability of financing.

The eruptions of dissatisfaction with the conventional economy have led to the growing popularity of the alternative economic concepts, such as the Institutional Economy (Kenneth Building), Structural Economics (Raul Prebisch), and Islamic Economics by various Muslim economists. In Indonesia since the early 1980s dissatisfaction with the conventional economic theory has been widely expressed by Prof. Mubyarto and also via his PUSTEP Center based in UGM. The increasingly "sophisticated" Western economic science is often questioned for its ability to solve the real economic problems, and not only by the Indonesians. According to the study carried out in six world-class universities (Chicago, Harvard, MIT, Stanford, Columbia, and Yale) back in 1977, only 34% of graduate students stated that they "strongly agree" that economics taught at the US universities is able to solve contemporary economic problems

### **Conclusion**

America, being a global super power (both political and economic) has triggered the process of globalization. The latter is the concept of capitalism, transformed into neoliberalism through the corporatocracy engine.

The subprime mortgage crisis that became the start for the latest global financial crisis had also affected national economies through several channels, including: (a) direct trade routes between Indonesia and the United States; (b) trade routes between Indonesia and Asia / Europe; (c) increase of borrowing costs; (d) appreciation of the Rupiah exchange rate; and (e) the US Central Bank's monetary policy (including its aspects on interest rates).

Reducing speculative economic transactions, especially those at secondary markets, would be possible through eliminating derivative product sales from the stock market, especially when it comes to index trading.

Making money only a means of exchange and a measuring value as well as the re-use of money guaranteed by gold does not make money a commodity.

The global economic crisis was the result of the large-scale failure of the capitalist system, when this system itself became biased against the owners of capital. So now there are only a few people in the world who control the global money supply.

The economic crisis that occurred in Indonesia and other ASEAN countries is the result of the economic bubble which emerged under influence of globalization in the early 1990s.

Due to ongoing globalization of the economy, the world does not become more prosperous, moreover, it is becoming only less just. This happens solely because capitalism is transformed into neoliberalism. Economic globalization and capitalism combined create an economic bubble that breaks easily, and if it breaks - it will lead to the economic havoc in many countries including the United States themselves as well as the economies of small and developing countries.

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## PROBLEMS OF TRADE FINANCING DEVELOPMENT IN THE RUSSIAN FEDERATION

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*From the standpoint of enterprises, searching for the minimum-risk methods and ways of organizing settlements in foreign trade is always a topical problem. The research study identifies the problems of trade finance in the Russian Federation (RF) after the sanctions have been imposed. The key features of trade finance management are formulated. The influence of economic sanctions on trade financing mechanisms is analyzed. Some mechanisms are considered for using a documentary letter of credit, one of the most popular trade financial instruments in international settlements today. Measures for eliminating the factors restraining the growing use of trade finance instruments and the possibility of their implementation under the conditions of current economic sanctions are grounded. System analysis methods and techniques, analogy methods, expert assessments and projection methods are used as part of this research study.*

**Keywords:** trade financing; documentary letter of credit; economic sanctions, projection methods; Russian Federation.

### Introduction

The volume of foreign trade operations of the Russian Federation (RF) continues to decline due to the economic sanctions imposed in 2014 (and prolonged relatively recently).

The sanctions have already affected and continue to affect negatively trade financing of the Russian Federation. Some of the foreign banks have reduced expositions on Russian banks and country expositions to the Russian Federation as a whole, the level of trust between Russian and Western counteragents have also lowered significantly. The overall economic conditions in the country have worsened: GDP growth rate is declining; the volumes of both exports and imports went down to at least the level of 2008.

Identification of problems and justification of measures to eliminate the factors that inhibit the growth in the use of trade finance instruments in the Russian Federation is an urgent task, considering the current economic situation.

According to leading experts in the field, the use of letters of credit, documentary collections, guarantees etc. in international settlements and trade financing, among all the



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variety of settlement instruments, is becoming more and more topical for Russian enterprises, thus, the volumes of such documents in use are growing.

In this study we have analyzed the status of trade and export operations and made substantiated proposals for increasing their volume in the RF under current economic sanctions.

As it is commonly known, the volume of trade and export operations always influences the GDP indicator. To increase the volume of trade and export operations and accordingly GDP it is necessary:

- to increase the volume of international trade with Asian countries;
- to accelerate the process of providing state financial as well as non-financial support for exporters;
- to pay special attention to the Export Credit Insurance Agency of Russia (ECIAR) in part of financing export transactions.

The data of the Federal State Statistics Service (Rosstat) and its territorial body for St. Petersburg and the Leningrad Region (Petrostat) serve as the initial data basis for our study.

### **The impact of economic sanctions on trade financing**

Some of the problems with trade finance actually preceded the period when the current economic sanctions were introduced. Along with the legislation, the mechanisms of trade financing are impacted by the condition of the banking sector. Let us review briefly the state of the banking system before 2014 and today.

The state of the banking system in the Russian Federation before 2014:

As of early 2014, Russian banking system was almost completely restored after the global financial crisis of 2008-2009. Slight growth of the economy, positive balance of payments, growing retail sector and other positive macroeconomic indicators allowed Russian banks raise quite sufficient funds at both capital markets and specialized trade finance markets. Western banks were ready to supply loans to the largest Russian banks for the purpose of trade financing for the period of 5 to 7 years.

Before the sanctions medium-sized banks used to have, among other things, trade finance programs of interstate financial institutions, such as the International Bank for Reconstruction and Development (IBRD), the European Bank for Reconstruction and Development (EBRD), and the International Finance Corporation (IFC). Special syndicates were involved in financing foreign trade - both with participation of the abovementioned structures and without them.

The condition of the country's banking system and economy after the Western sanctions were imposed back in 2014:

According to Rosstat, Russia's GDP decreased by 3.7% in 2015, while without foreign trade, the decline would have been 9.9%. A very similar situation was in 2009, straight after the global crisis, when Russia's GDP decreased by almost 8%. However, excluding foreign trade, the decline was as noticeable as 13%.

In 2015, the net export was the only component to make a positive contribution to the GDP growth rate. In 2016, the GDP declined by another 0.6% in comparison to 2015.

The nature of the current crisis in Russia differs significantly from the previous two economic downturns - the crisis of 1998 and that of 2008, as well as the reasons why they occurred.

## PROBLEMS OF TRADE FINANCING DEVELOPMENT

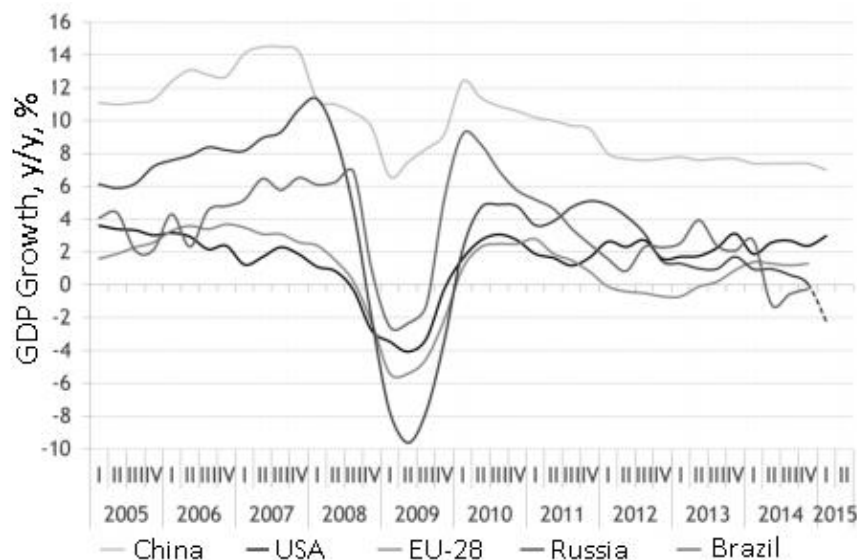


Figure 1 - Quarterly GDP dynamics of the world leading countries, 2005-2015  
(Source: [https://www.wto.org/english/res\\_e/statis\\_e/wts2015\\_e/wts2015\\_e.pdf](https://www.wto.org/english/res_e/statis_e/wts2015_e/wts2015_e.pdf) )

Table 1 - The contribution of the demand components to  
Russia's GDP growth, 2007 to 2015  
(Source: Rosstat)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
GDP share growth, in %	8,5	5,2	-7,8	4,5	4,3	3,5	1,3	0,7	-3,7

The 1998 crisis took place against a rather difficult economic situation in the country overall and was triggered by a fall in commodity prices and the financial crisis in the South-East Asia.

The crisis of 2008 in Russia began as part of the global crisis and affected almost all sectors of the national economy. Foreign trade felt the impact of this world crisis in late 2008 already and this impact was more dramatic, since the dynamics of foreign trade turnover declining during the 2008-2009 crisis was very much similar to the trend of the 1998 crisis. At the same time, the depth of the fall during 2014-2015 was quite comparable with the 2008 crisis (see Fig. 2).

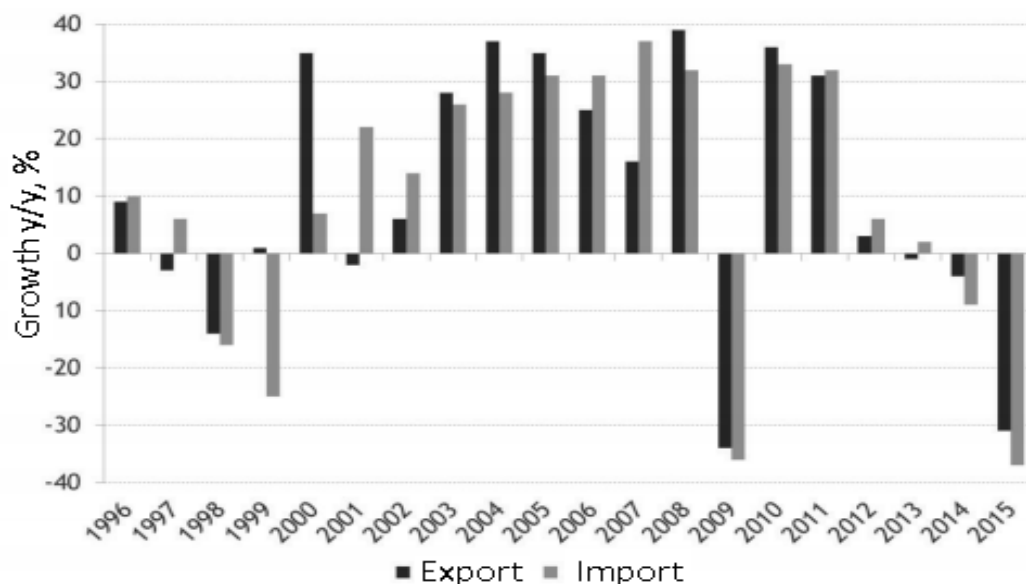


Figure 2 - Dynamics of Russian exports and imports of goods, in %, 1996 to 2015

(Source: [https://www.wto.org/english/res\\_e/statis\\_e/mts2015\\_e/mts2015\\_e.pdf](https://www.wto.org/english/res_e/statis_e/mts2015_e/mts2015_e.pdf) )

The current crisis, which is taking place against the backdrop of a drastic and prolonged decline in the world energy prices and is also involving an entirely new factor - sanctions, has affected not only the volumes of foreign trade, but also its structure.

### Analysis of the seasonally adjusted series

Our analysis of the seasonally adjusted series shows that the volume of exports has stagnated since the middle of 2011 (Fig. 3) and then began to decline sharply since the mid 2014, equaling only to 66% as of February 2016. Russia continued to strengthen its economic and geopolitical cooperation with Asian countries against the background of declining exports. Fuel and energy resources, in particular oil & gas, remained to be the most important export commodities. According to the 2015 data, their share in the volume of exports was 63%. The fall in oil prices had a negative impact on the dollar export earnings, but due to the ruble depreciation, these losses were at the 2010 average level in value terms.

Exports to the EU and the CIS countries was falling at an accelerating rate due to destabilization of their relations with Russia. The sharpest drop in supplies to the CIS countries was observed in the summer of 2014, and by February 2016 the exports to the CIS was equal to roughly 60% of its average volume back in 2010 (Fig. 3). At the same time, the share of trade with the Asia-Pacific Economic Cooperation (APEC) countries has been growing, from 21.5% in 2014 to 23% in 2015 against the background of a general decrease in the volume of export flows during the crisis period. This has been taking place primarily due to the fact that the Asia-Pacific region is gradually becoming a top-priority area for Russia's cooperation with other countries of the world.

On August 6, 2014, Russia imposed a ban on the import of certain types of products from the United States, Canada, the European Union, Norway and Australia in response to Western countries' sanctions. These measures led to a general decrease in the volume of imports, a partial change in the commodity and geographical composition of trade, changes in import prices and, as a consequence, inflation overall. However, at the same time a certain

## PROBLEMS OF TRADE FINANCING DEVELOPMENT

decrease in imports was observed in all the regions of the world. The total volume of imports in Russia reached the minimum in December 2015, amounting to 70% of the level of 2010, later the decline in imports stopped.

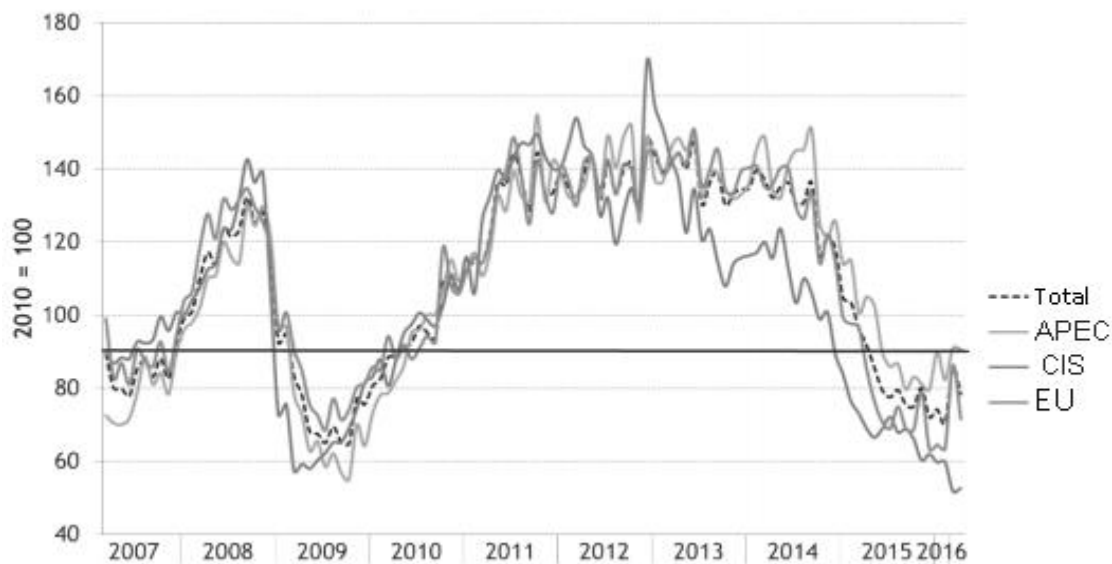


Figure 3 - Dynamics of Russia's exports by key groups of countries, 2007 to 2016, seasonally adjusted series, the average monthly value of 2010 = 100.

(Source: [https://www.wto.org/english/res\\_e/statis\\_e/wts2016\\_e/wts2016\\_e.pdf](https://www.wto.org/english/res_e/statis_e/wts2016_e/wts2016_e.pdf) )

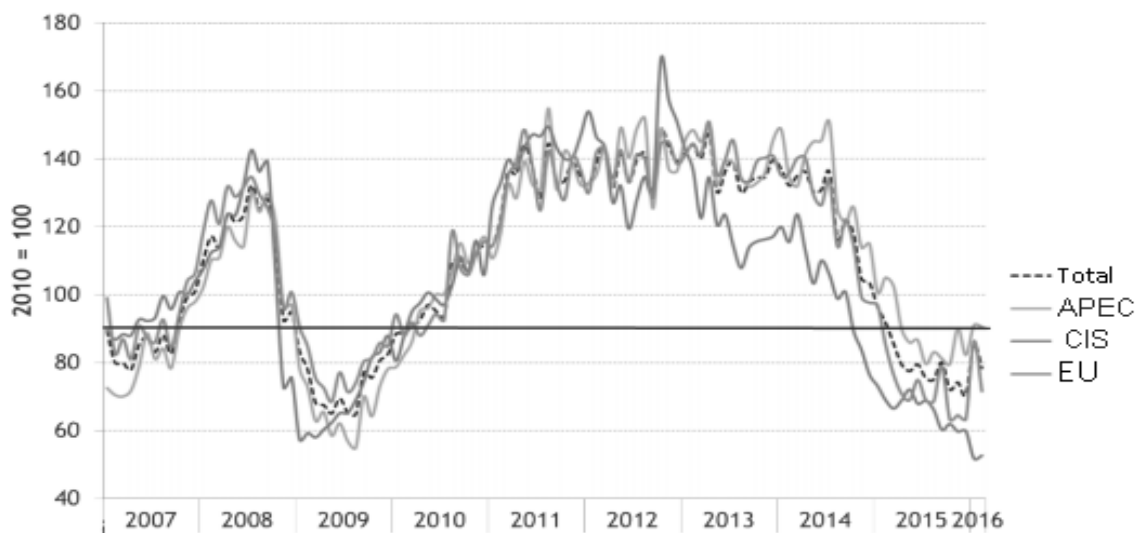


Figure 4. Dynamics of Russia's imports by key groups of countries, 2007-2016, seasonally adjusted series, the average monthly value of 2010 = 100

(Source: [https://www.wto.org/english/res\\_e/statis\\_e/wts2016\\_e/wts2016\\_e.pdf](https://www.wto.org/english/res_e/statis_e/wts2016_e/wts2016_e.pdf) )

Positive trends in the import dynamics from the EU and APEC countries have been observed since the middle of 2015. But the volume of imports from the CIS continues to decline - by February 2016 it reached 52% of the average volume as of 2010, which is

caused, to a larger extent, by the general destabilization of Russian trade with Ukraine (Fig. 4).

The sanctions have their huge impact on trade financing in the Russian Federation, its volume is falling. Some of the foreign banks have also reduced the expositions on Russian banks and country expositions on the Russian Federation as a whole. The level of trust between Russian and Western counterparties has also lowered and the overall economic situation in the country worsened. The main reason for this is the constantly lowering volume of trade financing.

Once the sanctions were imposed, most of the interstate institutions were forced to freeze their programs and operations. A number of export credit agencies (ECAs) have become more conservative when dealing with Russia. ECA's participation allowed medium-sized banks attract rather "long" and relatively cheap credit resources to finance the supply of high-tech equipment and durable means of production to Russia. We cannot say that the ECA activities have fully stopped (formally, trade financing does not fall under any article of sanctions), but we can definitely state that the volume of transactions decreased significantly. Fig. 5 shows the dynamics in export-import transactions, which clearly demonstrates a significant decline in Russia's foreign trade operations during 2014-2015.

### **Reasons for decline in export-import operations**

Firstly, a rather prudent approach was demonstrated by the ECAs themselves, as they began to follow the principle of "it is better to do nothing than accidentally do harm".

Secondly, at present, it is very difficult for Western financial institutions to determine whether certain goods are dual purpose equipment or not. Therefore, the principle "not to do harm" starts to be used again. For example, one of European banks was examining the transaction for the supply of personal computers to Russia for more than a month, as it suspected dual purpose equipment (computers were supplied by a US company).

Today, when Russian banks cooperate with Western banks, in addition to the KYC (Know Your Customer) procedures, banks are faced with the KYT (Know Your Transaction) concept, which also increases the time for consideration of transactions.

Thirdly, Russian customers, in particular those who buy equipment, are increasingly worried that Western producers will not fulfill their contractual obligations because of the sanctions (the so-called "performance bond risk"). The manufacturer can begin production, some of the money will be paid out of the interbank loan funds and all this can be stopped overnight with a Russian bank having already taken the client risks (Orellana, 2010).

As a result, we can conclude that once the sanctions have been imposed, the volume of trade financing has decreased significantly. Despite the fact that trade financing is not subject to the sanctions, Western banks choose to be very careful about transactions, taking into account all potential consequences.

## PROBLEMS OF TRADE FINANCING DEVELOPMENT

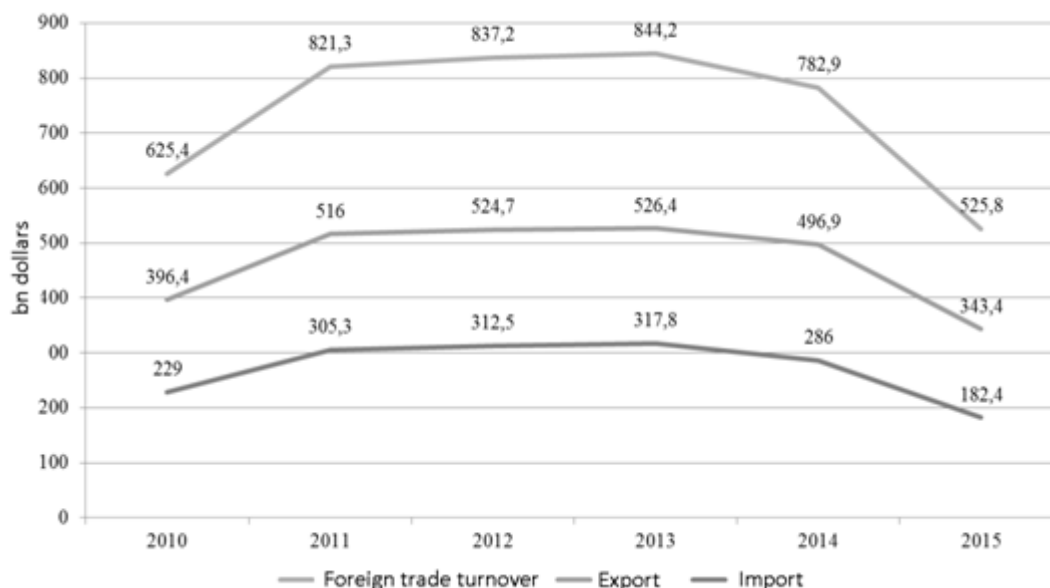


Figure 5 - Dynamics of foreign trade of the Russian Federation during 2010-2015  
(Source: Statistika TsB RF, 2017)

A number of foreign banks have closed their credit lines for Russian banks (primarily, the United States' and Canadian banks). International financial institutions have closed or suspended their credit lines, in particular, IFC did, same did the IBRD (International Bank for Reconstruction and Development) and also the EBRD does not have new transactions with Russia at the moment.

The toughening compliance/control procedure have lead to the problems with customer payments since many of such payments were "getting stuck" in the chain of correspondent banks for an indefinite period of time.

Sectoral sanctions and sanctions against specific individuals and companies have lead to the inability to attract international financing for specific transactions.

### **Proposals and conditions necessary for their implementation in trade financing in the context of economic sanctions**

Proposals for trade financing development in the Russian Federation under the current conditions of economic sanctions:

- to re-orient and increase the volume of international trade with Asian countries;
- to speed up the process of allocating state financial and non-financial support for exporters;
- to pay more attention to the Export Insurance Agency of Russia (EXIAR) in part of export financing transactions.

Despite today's economic and geopolitical troubles, Russia is still interested in its active participation in the global economy. We should note that in 2014 the Ministry for Economic Development of Russia prepared the draft of the National Export Strategy of

Russia until 2030 (the work on this document began long before the introduction of anti-Russian sanctions, actually). This program document outlines the measures to be taken for Russia to achieve leading positions in the global exports and thus enter the top-five exporters by 2030 along with China, the United States, Germany and Japan (Volkova, 2016). Despite the current budget deficit, funds have been allocated for the next 3 years to subsidize the interest rate in the field of export credit in the amount of 10 billion rubles per year, as well as additional funds for the capitalization of the Center for Credit and Insurance Support for Exports (CCISE) in the amount of 30 billion for the year 2017 alone (EXIAR - Export Insurance Agency of Russia, 2017).

Today, external economic relations are also supported by the state using the institutions which are relatively new for Russia. Insurance of export credits and investments, provided by the Export Insurance Agency of Russia (EXIAR), is introduced into business practice. JSC "EXIAR" has developed the Business Strategy for 2017-2020, which will ensure the adaptability of export insurance planning without significant deviations from the vitally important international indicators. In order to achieve the objectives set and increase the level of insurance support, as well as provide maximum access to insurance support for exporters and financial organizations, the Strategy defines two basic quantitative indicators - STs (strategic targets) for all insurance activities of the Agency:

- 1) The volume of supported (insured) non-raw material exports. It determines the priority of the Agency's key objective to ensure the level of insurance support for national exports;
- 2) The number of supported unique exporters (excluding those coming from the SME sector). It reflects the Agency's objective to increase the level at which insurance instruments are used along with the widest possible coverage of the customer base.

The indicative values of these quantitative STs for 2017 and 2020 are determined given the results of the Agency's operations back in 2013-2014. To ensure long-term quality and sustainability of insurance operations, two ST operational indicators are defined as follows:

- 1) The share of cases when the periods within which the terms of insurance are defined deviate from the standard. It sets the systemic priority in the process of insurance coverage provision. The standard, whose deviation is used to calculate this target, must be defined by the Agency's governing bodies;
- 2) Customer satisfaction is an indicator widely used in the practice of foreign ECAs. It determines the priority of improving the quality of work with clients and Agency services. The ST values for 2017 and 2020 have been determined based on the findings of the first survey of EXIAR clients back in 2015.

### **Conditions for implementing the Agency's strategy**

Given the established targets for the volume of Agency insurance support in 2015-2017 and up to 2020, the limit of the bank guarantees granted by the Vnesheconombank for the obligations of the EXIAR in the amount of USD 10 billion for the period of 20 years (with the state guarantees of the Russian Federation) can be reached already at the end of this year already. Given the need to confirm the credibility of the Agency at the sovereign level,



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among other things, for the recognition of the EXIAR insurance coverage by foreign borrowers, financing organizations and foreign ECAs and in order to continue operations and reach specified targets for the volume of the Agency's insurance support, the Agency will require additional security in the form of state guarantees of the Russian Federation.

In accordance with the National Export Strategy, the main importers of Russian goods will be CIS countries (also known as post-Soviet countries; a significant share here will fall on two members of the Customs Union - Belarus and Kazakhstan), and also countries of the Middle East and Latin America. The share of non-raw materials' exports to these countries is expected to increase from 45% in 2014 to 51% by 2020, with an average annual growth in exports being about 8.4%. The fastest growing areas for Russian non-raw materials exports will be the Asia-Pacific region, Latin America, here it is expected to reach the average annual growth rates of 10.1% and 13.5% respectively.

Thus, despite the currently difficult economic situation, Russia's ambition to participate more actively in the global competition, open markets and global competitiveness is very much explicit. To achieve this goal, such tools should be used as provision and insurance of export credits, subsidized interest rates, insurance of business and political risks, provision of state loans and guarantees, establishment of a trade financing association, partial refusal from international settlements in dollars and transition to payments in the national currency, development of the national payment system, establishment of an efficient program of compliance monitoring and control under the conditions of global economic sanctions.

### **Discussion and Conclusion**

1. The volume of foreign trade operations in the Russian Federation grows year by year. This type of activity is more risky than trading within the country, for a range of both political and economic reasons. Thus, in the first place, all efforts of both buyers and sellers (that is, importers and exporters) should be aimed at minimization, ideally - at complete elimination, of the related risks in order to complete successfully foreign trade transactions, preventing potential losses at the same time.

The search for the methods and mechanisms of arranging foreign settlements under minimum risks is a topical problem. The most popular of these methods/mechanisms are documentary letters of credit, bank guarantees and documentary collection.

2. In Russia, there are factors that hinder the volume of transactions with documentary letters of credit from being used more frequently. More specifically, we can observe a certain inconsistency of Russian legislation with the international rules for operations with documentary letters of credit.

3. Measures to be taken by Russian business community and state administration so that to eliminate these factors that hinder the growth in the use of documentary letters of credit should concern, in the first place, elimination of this inconsistency between Russian legislation and international rules and norms of using documentary letters of credit. Another important direction concerns the development of a mechanism for prompt adjustment of Russian legislation to changes in international practice of settlements under letters of credit.

4. The volume of trade financing transactions declined under the influence of the sanctions, the main reasons being:

- the more prudent approach of the ECAs, which follows the principle of "It is better to do nothing than accidentally do harm";

- Russian customers, in particular equipment buyers, are increasingly worried that Western producers will not fulfill their contractual obligations under the conditions of sanctions;

5. The major consequences from the sanctions imposed on Russian banks are as follows:

- a number of foreign banks have closed the credit lines for Russian banks (primarily those from the United States and Canada);
- international financial institutions have closed or suspended their credit lines, in particular, IFC, IBRD and EBRD;
- the toughened compliance (control) procedure leads to a range of problems with customer payments, mostly because many of these payments are "getting stuck" in Western-based correspondent banks for an indefinite period of time.

6. Despite all the current difficulties, trade financing is the last thing that can be completely banned. It is necessary to continue working with banks, to persuade manufacturers and suppliers to take direct risks on Russian banks. In most cases neither foreign banks, nor foreign exporters are interested in maintaining strained relations (because the latter mean only economic losses for both sides involved). It is necessary to create some sort of a club or an association of trade financing which would unite the representatives of all (or nearly all) Russian banks.

One of the most important methods for minimizing the negative effects from the economic sanctions on the economy and, particularly on trade financing in the Russian Federation, is partial abandonment of the US dollar in operations and transition to settlements in national currencies. The second method is to develop the national payment system as an alternative.

7. Under the conditions of economic sanctions Russia has to reconsider its choice of partners when it comes to foreign economic activity. These days economic cooperation is always being discussed in combination with foreign policy issues, security issues etc. All these issues are often actively discussed at the summits of the BRICS and SCO (Shanghai Cooperation Organization). Among the BRICS members, as of today, India seems to be quite a promising partner for Russia in foreign trade and economic cooperation overall.

8. Currently, state support of foreign economic relations is carried out via the institutions that are somewhat new for Russia. In particular, insurance of export credits and investments provided by the Export Insurance Agency of Russia (EXIAR) is introduced into business practice.

9. Reasonability of the proposed changes is caused by the need to increase Russian non-raw material exports, which becomes an especially acute issue in the context of economic sanctions. Thus, despite all the difficulties of the current economic situation, Russia's choice to still participate in the global competition and be present at open markets globalwide is irreversible.

In order to support Russian manufacturers in their ambition and competitiveness growth, it is necessary to develop both financial and non-financial mechanisms so that to stimulate exports, primarily those of non-raw material nature. For this purpose it is necessary to use such tools as provision and insurance of export credits, subsidization of interest rates, insurance of business and political risks and provision of state loans and state guarantees.

10. Finally, it is necessary to further improve the system of state and legislative support for all types of Russian exports. The Government of the Russian Federation is undertaking

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significant efforts, which already have led to the expansion of foreign economic relations with a range of promising economic partners, in Asia in particular.

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## THAI LABOR REQUIREMENTS AND DEVELOPING ENGLISH COMMUNICATION SKILLS IN RANONG PROVINCE

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*This research aims to study the content requirements when it comes to improvement of English communication skills of Thai laborers who are preparing to enter the labor market in Ranong province, Thailand. This study is a qualitative research since the researchers have used in-depth interviews as the key research instrument and have also applied the triangulation method to check for data validity. The key informants were 20 people including the unemployed Thais and also local university students. The skills in question have been divided into four rather traditional categories:*



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*listening, speaking, reading and writing skills. The research outcomes demonstrate that firstly, most of the unemployed Thai laborers would like to improve their listening skills so that to be able to follow basic instructions and orders at work. Secondly, regarding the speaking skills, most of the informants would like to improve their job interviewing skill. Thirdly, most of Thai laborers would like to develop their reading skill, their key motivation being to read job advertisements. And also - to be able to fill in job application forms is what most of Thai laborers would like to learn. Overall, Thai workers fully admit they are having difficulties in using all four types of skills. However, our research findings also reveals that Thai workers have serious troubles with the speaking skills, mostly because of the wrong usage of English grammar.*

*The authors of this study would like to recommend both public and private organizations in Ranong area to become more aware of the English communication skill problem of the local Thai workers. The results of this study should be used as a guideline in promoting and developing the programs aimed at improving English communication skills of the current and prospective Thai workers in the province in question.*

**Keywords:** Thai labor requirements, English communication skills; reading; writing; listening; speaking; Ranong province; Thailand.

## Introduction

In the globalization era, it is highly important for the firms to truly leverage on the workforce as a competitive weapon since accumulation of human capital today is probably the most important contributor to economic growth at any level of management (Son, 2010). Strategies aimed at improving workforce productivity and thus driving higher value for the firms has become in focus as well. Firms seek to optimize their workforce through comprehensive human capital development programs so that not only achieve business goals but also guarantee themselves long-term survival and sustainability. To accomplish this undertaking, firms need to invest resources to ensure their employees have sufficient knowledge, skills, and competencies they need to work effectively in a rapidly changing and complex environment (Marimuthu et al., 2009).

In 2015, Thailand has entered the ASEAN community, thus, the use of English language has gained an important role as a medium required for professional advancement as well as a tool to help businesses function more effectively regionwide (Hiranburana, 2017). It is important for the whole of Thai workforce to improve their English communication skills so that they can utilize them in their careers, thus upbuilding and strengthening their own human capital. In particular, many provinces in Thailand have become the investment and tourism destinations for many foreigners, and Ranong is one of these provinces. Ranong is a beautiful province located in the Southern part of Thailand. It has abundant natural resources and it is especially famous for its natural mineral water.

The vision of Ranong is "To be the center of international transportation on the Andaman coast and to be a city of health tourism and livable environment (Provincial Community Development Office of Ranong, 2010). Thus, Ranong is an emerging city which is strategically located, thus, there are lots of job opportunities available for Thai workforce with various skills and qualifications.

However, as it was reported in the first quarter of 2017, the unemployment rate in Ranong area was 0.36% which is an increase from the level of 0.28% as of the fourth quarter of 2016 (Ranong Province Labour Office, 2017). One of the reasons why Thai labor unemployment rate has increased is the replacement by migrant workers. This partially

happened because migrant workers are often alright with cheaper labor wages but also because they usually have much better English skills as compared to the local/Thai workforce.

Under such circumstances in the province, English has been gaining the increasing importance for the Thai workplace. This has become the key reason why we have decided to conduct this research study on Thai labor requirements when it comes to developing English communication skills in Ranong province. We have been expecting to obtain useful information on the development of the local human capital through the development of English language skills among the local population. We are convinced this would be beneficial for the whole social group of Thai laborers in Ranong Province (and Thailand as a whole).

Thus, this research aims to study the content requirements to improvement of English communication skills among Thai laborers who are preparing to enter the labor market in Ranong Province, Thailand.

## **Literature review**

### ***Human capital theory and concepts***

Human capital refers to the know-how, capabilities, skills and expertise of members belonging to an organization (Dzinkowski, 2000). According to the World Bank (1995), human capital can be defined as the skills that are inherent in a person or part of a workforce derived from improving health, nutrition, education and training while the other part comes from the experience that people use to increase the level of productivity in products and services. Back in 1960, Gary Becker, the Nobel Prize winner for Economics, pioneered the debate about human capital, in this debate he was stemming from the macroeconomic theory. He claimed that education and training are the most important investments when it comes to the development of human capital. Becker's vision on human capital growth is that it leads to the quality of products and services which can be divided into three main components as follows:

- 1) an investment in employee's skills and knowledge development has proven to increase productivity over cost;
- 2) organization should invest in employees' specific skills and knowledge development while employees should improve general skills on their own;
- 3) organization needs to protect human capital from being transferred to another company.

In order to maximize both employee and organizational performance, the human capital theory also explains the positive relationship between human resource practice and human resources retention.

Human capital theory continues with the idea that human resources can be divided into quantitative and qualitative ones. In its quantitative aspect, human capital concerns the amount of population and/or the number of working hours while knowledge, skills, and other factors affecting human productivity are considered to belong to the qualitative part. Quality of human resources can be enhanced by investing in individuals which, in its turn, would

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lead to the improved capability to earn more and to increase productivity rate at the same time.

Human capital theory explains how to decide how much capital needs to be invested in people for the purposes of maximizing the return on investment. Moreover, this theoretical concept considers "human as one type of capital" but the difference is that human capital is in the "abstract" form because skills and knowledge are indivisible and inseparable from their "owner". Training is therefore the key cause of any significant changes in human capital (Kiranantha, 1976).

### ***English language skill theory and concepts***

According to (Sangngern, 2008) and quite many other authors, all English language skills can be divided into: listening, speaking, reading, and writing. Any individual can develop the mentioned skills through learning and practice while the level of communication ability could be divided into 5 levels:

Level 1 - a person is able to speak, write, read and listen to English at an elementary level and can basically communicate in English;

Level 2 - the Level 1 skills and also a person is able to speak, write, read and listen to English and is able to understand the key essence of the content.

Level 3 - Level 2 skills and also a person is able to use English in communication and within their workplace using grammatically correct word combinations;

Level 4 - Level 3 skills and also a person is able to understand and use English idioms in various situations while all word constructions are both grammatically and substantively correct.

Level 5 - Level 4 skills + the person has enough skills and proficiency to use profound English which sounds close to native speakers. Communication is fluent and also specific and technical vocabulary are easily applied when it comes to a specialized field.

According to (Thatthong, 2004), the combination of language skills that learners need in the process of studying are speaking and writing, while they should use reading and listening as the channels of communication. Therefore, communication can be integrated in three ways as follows: 1) integration of speaking a language with listening and reading skills; 2) integration of writing with listening and reading skills; and 3) integration of speaking and writing with various forms of communication. This clearly shows that language integration happens only when integration takes place between listening, speaking, and reading. The focus is, however, on the thinking process that occurs to the learner while performing various related activities and understanding things that he/she is learning.

### **Methodology**

This study is a qualitative research since the researchers have used the method of in-depth interviews as a research instrument. Other research details have been as follows:

1. The area of study has covered the territory of Ranong city, Thailand.

2. Our key informants have been 20 people, they have been divided into 2 groups: 10 unemployed people and then also 10 high-school students and university students. The researchers have been applying the method of purposive sampling and eventually have come to the conclusion that high-school level as the minimum qualification needed for participation in such interviews.



3. Research instruments have been applied in the following order: 1) first, we have reviewed all related theories, concepts and principles; 2) then determined the objectives of this research; 3) identified the most topical issues and formulated the interview questions so that to cover both the scope of this research study and the most topical issues for future interviewees; 4) later we reviewed the interview questions following the recommendations put forward by the experts in the related fields.

The interview questions were all open-ended questions that can be divided into two parts.

Part 1: general information on the key informants including age, gender, income, education level, working experience, and the period of unemployment.

Part 2: questions concerning Thai labor requirements in the context of developing English communication skills necessary as part of preparation to enter the local labor market.

4. Data collection has been carried out through the following steps: 1) studying the related documentary research; 2) interviews carried out using the in-depth interview method. All data was collected during November 2017.

5. Data analysis processes were as follows: 1) basic data analysis has been done straight after the actual data collection; 2) then we reviewed the interview results from the recordings so that to single out the most important data that is directly related to the objectives of our study; 3) finally, all results have been categorized into the groups.

6. The researchers apply the triangulation method to check data using the same interview questions with the key informants but from different sources this time and then compared that data obtained. For example, we have carried out data comparison between the students from different schools as well as compared the data provided by the unemployed workers and university students to confirm accuracy and reliability of the data. At this, our intention was to verify whether all collected information is correct.

7. Protection of the key informants' rights and the researchers' roles. The researchers did their best to pay attention to the research ethics since the very beginning of this study. More specifically, the following actions have been taken: 1) the researchers introduced themselves to the respondents and then declared clearly the purposes of their research; 2) the researchers asked explicitly for collaboration on the interviewees' side and also requested individual permissions to record the whole process of interviewing; 3) The researchers have never used (and have no plans to do so in the future) the data obtained in the course of these interviews for the wrong propose. No information provided by the interviewees had negative or damaging effects on the contributors. If, at any point of time, the data providers felt it was not convenient for them to answer any of the questions included into our in-depth interviews - they were able to decline to answer.

## **Results**

The findings of this study have helped us reveal the key content requirements when it comes to improving the English communication skills of Thai laborers and also students who are preparing to (re)enter the labor market in Ranong Province. We have decided to categorize 4 groups of skills as follows:



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### *English listening skills:*

The key informants state that the problems with English listening skills they are facing concern difficulties with poor vocabulary mostly as they do not know many words and technical terminology especially which would have been handy for nearly any potential workplace. This leads to a significant communication struggle. Several quotes as examples: "I do not understand what they [employers] say because I do not know the meaning of the words" (Mr. A, 14 November 2017); "I have little knowledge of vocabulary at work" (Mr. R, 14 November 2017).

Another problem often mentioned by Thai laborers is the accent of the speaker. For example: "I have hard time when I have to work with a lot of foreigners because they have different pronunciation" (Ms. J, 15 November 2017).

The major problem about poor English listening skills of Thai workers is that listening is often required to get at least the basic instruction and orders at work, and this would be impossible without basic listening skill. All interviewed workers are fully aware of the fact that following the instructions and orders at work is highly important. For instance: "I want to learn about how to get the work done more effectively" (Ms. D, 14 November 2017) or "I think it is very important to understand what the boss says to me and what he tells me to do" (Ms. S, 14 November 2017).

### *English speaking skills:*

The key informants mention that the problems with English speaking skills they confront come mostly from the wrong usage of grammar. Our interviewees often do not know how to construct sentences and how to use English grammar. For example: "I always cannot convey my intentions very well because I am not sure how to create a sentence" (Ms. A, 15 November 2017) and "I am very confused how to use English tenses" (Mr. J, 14 November 2017).

Another problem several times mentioned by Thai workers in the interviews is that they do not have enough confidence in speaking English. For example: "I am too shy to speak English because I am afraid that people will make fun of me" (Ms. B, 15 November 2017).

When it comes to speaking what Thai workers need to learn first and foremost is basic job interviewing skills, at least answering the most typical questions which might occur during a job interview. Some of them mention directly that being able to speak up during a job interview is a promising beginning of a career. For instance: "Ranong nowadays has many jobs that require you to speak English and I think when you already get employed you can always improve your skills then but the problem is you have to do well when you are applying for a job" (Ms. S, 14 November 2017).

### *English reading skills:*

The key informants explain that their problems with English reading skills concern the aspect of interpretation mostly. They claim that English language has a different way to interpret the message as compared to Thai language. For example: "Reading is very difficult for me because it is easy to get things wrong and I usually do not know what is the main idea or an important message" (Ms. D, 14 November 2017) and "Thai language is less complicated in terms of interpretation" (Mr. R, 14 November 2017).

Another problem that Thai workers mention is about grammar and vocabulary difficulties while reading. For example: “I search the meaning of the words in dictionary” (Ms. K, 15 November 2017) and “If the sentence is too long and complicated, I cannot understand at all. Especially if it concerns very important things, like legal issues. Then I am so stressed” (Ms. J, 15 November 2017).

English reading skills are so needed for Thai workers because this is the only to read job advertisements with the most promising work offers. Poor reading skills also do not let them fully understand what are the initial employers’ requirements to job applicants. For instance: “It would be great if I knew in advance that my qualifications match the job” (Ms. S, 14 November 2017) and “I need to know what they need from me to prepare before applying for the job” (Mr. O, 14 November 2017).

#### *English writing skills:*

The key informants reveal that the major problems with English writing skills are related to grammar, vocabulary, and spelling. For example: “I am not sure I write correctly in terms of grammar” (Ms. B, 15 November 2017) and “I always spell the words in a wrong way” (Ms. S, 14 November 2017).

Writing in English is vital for Thai workers because sooner or later they all would need to fill out a job application form. For instance: “I have problems when I have to fill out application form so I always ask for help” (Mr. R, 14 November 2017) and “I can fill out only my basic information other than that I cannot do well” (Mr. A, 14 November 2017).

### **Conclusions and Discussion**

The findings of this study demonstrate that overall, Thai workers are fully aware they are having difficulties with all four skills. The research findings reveal that Thai workers have most of the trouble with speaking and mostly because of the wrong usage of English grammar. This is very similar to what was concluded in (Low, 2014) who also noted that majority of frontdesk employees in the hotel industry of Pattaya Province have English speaking difficulties due to grammatical errors.

As for the listening skills, Thai workers have problems with understanding different accents in English. This was also mentioned as a frequent problem in the research findings of (Hiranburana, 2017) who studied how English is used in Thai workplaces. Additionally, we can also refer to the study of (Ayuwat and Tanee, 2005) who mentioned that 91.5% of the organizations in the Northeast of Thailand want their employees to improve English language skills and first of all they need their hires to be able to speak and listen.

The content requirements when it comes to improvement of English communication skills of Thai laborers in Ranong region may be different, depending on a particular set of skills they need to develop for a specific profession and/or job position. This is fully consistent with the study presented by Yongyingprasert (2016) who also noted that English communication and performance of the employees within the automotive service business at the operational level is closely associated and differentiated depending on a type of work operations. This difference is quite large between supervisors and workers, and also among workers themselves.

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Overall, we can sum up that English skills' improvement should focus on all the aspects of speaking, reading, writing and listening since all four categories of language skills will eventually have only positive impact on the quality of work (Ninaroon, 2014).

### Suggestions

Both public and private organizations in Ranong Province could find the outcomes of this study useful. They may also choose to adjust our conclusions and recommendations per their specific plans of recruiting and labor development.

The results of this study could be used as a guideline when promoting English proficiency among Thai laborers and students; and also when developing the state/regional programs aimed at improving English communication skills of the local labor force.

Our suggestions for immediate implementation would be as follows:

1. The Government sector in Ranong Province should recognize the importance of Thai workforce for the economic development of the region and thus - also recognizing that their problems with English language communications would inevitably have its negative impact on the whole region. Thus, the public sector should develop and provide various training programs to help local people prepare for the job market. This can become an additional competitive advantage of the whole province and also of the Thai laborers when it comes to competition with migrants over job vacancies.

2. Private organizations in Ranong should also understand the difficulties with using English language by Thai laborers. To the extent possible, the local private sector should provide more opportunities to improve the language skills when they hire people. Businesses need to keep in mind that knowing English, in many cases, is the basis for human capital development in general.

3. Schools and universities in Ranong Province should prepare their students to have proper English skills. English-for-work courses should be developed and introduced into the curriculum of both schools and universities.

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## THE ROLE OF TEACHER IMMEDIACY AS A MOTIVATIONAL FACTOR IN STUDENT LEARNING

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*This research uses the structural equation modeling (SEM) analysis to find the correlation between the variables of Teaching effectiveness, Teacher behavior and affective learning and that of Student motivation in learning, Teacher immediacy and learning outcomes and Student learning outcomes. A model is built so that to confirm that teachers produce the intermediate influence and also motivate the learning outcomes, cognitive ones especially. Data obtained here in the course of survey proves to be consistent with our initial model. The results show that the immediate teachers' function is to be the means of increasing students' motivation to learn, and that such motivation, in its turn, increases students' cognitive abilities.*

**Keywords:** teachers' immediacy; student motivation; teaching effectiveness; teacher behavior

### Introduction

This research reconsiders the impact of teachers' immediacy on learning outcomes from the activities in the classroom. Mehrabian (1969, 1981) viewed immediacy as a set of behaviors creating a perception of physical or psychological closeness between communicators. Immediacy behavior bridges the psychological distance between the two sides. Mehrabian's original emphasis was on non-verbal immediacy, but later on this author also developed a taxonomy of verbal components as well (Wiener and Mehrabian, 1968). While there seems to be little controversy about the measurement or incidence of behavioral



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non-verbal elements, validity of verbal operations remains to be a rather controversial issue (Hess and Smythe, 2001).

In today's schools globalwide, students are not given enough opportunities to explore, interact with peers, or use their own creativity to learn. The focus is often on testing and text results, while activities and learning experiences that are likely to excite students are often being excluded as such (Carey, 2008). When failing to take into account students' motivation and engagement in the learning process, teachers also fail to engage students who are most likely to drop out of school as such. This may explain why national assessments of student performance during the past decade tends to reveal quite moderate improvements in terms of basic skills and show students' poor performances in tests that require critical thinking and problem-solving skills, namely, formulating hypotheses, making inferences, and drawing conclusions (Riley, 1999). Several studies have investigated the relationships between teacher immediacy and student learning. However, most of them only involved university students only. For example, Richmond et al. (1990) investigated students' perceptions of non-verbal teacher behaviors associated with cognitive learning.

### **Literature review**

Applications of the notion "immediacy" in educational settings introduced the idea that a teacher, through the use of certain cues, could reduce the perceived distance between instructor and learners and thereby influence classroom outcomes in general, especially student learning results. The classroom provides a setting in which communication acts transpire. An important element of the instructional setting is interaction between the instructor and the students. Various demographic factors have been shown to contribute to the nature of this interaction in classrooms. Researchers have used meta-analyses to examine classroom variables such as gender and race (Cooper and Allen, 1998) of both students and instructors. The research use of the structural equation modeling (SEM) in examining immediacy is justifiable as a means of evaluating a relatively simple set of behaviors that a teacher can modify. Le Blanc (1997) mentioned appropriate curriculum materials, competent and dedicated teachers when discussing the importance of motivating students to learn in relation to the working conditions that are necessary for effective teaching and learning to occur.

Christopher (1995) proposed that teachers' immediacy behavior impacts students' motivation to study, which in turn impacts student learning. Christopher (1995) examined the students' traits that are motivating them to study. They found that teacher immediacy (both verbal and non-verbal) was positively associated with students' motivation to study, with state motivation being more highly related to the immediacy than trait motivation. Therefore, they concluded that immediacy had to first modify state motivation to study in order to impact learning. The same author also found the non-verbal immediacy to be positively associated with state motivation to study, affective learning, and perceived cognitive learning.

### ***Student learning outcomes (SLO)***

Student learning outcomes should be understood, first of all, as observable or measurable behaviors that the students are expected to demonstrate as a result of taking a course. Student learning outcome (or SLO) is also a statement that specifies in detail what

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students will know, be able to do or be able to demonstrate once they complete or participate in a program/activity/course/project. These outcomes are usually expressed as knowledge, skills, attitudes or values. SLOs specify an action by the student that must be observed, measurable and/or demonstrated. Ultimately, SLOs are expected to provide students with a roadmap of where exactly various learning opportunities are available throughout the course of learning/teaching.

The first level of learning outcomes can be labeled as “receiving”. It refers to learners’ readiness to focus their attention on a particular issue. In order to advance further, a learner must be aware of it, attend something or become attached to something within the learning environment. When “receiving,” learners are discovering new concepts from their environment and are showing a willingness to learn more details about them.

The second level, “responding,” refers to showing some sort of commitment to an idea by reacting to or actively responding to the information that has been received. Learning outcomes at this level may cover mostly the responses of acquiescence/compliance (the student reads assigned materials), the willingness to provide a response (the student shows his/her interest).

At the third level, “valuing,” affective learning occurs when a learner shows definitive involvement in or a commitment to a particular object, phenomenon, or behavior. Valuing is based on the internalization of a set of specific values or attitudes, where clues to these values are expressed in the learner’s stable overt behavior.

### ***Teaching effectiveness (TE)***

According to McCroskey et al. (2002), teaching effectiveness does not only lie in subject content and knowledge, it also addresses how effective the communication is for the audience. Moore and Kuol (2007) reported the following: “Throughout most of the commentaries on what constitutes good teaching, an ability and a willingness to communicate effectively appears to be the most commonly cited factor ... both by teacher and student groups”. Teaching effectiveness is important because effective teaching helps student learning. It has become even more important as the emphasis on quality in higher education has increased. Effective teaching does not occur by chance. Effective teachers become better when they themselves change the instructional practices of teaching. Thus, the first hypotheses can be formulated as follows:

H1: Teaching effectiveness has a positive effect on student learning outcomes.

### ***Teacher immediacy behavior and affective learning (TIBAL)***

Affective learning has been described as learning from focusing on a positive or negative attitude a student develops towards the subject or the teacher (Christopher, 1990). Student affective learning is comprised of student attitudes that include concerns about the course, its content, and the instructor. Gigliotti (1987) reported that students have expectations about instructor communication behaviors such as the use of examples, organization of the course overall, the ability to answer questions in a simple and understandable manner, the clarity of new ideas, and the instructor’s speaking ability etc. Gigliotti (1987) suggested that if these communication behavior expectations are met, then students experience a greater desire to learn. The second hypotheses can be formulated as follows:

H2: Teacher immediacy behaviors have a positive effect on student learning outcomes.

### ***Student motivation in learning (SML)***

In the area of learning, motivation is recognized as a necessity due to its support of a lifelong interest in learning (National Research Council, 2000). Student motivation in learning is of particular interest to researchers because of its relationship to student attitude, cognitive engagement, and academic achievement (Evans, 2004). Theo Broad (2004) indicated that the intricate task of stimulating students' desire to learn is one of the most significant challenges for educators in the 21st century. Many educators are frustrated and want to give up because they do not understand why students are unmotivated and do not want to learn at all. The third hypotheses can be formulated as follows:

H3: Student motivation in learning has a positive effect on student learning outcomes.

### ***Teacher immediacy and learning outcomes (TILO)***

The efficacy of non-verbal immediacy behavior is based on a reinforcement paradigm underlying the attraction theory (Mehrabian, 1990). Stated simply, persons approach those stimuli that provide rewards and are passive or avoid those stimuli that are not rewarding or on the opposite - are punishing them. The immediacy behavior that a teacher is displaying in communicative acts and interactions with students, therefore, can be seen as rewarding. It follows that these rewarding behaviors may serve as reinforcement increasing affective, cognitive, and behavioral learning of students. Increasing the willingness of students to approach and engage in educational tasks is critical for the learning process overall. The fourth hypotheses can be formulated as follows:

H4: Teacher immediacy has a positive effect on student learning outcomes.

## **Research model**

The proposed model acknowledges the previous research examining the relationship between immediacy and students' affect or motivation to learn (Christopher and Gorham, 1995). Consistent with Mehrabian's (1981) original conceptualization of immediacy, the impact of teacher immediacy is determined by students' perception and interpretation of such behavior. The contribution of the communicator in this setting involves the examination of what role of the instructor contributes to the dynamic relationship between the teacher and the learner. Higher levels of immediacy would contribute to a positive reinforcement that creates a motivation for the students to interact with the teacher and also creates the sense of reward or positive valence. The likely result of high immediacy is the increased desire of the students to perform the role of the active learner in the classroom.

## **Methodology**

### ***Data analysis***

This study uses the exploratory factor analysis (EFA) and confirmatory factor analyses (CFA) along with the structural equation models (SEM) to test the hypotheses formulated above. SEM is clear and testable, thus, competing models can be analyzed, synthesized and understood and, their effect, whether direct, indirect or both, can be investigated (Schumacker and Lomax, 2010).

***Reliability and validity.*** The internal consistency of the questionnaire was determined through calculating the Cronbach's alpha coefficients using stepwise reliability analysis.



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Internally inconsistent items were sequentially deleted, therefore, maximizing the scale's reliability at 0.70 (Sekaran and Bougie, 2010: 325). The Cronbach coefficient alphas were at the acceptable level (exceeding 0.7), thus implying that measurement instruments were fairly reliable.

### *Description of the survey sample*

The sample of 127 students and 24 teachers was drawn, using the systematic sampling method. The respondents who fully completed their questionnaires during the group administration process were taken as the sample. Finally, the valid samples were analyzed.

### *Confirmatory factor analysis (CFA)*

The correlation coefficient between the components with accompanying standard deviation (Tab. 1) shows us these coefficients are less than 1 (with statistical significance). Therefore, the components: Teaching Effectiveness (TE), Student motivation in learning (SML), Teacher Immediacy Behaviors and Affective Learning (TIBAL), Teacher immediacy and learning outcomes (TILO) are worth distinguishing.

Table 1 - Results of testing the components  
(Source: authors' calculations)

Correlation			R	S.E.	C.R.	P-value
TE	<-->	TIBAL	.944	.155	6.071	***
TE	<-->	TILO	.738	.134	5.487	***
SML	<-->	TIBAL	.750	.149	5.030	***
SML	<-->	TILO	.688	.135	5.087	***
TIBAL	<-->	TILO	1.006	.164	6.135	***
TE	<-->	SML	.563	.122	4.616	***

The linear structural analysis shows that the model's chi-squared statistics is 120.030 with 71 degrees of freedom and the value of  $p = 0000$ . Chi-squared relative degrees of freedom according to  $C_{min}/df$  was 1.691 ( $< 2$ ). Other indicators demonstrated the following results: TLI = 0.949 ( $> 0.9$ ), GFI = 0.923 ( $> 0.9$ ), CFI = 0.949 ( $> 0.9$ ) and RMSEA= 0.059 ( $< 0.08$ ). Therefore, this model fits the data collected. This also allows us drawing individual judgments about the direction of the observed variables. As for the values' convergence, the standardized weights of the scales are  $> 0.5$  with statistical significance being  $p < 0.05$ , so the scale achieved the convergence value.

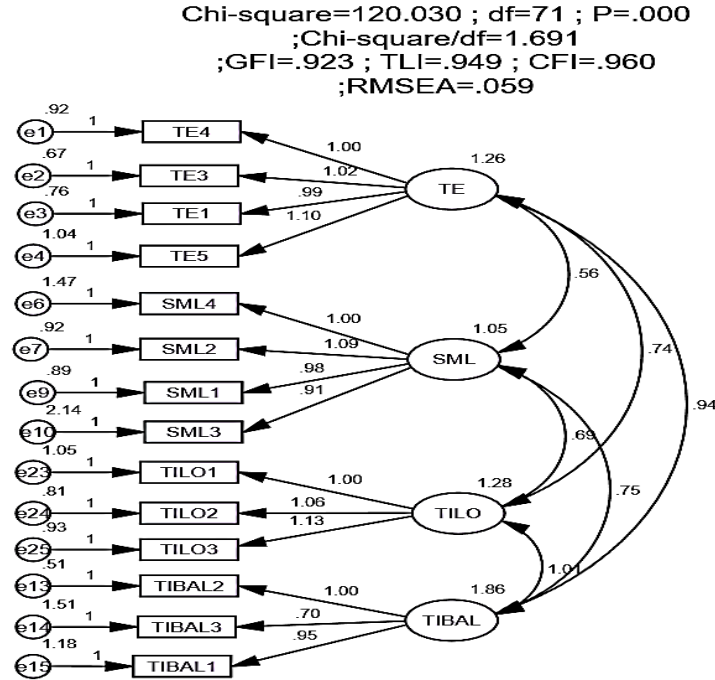


Figure 1- Results of the CFA scale for student learning outcomes  
(Source: authors' own construction)

### Structural Equation Modeling Results

This table shows the results of the suitability test for both structure - teacher immediacy behaviors and student learning outcomes. Structural modeling here results in two sets of data. The appropriate model indices, Chi-square ( $X^2$ ), were used in this study to examine the relationships among the variables in the model (Hair et al., 2006). AMOS output as presented in Tab. 2 shows that the models are equipped with good data, thus, the proposed model is appropriate in explaining the relationship between the variables.

Table 2 - Results of the AMOS analyses for the resultant models, author's synthesis

Model	Goodness of fit measures									
	$X^2$	Df	p	$X^2/df$ (CMIN/DF)	RMSEA	NFI	RFI	IFI	TLI	CFI
Sample	168.741	107	0.0	1.577	.054	.901	.926	.967	.950	.961
Criteria	$P > .05$	$\geq 0$	-	2 to 3	$< .08$	$> .90$	$> .90$	$> .90$	$> .90$	$> .90$

Legend:  $X^2$  = Chi-square test, Df = Degrees of freedom, RMSEA = Root mean square error of approximation, NFI = Normed Fit Index, RFI = Relative Fit Index, IFI = Incremental Fit Index, TLI = Tucker-Lewis Index, CFI = Comparative Fit Index.

The results show that this model's chi-squared statistics are 168.741 with 107 degrees of freedom ( $p = 0.000$ ). Chi-squared relative degrees of freedom according to CMIN/DF was 1.577 ( $< 2$ ). Other indicators are: GLI = 0.914 ( $> 0.9$ ), TLI = 0.950 ( $> 0.9$ ), CFI = 0.961 ( $> 0.9$ ) and RMSEA = 0.054 ( $< 0.08$ ).

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Therefore, this model achieved the compatibility with the data already collected. The factors include: Teaching effectiveness (TE) (ES = 0.273; P = 0.012); Student motivation in learning (SML) (ES = 0.481; P = 0.000), Teacher immediacy and learning outcomes (TILO) (ES = 0.188; P = 0.022) and Teacher immediacy behaviors and affective learning (TIBAL) (ES = 0.125; P = 0.000), they all had the P values <0.05 and the estimated values are normalized.

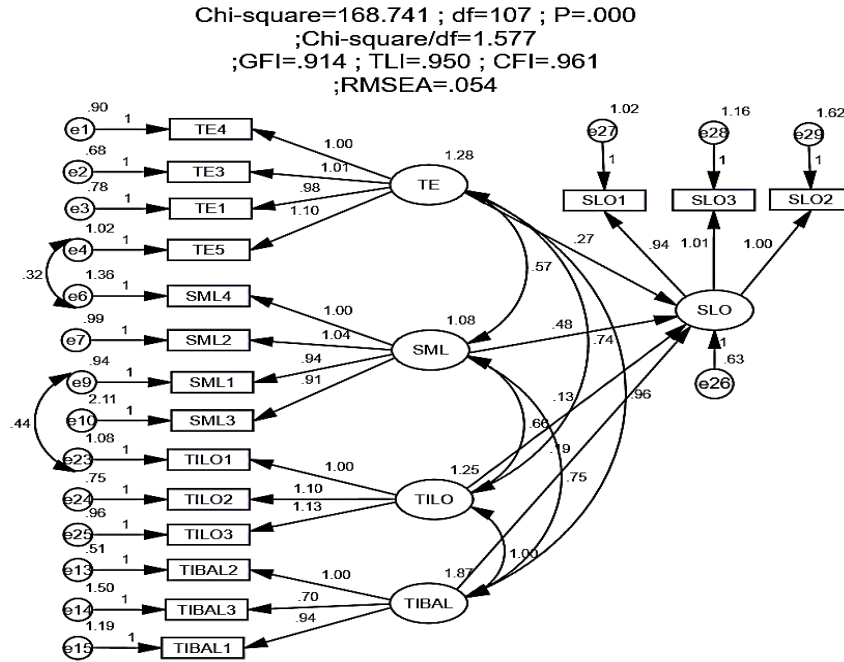


Figure 2 - SEM Results  
(Source: authors' own construction)

Table 3 - Results of estimating the causal relationships between the elements of student learning outcomes  
(Source: author's own calculations)

	Relations		Estimate	S.E.	C.R.	P	Label
SLO	<---	TE	.273	.108	2.515	.012	Yes
SLO	<---	SML	.481	.124	3.873	***	Yes
SLO	<---	TELO	.125	.121	1.036	.000	Yes
SLO	<---	TIBAL	.188	.101	1.868	.022	Yes

### *Testing the reliability of estimates by Bootstrap*

Bootstrap method is often used to test the model estimates. In our case, the model has the pattern repeat of N = 1000. The estimation results from 1000 samples are averaged together with the deviations and are presented in Table 4. CR has a very small absolute value, it can be said that the deviation is very small, while not statistically significant at the 95% confidence level. Thus, we can conclude that the model estimates can be trusted.

Therefore, we can conclude that the model estimates for the student learning outcomes can be trusted. Teaching effectiveness ( $H_1$ ), Student motivation in learning ( $H_2$ ), Teacher immediacy and learning outcomes ( $H_3$ ), Teacher immediacy behaviors and affective learning ( $H_4$ ), all have positive relationship with the student learning outcomes. Thus, all our hypotheses are accepted theoretically.

Table 4 - Results estimated by bootstrap with N = 1000  
(Source: Authors' own synthesis)

Estimated standard					Estimated bootstrap with N=1000				
Parameter		Estimate	SE	SE-SE	Mean	Bias	SE-Bias	CR	
SLO	<--	TE	.273	.118	.003	.273	.001	.004	0.25
SLO	<---	SML	.481	.185	.004	.478	-.003	.006	-0.5
SLO	<---	TELO	.125	.127	.003	.108	-.017	.004	-4.25
SLO	<---	TIBAL	.188	.102	.002	.190	.002	.003	0.67

## Conclusion

### *Results and Discussion*

The research outcome presented above is in line with quite many previous studies since it continues to justify researchers' attention on teacher immediacy as an aspect of classroom behavior that can improve learning outcomes by means of increasing student motivation. Motivation of students is a highly important parameter for many countries globalwide, since college dropout rates are often exceeding 50% (Ehrenberg and Zhang, 2004). And the actions that instructors can take to reduce this rate are a significant factor. The impact on education may not be as obvious as what has been learned in a particular class and in what amount. If the motivation to finish a certain course/program is improved - this will eventually lead to higher graduation rates overall. A dominant model that predicts the rates of dropping out in college education (Tinto, 1975) focuses on the sense of connection that students have (or have not) in relation to the academic environment.

Our findings show a positive effect on the students' motivation to learn of the student learning outcomes ( $ES = 0.481$ ,  $p = 0.000 < 0.05$ ). This result is similar to those presented in most of previous studies (Comstock et al., 1995). The study results also show that the teacher immediate behaviors are affecting the student learning outcomes.

The findings show that the positive effect of teaching effectiveness on student learning outcomes is actually the weakest here ( $ES = 0.125$ ,  $p = 0.000 < 0.05$ ). According to the results we have obtained here, understanding the positive effects by the college/university administrators, professors, and teaching assistants ultimately benefits the students. Immediacy increases the likelihood of student affect for the subject, recall of the material learned, enrollment in similar courses, institutional integration, and degree completion at the end.

Finally, the results show a positive relationship between Teacher immediacy behaviors and affective learning and Teacher immediacy and learning outcomes with the student learning outcomes ( $ES = 0.188$ ,  $p = 0.022 < 0.05$ ) and ( $ES = 0.125$ ,  $p = 0.000 < 0.05$ ) accordingly. This result is very much the same to the research found in Luke LeFebvre et al. (2014). The presence of a positive interpersonal relationship between teachers and students

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influences the development of favorable attitudes towards the learning situation overall (Richmond et al., 1987) and towards the whole institution too (Sweet, 1986). Increased instructor immediacy also boosts student-teacher communication and interaction. If students communicate more actively with their teachers, then they will surely get more information they need (Richmond and McCroskey, 2000).

### *Suggestions for further research*

The key limitation of our research is that the sample was restricted to one school in HCM city only. Therefore, additional studies about teachers' effectiveness in learning conducted for various school groups would be needed so that to determine which factors of student motivation are most appropriate for learning and also so that to promote student learning outcomes as a way of making the whole process of learning more sustainable. Further research could be also carried out on a much larger sample in different schools in other localities and various educational settings so that to validate the findings of this study and also to see whether the measures developed here are statistically reliable and valid across different settings (other education levels, other cities/region/country).

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