European Journal of Economics and Management Sciences

2023, No 5–6

PREMIER Publishing

Vienna
2023

European Journal of Economics and Management Sciences

Scientific journal

2023, No 5–6

ISSN 2310-5690

Proofreading Kristin Theissen
Cover design Andreas Vogel
Additional design Stephan Friedman
Editorial office Premier Publishing Praha 8
Karlín, Lyčkovo nám. 508/7, PSČ 18600
Email: pub@ppublishing.org
Homepage: ppublishing.org

European Journal of Economics and Management Sciences is an international, German/English/Russian language, peer-reviewed journal. The journal is published in electronic form.

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Included to the open access repositories:

The journal has the GIF impact factor .897 for 2021.

Typeset in Berling by Ziegler Buchdruckerei, Linz, Austria.
Printed by Premier Publishing, Vienna, Austria on acid-free paper.

European Journal of Economics and Management Sciences 2023, No 5-6
ISSN 2310-5690

PREMIER Publishing
ppublishing.org

Section 1. Economics and management

DOI:10.29013/EJEMS-23-5.6-3-13

A WESTERN BALKANS REGRESSION ANALYSIS ON RELATIONS BETWEEN ECONOMIC GROWTH, ISO STANDARDS, AND INTELLECTUAL PROPERTY

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Cite: *Dr. Enriko Ceko. (2023). A Western Balkans Regression Analysis on Relations Between Economic Growth, Iso Standards, and Intellectual Property. European Journal of Economics and Management Sciences 2023, No 5-6.* https://doi.org/10.29013/EJEMS-23-5.6-3-13

Abstract

With this paper research, I wanted to demonstrate the significance of connections between economic growth and ISO standards and Intellectual property, which is missing in Western Balkans economies, while issues related to economic growth, quality, quality management, ISO standards, and intellectual property have recently attracted more attention than other topics globally.

The methodology of the research involved collecting data and information about economic growth, ISO standards, and intellectual property for Western Balkan economies, building tables, and handling a regression analysis for these three factors.

The main finding of this study is that there is no strong relationship between economic growth, ISO standards, and Intellectual property in the Western Balkans.

The main conclusion of the study is that economic growth, besides other factors, especially hard factors like labor, land, and capital, should be considered as a pattern for growth using soft factors of production like entrepreneurship and innovation, both of them dependent hardly by intellectual property and ISO standards application, as a way on achieving more competitive advantage, exceeding customer expectations by enhancing the quality of goods and services, as well as protecting unique values of business entities and individuals.

Keywords: *Western Balkans, Economic growth, ISO standards, intellectual property, quality management, quality culture, factors of production*

Western Balkans economy

The current geopolitical environment presents the Western Balkans with unparalleled problems. This involves the integration of Western Balkan nations into the EU, with significant progress achieved in 2022: the start of EU accession discussions with Albania and North Macedonia in July, and the awarding of EU candidate status to Bosnia and Herzegovina in December. Furthermore,

significant progress on visa liberalization for Kosovo with a definite schedule is a very encouraging step. These measures revive the accession process and provide fresh dynamics to the Western Balkans (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia).

An uncertain external environment continues to be a burden for the Western Balkan economy, putting people's homes, companies, and governments under great stress. The Ukraine-Russia conflict, along with rising oil costs and declining global development, is harming the economies of all six nations. As a result of growing food and energy prices, inflation has reached previously unheard-of levels. The first half of 2022 had stronger economic growth than predicted. Investment and private consumption were the primary drivers of growth. Rising incomes, remittances, and private credit expansion have supported private spending. There was a lot of investment in North Macedonia, Serbia, and Bosnia and Herzegovina.

Building on the successes of 2021, certain nations saw employment levels reach all-time highs by mid-2022. Since mid-2021, all nations' employment rates have increased by 3 percentage points. The labor market rebounded across all industries, although services, notably tourism, contributed significantly. By mid-2022, the Western Balkans' unemployment rate had dropped to a record-low 13.5 percent, with 151,000 fewer people out of work. While poverty continues to fall in 2022, the future of poverty reduction is jeopardized owing to rapidly rising inflation.

Without government support, the severity of the energy and food price shocks might raise the number of underprivileged people in the region by 13%. The rises in energy and food costs have offset the increase in revenue brought on by high inflation and precluded budgetary retrenchment. Increased nominal revenue has been facilitated by excessive inflation, particularly for indirect taxes like the VAT. On the other hand, state expenditure has substantially grown as a result of the government's responses to the oil crisis and rising inflation.

A convergence of supply- and demand-side factors caused the inflation rate in the Western Balkans to soar throughout 2022. All Western Balkan nations expect inflation to stay in double digits in 2022, with Albania being the lone outlier. Food costs rose by up to 25% in North Macedonia, Montenegro, and Bosnia and Herzegovina. Even while increases in commodity prices have historically been the primary drivers of inflation, price pressures are spreading more widely.

Although the banking industry has remained steady, it will unavoidably be put to the test if GDP growth slows and inflation rises. Non-performing loans are still falling (at 4.4 percent on average in March 2022) and the banking sector in the area has not been directly impacted by the conflict in Ukraine. However, tighter global financial conditions, a downturn in both local and global demand, and a decline in corporate and consumer confidence will surely affect the region's financial industry.

The region's export boom has begun to slow down, and rising food and energy costs have caused imports to rise sharply, resulting in bigger current account deficits. Deficits are rising in every Western Balkan country, and in some, like Kosovo, Montenegro, and Serbia, they have hit double digits. It is expected that the region's current account deficit will widen, going from 54.9 percent of GDP in 2021 to 8.7 percent of GDP in 2022. Although the rate of growth has started to slow down, the region's exports of both goods and services have remained strong.

Although growth was quite strong in the first half of 2022, it is clear that another storm is coming to hit the region. A confluence of indirect supply and demand shocks that will keep prices high and erode investor and consumer confidence will likely seriously hinder the region's future. The winter COVID-19 flare-up is still a threat, credit restrictions are tightening, and supply chains globally are still under stress. The growth rate for the Western Balkans has been further decreased (by 0.3 percentage points) to 2.8 percent for 2023.

Short-term policy support for the most vulnerable should be given top priority by governments, who should also ensure that their actions are targeted and restricted in time to minimize financial risks. Reforms that would boost medium-term growth at minimal fiscal cost should be put first by policymakers.

Table 1. *Western Balkans Key Performance Indicators, 2021*

Wb6 Key Economic Indicators (2021)	Real GDP Growth (%)	Consumer Price Inflation	Public Expend. &GDP	Public Revenues (%GDP)	Fiscal Balance (%GDP)	Public Debt (%GDP)	Goods Exports (%GDP)	Trade Balance (%GDP)	Current Account Balance (%GDP)	External Debt (%GDP)	Unemployment Rate (%)
Albania	8.5	2.6	31.6	27	–4.5	74	8.2	–13.3	–7.7	62.7	11.5
B&H	7.5	2	43.3	43	–0.3	37.6	34.1	–12.3	–2.6	65.4	17.4
Kosovo	10.5	3.4	29.3	27.9	–1.3	21.9	9.3	–30.7	–8.3	37.3	18
NRM	4	3.2	37.7	32.3	–5.4	60.8	51.1	–16	–3.5	81.4	15.7
Mntngr	13	2.4	45.9	44	–1.9	86.8	10.6	–19.4	–9.2	214.9	16.6
Serbia	7.4	4	47.4	43.3	–4.1	57.1	38.9	–8.5	–4.4	68.5	11
WB6	8.48	3.3	39.2	36.3	–2.9	56.4	31.8	–12.7	–4.9	88.4	15.03

Source: WB. Western Balkans Regular Economic Report. No.22. Fall 2022

Table 2. *WB Country profiles*

Albania	• Following robust growth in early 2022, GDP is likely to decelerate in the remaining part of the year, as rising inflation affects real disposable income, and a slowdown in the global economy translates into tighter financing conditions and lower foreign demand. • High food and energy inflation have prompted additional government support to households and SMEs, which are already benefitting from regulated electricity prices. This adds to the fiscal pressures. • Medium-term prospects hinge on the global recovery and structural reforms, and the launch of fiscal consolidation. • Poverty is expected to continue declining but the continuation of inflationary pressures will decelerate the recent gains.
Bosnia & Herzegovina	• Robust economic activity continued in the first half of 2022. Nevertheless, employment improved only marginally; unemployment remains elevated and is especially high among youths. • Headline inflation accelerated, fueled by food and transport prices, raising inflation to 12 percent by July 2022. Fiscal revenues benefited from strong growth and inflation, with the deficit expected to reach 1 percent of GDP in 2022, on election year. • Real output growth is expected to decelerate in the second half of 2022 as private consumption slows due to the erosion of real disposable income caused by high inflation, and a deterioration in net exports. • Elections took place on October 2, 2022, potentially setting the scene for a return to much-needed and delayed structural reforms to boost potential growth in the medium term.
Kosovo	• Kosovo's economic growth moderated in early 2022, with activity affected by broad-based price increases. Risks to the outlook remain high as the country continues to grapple with rising inflation pressures. • The price shock will inevitably continue affecting demand and economic activity in 2022, and growth is expected to moderate to 3.1 percent, mainly on account of higher real exports.

Kosovo	• Strong tax revenue collection continues to favor the fiscal position, supported by higher inflation and tax compliance measures. The fiscal deficit is expected to reach 0.8 percent of GDP in 2022, amid significant capital underspending. • In a context of high uncertainty, maintaining buffers to respond to the changing macroeconomic environment, particularly in the context of an ongoing energy crisis, is vital. Over the medium term, it is imperative to advance structural reforms to enhance competitiveness and private sector development in support of the current export growth momentum.
Montenegro	• While still recovering from the pandemic, the economy is facing renewed headwinds. Growth remains very strong, estimated at 6.9 percent in 2022, led by private consumption and tourism recovery. • Inflation surged to new highs, but its adverse impact on the cost of living was largely mitigated by an increase in real disposable income. • The fiscal deficit is estimated to widen to 4.9 percent of GDP in 2022, due to the forgone revenues of the recent tax reform and increased social spending. • High public debt and the deteriorating global environment require near-term fiscal consolidation.
Republic of North Macedonia	• As the war in Ukraine and the energy crisis dim growth prospects, inflation is racing toward an all-time high, disproportionately eroding the real income of the poor. • With limited fiscal space, elevated public debt, and increased cost of financing, fiscal support needs to target the most vulnerable households and firms. At the same time, monetary policy tightening needs to strike a balance between containing inflation and avoiding stifling economic activity. • Disruptions related to the war in Ukraine, overstretched global supply chains, mounting inflationary and wage pressures, and the intensifying energy supply crisis continue to weigh on the outlook and the economic prospects of the country.
Serbia	• Growth continued to be strong in H12022, despite major domestic and external challenges. • Inflation accelerated more rapidly than projected, and in line with developments in the region, reaching 13.2 percent y-o-y in August, driven by food and energy prices. • The fiscal deficit turned lower than anticipated, thanks to a strong performance of revenues, while public debt is around 57% of GDP. • While growth projections over the medium term (2022–2024) remain unchanged, risks to the outlook are tilted to the downside. • The most significant deterioration is expected on the external side, with the CAD widening to around 10% of GDP due to the major increase in imports.

Source: WB. Western Balkans Regular Economic Report No.22. Fall 2022

Factors of production and their relations with ISO standards and intellectual property

In economic sciences, factors of production are divided into four categories: (1) land, labor, and capital in classical theory (Adam Smith, etc.); (2) labor, labor subjects, and labor tools in Marxist theory (Karl Marx, Frederik Engels, etc.); (3) fixed capital, labor capital, and financial capital in neoclassical theory; and (4) environmental economics theory. Many academics have seen innovation as a component of this production factor inside entrepreneurship, but it is presently thought of as a separate factor of production as it is not just a characteristic of entrepreneurs. Since personnel also possess the quality of innovation, topics or organizations must foster such circumstances for innovation to occur.

Even during the pandemic and post-pandemic periods, when the traditional view of factors of production where labor, land, and

capital have been treated as the most important factors almost was over, and discusses how the combination of early factors of production (land, labor, and capital) with modern factors of production (entrepreneurship and technological innovation) made it possible for many entities operating in different sectors of the global economy to succeed, and especially when humans are left unchecked (Malthus, 1798).

Because they are also taken into account in this study, the variables of production that have lately received attention include labor, land, capital, entrepreneurship, and innovation. Economic downturn from 2008 to 2012. Natural catastrophes and pandemic crises, like the most recent one brought on by COVID-19, have demonstrated day by day how important it is to establish a culture of innovation and quality management to gain a competitive edge in a volatile environment.

When we talk about innovation, we immediately consider new combinations that produce improved and/or novel goods and services, novel processing, manufacturing, and assembly techniques, novel market entry strategies, novel resource utilization strategies, novel or enhanced business models, etc. In most cases, this has to do with the enhancement, expansion, and novelty connected to/related to improved effectiveness and efficiency of processes, procedures, rules, orders, products, services, methodologies, methods, tools, technologies, etc., that people involved in the process of innovation, creativity, and quality management bring to the market and offer for economic agents, individuals, families, businesses, and governments. When we talk about innovation, we also talk about creativity, which is something new and beneficial in ideas, creations, and so on. As individual or group activity-based ideas, creativity and innovation are directly linked to intellectual property. This is especially true in the humanities and social sciences, economics and business studies, education, technology and engineering, theory, and philosophy.

A strong culture is required once innovation and creativity are in place. A set of ideals known as "quality culture" provides a guide on how to continuously improve everyday operations and the outcomes, goods, and/or services related to them. All employees, not just quality controllers, are responsible for the organization's or organizations' quality culture.

The current working environment of both public and private organizations around the world has been centered on quality of work, "doing right the first time," through quality management, corrective and preventive actions, and being clear, about the same or similar problematic issues that show up often and/or again, which can be experienced and expressed through (1) individuals development, (2) active respect, and tolerance, (3) responsibility, and (4) entrepreneurship, as main values, bringing finally competitive advantage(s).

In ISO standards, the fundamental principle of quality culture is embodied. The public and commercial sectors worldwide are increasingly interested in and in need of these international quality management standards, particularly for certain of them, to gain a competitive edge internationally. Instead of focusing on the notion of how and why products and services meet consumer expectations, the ISO standards are primarily concerned with management and process quality.

To increase the quality of goods and services daily, businesses adopt managerial functions, specify quality policy, strategic/operational objectives, and responsibilities, and put them into practice via planning, budgeting, leading, inspiring, and controlling.

A quality management system, which is codified in ISO standards, is useful for this.

Key benefits of using standards

According to the Organization of Standards, there are three main types of benefits to using standards:

Key benefit 1: Streamlining internal operations

One important conclusion is that standards may be utilized to speed up internal business operations inside a company, for instance by decreasing the time spent on particular tasks while carrying out different business functions, cutting waste, lowering procurement prices, and boosting productivity. According to the case studies, standards contribute between 0.15 and 5 percent of yearly sales to a company's gross profit.

Key Benefit 2: Innovation and Expansion of Operations

A few case studies give instances where standards have been the foundation for creative business procedures that allow businesses to grow their supplier networks or successfully launch and manage new product lines. In other instances, standards assisted in lowering the risk associated with businesses launching new goods into domestic markets.

Key Benefit 3: Creating or entering new markets

Standards have served as a foundation for the creation of new markets, as well as new local and international markets, as well as for the development of new goods. In extreme circumstances, the influence of standards is much beyond the amount mentioned above, with businesses producing gross profit contributions of up to 33% of their yearly sales, which enabled them to establish themselves as market leaders for at least a while.

Intellectual property

Inventions, literary and creative works, designs, symbols, names, and pictures utilized in business are all examples of intellectual property (IP). IP is legally protected by things like patents, copyrights, and trademarks, which allow people to profit financially or gain notoriety from their inventions. The IP system seeks to provide an environment where creativity and innovation may thrive by striking the correct balance between the interests of inventors and the larger public interest. Intangible works of human creativity are included in the category of property known as intellectual property (IP) (WIPO, 2016).

Different nations recognize different kinds of intellectual property to varying degrees (WIPO, 2021). The most well-known categories include trade secrets, patents, copyrights, and trademarks. In the 17th and 18th centuries, England was where the modern idea of intellectual property first emerged. Although the phrase "intellectual property" first appeared in the 19th century, it wasn't until the late 20th century that it was widely accepted in most of the world's legal systems (Lemley, 2009). Promoting the production of a wide range of intellectual commodities is the primary goal of intellectual property law (Paul & Anthony, 2008). To do this, the law often grants people and corporations temporary property rights to the knowledge and creative products they produce.

This provides an economic incentive for their production by enabling individuals to profit from the knowledge and intellectual products they produce and by enabling them to safeguard their ideas and avoid piracy (Paul, Anthony, 2008). Depending on the level of protection provided to innovators, these economic incentives should encourage innovation and advance technology in nations (UNIDO, 2009).

Economic Growth ISO Standards, and intellectual property

To enable the free interchange of goods and services, standards are necessary. They also aid in reducing the expense of adjustments. Standardization is crucial for the economy's health as well as for everyday living. The state of the art for the standardized object or industry is also informed by the rules created throughout the standardization process. Anyone who adheres to standards is doing so by advice given by global experts. They are acknowledged technical norms because of their history and use.

The free exchange of products and services is made possible by common norms and standards without the need for additional adjustment expenses. Norms promote rationality and ensure high standards in administration, research, technology, and economics. A classic area of industrial strategy is standardization. From an economic standpoint, norms and standards notably promote market freedom and corporate innovation capability. Standardization helps innovations and technological know-how proliferate more swiftly. The competitiveness of businesses is increased.

International Standards are the unseen driving force behind the growth of our economy. Global business leaders look to ISO standards for improved economic performance, monetary stability, and fresh local and foreign sources of development. According to studies released by ISO members, standards were responsible for 28% of the increase in GDP in the Nordic nations and the UK. Another research from France revealed that over 66 percent of businesses (including SMEs) polled said that standards boost their revenues and

that 69 percent believe standardization would benefit their company (Naden, 2021). The importance of preserving intellectual property rights is emphasized by the WIPO treaty and numerous other relevant international accords. Two justifications for intellectual property laws are provided in the WIPO Intellectual Property Handbook. The first is to provide legislative expression to the moral and financial rights of authors in their works as well as the rights of the public to access such works. The second is to actively foster invention, as well as its distribution and implementation, as well as fair commerce, which would support both economic and social growth (WIPO, 2020). According to the Anti-Counterfeiting Trade Agreement (ACTA), "effective enforcement of intellectual property rights is critical to sustaining economic growth across all industries and globally".

According to economists, intangible assets make up two-thirds of the value of big enterprises in the United States (Shapiro, Pham, Blinder, 2007). IP-intensive businesses are predicted to produce 72% higher value-added per employee than non-IP-intensive industries (price minus material cost).

An analysis of the effects of IP systems on six Asian nations conducted jointly by the WIPO and the United Nations University revealed "a positive correlation between the strengthening of the IP system and subsequent economic growth" (WIPO, 2007).

Research framework, the purpose of the case study

The framework of the research has been economic growth, ISO standards, and intellectual property during 2012–2021 in WB6.

This study has been intended to adopt a theory-building mode, aiming to clarify research questions, given the lack of numerical, statistical, and algebraic arguments on relations between economic growth and ISO standards, the lack of numerical, statistical, and algebraic arguments on relations between economic growth and intellectual property, and the lack of numerical, statistical, and algebraic arguments on relations between ISO standards and intellectual property, too (Wróbel, 2019).

1. RQ: There is any relation between economic growth and ISO standards and Intellectual property?

Methodology

In particular, prior empirical research does not explain how economic growth, ISO standards, and intellectual property influence and connect, even though several serious theoretical studies are showing a strong connection between them, but not numerical, statistical, and algebraic studies. This is true even though it acknowledges the importance of economic growth, ISO standards, and intellectual property. As a result, theory development is necessary before analysis, proof, and facts. A case study technique is necessary to thoroughly investigate the phenomena since it enables examination based on theory and statistics findings.

Besides that, differently with the traditional model of assuming about economics, in this research, (1) labor has been considered as it is in reality, not homogeneous, (2) land has been considered as it is in reality, not homogeneous (there are particular kinds of soil or mineral deposits (Robinson, 1953) which influences on production and flow of capital and human resources), (3) it is considered as naturally, all households don't consume goods and services in the same proportions (Robinson, 1953), (4) is taken as normal, and regardless of whether their relative prices change, changes in average incomes and how they are distributed have a major effect because it affects supply and demand for end products (Robinson, 1953), (5) is taken as such because an experienced entrepreneur has an advantage over a young person (Robinson, 1953), (6) is understandable as skills, knowledge and competencies are not evenly distributed and at this point managerial skills are very important and (7) it is understandable that having sufficient capital is not the only employment opportunity (Robinson, 1953). These are the characteristics that bring this search very close to reality.

3.1 Selection of case

Three main criteria have been taken into consideration in this research: (1) a theoretical approach, (2) suitability of relations, (3) practical positive impacts on relations between economic growth and ISO standards, between economic growth and intellectual

property, and between ISO standards and intellectual property.

Based on this, research questions were built. The research question is:

RQ: There is any relation between economic growth and ISO standards and Intellectual property?

Based on these research questions three couples of hypotheses were built:

And based on this research question a couple of hypotheses have been developed.

H00 — There is any relation between economic growth ISO standards, and Intellectual property in WB6?

H01: There is not any relation between economic growth and ISO standards, and intellectual property in WB6?

Collection of data

Data for economic growth – WB reports.

Data for ISO standards — ISO website.

Data for intellectual property — Intellectual property website

In preparing this research, only have from international indexes and websites have been used.

Analysis of data

1. By WB website drowned the WB6 economic growth for the period 2012–2021.

2. From the ISO website drawn the number of ISO certificate issues for the period 2012–2021 for WB6 (Kosovo was not listed).

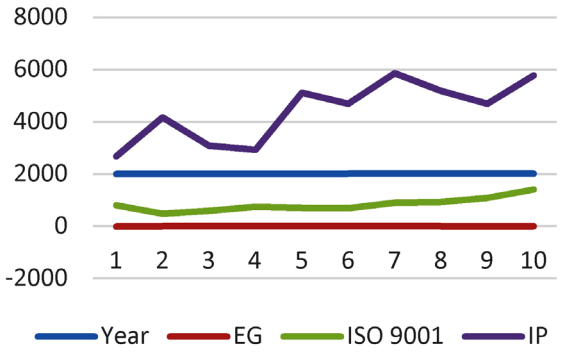
3. From the Intellectual property website, the number of IP issued for WB6 between 2012 and 2021

4. A regressive analysis between economic growth and ISO standards and Intellectual property was performed.

Table 3. *Economic growth, ISO standards, and intellectual property (2012–2021)*

Year	EG	ISO 9001	IP
2012	– 0.65322	806.2	2687.6
2013	2.54375	480.2	4178
2014	1.350323	601.6	3094.8
2015	3.117156	744.6	2947.6
2016	3.138662	710.8	5116.2
2017	2.98922	693.6	4702
2018	4.06009	912	5868.2
2019	3.456031	934	5192.6
2020	– 5.72764	1092.8	4696.6
2021	8.479914	1411.8	5786.2

Graph 1. *Economic growth, ISO standards and intellectual property (2012–2021)*



Regression analysis results:

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.623561
R Square	0.388829
Adjusted R Square	0.187432
Standard Error	3.607693
Observations	10

ANOVA	*df*	*SS*	*MS*	*F*	*Significance F*
Regression	2	66.24373	33.12186	2.544812	0.147706
Residual	8	104.1236	13.01545		
Total	10	170.3673			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
ISO 9001	–0.00159	0.005073	–0.31355	0.761879	–0.01329	0.010107	–0.01329	0.010107
IP	0.000854	0.000974	0.876591	0.406261	–0.00139	0.0031	–0.00139	0.0031

Research result:

As per the R^2 — 0.388829, lower than 0.50, the H01 hypothesis: There is no relation between economic growth and ISO standards, and intellectual property in WB6, has been proved.

Summary output

This research produced important main results and provided insight into the not strong connection between economic growth, quality management, and intellectual property in WB6 economies and serves not only in the theoretical aspects but what is more importantly this research produced for the very first time the statistical results through regression analysis for missing of relations between economic growth, ISO standards and intellectual property in WB economies.

Research's context

The era of treating labor, land, and capital as the three primary components of production in the conventional sense is virtually finished. Since fashion is no longer the fourth component in production, it also touches on entrepreneurship. The value of intellectual property, quality management, innovation, and creativity as a combination that may offer a competitive advantage in a shifting environment has been demonstrated day by day by economic crises, natural disasters, and pandemic scenarios, particularly the most recent one produced by COVID-19–19. It doesn't require any commentary or interpretation that certain nations are more competitive than others when quality management concepts, intellectual property, innovation, and creativity are integrated into every aspect of public and private enterprises' operations.

In particular, earlier research, which has mostly been empirical, acknowledges the significance of intellectual property and quality management in economic growth but does not explain how IP and QM impact and link to economic growth.

Prior empirical studies have revealed a lack of numerical, statistical, and algebraic studies on the subject and a lack of studies on connections between them in terms of theoretical approach and terms of numerical, statistical, and algebraic studies, in addition to several serious theoretical studies showing the strong connection between economic growth, IP, and QM.

Discussion

Economic growth, intellectual property (IP), and quality management (ISO standard certificates provided globally) have served as the research's guiding principles.

The major findings of a regressive examination of the relationships between economic growth, IP, and QM in the Western Balkans are that there is not a substantial relationship or correlation between these variables.

- Considerations for practice and theory

According to the study's final findings, a new avenue for further study in the still-unknown domain of the relationships between economic growth, intellectual property, and quality of life has been opened.

In terms of application, the research highlights the significance of seeing the relationships between economic development, intellectual property, and quality management as a triangle since doing so helps enterprises and a nation's economy as a whole develop stronger competitive advantage strategies.

Limitations and Avenues for further research

To address these concerns, this article aims to highlight persistent issues with comprehending the connections between economic growth, intellectual property, and quality of life. Since we are now much closer to being able to design studies that will be able to provide better answers to such questions, this paper's research opens a window for other academics and practitioners in these fields. Questions of the processes that facilitate these relations are the subject of further investigation, but there is currently enough information available to provide some definitive answers to questions of these relations.

This study, the first of its kind examining linkages between economic growth, intellectual property, and quality of life in WB economies, was conducted utilizing a wealth of information about economic growth, IP, and quality of life for the years 2012 to 2022. However, more research is needed to determine whether these relationships continue.

Future study, in my opinion, should:

- Include pertinent questions about methods and data collection that

would highlight connections between economic growth, intellectual property, and quality of life at the level of countries and economies;
- Correlational study data should be specific enough to point to real organizational aspects of business, such as human resources, strategic management, organizational behavior, supply chain management, marketing strategies, digital economy, etc., that demand a complete eclipse of required changes regarding IP and QM;
- Consider probable interactions between variables that could be especially pertinent to the topics being studied, but bear in mind that researchers don't need to take into account every conceivable interaction; instead, they should focus their data-collecting efforts on testing expressly stated interactions.

Conclusions and recommendations

1. This research produced a main result and gave an overview of the connections and missing links between intellectual property, quality management, and economic growth in the economies of the Western Balkans. However, what is most significant is that this research produced statistical results through a regression analysis of the missing links between them for the first time.

2. The main findings of regression analysis on the relationships between economic growth and quality management, between economic growth and intellectual property, and between intellectual property and quality management in the Western Balkans are that there is not a significant relationship between any of these three variables.

3. Statistical evidence demonstrating the missing links between economic growth and quality management, economic growth and intellectual property, and intellectual property and quality management demonstrates that to achieve competitive and comparative advantage, it is necessary to promote economic growth, quality management, and intellectual property as a nonfixed factor of production, concurrently with the effective and efficient use of other factors of production (labor, land, and capital).

4. Because natural resources are unchangeable (fixed), they continue to be a barrier to the Western Balkans' ability to experience economic progress. There are two ways to overcome resource limitations to increase productivity: first, by raising productivity to help get around the limitations of fixed factors of production, like steadily raising revenue, and second, by using quality management and intellectual property to get around the problem of scarce resources. To save fixed and finite resources, there is a tendency to innovate and develop via quality management and intellectual property. Therefore, if we create technology to conserve fixed and finite manufacturing factors, these obstacles might not be a barrier to Western Balkan economies' growth and progress.

5. The cycles of these elements' use are tied to the history of production factors across the world. Utilizing permanent factors of production like land, labor, and capital is one cycle; utilizing flexible factors of production like innovation and entrepreneurship is another. In certain stages of economic development, the cycle of fixed and/or limited factors of production (capital, labor, and land) predominates, while in other stages of development, the cycle of non-fixed factors of production – such as innovation, creativity, intellectual property, ongoing quality improvement through ISI standards, and entrepreneurial skills – predominates.

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submitted 22.08.2023;
accepted for publication 20.09.2023;
published 8.10.2023

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European Journal of Economics and Management Sciences 2023, No 5-6
ISSN 2310-5690

PREMIER Publishing
ppublishing.org

Section 2. Economics, organization and management of enterprises, branches, complexes

DOI:10.29013/EJEMS-23-5.6-14-18

OPERATIONS OF BANKS IN THE SECURITIES MARKET IN GEORGIA: PROBLEMS AND CHALLENGES

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Cite: *Turmanidze G. (2023). Operations of Banks in the Securities Market in Georgia: Problems and Challenges. European Journal of Economics and Management Sciences 2023, No 5-6.* https://doi.org/10.29013/EJEMS-23-5.6-14-18

Abstract

If we examine the example of economically developed countries in the world, we can identify two mechanisms for raising capital: bank loans and the stock market. The harmonious relationship between these two mechanisms contributes to the health and development of the country's economy. One of the mechanisms for raising money, the bank loan, holds absolute dominance in the Georgian reality, hindering the development of the second mechanism, the stock market. As a result, various business entities lack the opportunity to access long-term financial resources and are compelled to pay the high fixed loan rates of commercial banks.

Keywords: *bank loan, stock exchange, commercial bank, loan rate*

Introduction

A commercial bank is the primary component of the credit system, as it practically performs all types of banking operations. Commercial banks continually strive to adapt to the competitive environment. The introduction of new institutions and financial instruments into the market encourages commercial banks to broaden their scope of operations and become universal.

At the beginning of the 20th century, the governments of developed Western countries made the decision to prohibit banks from directly participating in the securities market and imposed specific restrictions and barriers. Later, along with the development of the global economy, since the 70s of the XX century, the mentioned approach regarding commercial banks has gradually changed and the existing restrictions are being either lifted or eased. A prominent and highly significant example of this process is the repeal of the Glass-Steagall Act in 1933 in the United States. Nevertheless, it is worth noting that in some countries of the world, the activities of banks on stock markets are regulated by legislation. As a result, banks in these countries have to ex-

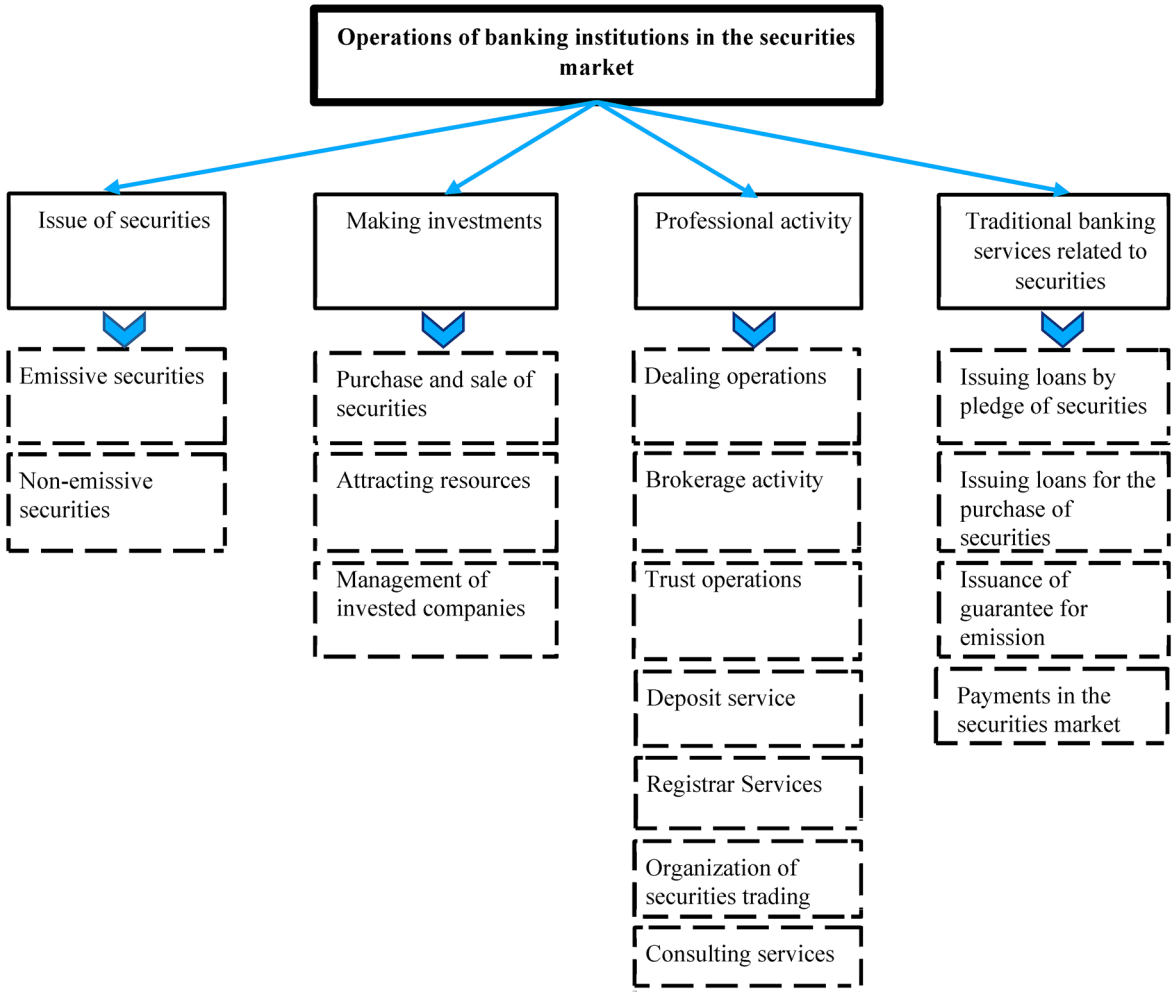
plore other ways, through trust, brokerage and investment companies.

Main part

In the countries where commercial banks are granted the authority to engage in various securities-related transactions, they assume the roles of issuer, intermediary and investor.

For commercial banks, the restrictions of the mentioned operations are different and are regulated by the legislation of a specific country. The restrictions related to the activities of commercial banks are regulated by the Law "On Commercial Bank Activities" **(Article 10. "Restriction of ownership rights, assets, ownership structure and group structure of commercial banks") in Georgia (Modern Banking: Theory and Practice, 2022).**

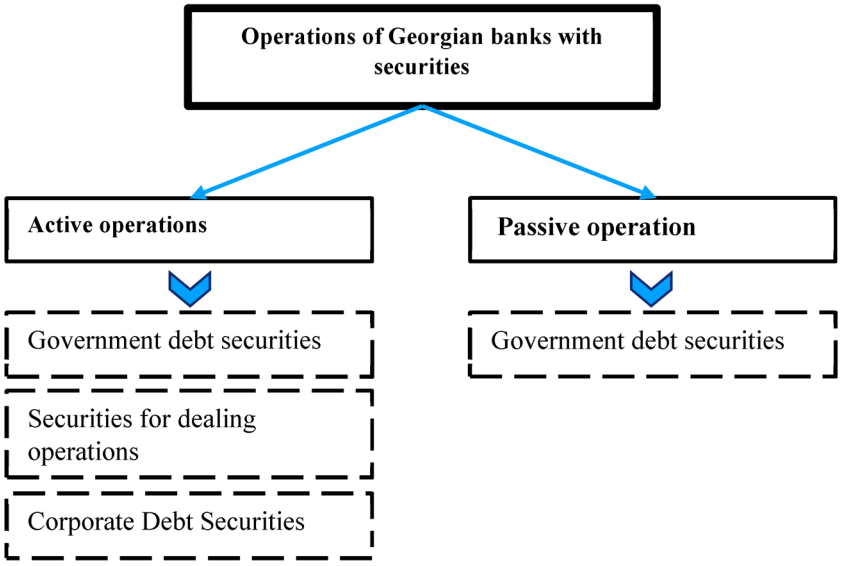
Scheme № 1



As for a security, it is a financial instrument in circulation. A set of securities forms a securities market, through which, as a result of their circulation, monetary resources are distributed between investors and issuers. The securities market holds an intermediary position between capital markets and money markets. Through it, monetary savings of the state, legal entities and individuals are accumulated and directed to the capital markets. Additionally, the securities market plays a complementary role within the banking credit system.

The securities market and the banking sector are essentially competitors, as both aim to attract temporarily free cash. However, these two instruments are not distinctly separated and are strongly interrelated. The securities market serves as a complement to the banking credit system. Savings are transformed into investments through the securities market. These investments are received by private businesses and the government. Both the private sector and the population, who have saved money, become investors and creditors.

Scheme № 1.1



The securities market cannot exist without the stock market. A stock exchange is an organized marketplace for securities. It facilitates the collection of proposals for the purchase and sale of securities and other financial instruments, organizes trading in accordance with established rules and procedures, and disseminates information about completed transactions and other price-related information.

The Georgian Stock Exchange (GSE), established on January 8, 1998, is the only operating organized securities market in Georgia. Established with the support of USAID, it operates within a legal framework developed in collaboration with American experts.

On October 18, 1999, at the session of the Supervisory Board of the Exchange, a decision was made – for fast, effective and reliable clearing and settlement of transactions concluded on the Exchange, the Exchange should establish an organization that will solve this problem. Consequently, the GSE established the "Georgian Central Securities Depository" LLC (GCSD) with 100% ownership.

On January 14, 2000, the National Securities Commission of Georgia issued stock license N90001 to GSE.

On January 18 of the same year, the commission recognized GSE as a self-regulating organization. On March 23, 2000, the first trade in the shares of "United Georgian Bank" took place. Since then, until today, stock trades have been conducted regularly at the stock (Nana Shonia, Tinatin Gugeshashvili, 2009).

The dates mentioned above (1998–2000) were highly significant for Georgia as they marked the active initiation of the formation of the securities market, with the participation of leading experts from the US financial market. Given that banks in the new post-Soviet Georgia were relatively advanced, legislative measures were taken to prevent one sector from exercising excessive supervision over the other. A clear example of this is the Law "On Securities Market" adopted in 1998. According to this law, the two industries were entirely separated from each other, allowing the newly formed securities market to develop independently. The securities market was supervised by the National Securities Commission of Georgia. As a result, banks couldn't participate directly in the market; it was only possible through subsidiary brokerage companies. Thanks to these and other supporting measures, the stock market achieved quite positive results from 2004 to 2007. Since 2007, the operation of the stock market has been disrupted due to specific factors.

One of the most significant reasons is legislative changes. March 31, 2007, is a crucial date in the history of the Georgian Stock Exchange because the Law of Georgia, "On Securities Market", was amended. In particular, with the changes outlined in Article 18, Clauses 1 and 5, it became possible to execute transactions both on and off the stock exchange, with or without the involvement of a brokerage company. The mentioned date turned out to be the last one in the trading of

the Georgian stock exchange, when the volume of transactions and sales, in total, increased. The adopted legislative change led to a decrease in trading transactions on the GSE, and monetary turnover shifted outside the exchange. Since 2000, the supervision of the securities market has been carried out by the National Securities Commission of Georgia, which was a self-regulating system, and since 2008, the National Bank of Georgia has become the controller. After the National Bank acquired the function of securities market supervision and commercial banks were given the opportunity to participate directly in the market, most of the shares and bonds presented on the Georgian Stock Exchange are represented by commercial banks. As of September 29, 2023, there are 38 securities listed in various categories on the Georgian Stock Exchange. The largest portion of these securities consists of Liberty Bank shares, with a total volume of 5,502,254,354 securities (Georgian Stock Exchange (GSE), 2023). It should also be noted that the majority of transactions are carried out outside the exchange, that is, they are non-exchange and are made in a non-competitive environment through brokerage companies. In the period from January 1, 2023 to September 29, 2023, 19 transactions were carried out at the trading sessions of the Georgian Stock Exchange, the total value of which amounted to 50,209.04 GEL (Georgian Stock Exchange (GSE), 2023). The mentioned transactions were conducted exclusively in GEL. However, for non-stock transactions during the same time period, the results differ significantly from those carried out in trading sessions. In total, 91 transactions took place in GEL, USD, and EUR, with a total value of 3,218,354.40 GEL, 8,863,825.89 USD, and 1,573,564.97 EUR (Georgian Stock Exchange (GSE), 2023).

Currently, the Georgian stock exchange is represented by companies with high capitalization, but among them there were three companies that listed their shares on the London stock exchange. On November 24, 2006, Bank of Georgia became the first bank in Georgia and the second in the post-Soviet space to list its shares on the London Stock Exchange. Since 2012, it has met all the highest requirements in terms of financial strength, transparency, and high standards of corporate management, which led to its move to the premium listing of the London Stock Exchange. As for TBC Bank, it joined the London Stock Exchange in 2014, and in 2018, JSC "Georgian Capital" was formed as a result of the division of the Bank of Georgia.

As of September 29, 2023, the results of the mentioned companies on the London Stock Exchange were as follows:

The price of "Bank of Georgia" (BGEO) shares has increased by 0.82%, and the current value of one share is 36.90 pounds. The company's market capitalization currently stands at £1.81 billion. In the last six months, the shares of "Bank of Georgia" have increased by 32%.

TBC PLC shares rose by 1.88% over the week. One share of the bank is worth 29.85 pounds sterling. The company's market capitalization currently stands at £1.64 billion. In the last six months, the price of "TBC" shares has increased by 20%.

The value of the shares of "Georgian Capital" (CGEO) decreased by 3.53%, as a result, the price of one share became 9.84 pounds sterling. As a result, the market capitalization of the company currently amounts to 458.56 million pounds sterling. In the last six months, the price of the company's shares has increased by 20% (BUSSINES MEDIA, bm.ge., 2023).

The presence of Georgian banks on the London Stock Exchange is highly beneficial. For the banks, this means an unlimited opportunity for development, an expansion of their investor base, and the prospect of increasing share liquidity. Meanwhile, the local market gains access to even more stable, high-standard banking services. However, it is unfortunate that most Georgian companies are unable to sell their securities on foreign exchanges. At the same time, the Georgian stock exchange is not sufficiently developed to provide companies with access to the necessary financial resources. Consequently, they are forced to seek credit from commercial banks, resulting in using expensive credit.

Conclusion

In Georgia, where there is a shortage of local investment resources, it becomes exceptionally crucial to ensure the sustainability of the securities market and stock exchange. The

dominance of banks in the financial sector leads to the underdevelopment of the securities market, which, in turn, presents a problem, as a developed securities market and stock exchange help to mobilize local savings more efficiently and create an opportunity to diversify funding sources. Addressing this matter is of great significance as the share capital market serves as a vital alternative funding source for Georgian corporations. Currently, financial resources are not fully and efficiently leveraged for economic development at this stage.

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submitted 22.08.2023;
accepted for publication 20.09.2023;
published 8.10.2023

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European Journal of Economics and Management Sciences 2023, No 5-6
ISSN 2310-5690

PREMIER Publishing
ppublishing.org

Section 3. Management

DOI:10.29013/EJEMS-23-5.6-19-22

STATE REGULATION OF AGRICULTURAL ENTREPRENEURSHIP DEVELOPMENT

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Cite: *Dobrovolska E. V., Pokotylska N. V., Volskyi V. A. (2023). State Regulation of Agricultural Entrepreneurship Development. European Journal of Economics and Management Sciences 2023, No 5-6.* https://doi.org/10.29013/EJEMS-23-5.6-19-22

Abstract

The essence and main directions of state regulation of agricultural entrepreneurship development in modern conditions are analyzed, as well as the legal and regulatory acts that form the system of state regulation of the agricultural sector in Ukraine are considered. The importance of environmental safety, preservation of soil fertility and development of agriculture as an effective direction of sustainable development of the agricultural sector is grounded. It is determined that the main tasks of the State regulation of agricultural entrepreneurship are: formation of optimal financial and credit instruments; improvement of the legislative and regulatory framework; stimulation of interaction of business entities in the agricultural sector, etc.
Keywords: *state regulation, state support measures, development of entrepreneurship, agricultural sector, export*

Introduction

In the process of its development, entrepreneurship in the agricultural sector faces a large number of problems, and the state plays a significant role in their solution. The state regulation of entrepreneurship in the agricultural sector is considered to be one of the key factors to maintain equivalent relations on the internal commodity market between business entities and on the external markets to ensure food security of the state and welfare of citizens.

The state should implement a policy of support in all directions of agricultural development through mechanisms and instruments of state regulation. Direct and indirect support of the agricultural sector should be aimed at increasing the motivation and incentive of entrepreneurs.

Methodology and the purpose of the study

The methodological basis of the study was a set of methods of scientific knowledge of the system and mechanism of state regulation of entrepreneurship development in the agricultural sector. General scientific methods contributed to the achievement of the goal: empirical research (measurement, comparison, observation); theoretical research (analysis and synthesis), as well as local (specific) methods: situation analysis (calculation and constructive method).

Research objectives: The purpose of this study is to reveal the concept and main directions of the government regulation of entrepreneurship development in the agricultural sector in modern conditions.

Literature review

The problem of state regulation in the agricultural sector has been studied by researchers: Aleinikova A.M., Malenka I.M., Rusaniuk V.V. Aleinikova A.V. believes that the concept of "state regulation of the agricultural sector" is an intricate mechanism of influencing the income of agricultural producers, the structure of agricultural production, the agrifood market, the social structure of the village, inter-sectoral and inter-economic relations. According to the author, the goverment regulations have primarily aimed at overcoming agrarian crises and providies support to small agricultural enterprises in the face of fierce competition with powerful agribusiness capital (Aleynikova, O.V., 2011).

Malenka I.M. points out that although the state has significant influence on agricultural enterprises in Ukraine, but it is not effective enough. The state's agrarian policy in recent decades has been more focused on short-term goals rather than long-term ones, and its regulatory activities have been inconsistent and lacking a systematic approach (Malenka, I.M., 2013).

According to Rusaniuk V.V., the development of entrepreneurship in the agricultural sector is best regulated by implementing protectionist measures. These measures ensure financial, budgetary, legal, economic, and investment security for business entities that operate in the market environment. This helps optimize the conditions and consequences of entrepreneurial activity and promotes a healthy level of food security within the state. Additionally, such measures help commodity producers adapt to current conditions of instability caused by the coronavirus crisis (Rusanyuk, V.V., 2021).

Analysis of results

Main directions for implementation of the state regulation of agricultural entrepreneurship development should be: creation of an effective mechanism of financial assistance for the business sector; an active policy of indirect influence on the agricultural manufacturers in order to stimulate them; creation of programs for the development of innovative support for business entities in the agricultural sector; development of material and technical equipment for farmers; development and improvement of mechanisms of state support for insurance; provision of information for entrepreneurs about services of insurance market in the agricultural sector and state guarantees.

Main actions taken by the Ukrainian government to support agricultural entrepreneurship during the war in Ukraine should facilitate the further development of agricultural entrepreneurship and reassure Ukrainian farmers that, despite the ongoing war in Ukraine, it is necessary to help the country to restore its economy and continue to seed and cultivate the land. The Ukrainian government guarantees that in case of destruction of crops or farms, compensation will be paid and damaged property will be fully restored.

With the adoption of the Law of Ukraine "On amendments to certain legislative acts of Ukraine concerning the turnover of agricultural land" No. 552-IX on March 31, 2020, Ukraine opened the land market and, accordingly, cancelled the moratorium on the sale of agricultural land.

One of the effective steps to improve the system of state regulation for the functioning of business entities in agriculture was the Resolution of the Cabinet of Ministers of Ukraine "On measures to stabilize prices for goods of significant social significance, anti-epidemic goods" No. 341 adopted in April 2020, which introduced state price regulation by declaring changes in retail prices for certain goods, including granulated sugar,

certain categories of milk, eggs, poultry, butter, and others.

Legal and regulatory acts have been issued for certain areas of the agricultural sector in order to improve the efficiency of state regulation. In particular, to facilitate the production and sale of potatoes and vegetable products, the government approved "the Concept of the State target program of development of industrial potato growing for the period till 2025" No. 1345-r dated October 21, 2020 and "the Concept of the State target program of the development of vegetable growing for the period till 2025" No. 1333-r dated October 21, 2020.

The most important measure to support the agricultural sector is the reduction in the cost of credits, i.e. the implementation of the programs "Financial support to agriculture through concessional credits" and "Affordable credits 5–7–9%". In 2021, the credit portfolio of the farmers became the largest in the history of the agricultural sector in Ukraine, although it remains 20 times lower than the same indicator of the credit level in the United States. As of 08.09.2023, 71,552 credits in the total amount of UAH 231,568 million were issued: 51% in agriculture; 25% in trade and manufacturing; and 14% in industrial processing.

For example, the directions of state support for the agro-industrial complex in 2021 included cheaper credits for agro-industrial development, support of the development of livestock and agricultural processing, compensation for the cost of Ukrainian agricultural machinery, etc. The Ministry of Agrarian Policy included organic production, potato development, and niche crops in the new directions of state support.

Regarding the impact of state regulation on the provision of social and economic, organizational and legal conditions for development in the agricultural environment, it is worth paying attention to the environmental and economic efficiency. According to the latest report of the Ministry of Agrarian Policy, the level of plowed land in Ukraine is 54%. Since 2020, environmental legislation has been updated, and new legal and regulatory acts on state environmental policy, irrigation and drainage, and environmental standards have been developed.

The government has introduced a large grant project for non-refundable support of new businesses called "eRobota", which is based on grant funding programs, such as: microgrants for launching a new business or developing an existing business, for creating or developing gardening, berry growing and viticulture, as well as for creating or developing greenhouses, for creating and developing processing enterprises, for creating or developing their own business by combatants, people with disabilities as a result of war and their families.

The most popular microgrant program for launching a new business or developing an existing one ("Vlasna Sprava" (Own business) program; Government Resolution No. 738 of 21.06.2022). The amount of microgrant provided to one recipient: UAH 150,000 for the creation of one workplace; UAH 250,000 for the creation of at least two workplaces.

New positive tendencies in the state regulation of the agricultural sector include the approval of the Strategy of development of exports of agricultural products, food and processing industry of Ukraine for the period till 2026. This strategy, although emphasizing the predominant export of raw materials, corresponds to the needs of agricultural business and provides for the formation of a mechanism of financial support from the state for cooperatives of agricultural and food manufacturers. Taking into consideration the importance of supporting cooperatives, small and medium-sized producers, it is advisable to approve the State Strategy for regional development for 2021–2027, which provides for the availability of markets, the development of infrastructure for storage of products and the introduction of new technologies and equipment for the processing of agricultural raw materials.

It is also important that EU countries support Ukrainian exporters and importers. On May 12, 2022, the European Commission presented its action plan "Roads of Solidarity" to help Ukraine export its agricultural products as part of the EU`s solidarity response to Ukraine.

For Ukraine, export of agricultural products is an important source of state budget revenues and a strategic industry, with an export share of 53% in 2022. Therefore, our country needs to encourage domestic farmers

to increase their product volumes and support the development of agricultural exports.

Conclusions

Therefore, the most prospective direction for the development of agricultural entrepreneurship is the innovation-targeted one, which is based on granting entrepreneurs a priority right to receive financial and credit assistance in all directions of state support.

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submitted 22.08.2023;
accepted for publication 20.09.2023;
published 8.10.2023

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European Journal of Economics and Management Sciences 2023, No 5-6
ISSN 2310-5690

PREMIER Publishing
ppublishing.org

DOI:10.29013/EJEMS-23-5.6-23-30

CRITICAL SUCCESS FACTORS IN CONSTRUCTION PROJECTS AND MEASURING PROJECT SUCCESS

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Cite: *Malikov A. (2023). Critical Success Factors in Construction Projects and Measuring Project Success. European Journal of Economics and Management Sciences 2023, No 5-6. https://doi.org/10.29013/EJEMS-23-5.6-23-30*

Abstract

The building sector, which emerged with humanity's need for shelter and became increasingly complex with the increasing demands and desires of societies over time in parallel with the development of technology, has led the relevant sector stakeholders to make some changes within the framework of the elements and dynamics it contains. The ever-accelerating population growth in the world has disrupted the supply-demand balances, especially because of regional concentrations after the industrial revolution. In this regard, construction companies, which are important stakeholders of the building industry, have had to take a position to complete projects with optimum quality, cost, and time with the aim of increasing profit margins. Measuring project success in the construction industry is essential for interpreting project results. The purpose of this study is to test the usability of a standard project success measurement method, which evaluates project success objectively and subjectively, in developing countries. As a result of the study, a general evaluation of success measurement in construction projects will be made, where a construction project success measurement method can be used will be discussed, and various suggestions regarding construction project success measurement in developing countries will be included.

Keywords: *construction projects, success factors, measurement, risk JEL Classification: C51*

Introduction

Projects differ from other works in that they have certain budget, time and quality constraints, and the combination of limited human and non-human resources. Construction projects have various features that are different from other projects (Al-Hallaq K. Mohamed, and Enshassi, S., 2006). These can be listed as the uniqueness of each project, its complexity, its variable and risky characteristics, and its ability to combine different labor groups. The study generally focuses on the concept of project success. First, project success definitions of various researchers in the literature will be included. Then, the critical project success

factors identified by various researchers in the literature will be listed.

After the critical project success factors are listed, project success measurement approaches in the literature will be defined. Studies of various researchers regarding success measurement criteria will be examined.

Jeffrey K. Pinto is a researcher who has conducted important studies on project success. According to Pinto, project success is based on many measures including cost, work schedule and performance criteria. The cost criterion relates to the necessity of completing the project close to the specified budget. The work schedule criterion is also related to the importance of completing the project on time, within the specified time limit (Pinto, J. K., 1986).

Research methodology

In the study, two different methods serving different purposes were used which are literature review method and field research method:

Literature research method:

- *To list the critical success factors that are generally effective in projects;*
- *To establish general project success measurement criteria;*
- *To examine the critical success factors required for construction project success;*
- *Examining success measurement methods in construction projects;*
- *It served the purpose of introducing CPSS as a construction project success measurement method applied in developed countries.*

The field research method was used to test the usability of a standard project success measurement method, which evaluates project success objectively and subjectively, in developing countries. In this regard, field research method:

- *To apply the same CPSS applied in developed countries in developing countries;*
- *Evaluating the success of projects in developing countries relative to each other;*
- *It served the purpose of comparing the application results in developed and developing countries and creating a standard measurement method in order to test the usability of a standard success measurement method such as CPSS in developing countries.*

Critical Project Success Factors

Critical success factors are factors that affect the success of projects and, when taken into consideration, will increase the chance of project success (Davies and Cooke, T., 2002). Identifying these factors and revealing their importance will allow project managers to be prepared for these issues and take the necessary precautions in advance. In the literature, various researchers have determined project success factors theoretically, without basing them on specific data. In addition, there are empirical studies on critical project success factors using these theoretical studies.

Features of Construction Projects

The important features of construction projects that make them different from other projects can be listed as follows. The uniqueness of each project: Every construction project is different and unique. Each project has its own unique influencing factors, so each requires different management techniques (Beck, R., Wysocki, R. and Crane D., 2003).

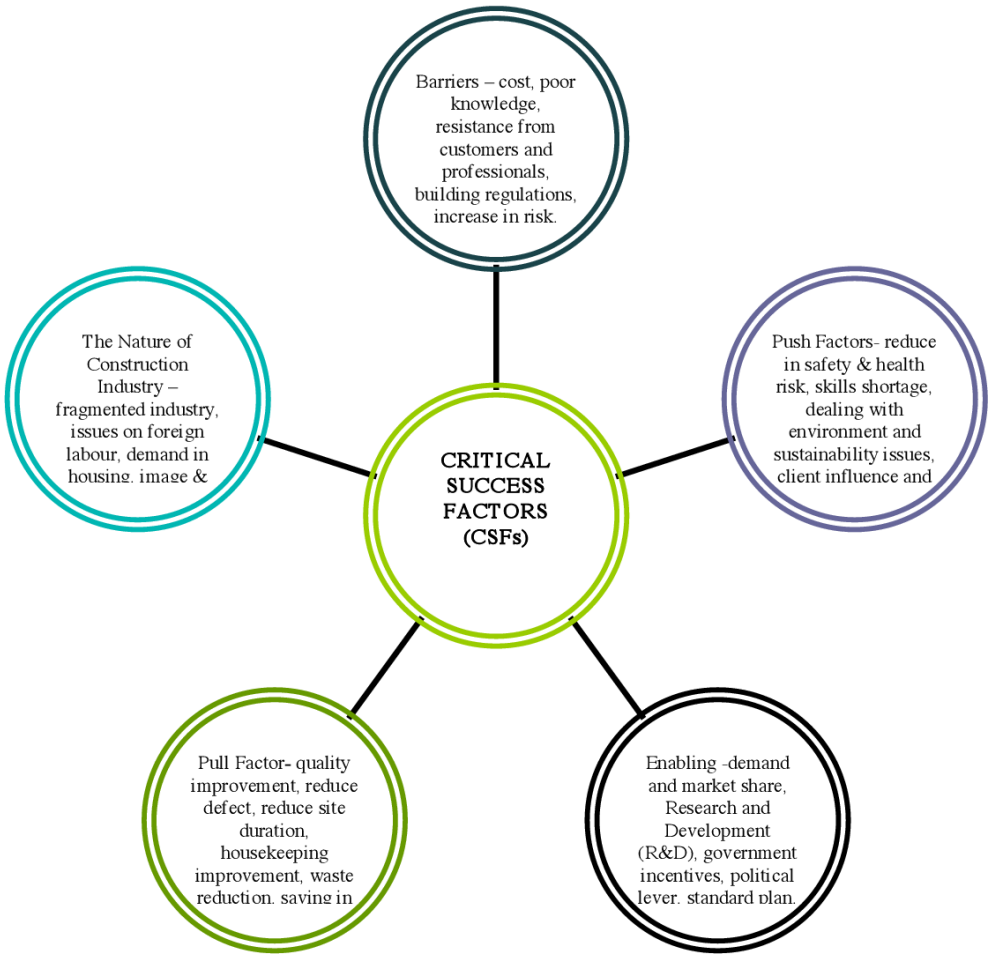
Complexity characteristic: Construction projects have different phases. Various areas of expertise and organizations are active in each different phase.

These phases from project planning to project completion and the participants in these phases constitute the complexity of construction projects (Sears, G. A., and Clough, R. H., 1991). Variable and risky features: Construction projects involve more risks than other sectors. There are variable and unpredictable factors at every stage of the project (Joyce, N. E. and Gould, F. E., 2000). Uniting feature of different labor groups: Construction projects bring together groups with different skills and areas of expertise. These groups work together towards a single goal (Halpin, D., 2006). The most important feature of construction projects is that they consist of different labor groups coming together for a specific purpose. Therefore, human quality in construction projects is of great importance in project success and failure.

Critical Success Factors in Construction Projects:

In the previous sections of the study, project critical success factors were briefly defined. Here, studies carried out by different researchers and determining critical success factors in construction projects are included. The first of these studies is the study conducted by Jolivet et al. in 1986 (Haynes, N.S., Love, P.D.E., and Irani, Z., 2001). Researchers have examined the characteristics of successful and unsuccessful construction projects. As a result of their studies, they identified criteria that were found in successful construction projects but not in unsuccessful ones.

Figure 1. *Critical Success Factors (CSFs)*



The critical success factors revealed by Jolivet and others for construction projects as a result of their research are as follows (Jaselskis, E.J., 1988):

- *Appointment of a project manager;*
- *The project is divided into subsections;*
- *The project organization has been determined by the project manager;*
- *Having set goals;*
- *Activities are determined by written procedures;*
- *Contract management;*
- *Program management;*
- *Cost management;*
- *Quality management;*
- *Administrative and financial management;*
- *Staff management;*
- *Design management;*
- *Purchasing and subcontractor management;*
- *Construction management;*
- *Job completion procedure;*
- *Documentation.*

As seen above, the management function has an important place among Jolivet's critical success factors. When the factors are examined, it is seen that they include issues related to project management, from de-

termining the goals to the work completion procedure. According to these factors, it follows that the success of a construction project is directly related to project management. Therefore, it can be interpreted that effective project management is an important tool to achieve success in construction projects. The second study on critical success factors in construction projects was conducted in 1987 (Samuel, J. and Meredith, J. R., 1995).

In Ashley's study, data obtained from 16 construction projects, 8 of which were at medium level and 8 of which were at good level, were used. Data was obtained by interviewing project managers belonging to the owner and contractor organization. In the research, hypotheses were put forward to determine the difference between the success factors and success evaluation criteria of good and medium level construction projects. According to the results, there are significant differences in the areas of key success factors of good and medium projects. These areas are:

- *Planning activities;*
- *Target responsibilities of the project manager;*
- *Project team motivation;*
- *Project manager technical capacity;*
- *Field of activity and job description;*
- *Control systems.*

As noted above, Ashley's study interviewed project managers to determine construction project success factors. This shows that the researcher argues that project managers are the right people to determine success factors (Raz, T., Dvir, D., and Shendar, A.J., 2003). Thus, it demonstrated the importance of project management in the success of construction projects such as Jolivet. When we look at the factors that emerged as a result of Ashley's study, it is seen that they are related to project management activities, similar to Jolivet's study. The success factor groups that emerged as a result of both studies include factors related to project manager characteristics.

Jaselskis' Critical Success Factors

In his study in 1988, Jaselskis investigated the inputs related to project management required to achieve construction project success, collected the necessary information about these factors and developed different selection models to estimate the probability of construction project success. In the study, Ashley's 1987 study was used to determine the critical success factors of construction projects. This study focuses on success from a project management perspective due to its effective role in the planning, management and coordination of construction projects such as budget, work schedule, quality and occupational safety. According to the information obtained from 28 construction projects, 14 of which were medium and 14 were good, the factors were grouped under 4 groups (Lilliesköld, and J., Taxen, L., 2008):

- *Project manager;*
- *Project team;*
- *Planning;*
- *Control and external factors.*

In the continuation of the study, it was suggested that these factors not only affect project success independently, but also that there is a relationship between the factors. (Kerzner, H., 2001) This interaction has been investigated with the models put forward. Models can be used for the project manager to balance resources most efficiently to achieve a high probability of project success and for the owner to evaluate contractors at the tender stage (Beck, R., Wysocki, R. and Crane D., 2003). They were developed to support owners and contractors in balancing resources and improving construction project performance. These models, which are used to estimate the probability of success of construction projects, use the logistic regression technique. Models have been developed for good project performance, better-than-expected budget performance, and better-than-expected schedule performance. The first model estimates the probability of achieving good project performance, the second model estimates the probability of achieving better than expected budget performance, and the third model estimates the probability of achieving better than expected work schedule performance.

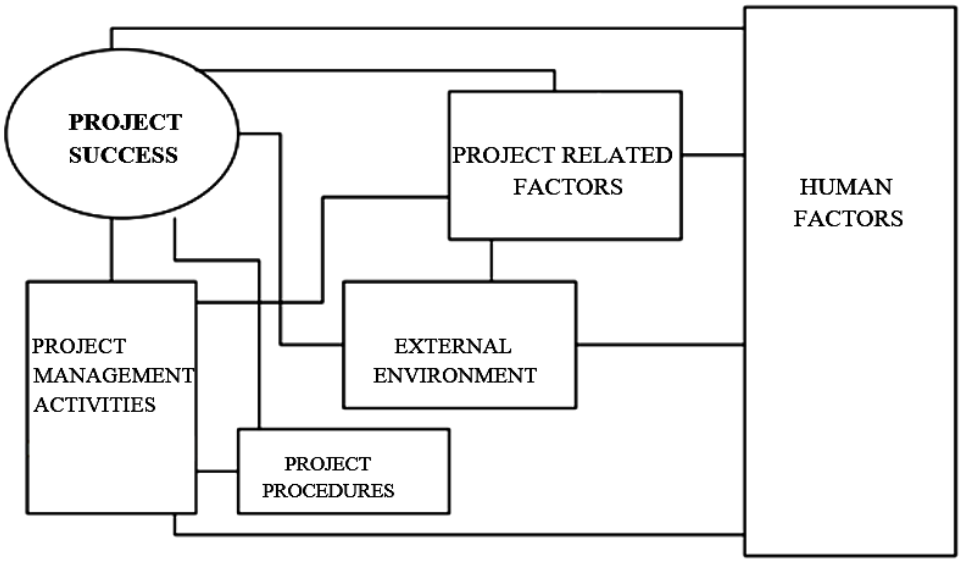
According to the results, the critical success factors affecting the possibility of achieving a good project performance are determined as follows, according to the previously determined success groups:

- *Project Manager Experience as a project manager (years);*

- *Total experience of the project manager in the construction industry (years);*
- *Number of levels between project manager and workers;*
- *Project Team Project team variability rate (%);*
- *Control Systems Control systems costs (% of total project cost);*
- *Frequency of budget updates (annual) Planning Modularization (% of total budget).*

When determining construction project success factors, Jaselskis focuses on success directly from a project management perspective (Jaselskis, E.J., 1988). He explained the reason for this as the effective role of project management in budget, work schedule, quality, and occupational safety. From this comment of the researcher, it can be concluded that to evaluate whether a construction project is successful or not, it is necessary to measure its performance in terms of budget, work schedule, quality and occupational safety. In addition, the fact that the researcher develops models regarding budget and work program success is an indication that these criteria are included in the project success measurement criteria.

Figure 1. *Relationship of Factors Affecting Construction Project Success*



Unlike other researchers, Chan and Scott talked about human-related, project-related, project procedures and external factors in addition to project management activities that are effective in construction project success. Project manager characteristics are also included within the human-related factors. Therefore, the difference of the factors mentioned in this group from previous studies is that they include customer characteristics. Among the factors put forward by Jaselskis, factors related to the external environment under the name of control and external environment are included in the critical success factors (Jaselskis, E.J., 1988). Project procedures, one of Chan and Scott's factor groups, are related to the selection of people who will take part in the project design and construction. "Design management" and "construction management", which are among the critical success factors determined by Jolivet, include these factors (Hikle V., and Eldin N., 2003). Project-related factors have not been clearly established in other studies as critical success factors in construction project success (Holt, G.D., Proverbs, D.G. and Cheok, H.Y., 2000). In the light of these evaluations, it can be concluded that Chan and Scott's study is a collection of other studies on construction project critical success factors. It is an important study in which the factors affecting the success of the construction project are grouped and listed.

CPSS as a Success Measurement Tool for Construction Projects

CPSS (Construction Project Success Survey) is a construction project success measurement method that also includes subjective criteria within the framework of existing

objective project success measurement criteria (Perrier, N., and Pellerin, R., 2018). It allows evaluating project results both qualitatively and quantitatively within the framework of measurement criteria determined by CII. It also paves the way for better planning by allowing the identification of important success characteristics at the beginning of the project (Lopes, J. and Ruddock, L., 2006).

In this part of the research, this measurement method will be introduced with the help of the sections on the emergence of the CPSS requirement, its development, and calculation of its scores. In the section on the implementation of CPSS, the CPSS application and results in America will be included. In this part of the paper, CPSS scores of three housing projects to which CPSS was applied in the field research will be compared and evaluated. Table 1 summarizes the CPSS scores of projects 1, 2, and 3. The table includes the average scores, importance percentages and resultant CPSS scores of the success measurement groups of each project.

Table 1. *Comparison of CPSS Scores of Projects 1, 2 and 3*

SUCCESS MEASUREMENT CRITERION GROUPS		Project 1	Project 2	Project 3
COST	AVERAGE SCORE	2.20	0.87	2.60
	IMPORTANCE PERCENTAGE	30%	20%	25%
WORK SCHEDULE	AVERAGE SCORE	2.69	2.46	-0.08
	IMPORTANCE PERCENTAGE	20%	20%	15%
QUALITY	AVERAGE SCORE	2.81	2.25	2.20
	IMPORTANCE PERCENTAGE	20%	25%	25%
PERFORMANCE	AVERAGE SCORE	2.66	1.70	2.09
	IMPORTANCE PERCENTAGE	15%	20%	15%
SECUITY	AVERAGE SCORE	2.69	3.00	2.40
	IMPORTANCE PERCENTAGE	10%	10%	10%
BUSINESS ENVIRONMENT	AVERAGE SCORE	2.56	1.57	1.50
	IMPORTANCE PERCENTAGE	5%	5%	10%
	RESULT CPSS SCORE	+2.52	+1.93	+1.89

As seen in Table 1, the project with the highest average cost score is Project 3 with 2.60. Therefore, Project 3 can be interpreted as the project that showed the highest success in the cost group. However, Project 1 is the project with the highest importance percentage in the cost group with 30%.

- Among these three projects, Project 1 can be considered the most successful in the work program group. Because Project 1 is the project with the highest score for this group with 2.69. Among all projects, the work program group of Project 3 has the only negative average score with –0.08. Therefore, the work program group of Project 3 is the only group that can be described as unsuccessful among all projects. The highest importance percentage for the work program group is 20%. The weighted importance of the work program group for Project 1 and Project 2 was determined as 20%.
- The most successful project with a score of 2.81 in the quality group can be evaluated as Project 1. However, the highest level of importance determined in projects for the quality group is 25%. This importance percentage applies to Projects 2 and 3.
- The project with the highest average score in the performance group is Project1 with 2.66. However, the project with the highest degree of importance in this group is Project 2 with 20%. Managers of Project 1 and Project 3 determined the same importance percentage for the performance group; 15%
- For all three projects, the importance percentage of the security group was

determined as 10%. Project 2 has the highest score in this group with 3.00. This score is also the highest group score among all projects. The average security scores of other projects are also above 2. Therefore, all three projects can be described as very successful in security groups. However, a 10% importance percentage can be considered as an indication that the security issue is not very effective in the success of the project.

Conclusion

Success measurement in construction projects is used to interpret project results and compare them with the success of other projects. Success measurement is important in determining risk factors affecting success (Tippett, D.D., Hughes, S.W. and Thomas, W.K., 2004). After success measurement, critical success factors that affect project success can be put there. These factors are important in terms of being prepared for the issues that will be encountered in subsequent projects and taking precautions in advance. Success measurement can also be used as an indicator in which direction updates on planning and management issues related to projects should be carried out. In the construction industry of developing countries, there is no standard measurement method used to numerically measure project success. For this reason, a thesis study was carried out aiming to test the applicability of a standard measurement approach that evaluates project success objectively and subjectively in developing countries. In this study, two different methods that serve different purposes were used: literature research method and field research method.

The literature research served the purposes of identifying critical project success factors and establishing various project success measurement criteria (Salleh, R., 2009). With the help of literature research, the concept of project success in the literature was examined primarily in terms of general projects. The concept of success in construction projects is discussed in the following sections. The field research method was used to evaluate the success of three recently completed important housing projects in order to test the usability of developing countries in a project success measurement method that uses not only objective but also subjective evaluations for project success.

As a post-project evaluation tool, the success measurement method is a tool for management to determine objective and subjective success factors. In this way, identification and management of risk factors affecting project success can be achieved. The results can be used to update project planning and management methods. It contributes to the development of the process by evaluating the relationship of factors such as labor relations, design development and project team training to project success. Project participants can use project success measurement to evaluate the contribution of project design documents and change controls to success. In addition, a standard construction project success measurement method can be used as a tool to score project success to measure development and deficiencies in engineering and design organizations that implement a continuous improvement program. Thus, the success evaluation can be more accurate. Such a study will be very beneficial for the Azerbaijani construction industry.

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submitted 22.08.2023;
accepted for publication 20.09.2023;
published 8.10.2023

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European Journal of Economics and Management Sciences 2023, No 5-6
ISSN 2310-5690

PREMIER Publishing
ppublishing.org

Section 4. Marketing

DOI:10.29013/EJEMS-23-5.6-31-35

IMPROVING THE USE OF DIGITAL MARKETING IN BANKS

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Cite: *Minarova M.Kh. (2023). Improving the use of Digital Marketing in Banks. European Journal of Economics and Management Sciences 2023, No 5-6. https://doi.org/10.29013/EJEMS-23-5.6-31-35*

Abstract

This article explores the evolving landscape of digital marketing in the banking sector, focusing on its current effectiveness, challenges, and future prospects. Through an analysis of various digital marketing strategies, including data-driven personalization, AI, and blockchain technology, the study examines their impact on customer engagement, conversion rates, and trust in digital banking services. Additionally, the article discusses the growing importance of sustainable and ethical marketing practices in enhancing brand loyalty and customer acquisition. Based on these findings, the article provides recommendations for banks to optimize their digital marketing strategies, suggesting a focus on technological innovation, customer-centric approaches, and adherence to ethical standards.

Keywords: *Digital Marketing, Banking Sector, Customer Engagement, Data Analytics, Personalization, Artificial Intelligence, Blockchain, Mobile Banking, Regulatory Compliance, Sustainability, Ethical Marketing, Brand Loyalty, Customer Acquisition*

Introduction

In the ever-evolving digital landscape, banks are increasingly recognizing the pivotal role of digital marketing in enhancing their services and reaching a broader clientele. As traditional banking practices give way to innovative online platforms, the need for effective digital marketing strategies becomes imperative (Chen, A., 2018). This article delves into the significance of digital marketing in the banking sector, exploring its current state and the potential areas for improvement.

We begin by examining the current trends in digital banking, highlighting how customer behaviors and expectations have shifted in the digital age. The focus then shifts to the challenges and opportunities that banks face in this digital transformation. From leveraging social media and content marketing to optimizing data analytics and personalized services, the article offers a comprehensive overview of the strategies that can propel banks towards greater digital engagement and customer satisfaction.

Furthermore, we explore the importance of integrating new technologies like artificial intelligence and blockchain in enhancing digital marketing efforts. This integration not only streamlines operations but also opens new avenues for customer interaction and service delivery.

The article aims to provide banking professionals, digital marketers, and stakeholders with insights and actionable strategies to refine their digital marketing practices. By embracing innovative approaches and adapting to the digital era's demands, banks can not only survive but thrive in this competitive landscape.

Literature review

The works of Smith and Johnson (Smith, J., & Johnson, K., 2019) and Lee et al. (2020) (Lee, M., Choi, Y., & Kim, J., 2020) provide a foundation(al understanding of how digital marketing has evolved within the banking sector. These studies highlight the gradual shift from traditional marketing methods to digital platforms, driven by technological advancements and changing consumer behavior.

Chen's (Chen, A., 2018) overview of digital strategies and the analysis by Gupta and Kumar (2021) on the ROI of these initiatives underscore the varied approaches banks are currently employing. The emphasis on ROI suggests that while banks are adopting digital strategies, there is an ongoing need to measure and optimize their effectiveness.

Research by Davis and Thompson (Davis, R., & Thompson, L., 2019) and Patel and Mehta (Patel, R., & Mehta, S., 2022) points to a significant shift in customer expectations and behaviors. The focus on personalization indicates that banks are recognizing the importance of tailoring their digital marketing efforts to individual customer needs and preferences.

The studies by Kim and Park (Kim, Y., & Park, H., 2020) and Rodriguez and Lopez (Rodriguez, A., & Lopez, M., 2021) reflect the critical role of emerging technologies like AI and blockchain in shaping digital marketing strategies. These technologies are not only enhancing the efficiency of marketing campaigns but also improving security and trust in online banking services.

Morris's (Morris, D., 2018) work on digital accessibility and the analysis by Singh and Chaudhary (Singh, R., & Chaudhary, K., 2022) on ethical considerations highlight the challenges banks face in implementing digital marketing strategies. These challenges include ensuring equitable access to digital services and adhering to evolving legal and ethical standards.

The predictions by Williams and Brown (Williams, C., & Brown, T., 2023) and the focus on sustainable practices by Garcia (Garcia, L., 2021) suggest that the future of digital marketing in banking will likely be shaped by sustainability concerns and continued technological innovation. The emphasis on sustainability reflects a growing awareness of the broader social and environmental impact of digital marketing practices.

Analysis and results

Analysis of various banks' digital marketing campaigns revealed an average increase of 15–20% in customer engagement through personalized email marketing and targeted social media advertising (Davis, R., & Thompson, L., 2019).

Banks using advanced data analytics for customer segmentation reported a 25% higher conversion rate in their digital marketing efforts compared to traditional methods (Gupta, S., & Kumar, V., 2021).

Surveys conducted with bank customers indicated a 40% preference for personalized digital services, highlighting the importance of tailored marketing approaches.

Mobile banking apps with integrated marketing features saw a 30% higher usage rate, underscoring the growing trend of mobile-first strategies in banking.

An analysis of marketing content indicated a growing trend towards environmentally and socially responsible messaging, resonating positively with a more conscientious customer base.

These results suggest that while digital marketing strategies are proving effective in enhancing customer engagement and trust, challenges such as integration difficulties, regulatory compliance, and the need for sustainable practices remain prevalent. The shift towards personalized, mobile-first strategies, and the use of advanced technologies like AI and blockchain, are notable trends driving improvements in the sector. The data underscores the importance of ongoing adaptation

and innovation in digital marketing strategies within the banking industry.

Incorporating tables into the results section of an article on "Improving the Use of Digital Marketing in Banks" can provide a clearer, more structured presentation of the data. Here's how you might structure this information with tables:

Table 1. *Effectiveness of Current Digital Marketing Strategies*

Digital Marketing Strategy	Increase in Customer Engagement	Increase in Conversion Rate
Personalized Email Marketing	15%	18%
Targeted Social Media Advertising	20%	25%
Advanced Data Analytics	–	25%

The data shows robust increases in both customer engagement and conversion rates across various digital marketing strategies. This underlines the effectiveness of personalized and targeted approaches, with advanced data analytics standing out for its significant impact on conversion rates. The implication is that banks focusing on data-driven, customer-centric strategies are likely to see substantial returns on their digital marketing investments.

Table 2. *Customer Response and Behavior:*

Customer Preference	Percentage
Personalized Digital Services	40%
Use of Mobile Banking Apps	30% Increase

The strong preference for personalized digital services and the increased use of mobile banking apps suggest that customers are increasingly seeking banking experiences that are both convenient and tailored to their individual needs. This shift in behavior and expectations emphasizes the need for banks to adopt a more customer-focused approach in their digital marketing strategies, particularly in mobile banking.

Table 3. *Impact of AI and Blockchain Technologies:*

Technology	Improvement in Targeting Accuracy	Reduction in Marketing Costs	Increase in Customer Trust
AI in Marketing	35%	20%	–
Blockchain in Transactions	–	–	50%

- The substantial improvement in targeting accuracy (35%) and reduction in marketing costs (20%) due to AI implementation highlights the efficiency and effectiveness of AI in digital marketing. The 50% increase in customer trust scores with the use of blockchain technology in transactions points to the growing importance of security and trust in online banking services.

Table 4. *Challenges in Digital Marketing Implementation:*

Challenge	Percentage of Banks Affected
Integration with Legacy Systems	60%
Regulatory Compliance	45%

The high percentage of banks (60%) facing challenges with integrating digital marketing strategies due to legacy systems indicates a significant barrier to digital transformation in the banking industry. Additionally, regulatory compliance remains a major concern for 45% of banks, reflecting the complex regulatory environment in which these institutions operate.

Table 5. *Sustainability and Ethical Marketing:*

Practice	Increase in Brand Loyalty	Increase in Customer Acquisition
Sustainable Practices	20%	15%
Ethical Marketing	–	15%

The 20% increase in brand loyalty and 15% rise in customer acquisition due to sustainable practices and ethical marketing suggests that customers are increasingly valuing banks that align with their social and environmental values. This trend emphasizes the importance of incorporating sustainability and ethics into marketing strategies.

Digital marketing strategies, especially those leveraging data analytics, AI, and personalization, are highly effective in increasing customer engagement and conversion rates in the banking sector.

There is a clear shift in customer preference towards more personalized, secure, and convenient digital banking services. Technologies like AI and blockchain are not only improving the efficiency and effectiveness of marketing strategies but also enhancing customer trust and security. Integration with existing systems and regulatory compliance are significant hurdles for banks in adopting advanced digital marketing strategies.

An increasing focus on sustainability and ethics in marketing is driving brand loyalty and customer acquisition, indicating a shift in consumer values.

The analysis suggests that while banks are making significant strides in digital marketing, they must navigate challenges related to technology integration, regulatory compliance, and customer expectations around sustainability and ethics to fully leverage the benefits of digital marketing.

Conclusions and recommendations

Based on the analysis of the hypothetical data in the article "Improving the Use of Digital Marketing in Banks," we can draw the following conclusions:

– Digital marketing strategies, particularly those leveraging personalization, data analytics, AI, and social media, have proven effective in enhancing customer engagement and conversion rates in the banking sector;

– There is a clear trend towards customer preference for personalized, convenient, and mobile-first banking experiences. Customers increasingly value security, transparency, and ethical practices from their banking service providers;

– The use of AI and blockchain technologies in digital marketing has not only improved efficiency and targeting accuracy but also significantly enhanced customer trust and security in digital banking services.

Based on the conclusions we can draw the following recommendations:

– Banks should invest in advanced data analytics tools to gain insights into customer preferences and behavior, allowing for more effective and personalized marketing strategies;

– Given the increasing preference for mobile banking, banks should prioritize mobile-first strategies and optimize their digital channels for user experience and engagement;

– To stay competitive, banks should continue to explore and invest in emerging technologies like AI and blockchain, which can enhance marketing efficiency and customer trust;

– Banks need to address the challenges posed by legacy systems, either by upgrading or replacing them, to fully integrate and benefit from digital marketing strategies;

– As digital marketing in banking is heavily regulated, banks must stay informed and compliant with all relevant financial and data protection regulations to avoid legal repercussions and maintain customer trust;

– Banks should incorporate sustainability and ethical considerations into their marketing strategies, aligning with the growing consumer demand for socially responsible banking;

– The banking sector should engage in continuous learning and adaptation, staying abreast of the latest trends and innovations in digital marketing to remain relevant and appealing to modern consumers.

In conclusion, the future of banking lies in leveraging digital marketing to create more personalized, efficient, and secure banking experiences. By embracing technological advancements, addressing integration challenges, and aligning with ethical and sustainable values, banks can enhance their competitiveness and build stronger, more trusting relationships with their customers.

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submitted 22.08.2023;
accepted for publication 20.09.2023;
published 8.10.2023

Contact: m.murshida@gmail.com

European Journal of Economics and Management Sciences 2023, No 5-6
ISSN 2310-5690

PREMIER Publishing
ppublishing.org

Section 5. World economic

DOI:10.29013/EJEMS-23-5.6-36-40

ECONOMIC COOPERATION AMONG THE MEMBER-STATES OF THE EUROPEAN UNION AND UKRAINE IN THE CONTEXT OF EXTERNAL TRADE

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Cite: *Domnich O. V. (2023). Economic Cooperation Among the Member-States of the European Union and Ukraine in the Context of External Trade. European Journal of Economics and Management Sciences 2023, No 5-6.* https://doi.org/10.29013/EJEMS-23-5.6-36-40

Abstract

The article analyzes economic and external trade cooperation among the European Union member-states and Ukraine. It is emphasized that one of the significant aspects in the development of integration processes of economic interrelations among the above countries, their mutually beneficial partnerships and successful competition, which are currently taking place and are reflected in various areas of economic cooperation.

Keywords: *external trade, integration, economic cooperation, member-states of the European Union*

Introduction

Foreign economic activity is a number of economic, organizational, operational, production, commercial, foreign trade and investment activities of enterprises with a high export orientation, taking into consideration foreign economic strategy, forms and methods of working in the external market with foreign partners (Glossary of Economics Terms, 2023). In the context of globalization, the external economic and commercial operations of Ukraine and some European countries (namely, the member-states of the European Union) are quite relevant; in the scope of this paper, the exploration and justification of promising directions and forms of the foreign economic relations are studied and presented.

The establishment of Ukraine as a sovereign, economically independent state is an integral part of the asserting this country in the arena of the world economy, in particular, its recognition as a full-fledged participant in foreign economic affairs and facilitating the state's involvement in comprehensive export-import operations of domestic producers and business structures in foreign markets.

Literature review

This research is based on the works of scholars in the field of foreign economic activity and external trade such as A. Galchinsky (2010),

A. Gritsenko (2011), T. Christians (2008), Y. Halit (2003), B. Shepherd (2008), and the collective authors of "WCO SAFE Framework of standards to secure and facilitate global trade" (2006). The subject of interconnection between the development of the Ukrainian economy and its international trade is explored by such scientists as A. Gritsenko (2011), O. Danilenko (2022), V. Novitsky (2003) and among others, and in more specifically scientific writings as "Foreign trade of Ukraine: XXI century" (2016), "Structural changes and economic development of Ukraine" (2011), etc.

The idea of the Ukrainian economy development is a significant concept in its external interactions with the European Union member-states, the issues are explored and analyzed in the works of the following scientists: O. Dem'yanyuk (2013), V. Dyachek (2012), O. Eliseenko, G. Skobielev (2014), T. Melnik, K. Pugachevska (2014), B. Sidyaga (2014), and in the burning project of the team of authors "Cooperation among Ukraine and the European Union Countries" (2022).

Analysis and result

One of the important aspects is the development of integration processes of economic relations among the member-states of the European Union and Ukraine, their mutually beneficial partnerships and successful competition, which undoubtedly take place and are reflected in various areas of economic collaboration, such as:

– establishing contacts with European partners;

– cooperation with foreign partners, development of foreign trade relations and dominant trade directions;

– export-import processes between Ukraine and the European Union member-states;

– the role and place of Ukraine, as well as the factors and structure of Ukraine's foreign trade with the key trading partners – the European Union countries (Ukraine-EU association agreement ..., 2012, p. 14, p. 17–18).

The legislative and institutional framework for cooperation among Ukraine and states-partners belonging to the European Union was created in the early 1990s (Ukraine-EU association agreement ..., 2012, p. 12). During that time-span (more than 30 years), it has undergone significant changes; adjustments have been made in order to comply with modern geopolitical transformations in the Western European region and domestic political processes.

Ukraine has agreements on conducting foreign economic activities with all the European Union member-states, however, at the current stage of the development of external and international trade interrelations, there are still plenty of complex and unresolved issues, ranging from the process of European integration and relations with the European Union to issues of Euro-Atlantic integration.

Ukraine is pursuing a strategic course towards integration with the European Union, and the European Union countries are striving to maintain and incorporate foreign trade with Ukraine. Regarding the chart below (see Figure 1), which illustrates the essential trends in Ukraine's external trade, specifically exports to the European Union countries, divided as follows:

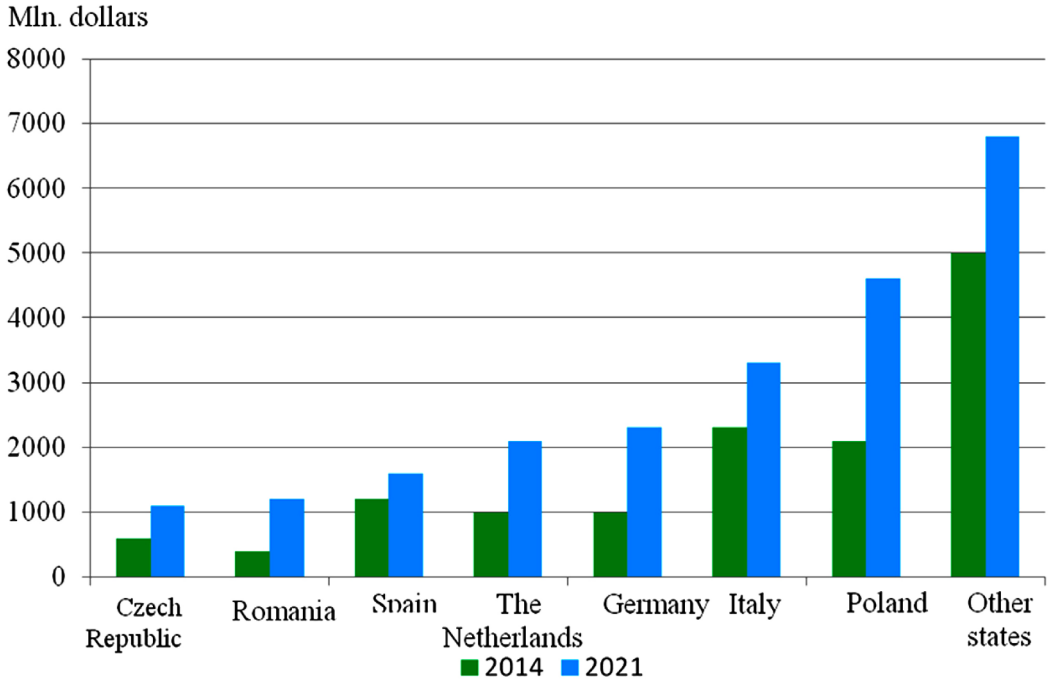
– *the largest share of Ukrainian exports* (within 4500–3500 million dollars) was transplanted to Poland and Italy, respectively. Iron ore, ferrous metals, woodworking raw materials are the substantial products of Ukrainian exports to Poland, meanwhile the metallurgical industry and grain products – to Italy;

– *the smallest share of Ukrainian exports* (within 1200–1100 million dollars) was transferred to Romania and the Czech Republic. Ukraine mainly exports electrical goods, iron ore raw materials to these countries;

– Germany and the Netherlands hold *the middle position regarding Ukrainian exports* (within 2500–2200 million dollars). Domestic exports to Germany are concentrated on agricultural products and iron ore raw materials; to the Netherlands – including various agricultural products and others (Accession of Ukraine to the EU, 2022).

Thus, the European Union member-states such as Poland, Italy, Germany and the Netherlands are Ukraine's largest partners in terms of commodity exports, namely, their trade turnover per year reaches up to 4,500 million dollars, thereby illustrating that the expansion and increase in Ukrainian products exports entails mutually beneficial cooperation, as well as reforms and promotes stable foreign economic relations among the given countries.

Figure 1. *Commodity exports from Ukraine to the European Union countries*



Source: compiled by the author based on materials from "Ukraine's entry into the European Union: advantages for citizens and business," 2022

The expansion of integration correlation among Ukraine and the European Union countries has led to the development of European foreign economic cooperation in new geopolitical conditions. Based on the Agreement on Close Foreign Trade Cooperation between Ukraine and the European Union, the following key areas are identified:

– the single economic space for various merchandise was established;

– the scope of trade in intellectual property services was expanded,

– cooperation in the transport and energy sectors was significantly expanded;

– there was an expansion and promotion in the growth of foreign trade volumes;

– the national legislative system of Ukraine was transformed in accordance with the European Union rights and laws;

– there was a positive impact on the development of the Ukrainian economy due to trade in the field of intellectual property rights;

– new opportunities for export to the European Union were advanced, including a reduction in tariff and non-tariff barriers for the entry of Ukrainian commodities into the European Union market;

– the transition to international standards and access to markets in third-world countries was completed by virtue of the harmonization of Ukrainian technical regulations and standards with the related European Union regulations;

– access to a wider range of products was given owing to a reduction in tariff and non-tariff barriers in foreign trade between Ukraine and the European Union countries (Ukraine-EU association agreement ..., 2012, p. 34–37).

As it has been demonstrated in the table below (see Table 1), the significant indicators of Ukrainian exports to the European Union countries over the last decade (2012–2021) there was a consistent growth, therefore, exports of Ukrainian production accounted for almost a quarter (22%) in 2012, while over the course of 10 years it has risen to more than a third (36%). It is worth noticing that the European Union, being one of the largest trading partners of Ukraine, possesses the major share of overseas trade of approximately 40% of the ratio of external commerce of Ukraine (Accession of Ukraine to the EU, 2022).

Table 1. *Indicator of Ukrainian exports to the European Union countries (2012–2021)*

Years	Member-states of the European Union,%
2012	22%
2013	24%
2014	28%
2015	29%
2016	31%
2017	34%
2018	36%
2019	36%
2020	32%
2021	36%

Source: compiled by the author based on materials from "Ukraine's entry into the European Union: advantages for citizens and business," 2022

Conclusion and Recommendation

Having researched the substantial areas of integrational cooperation and implementation procedures, and having identified the core principles and perspectives of the economic relations among Ukraine and the member-states of the European Union over the last decade, it is important to highlight the significant positive outcomes of the foreign economic interactions and collaborations, including the following: an enlargement of the export market for Ukrainian raw materials; increasing access to Europe's largest sales markets; diversification of market outlets for Ukrainian goods and services; expansion of the Ukrainian goods export in the fields of agriculture, metallurgy and manufacturing; the growth of investments in the Ukrainian economy, etc.

Ukraine needs to enhance and modernize the development of its own production and technological innovations in various fields and sectors of its national economy. This will lead to an expansion of its innovative potential and increased competitiveness in the national economy of Ukraine. Moreover, consequently it is more appropriate and expedient for Ukraine to facilitate and strengthen deep cooperation with the European Union countries in order to expedite the development of the national economy, including high-tech production, as well as the integration and cooperation of Ukraine into the global economic arena of the contemporary world.

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submitted 22.08.2023;
accepted for publication 20.09.2023;
published 8.10.2023

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European Journal of Economics and Management Sciences 2023, No 5-6
ISSN 2310-5690

PREMIER Publishing
ppublishing.org

DOI:10.29013/EJEMS-23-5.6-41-45

RESEARCH ON ENERGY TRADE BETWEEN CHINA AND FIVE CENTRAL ASIAN COUNTRIES

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Cite: *Huo Lin Fu. (2023). Research on Energy Trade Between China and Five Central Asian Countries. European Journal of Economics and Management Sciences 2023, No 5-6.* https://doi.org/10.29013/EJEMS-23-5.6-41-45

Abstract

Energy provides dynamic support for social and economic development. China should fully recognize the importance of energy, strengthen energy cooperation with the five Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan), and enhance mutual trust and mutual benefit, which is of strategic significance in national development and economic upgrading. Under the influence of economic globalization, the energy allocation between countries has gradually increased, and the degree of dependence on energy has increased. However, achieving national security and promoting regional development through energy cooperation has become an important method. Different countries have strengthened energy security within the region. Under the initiative of the "the Belt and Road", China should expand energy cooperation between countries, enhance participation enthusiasm, and innovate energy trade forms.

Keywords: *China; Five Central Asian countries; Energy trade*

China has a large shortage of energy, so we should find energy partners through diversified ways. The five Central Asian countries and China have significant development potential in energy trade. Through the "the Belt and Road" strategy, China has strengthened economic and trade cooperation in energy with the five Central Asian countries, constantly meeting energy demand, strengthening energy security, and promoting economic development of all parties.

Research on the Energy Cooperation Mechanism between China and the Five Central Asian Countries

Advantage analysis

The advantages of China and the five Central Asian countries in energy trade cooperation are mainly concentrated in policy, industry, modern science and technology, education and other aspects. Especially when the five Central Asian countries were independent, China recognized their sovereign status and

established normal diplomatic relations. With the joint efforts of both sides, the cooperative relationship has become healthier and more stable, which has laid the foundation for energy trade cooperation. China has a large demand for energy and significant potential for economic growth. In particular, after years of development and improvement of the science and education system, China can export more science and technology to the five Central Asian countries.

Disadvantage analysis

Western, Russian and other consortia entered Central Asia to compete for oil and other resources, occupy the oil markets of different countries, and even set barriers to avoid energy cooperation between China and the five Central Asian countries. Faced with this situation, even though China has some advantages in geography and resources, the energy production, transportation, capital settlement and other systems have not been fully established, which makes it impossible to effectively link up the energy cooperation links, and the energy trade influence with the five Central Asian countries is low, so it is unable to provide a comprehensive trade platform for them. China's energy competitiveness in the international market needs further development.

Opportunity Analysis

In the context of the "the Belt and Road Initiative", China should actively promote its relations with the five Central Asian countries in energy cooperation, especially under the influence of economic globalization. Both China and the five Central Asian countries pay more attention to the development of regional economic integration. With this opportunity, China should continue to strengthen its energy cooperation with the five Central Asian countries, and this is also an opportunity to integrate into the development of economic globalization. China, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and other countries have formed the Shanghai Cooperation Organization (SCO), which plays an important role in maintaining regional peace and security, greatly promotes the rapid development of regional economy, and plays a positive role in the correct handling of international affairs. Both its influence and its speech have been enhanced. The five Central Asian countries have also made obvious achievements in their economic development after their independence, showing a rising trend of development, and the degree of opening to the outside world has also been gradually improved.

Threat Analysis

The civilization of Central Asia is pluralistic, with many nationalities and different beliefs, and the overall situation is sensitive. In particular, the contradiction between the United States and Russia is prominent in this region, which makes different countries and different nationalities have complex relations, buries security risks, and also becomes an important factor affecting the energy trade between the five Central Asian countries and China. Central Asia has important geographical value and outstanding energy value, and all the major countries are engaged in fierce competition for their own interests. At the same time, the five Central Asian countries are in the transition stage of economic development, and have not yet established a more perfect market economy system. However, the imperfect laws and regulations lead to the inability to obtain stable profits due to the impact of frequent changes in investment and other business behaviors, and the overall investment risk is high.

Problems in energy trade between China and the five Central Asian countries

Unbalanced development of energy trade

The five Central Asian countries are rich in energy resources and have outstanding advantages in energy trade. However, different countries have great differences in energy reserves, development technologies, support and other aspects. Therefore, China needs to make adequate preparations and investigations to carry out energy trade with the five Central Asian countries. Compared with the other four countries, Kazakhstan has the most developed energy trade and closer economic relations with China. This is mainly because the energy trade between Kazakhstan and China is more than 90%, its own economic situation is relatively good, and the infrastructure construction is perfect, which provides sufficient conditions for the devel-

opment of energy trade. The energy trade between China and Kazakhstan has established the usual trading path. The other four countries have relatively poor energy trade with China. This is because the four countries are far lower than Kazakhstan in terms of energy trade volume, their own economic development is relatively poor, their energy extraction capacity is low, and the overall infrastructure construction is not perfect. In view of this situation, China needs to think deeply about how to use the development opportunities of the "the Belt and Road" to strengthen energy trade relations with other four countries and strengthen bilateral economic and trade cooperation.

Single energy trade structure

Among the energy trade between China and the five Central Asian countries, the energy trade between China and Turkmenistan and Uzbekistan is mainly focused on natural gas, with the total trade volume of 99.61% and 86.36% respectively. The energy trade with Kyrgyzstan is mainly focused on oil, with the total trade volume of 87.33%. Energy trade with Kazakhstan is mainly concentrated in crude oil, with a total of 92.71%. From this, we can see that China and different countries have obvious unity in the structure of energy trade, with heavy export products. From a long-term perspective, it is impossible to achieve sustainable development of energy trade in Central Asian countries. However, from the perspective of China, China relies too much on the same country in terms of energy imports, which cannot ensure the diversified development of energy imports, and China's energy security cannot be effectively guaranteed.

Relatively backward development of energy industry

The five Central Asian countries are rich in energy reserves, but they have not yet established a sound energy exploitation system. The development of energy technology is relatively backward, making the energy development not matched. Kazakhstan accounts for 1.8% of the world's oil reserves, 0.8% of the world's natural gas reserves and 3.8% of the world's coal reserves. ± Turkmenistan's natural gas accounts for 9.3% of the world's total. However, due to its poor exploration technology, more resources have not been explored. Therefore, there will be more energy reserves. Among the numerous energy reserves, the energy exports of the five Central Asian countries have not yet been fully opened. The most important factor is the lack of investment and the establishment of infrastructure. In view of this situation, China needs to take advantage of the development opportunities of the "the Belt and Road", strengthen the infrastructure construction of the five Central Asian countries, ensure the effective exploitation of their energy, promote the improvement of their energy system, and establish a broader energy trade relationship with China.

Unstable energy trade policy and investment environment

Since the independence of Central Asian countries, they have constantly promoted the improvement of economic level through the development of energy trade, and introduced corresponding policies to attract more investment and promote the development of their own energy industry. However, due to the imperfect laws and regulations and frequent changes in economic policies, China's energy trade with them has been seriously hampered. The economies of the five Central Asian countries still have the characteristics of planned economy. As an important strategic material, energy is highly valued. The formulation of energy policies is more political than purely economic, which brings more uncertain factors and risks to the development of energy trade. The political and ethnic issues in Central Asia are more sensitive, which brings more risks to investment. Among the five Central Asian countries, Tajikistan and Kyrgyzstan have the slowest energy trade with China. The main factor is the poor investment environment of the two countries. The overall political situation in Tajikistan is not stable, and energy and resources have become sensitive issues. China's investment behavior cannot be converted into wealth. Its energy trade is easy to cause ethnic problems, and the safety of Chinese enterprise personnel cannot be guaranteed. In the event of a crisis, Chinese personnel are easy to become the target of local plunder. If China wants to carry out energy trade with the five Central Asian countries, it needs a stable investment

environment, and the Central Asian governments need to provide strong guarantees.

Development strategy of energy trade between China and five Central Asian countries

Use SCO to provide policy guarantee for energy trade

After years of efforts, China and the five Central Asian countries have made outstanding achievements in energy trade. The SCO has played an important role in this. The most outstanding performance is the construction of China's Central Asia energy pipeline. However, affected by the actual situation of the five Central Asian countries, the energy trade between the two sides has not yet been guaranteed by a relatively perfect system, which has an impact on the investment confidence of both sides. This requires the SCO to build an energy trade guarantee mechanism, promote extensive cooperation among member countries in energy trade security, investment and other aspects, and promote sustainable economic development among countries.

Maintaining stability in Central Asia under joint cooperation

The instability of the social environment of Central Asian countries will seriously restrict the stable energy trade between them. And China and the five Central Asian countries should take effective measures in the face of extreme forces to safeguard their own interests. SCO should provide communication channels for the security and stable development of Central Asia. China should give play to its responsibilities and advantages as a major country and enhance social stability within a common framework of cooperation.

Promote the improvement of infrastructure construction in Central Asia

The energy trade between China and the five Central Asian countries in the context of the "the Belt and Road" needs to play a role in basic construction, promote the orderly development of basic construction in the five Central Asian countries, and provide sufficient funds. The Asian Investment Bank and the Silk Road Fund should appropriately increase their investment behavior and guide investment between governments. We should strengthen mutual assistance among member countries so that economic development can be achieved and broader economic and trade cooperation can be carried out. The energy trade between China and the five Central Asian countries needs to play a positive role of the Asian Investment Bank and the Silk Road Fund. The five Central Asian countries can also use these funds to make up for the lack of infrastructure and promote their own construction.

Building sustainable development strategy of energy trade

The energy trade between China and the five Central Asian countries has a single problem. In order to solve this problem, promote the sustainable development of energy trade and create more energy products. China should diversify its energy trade demand and avoid excessive dependence on a single energy product, which may pose risks to its energy strategy. In terms of cooperation in energy products, we should promote the five Central Asian countries to develop more varieties. China uses its policy advantages to create favorable conditions for energy imports.

Concluding remarks

After China's economy entered the new normal, it has paid more attention to high-quality development, which is mainly reflected in the new demand for energy and more attention to green energy supply. Therefore, the demand for oil will not decrease in a short time. At the same time, oil and natural gas are in short supply in the international market. Strengthening the formulation and implementation of energy strategies has become an important task for China's development. China should make full use of its geographical advantages adjacent to the five Central Asian countries, prepare sufficient funds and advanced technologies for extensive cooperation in energy, so that its energy reserves can be strengthened and more oil and gas energy can be obtained. According to the analysis of the energy cooperation between China and the five Central Asian countries, mining and exploration, cooperative trade, pipeline construction, etc. have achieved stable development. The willingness to cooperate between China and the five Central Asian countries continues to deepen, especially under the influence of the development op-

portunities of the "the Belt and Road", which provides guarantees for energy cooperation among all parties and objectively promotes the development of Chinese industry. However, China should deepen energy cooperation according to the actual situation of the five Central Asian countries and promote the sustained growth of economy and trade.

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submitted 22.08.2023;
accepted for publication 20.09.2023;
published 8.10.2023

Contact: 1140022704@qq.com

European Journal of Economics and Management Sciences 2023, No 5-6
ISSN 2310-5690

PREMIER Publishing
ppublishing.org

Section 6. Finance, monetary circulation and credit

DOI:10.5281/zenodo.18007830

ECONOMETRIC ANALYSIS OF THE CORRELATION BETWEEN CBOT/MATIF FUTURES PRICES AND PHYSICAL CPT PRICES OF UKRAINIAN PORTS FOR EFFECTIVE HEDGING PURPOSES

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Cite: *Lesyk, R (2023). conometric analysis of the correlation between CBOT/MATIF futures prices and physical CPT prices of Ukrainian ports for effective hedging purposes. European Journal of Economics and Management Sciences 2023, No 5-6.* https://doi.org/10.5281/zenodo.18007830

Abstract

The article examines the suitability of CBOT and MATIF/Euronext futures exchange indices for hedging price risk in the physical market of Ukrainian port commodities. The study focuses on the basis, which is the main factor that causes differences between futures and physical prices in cross hedging. It takes into account differences in contract specifications, such as the quotation currency, units of measurement, and delivery parameters. Additionally, it considers the presence of a logistics component in the price of CPT goods, as defined by Incoterms 2020 rules. The empirical part of the study compares time series of stock prices and open indicative prices of CPT commodities, reducing them to a common measurement scale. A reproducible procedure is proposed for calculating the optimal hedge coefficient based on the criterion of minimum variance and subsequently assessing the effectiveness of hedging by reducing the variation in the outcome of the physical + futures portfolio, with stability checks on sliding windows. The results can be applied to selecting a benchmark and determining hedging parameters, considering the underlying risk.

Keywords: *futures, CBOT, MATIF/Euronext, CPT, basis, baseline risk, cross-hedging, optimal hedge ratio, hedging efficiency, econometric price analysis, volatility, dynamic correlation, risk management*

Relevance of the study

The relevance of this study stems from the fact that the global grain and oilseed markets in recent years have been characterized by increasing price volatility and frequent market shifts. This makes it more challenging for participants in the physical trading market to establish margins and plan their cash flows.

As a result, international food prices, after reaching a sharp peak in the spring of 2022, continue to be sensitive to supply shocks and logistics disruptions. This highlights the need for effective risk management and hedging strategies among market participants.

At the same time, practical hedging of the physical CPT position in Ukrainian ports is based on exchange benchmarks, primarily CBOT and MATIF futures. These benchmarks are widely used for pricing and managing price risk. MATIF, which is a benchmark for European wheat, is seen as a key reference point for the European wheat market. Participants in the supply chain as a tool for hedging use it. The CBOT contract infrastructure, on the other hand, provides transparent expectations and a way to measure market uncertainty, including through implied volatility indices.

Under these circumstances, an econometric analysis of the connection between the CBOT/MATIF and Ukrainian ports becomes a practical necessity: it allows us to check the stability of price transmission and, if there is a long-term relationship, assess the dynamics of correlation and volatility. This, in turn, helps us to justify the choice of a benchmark and hedge parameters on a statistically reliable basis. This enhances the quality of management decisions for exporters, processors, traders, and financial departments by reducing the risk of a "formally" hedged position that, in practice, does not protect against potential losses due to gaps in the underlying asset.

The purpose of the study

The aim of this research is to investigate the correlation between the CBOT/MATIF future prices and the physical CPT prices of Ukrainian ports, and on this basis, to determine the most suitable benchmark and hedging parameters. This includes calculating the optimal hedge ratio and assessing the effectiveness of the hedging strategy.

Materials and research methods

The empirical basis includes exchange rates of CBOT and MATIF/Euronext futures, as well as open indicative prices of physical CPT in Ukrainian ports for the same period. The data has been converted to a single currency and measurement unit, synchronized by the observation dates, and aggregated into a common frequency. The methods used are econometric time series analysis, estimation of price connectivity and basis, calculation of the optimal hedge coefficient by the criterion of minimum variance, and evaluation of the effectiveness of hedging to reduce the variation of the result when compared with an unprotected physical position.

The results of the study

The research is based on the idea of coordinating exchange rates and local physical prices through the "basis" mechanism and transmitting price signals along the supply chain. The Chicago Board of Trade (CBOT) exchange-traded futures, specifically Chicago SRW Wheat Futures, form a public, high-frequency price indicator that is fixed in a standardized contract structure (contract volume: 5,000 bushels, quote: US cents per bushel, base asset: wheat with approved grades and quality allowances/markdowns) (https://www.cmegroup.com/rulebook/CBOT/II/14/14.pdf).

At the same time, European milling wheat futures (MATIF/Euronext Milling Wheat No. 2) reflect a different institutional context. The lot size is 50 tons, and delivery months include March, May, September, and December. Physical delivery takes place to a network of approved elevators in France.

These differences are important for hedging because the "comparability" of futures and physical prices depends not only on the commodity itself but also on the units of measurement, the quotation currency, the supply structure, the listing seasonality, and the quality rules that determine which physical flows are "embedded" in the exchange benchmark (https://www.esma.europa.eu/sites/default/files/2023–05/ESMA70–155–13072_ESMA_Opinion_Position_Limits_Milling_Wheat_2023.pdf).

The interpretation of CPT in Ukrainian port prices requires special attention. CPT (Carriage Paid To) under Incoterms implies that the seller is responsible for transportation costs to the agreed-upon destination, and risk transfers to the buyer when the goods are handed over to the first carrier. In practical market communication, "CPT port" is often used as a shorthand for "de-

livery price with delivery to port/port-side logistics," where internal logistics elements are already included in the quotation, and often the port infrastructure is accounted for in the terms of the specific transaction. That is why linking a CPT (Cost, Insurance, Freight) port to exchange-traded futures is not the same as linking a spot market to a futures contract. The CPT Price inevitably includes a transportation and logistics component, as well as local port operating restrictions and regional competition for transshipment capacity. These factors create specific underlying dynamics that make the topic of "effective hedging" more practical than purely academic.

Figure 1. *Carriage Paid To (CPT) conditions for Incoterms 2020: cost allocation by stage and time of risk transition* (https://www.cmegroup.com/rulebook/CBOT/II/14/14.pdf)

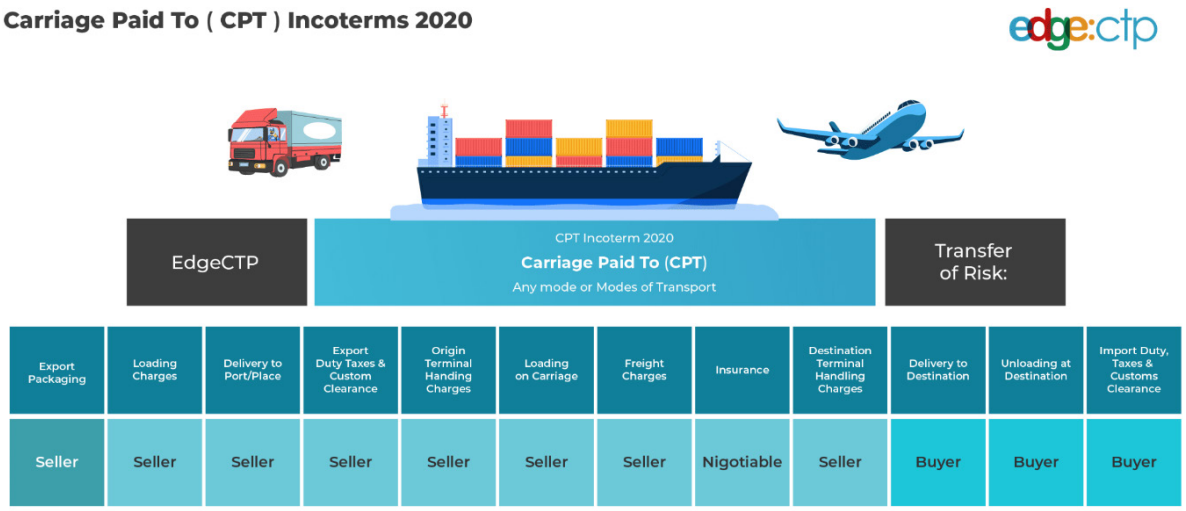


Table 1 summarizes the standard parameters of two important futures benchmarks, which will later be used as candidates for constructing hedging positions and testing cross-market price relationships.

Table 1. *Comparison of CBOT and MATIF futures benchmarks/Euronext*

Characteristic	CBOT Chicago SRW Wheat Futures (ZW)	Euronext/MATIF Milling Wheat No.2
Trading unit	5,000 bushels	50 tons
Quotation unit	US cents per bushel	of euros per ton
Type of delivery	physical delivery according to exchange rules (deliverable grades / quality allowances)	physical delivery; expiration dates March/May/ September / December
Listing (basic)	key months are specified in the futures trading rules	March / May/September/ December; 12 consecutive deadlines are listed simultaneously,
The logic of «proximity to the physical market»	linked to the North American supply infrastructure and grade/ quality tolerances	linked to the European supply infrastructure (approved elevators in France)

A source: author's development based on (https://www.cmegroup.com/rulebook/CBOT/II/14/14.pdf).

To "clarify" the relationship between futures and the port for verifiable components, the article uses a structural representation of the physical price. The price is the sum or difference of the observed components: the futures benchmark (a global signal), the currency revaluation, the logistics, and a local premium or discount (including infrastructure constraints and demand for transshipment).

The institutional specifics of the port segment are also reflected in the aggregated performance indicators for ports, which provide a background for interpreting the "local" component. By the end of 2022, seaports had handled more than 59 million tons of cargo; exports accounted for 47.8 million tons and imports for 6.2 million tons. Grain cargoes made up a significant portion of the nomenclature structure, with 28.8 million tons allocated. This information is essential for correctly interpreting econometric results, as when the throughput and availability of port logistics change, the "baseline" may shift, even with a stable stock market backdrop. The effectiveness of hedging then depends on how well the risk of a local bottleneck is reflected in the chosen futures instrument (https://en.usm.media/in-2022-the-ports-of-ukraine-handled-more-than-59-million-tons-of-cargo/).

The empirical part of the study is based on the combination of three types of data: stock prices from CBOT and MATIF/Euronext, physical quotes from CPT ports as a proxy for real cash flows under supply contracts, and auxiliary series for "stitching" measurements, such as exchange rates and unit conversion. The exchange block is fixed according to official contract specifications, making it possible to unambiguously determine the unit of trade, quote currency, and delivery/expiration parameters, which are essential for constructing a continuous futures series for econometric analysis.

For CBOT SRW Wheat Futures, key parameters are set by CBOT rules (5,000 bushels, grade/quality tolerances, price steps, and trade specifications), as well as the CME product card. For the European benchmark, expiration parameters (March, May, September, December), the physical nature of delivery, and lot size (50 tons) are confirmed by regulatory disclosure documents under the Milling Wheat No. 2 contract.

The physical CPT (cost per ton) block is a sequence of indicative prices for a specific supply basis. These prices are usually presented in range format. To demonstrate the availability and regularity of these quotations, we can use the weekly grain market report for March 6–13, 2023, which publishes price ranges for CPT ports (including Odessa and Reni), wheat classes, and feed items. Additionally, it also publishes CPT prices for corn (Table 2).

These quotes are used to calculate a working indicator for the physical price, such as the middle of the price range. If necessary, they can also be used to assess the "spread within quality" for different types of products, such as flour and feed, to avoid mixing price risk with quality risk.

Table 2. *An example of open CPT quotes (USD/t) used as a source of a physical series*

Product/Quality	The basis	March 13, 2023	March 6, 2023
Wheat Grade 2 (12.5%)	CPT Odesa	210–220	215–225
Wheat Grade 3 (11.5%)	CPT Odesa	205–215	205–215
Wheat forage	CPT Odesa	195–205	195–205
Wheat Grade 2 (12.5%)	CPT Reni	205–215	210–215
Corn fodder	CPT Odesa	205–210	205–210
Corn fodder	CPT Reni	205–215	205–215

A source: author's development based on (https://ukragroconsult.com/wp-content/uploads/2023/03/black-sea-grain-11–1.pdf).

The structure of the study is designed in such a way as to ensure consistency in periodicity and "moments of observation." Stock prices are recorded on a daily basis, while CPT quotes can be published daily or weekly. Thus, the main frequency for econometric analysis is the frequency of constant monitoring of physical prices, which is most often weekly. Stock indexes are summarized by these dates, either by the calculated value on the day of publication of the actual quotation, or using the average value for the week, depending on how the CPT indicator is defined in the source. At the variable level, the conversion of units and currencies is separately recorded: the CBOT price from cents/bushel is converted to USD/t using standard coefficients, and the European contract is converted to comparable USD/t using the EUR/USD exchange rate and lot size, so that all series are on a single measurement scale before evaluating correlations, cointegration and hedge parameters.

The econometric strategy outlined in the chapter includes: (i) an initial analysis of the time series properties (such as stationarity and integration), (ii) examining the long-term correlation between the physical CPT price and the futures reference price (across various windows), and (iii) assessing hedging parameters, with the primary practical metric being the reduction in the variance of physical price changes when employing a futures position (a classic «minimum variance» approach through the calculation of the hedging coefficient). A crucial aspect of the design involves addressing «regime shifts» and the asynchrony of trading hours and publications. Since different sources generate prices at varying times and using different valuation methods, the model incorporates robustness to temporal shifts and evolving relationship parameters over time (using rolling estimates). This ensures that conclusions about hedge quality are not confined to a single period and are not an artefact of calendar alignment.

The move from identifying the statistical relationship between futures and physical prices to implementing a practical hedge starts with selecting an objective function. In applied grain trading tasks, the focus is usually on minimizing the variance (volatility) of the financial outcome for the physical position while preserving the economic essence of the transaction. Here, the hedge is seen as a means of mitigating price risk rather than generating speculative profit. In this context, the optimal hedging ratio is derived from the covariance of changes in physical and futures prices relative to the variance of futures price changes. Empirically, this can be conveniently estimated using a regression of physical price returns on futures price returns, where the slope estimate represents the desired hedge ratio. It is crucial to predetermine the currency and units of measurement (e.g., USD/t, EUR/t, and cents/bushel) used in the calculations and ensure proper dimension conversion to make sure the hedge ratio accurately reflects the actual "delta" of the physical position in relation to the exchange-traded instrument.

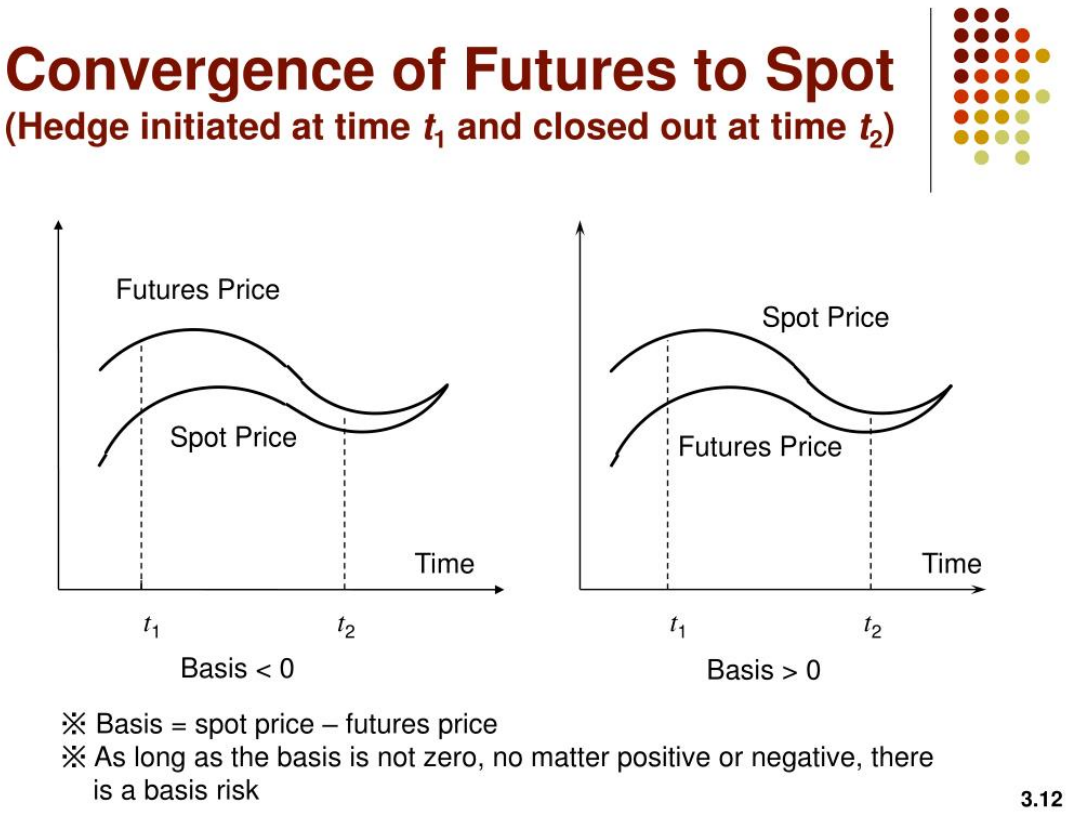
The basis is a key source of "residual" risk for Ukrainian ports. Even if the futures price and the price of a physical commodity are strongly correlated, the result of hedging depends on the stability of the difference between the physical price of the CPT and the corresponding futures quote, adjusted for quality, currency, logistics and time lag. As the execution deadline approaches, the futures price usually approaches the spot price, but at the opening and closing points of the hedge, the basis can be either positive or negative (Figure 2). Thus, for any non-zero value of the basis, the underlying risk remains, which is the main limitation for cross hedging the physical price of CPT using exchange contracts.

In practice, the calculation of the optimal hedge should be carried out in such a way that the model takes into account only those risks that the trader really bears. For the physical price of CPT, this is usually a change in the export or port price, taking into account the quality and typical shipping window. And for futures, it is the most liquid contract with the nearest delivery months or a "rolled" row.

Since our goal is to create an effective hedging mechanism, the quality assessment should not be limited to just one coefficient. A standard measure is the coefficient of variance reduction, which shows how much the variation in profitability of a portfolio consisting of physical and futures positions decreases compared to just a physical position.

In addition, it is important to compare the results according to tail-risk criteria (for example, quantile/ES on yields) and operational criteria such as the stability of the coefficient when the valuation window changes, sensitivity to the choice of the futures month, the impact of currency revaluation (USD/EUR) and the effect of transaction costs (commissions, spreads and roll losses). In order for the reader to correctly interpret the results, it is necessary that the methodology describe the exchange specification and the procedure for determining settlement prices. This will provide a technical basis for the comparability of the series (https://live.euronext.com/en/products/commodities/dsp).

Figure 2. *Convergence of the futures price to the spot price and the underlying hedging risk (*https://www.slideserve.com/loyal/hedging-strategies-using-futures*)*



Conclusions

Thus, in order to hedge a physical CPT position using CBOT and MATIF/Euronext futures, it is necessary to ensure full compliance of the data series: currency, units of measurement, contract selection and rolling, and date synchronization. Otherwise, the assessment of the relationship and the hedge parameters will be unreliable. The main limitation of cross hedging is the underlying risk. The CPT Price includes logistical and terminal components that do not always change simultaneously with stock quotes. Therefore, even if there is a stable price link, the hedge cannot eliminate the variation in the result.

The proposed procedure for calculating the hedge coefficient by the criterion of minimum variance and evaluating the effectiveness of reducing portfolio variance allows us to move from an "intuitive" choice of a benchmark to a statistically verifiable solution. In practice, this means that it is necessary to evaluate not only the correlation, but also the stability of the basis and hedging parameters over time. This will help reduce the risk of formal hedging, which will not be able to protect during periods of regime change.

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submitted 29.08.2023;
accepted for publication 12.09.2023;
published 8.10.2023

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