I did it my way

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29 September 2009

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or

Economic tales from Liechtenstein, Russia and India

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Summary:

Despite globalization which often tends to serves its own interest through fast capital movement, maximization of profit, cost cutting and global mind making, each country is on its own path to future. This path is paved with past achievements, government decision about taxation, privatization, usage and export of natural wealth, efficiency and environmental decisions but as well as mentality, consumer strengths, weaknesses and ability to change or not long term decisions regarding the human life and existence. How country is capable to recognize friends, trading opportunities, use inner strengths, respect past achievements and ancestors, develop creative approach in production, visualize future path while being aware of today's needs are just a few steps on the long journey called overall country success. One part of it is economy which incorporates Feng Shui in its future cash flow as well as quality of life overall.

Alida Paunić,

September, 2009

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1.2. Two brothers

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Story of Dream

On the ground
Sleep sound
I'll apply
To your eye
Gentle love, remedy
When thou wa'kst
Trou delight
In the light

Shakespeare W.
Midnight Summer Dream

0. Introduction

The adults that are living in the developing or advanced economies do know what a Happy Line is. A game where you put a small stake in the game and find other investors in order to regain some profit. The stakes are higher the more and more people are involved producing a happy faces in a few...and at the end of the story...large disappointed base.

Have we experienced similar consequences of the 2008 financial crises? Bank experts, politicians, university professors were surprised although some of them pointed out to the problems a long ago? How it happened? Developed economies have the fastest software, regulated accounting procedures, efficient banking system, and best universities in the world and western economies are the source of failure in bank confidence? Instead of having more advanced whole world we are predicting rising unemployment, crises of trust, bailout reaching sky rocketing amounts and we are all left with the question: money could be spend differently to solve poverty in the world and start producing more vigorously energy out of clean production. But it didn't. Now: we need to know what happened, how it happened, why and what to do next and prevent next similar occasion.

There are certain similarities of these crises with Happy Line game. Financial instruments gain a value with number of individuals involved, it doesn't have the firm transparent financial and real ground, we have ended with few happy individuals and a base that pays but do not enjoy much in this game. Happiness obviously has the price – but the same is valid for unhappiness what could bring us to equation:
$M_h \; N_h >< = \; M_{uh} \, N_{uh}$
M_h money made by happy /similar unhappy
N_h number of happy /similar unhappy

These three possibilities could determine further direction of the crises.
If the number of happy multiplied with money earned from/before crises is greater than number of unhappy people multiplied with money lost (discounted future value on today's date) than this problem is tried to be solved by finding not so basic or real guilt (like tax oases – that do contribute to crises but are not the engine or only source of the problem).
If this two equations are the same depends upon mechanism these two sides have in order to impose its relevant opinion, solution and bring some real changes. If number of unhappy people is bigger some negative social movements are possible to be seen but without real change in sectors involved no progress is to be on sight. The change should come from relevant institution, systemic solutions, low in forced and willingness to cope with real every day life struggle in the most harmonious to human and nature ways.

The three major players that are part of problem / solution equations are seen as:
a) Banks and financial institutions
b) Former socialist economies
c) Possible drivers of growth: India, China, Africa, South America

a) Banks and financial institutions

Banks were frequently mentioned in connection to 2008 crises. They have issued toxic assets, pre packed them, sold them earning profit and...Finally, they were bailed out.

Is there a law that forbids selling an existing instruments, is there a law that require banks to have more than 5% of its own assets (Tier 1 and Tier 2 obligation see Basel rules) is there a law to force them to invest into real projects into real and not virtual value of some financial instruments? Not really. So there are not banks fault to reward managers highly for making a happy line in which happiness is reached but for limited number of individuals.
Well hard question but obviously start from the rules of the game where putting a stress on small detail such as one cent but ignoring, a big picture could indeed bring a failure to a system.
Some changes need to be made in highly developed economies, globally agreed, recognized and legally in forced especially in country that produce the majority of toxic asset –USA- in banking , financial sector but in industry as whole.
Some proposal already heard or new one goes as follows:
-Increase the obligatory Tier 1 Tier 2 capital
-Invest in original investment – the first issue and take responsibility on price and possible failure of instrument. If re packed financial instrument need to be approved from Regulator State should have and asset to settle failure of possible false arrangements not to take money from future out of tax payer's pockets? If re packed at the international level it should be approved from the regulator in the country origin and regulator from country buyer. Country origin should guarantee agreed number of percent if failed. And country buyer agreed percentage of financial instruments end value if failed.
-Managers salaries need to value according to real value added to the company, country and the world and this calculation should be transparently published.
For example:
Salary company=number of years employed +school + profit out of activity + new profitable investments +new customers + e
Salary country=new investments in the country + infrastructure project + clean energy project + new factories + creative industries +e
Salary world= projects instruments that reduced poverty + projects instruments reduce global worming + projects instruments start production in poor region + instruments projects in welfare economics

With this equation profit and happy line is replaced with more transparent, fare, better earned salary equation. Adolescence is hard period for each person so it is hard also in financial cycles that need to grow up. In this way young, few happy, success, profit only, rich, closed society is changed with responsible, many happy, value, profit and welfare, enough for all, open not just proclamation and marketing means but really open transparent world that helps.

-Clear difference between investment that are based on pension money and risk taking investment by individuals/funds that speculates
Pension funds should be carefully managed, directed, and risk taking opportunities increase with amount put on aside. Each working individual determines with bank risk opportunities and treats he face

For the state it is important to develop – by promoting different mechanisms
like tax -oligopoly market and clearly communicates developing strategy to the public by publishing yearly, mid term and ling term development plans in each economic/energy field:

-Promote oligopolistic market (not few large conglomerates but many mid sized companies) based on long term interest, need , vision for the country.
-Companies that work globally but having a headquarter in a country while producing in China India need to open similar factory in the country of origin where they employ the same number of people.
-Very large dependence upon oil industry what further brings viscous cycle –military -oil-auto industry. This should be changed into military made infrastructure auto motor replaced by clean energy, more public, clean transportation policy.

b) Former Socialist Economies

Two large strokes were felt by former socialist economies in the last 20 years. The first one was transition from centrally planned to market economy that nearly drawn many of countries in transition. Large output fall out, rising unemployment, lost of property in un capable privatization process was a direct result. Recovered after this times of loss, finding ways of rising standard even at the cost of loosing national wealth they were suddenly faced with the second problem: Stock Exchanges decrease in value through world, toxic asset were sold to emerging economies and more expensive loans due to cash illiquidity were harder to obtain.

For the former emerging economies that were fighting with inflation, depreciation, liquidity constraints, sold property it become much harder/much expensive to rise again. To build a new factory and develop global economy need much mire than to sell its own values: they need good product, innovative ideas, marketing skills, cheap production, competitive prices, interpersonal skills to communicate in all languages and they need money.
A high interest rate on loans means large financial dependence upon foreign institutions, possible ruin if budget suffice, to a level marked in the USA economy. Once a people /company is highly in debited becomes harder to develop innovative ideas and foreign ownership is further implied. This second slavery could be prevented if privatization process was made at the slower, more cautious, more knowledgeable way.
Countries should not privatize before:
-clear understanding how the market works
-protection of natural wealth, strategic companies
-if oligopolistic market is developed firstly in country
-do not privatizes companies that were established before privatization begins – or privatizes them when all factors are considered and calculated, oligopolistic market established, only new capital can be privatized
-with domestic loans, securities issues finance new companies
-profit of state companies listed on stock exchange distribute in companies modernize and spread the production sales thought world

c) Emerging economies: India China

Emerging economies China India, Africa could be part of solution to the global financial problem. Still engine of growth if properly directed can bring growth to the world economy. Whether this part of the world should recognize its strengths and increase its own demand potentials while promoting efficiency, clean energy production, learning in all ages, and developing further is not important just for them but world that needs to be pushed.
Investing in its own values –infrastructure, factories, schools, hospitals lowering investment in volatile foreign security is the way to put the next step forward.
Old ancient knowledge came from Far East that teach us to balance all forces in our life – knowledge that we are all aware of –but not implementing it on the daily basis. If profit taking mentality prevail in those countries human conditions will deteriorate, natural wealth will be in danger, cycle of low cost production/low human value value could not be escaped .Only valuing life, education, nature in those countries together with trade with the other poor countries such as Africa, continuing working on quality products that are exported to advanced economies, developing trade with Russia and Middle East Countries on relation energy/products sustaining growth can continue as in last couple of years.

Three countries: Liechtenstein, Russia and India are observed in order to prove above stated sentences.

Some new beginning can be also imported from Far East –knowledge of Feng Shui- uneven strategy for each country – but unite us in common goal sustainable development, diminishing poverty and keeping high spirit in all people while protecting nature that is struggling for its life.

1. Liechtenstein

1.1. In short

How country of 160,4km^2 with population of around 35.322 people situated 221/km managed to be so often on the front pages when it is a word about taxes? Breath taking results measured in GDP numbers (1.786 bill $-in 2001- 3.658 billion$) what makes each member of this small principality richer from 53.951-105.323 are just a part of equation. Another part should be looked at the country of origin and reasons why the tax payer decides to settle with possible lower interest if the tax obligation is declined or reduced.

At the first glance we can note that country is a constitutional monarchy ruled by prince who is/was the world's sixth wealthiest leader. He is head of state, represents country in its international relations, may veto laws adopted by the parliament, can call referendum, propose new legislative and dissolve parliament. Not just monarchy power but it seams that this off route former Romer province gained while being geographically aside from Europe strategic interest.

Some other numbers say it is not a dull place at all. Following a policy of neutrality in a military matters its gained friends worldwide, being frequently visited by different tourist nationals the word of beauty spreads, having confidence too bid for 2018-2022 Winter Olympics, not so bad football team wants to be remembered in the sport history and last but not least important international art collection is exhibited in Kunstmuseum saying we feel we care for the world.

So many excellent achievements' must raise the question: what's the secret?

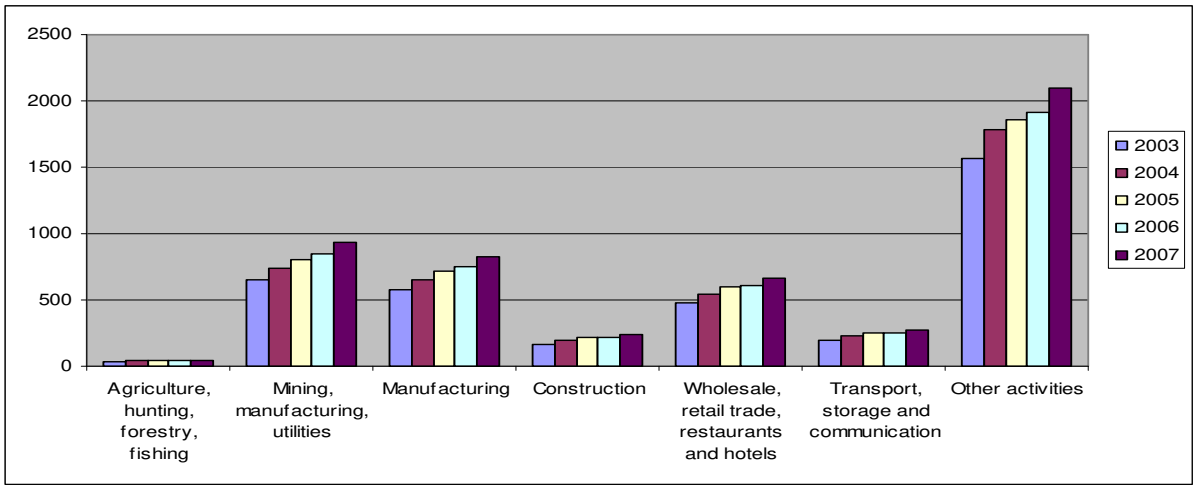
Is it in its tax policy fiercely defended by local LNG bank as well as prince?
The basic tax rate of 1,2% is certainly attractive but lose some charm when combined with the additional income tax imposed by communes totaling 17,82%.An additional income tax of 4,3 % is levied on all employees for the countries social security program. The maximum business income tax rate is 18-20% still competitive with other EU countries .The basic tax rate on wealth is 0,06% and the combined total rate is 0,89%.

Tax heaven condition attracted many tax payers from around Europe and provoked German government to accuse 700 people of illegally keeping money out of country- more importantly out of tax authority - just a few years ago. Suddenly, a cute landscape became a center of disagreements between governments, topic for economic discussion.
Let's examine more deeply.

1.2. How tax policy influence life in tax paradise

From the UN data base it is visible that a significant part of Valued Added has for its source other activities. This income of about 1.000-2.000 mil. USD, takes a strong lead in front of mining and utilities value added (700-900 mil. USD), manufacturing (600-800 mil. USD) and wholesale, retail trade, restaurants and hotels activities that provide „only"400-600 mil. USD - as observed in last five years of Liechtenstein's economy.

Picture1: Value Added 2003-2007



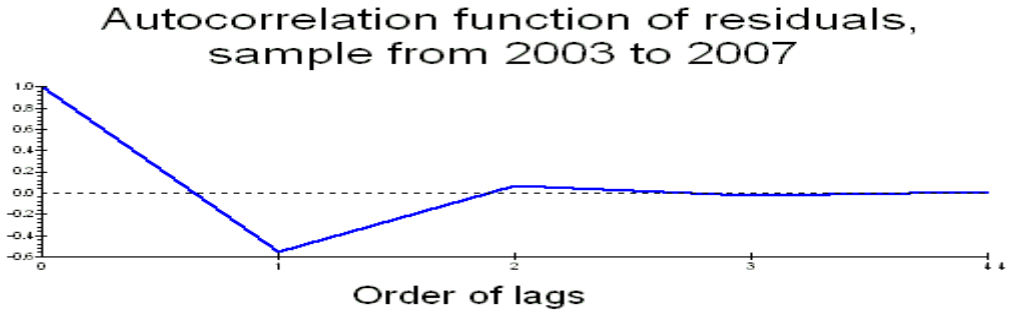
Source:www.unce.org

If we put the UNCE numbers in the simple linear regression following results are obtained:

*Total value added= .0012381*other activities -.011674*agriculture + .0095992*trade - .017757*construction*

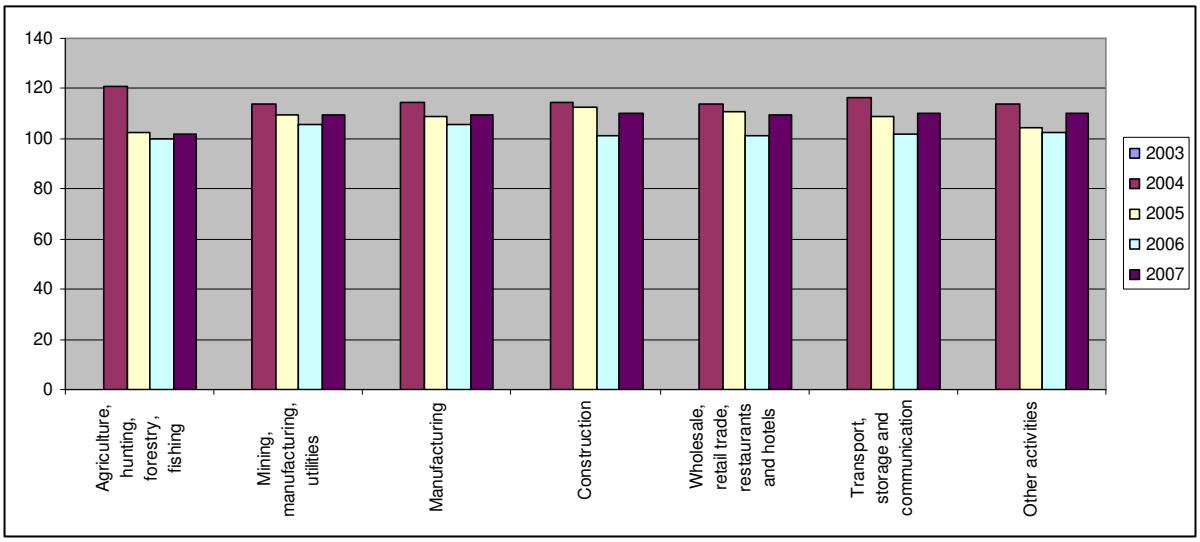
*GDP = .0016797*other activities + .0064673*mining -.0048591*manufacturing - .0049503*transport*

Although we do not regress data with long time period autocorrelation of residuals diminishes with lag of two stating that other activities, trading, utilities grew in importance while agriculture and transport diminish or stagnates in Liechtenstein's economy.



It doesn't surprise us that agriculture, forestry and fishing earns much less than other sectors but interesting to note is strong decline from 2003-2004 and weak recovery in this sector compared to others. Growth decline of -1,6 in 2003 was not followed in all sectors equally while overall economy presented a stable growth rate of around 3% in the years that followed.

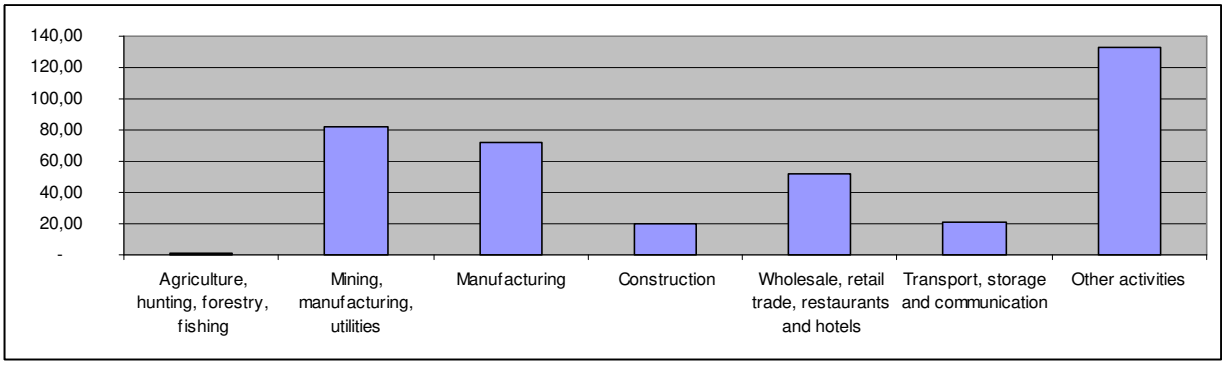
Picture2: Increase/decrease in Value Added from 2003-2007



Source:www.unce.org

Although smallest amount is allocated to agriculture in terms of value added it is burdened with the lowest risk, while other activities show high level of risk – dispersion around mean in 5 year period observed.

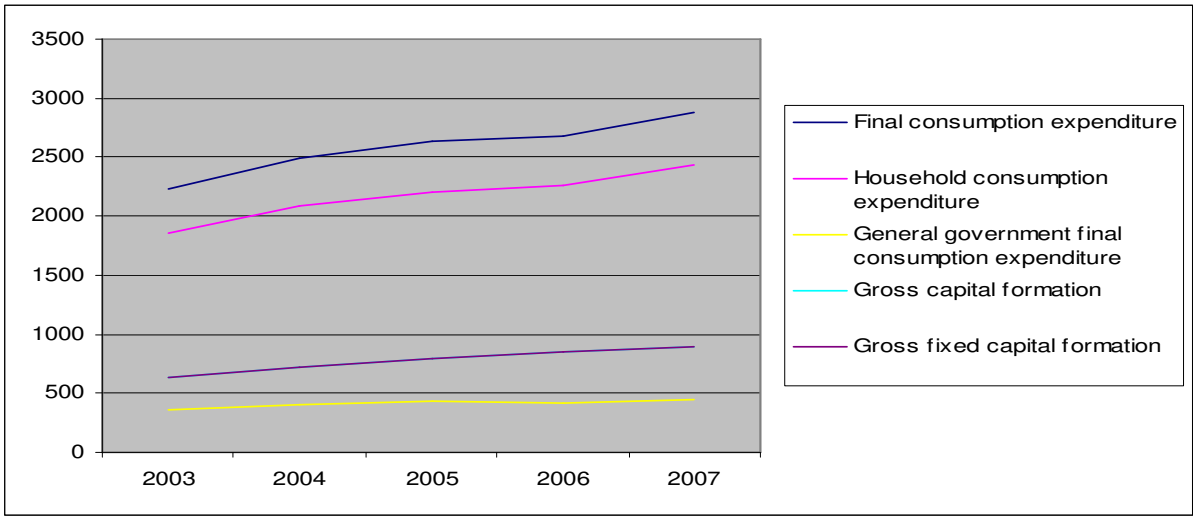
Picture3: Standard deviation in Value Added Activities



Source:www.unce.org

From the GDP growth that rises from 3.000-4.000 mil. USD (2003-2007) country spends almost half of its as final consumption expenditure, while capital investments presents only 22% of nominal GDP.

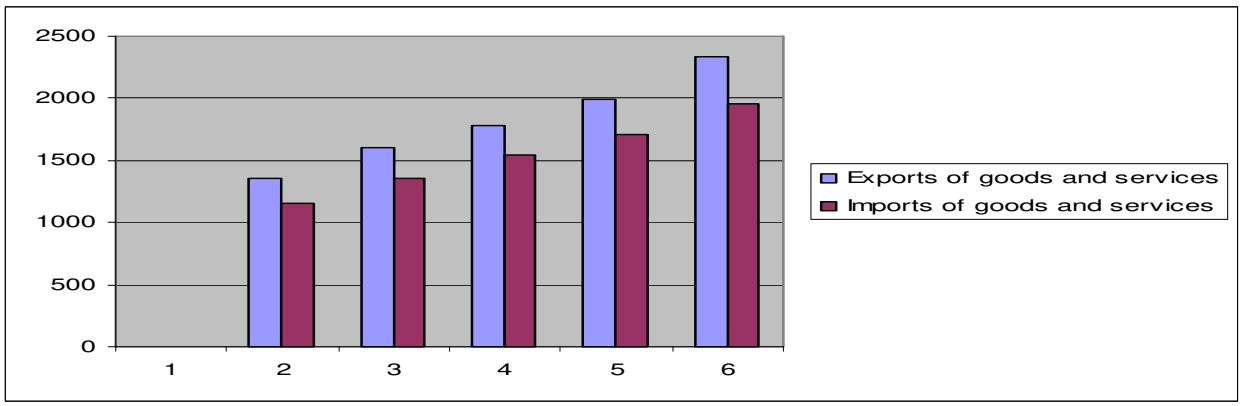
Picture4: Consumption expenditure



Source:www.unce.org

It is worth knowing that export has a tendency to rise 9% while import is rising only 6%. Significantly export rose from 1.400-2.400 mil. USD, while import from 1.100-1.900 mil. USD.

Picture5: Export and Import of goods and services



Source:www.unce.org

From this short introduction two significant points were noted: important part of other activities and financial services in GDP inhalt and largely used income to support consumption.
What is to be expected in the future in that country is highly dependent upon very shaky ground in today's economic banking sector climate that provoked: numerous bankruptcies, lost houses, unemployment and wiped out money from funds and that warns of possible instability.

How the policy of low tax, low interest, numerous trust funds and post office letter boxes impacted life on economic, cultural and social basis is about to explore. We know that general welfare as well as value added depends upon different sectors and services where a few of them are recognized in the formula below.

Y total=Y financial services+ Y manufacturing +Y construction +Y gov. consumption+ Y private consumption +e

It is also clear to the world that financial service success depends about interest rate, tax policy, secrecy, easiness to open, close account; transfer and country low profile what further makes us to recognize it in the formula:

Y fin. services= Yinterest rate+Ytax policy + Ysecrecy +Y open,close, transfer account -Y construction –Y manufacturing –Y social –Y agricultural- Y possible foreign investment +e

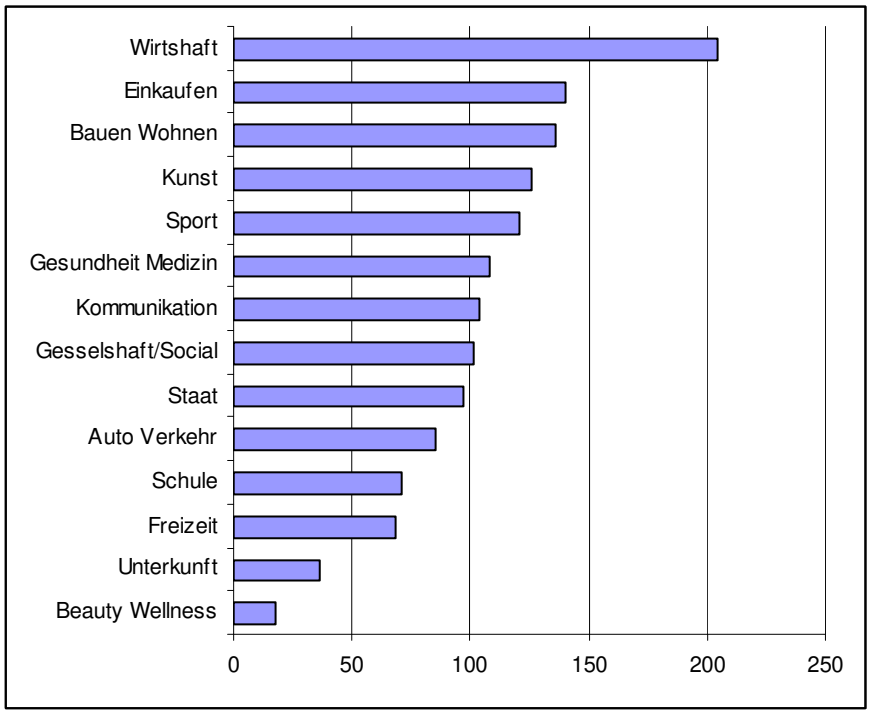
But with the success in the financial services some disadvantages or decreasing in growth are noted .Paper argues that actual success is in fact main obstacle for country to develop in the right normal way so to say to breath with full chest. With the incoming money country has changed its future prospects in other economic sectors and some grey matters develop.

Y		con+ a1Agriculture+a2Fin.services+a3Gen. Serv.+a4Industry+e1
Ygrey matter	=	con -b1Lost business, agro, tourism –b2Lost social, medic, welfare
Y future prospects?!		-b3World export/import good name +e2
		con- c1Incorporating clean energy-c2 Welfare sectors developed
		-c3 Industry lost due to good name-c5 Art trade, skills, old craft dev+e3

This statement is partly based on the data found on the web page *www liv.li* . There are a number of different topics where number of pages could be pointer of development, importance, negligence, and lead us to certain conclusions.

From this web page it is to conclude that the majority of pages are pointed toward economy and business, half of that number belongs in group that is concerned with buying, building, construction, sport and art. The group after with around 100 different pages is represented in medicine, communication, social activities. State matters the similar number of web pages with school and free activities, while beauty and entertainment comes on the last place.
(Picture 6)

Picture 6:Number of internet pages per certain topic



Source: www liv.li

Each group is divided further and explores what is to be found in the country.

Although business and economy is highly represented by number of pages (204) its content points us in structural problems and lack of diversity in industry. Further to note is that by far the largest in number are job searching agencies (40), after comes advising services (36), industry is only present with (20) pages, after follow banks (17), fiduciary agency (9) accounting services (4),trade(1), attorneys (8). The lotto gambling consists of high number of (6) different web pages.

Hotels, beauty, gastronomy and wellness have at least web pages. Restaurants are not so largely spread (12), as well as hotels (18) while there is enough clubs in the country (9).Hotels are not advertised, equipped with sauna, outer/inner pool, tennis course that reduce tourist power what is visible in the number of tourists through a years and nights spend in the state.

State has (97) different web pages of which foreign consulate (7), state offices (15), nature (21), and politic (10) pages. Tourisms as important way of income is not so highly advertised and while situated here has only (3) web tries. Obviously government is not concerned with a fact that it is not a tourist Mecca.

Sport and fitness consist of (121) pages. The wide spread love for ball sport is present here (27), winter sport only (13), and different sport groups (16). The web pages for disabled person are represented only with (1) web pages.

Schools are among the least in number of pages. In this area further schooling (13) comes on top together with elementary schools (5) after which come private schools. Small number of kindergartens and (2) and libraries (1) as well as no web pages that come into group of skill, art, old craft schools further rise the question.

Art and culture is highly represented by music (65), after come artistic web pages (19)-some of them foreigners, cinema (10), art (7), literature (4), and museum (11).

Communication and media (104) are diversified where printing industry has majority of pages (21), after follows internet (15), marketing (17), telecommunication (9), radio and TV (4)

Medicine (108) is represented by (57) doctor pages, (6) eye doctors, (4) animal doctors, (2) laboratories, (2) pharmacies and large number of alternative medicine (13).

Social interests in majority of cases are presented by church (18), family, women, migration topics, etc.Free time and Entertainment is represented by small animals, tattoo, esoteric.
Shopping is presented by food buying, clothing, garden, building and housing is presented by (28) pages that are made by engineers, (20) trading with property housing, There is a large interest for cars so auto pages are numerous (85).

These first step findings are summarized in the table below with some comments about possible grey matter.

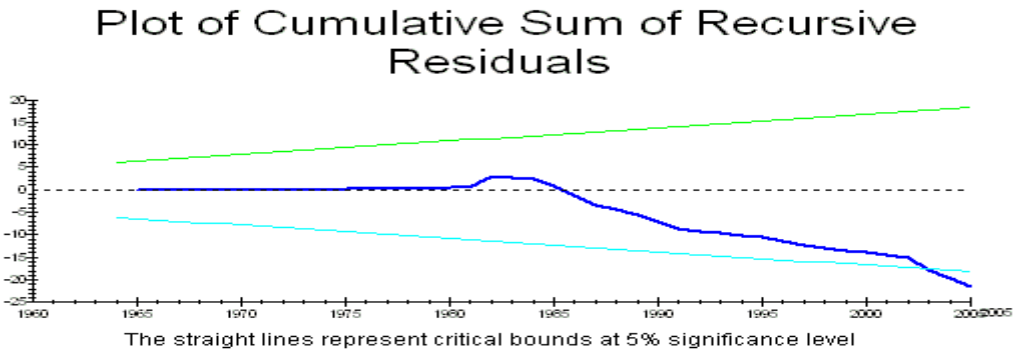
Web group liv.li	Number of pages	Majority	Lack of , low interest, no web pages, small number
Wirtshaft/Business and Economy	204	banks, funds, carriers	Environmental friendly equipment, installations, to much banks, trust funds, too many trading companies, outnumbered by lotto, little production.: high tech. chemistry production
Einkaufen/ Buying	140	food garden	Healthy food, lack of creative materials ceramic, porcelain, silk, lack of huge Mall ,Zoll/tax free zone
Bauen Wohnen/Construction	136	ingenuere, immobilien	Different materials, skills of all kinds from roof till energy construction, modern architecture env.friendly
Kunst/Art	126	music artist kino	Too little about possibility for creative development
Sport	121	ball sport winter sport	Not enough pages about sport in old ages, old heims, schools, possibilities for free skiing, using pools ,sport in early ages
Gesundheit Medicine	108	doctors, esoteric	To little about hospital services, too many esoteric and alternatives, too little about healthy lifestyle, sport, eating habits, herbal
Kommunikation	104	print, internet, marketing	Only two radios and TV; in addition radio for children, adolescent, old people, women, singles, possibility to communicate and develop relation with neighboring states
Gesselshaft/Social	101	church women	Social life is much more than just church activities-different activities that connect all ages-theater open, leisure activities days , state lunch etc
Staat /State	97	political parties, gemeinde	Much more information what states doing about energy, ecology, social activities relevant to all
Auto Verkehr	85		Eco friendly, train run by wind energy, good connection with Swiss, Austria, information about roads in Europe, weather
Schule /School	71	further schooling	Much more skills and old craft learning possibilities, university for ingeneurs
Freizeit /Free time	68	Animals,	For different generation, much more possibilities, state participate in some costs and building, few hobby sites
Unterkunft /Entertainment	36	Bars, kinos	More cinemas, theaters,
Beauty Wellness	18	hotel	Much more present in relation to art, architecture, hotels, tourism, eco tourism

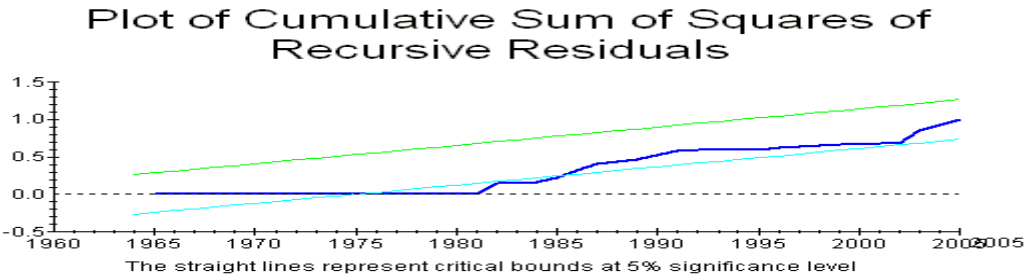
Let me now present a few statistical facts. The first are concerned with agriculture, population and energy. In addition to the fact that working population comes from neighboring countries, it is valuable to notes that country is highly dependent upon energy import.

The third important fact to note is that agriculture policy shifts through time enormously. Unproductive land rises rapidly, water like lakes shrinks, fruit plant age have in just a few years period 1996-2002 plummeted 25.5 % (from 145- to108 ha).Number of occupied land rises but not for industry, social, medicine purposes but for the private housing.

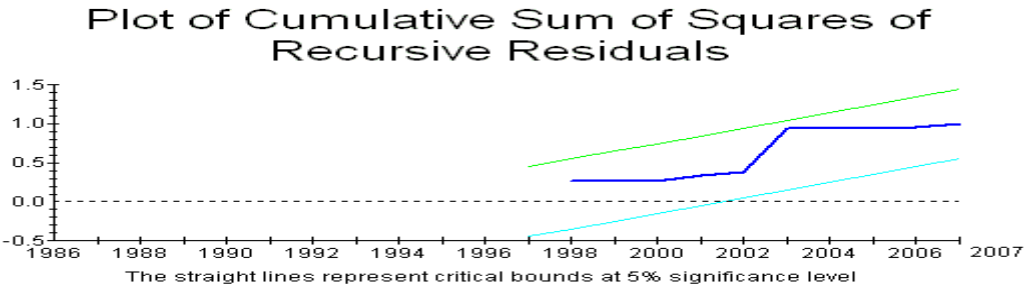
If put this facts in statistical language we can get a following equations. The formula shows that with population increase electricity usage is on rise also, but largely from import.

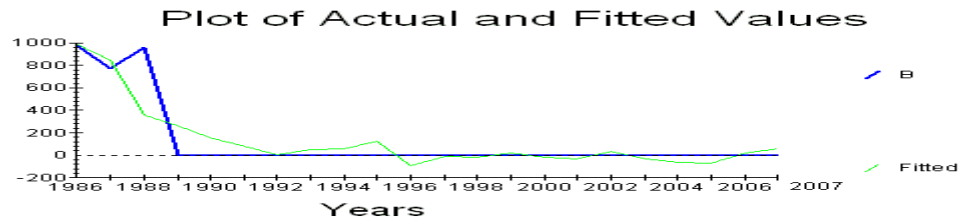
*Electricity usage MWh = -4.4406*CON + .88003*production in land + 1.0620*import MWh + .0074984*export MWh*

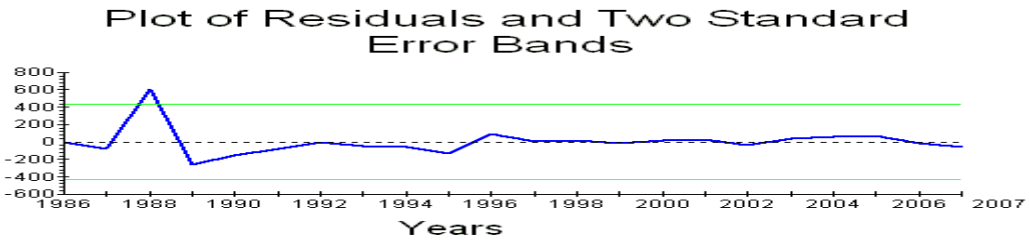




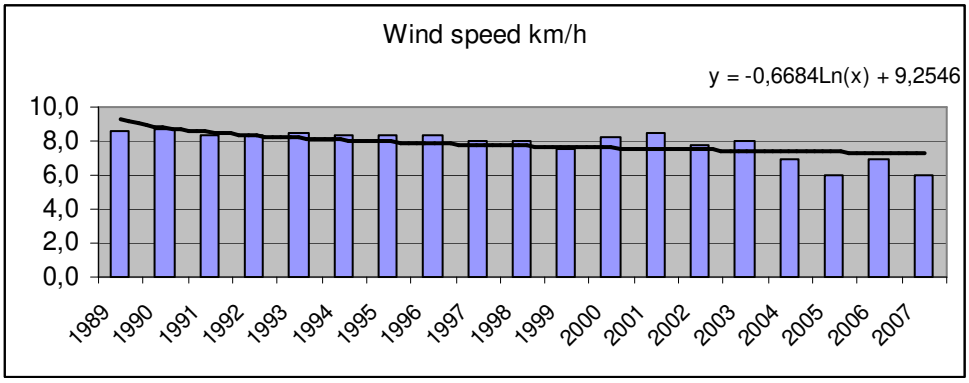
*Total energy usage in MWh = 6.8502*electricity -3.4931*gas + .11408*oil heating -.93600*benzin -.49970*diesel + 17.4903*liquid gas + .12570*coal -8.9443*wood - 17.0539*usage per capita MWh*



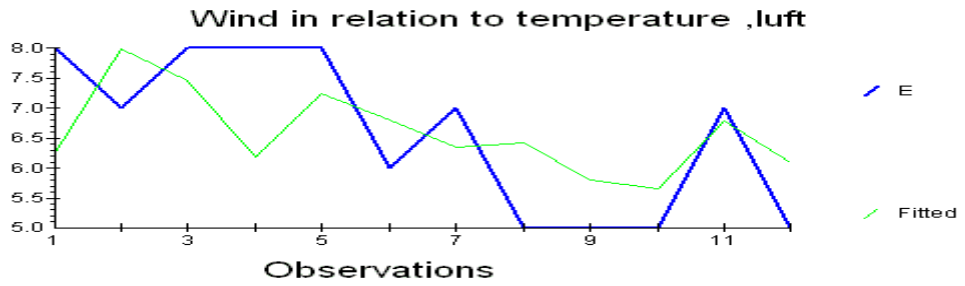




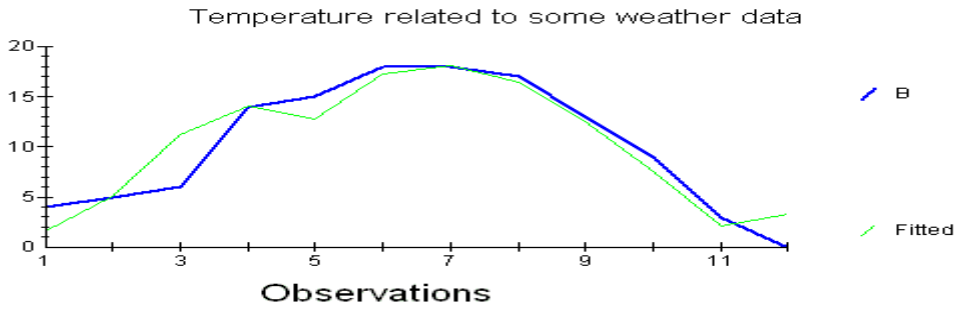
Country could employ clean energy mechanism more vigorously not just for wind turbines but to use bio material and waste as well as water from the mountings in order to produce its own energy. Graph and formula shows that wind speed of 8 km/h are ideal for building wind turbines. Velocity of wind declines in summer time when energy is less needed and rise in winter when it could be used in numerous ways.



*Wind speed = 225.6861*CON -.074535*temperature -.22662*luft druck*



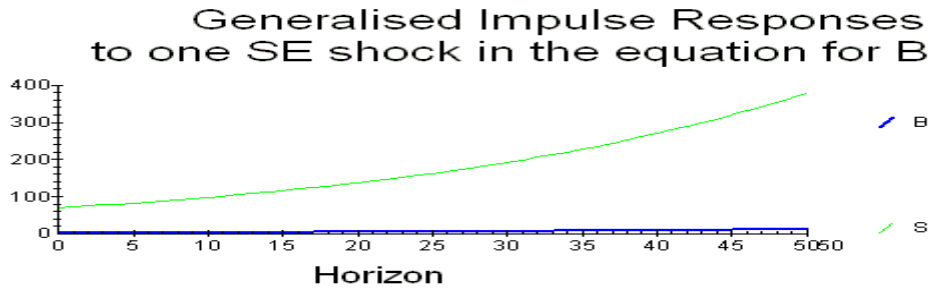
*Temperature = 127.8214*CON -.13614*luftdruck + .050650*luft feutigkeit -.87582*wind speed + .041026*summe niederschlag mm + .077946*sunny days hours + .15789*days with rain*

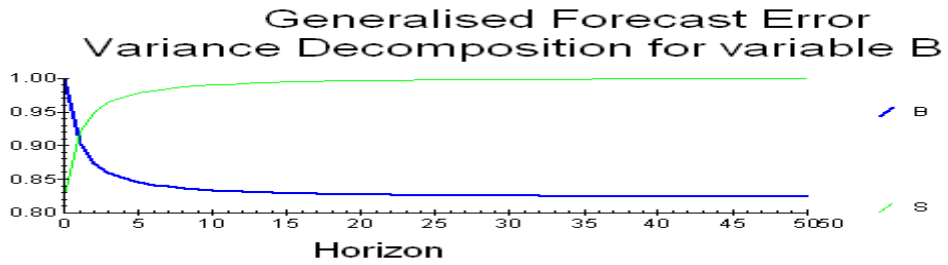


Country is progressing each year regarding collection of the old used materials and reusing them again.

*Total material collected = 1025.6*CON + .17355*papier -.043742*carton -.37374*alteisen -1.1296*ganzglas -1.2957*glas -20.3277*aluminium -3.3494*altol -7.3173*speiseol -18.2009*batterien + 5.6087*dosen*

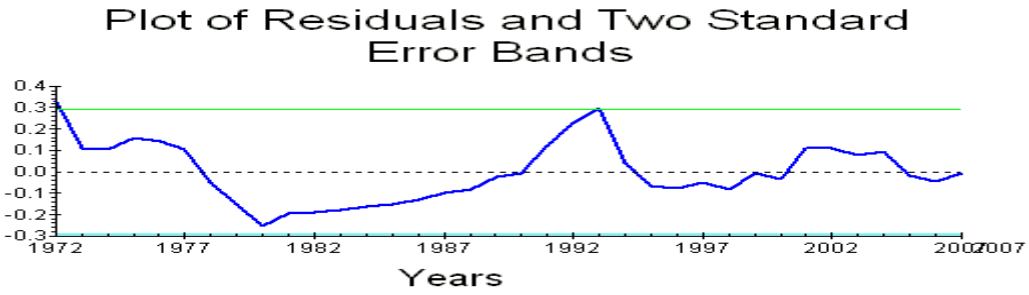
Total = .2965E-3 total(-1) + .033898*kg/head(-1)*

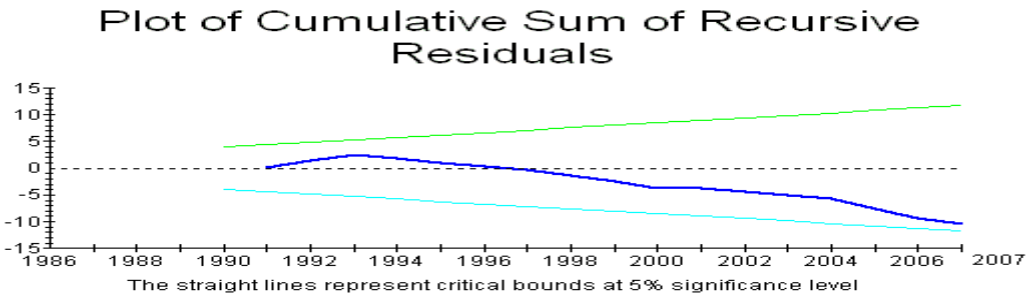




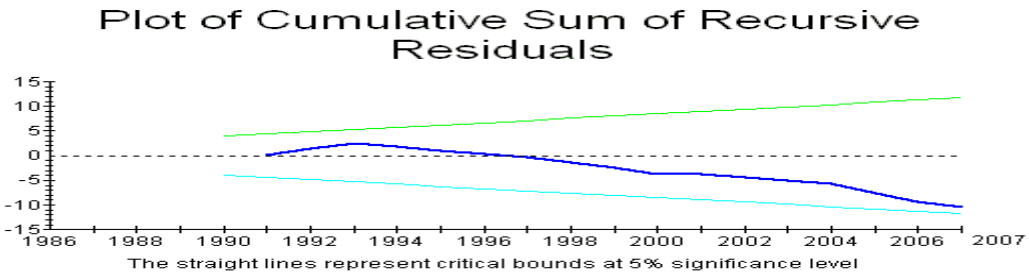
Abfall reusage grows with time as the number of people in the country.

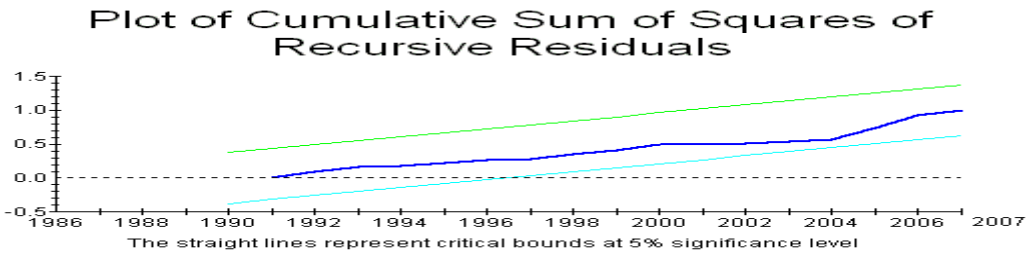
*Abfall versorgung = -10.2771*CON -.0080498*Time + .36684*einwohner + .028476*kg/capita*



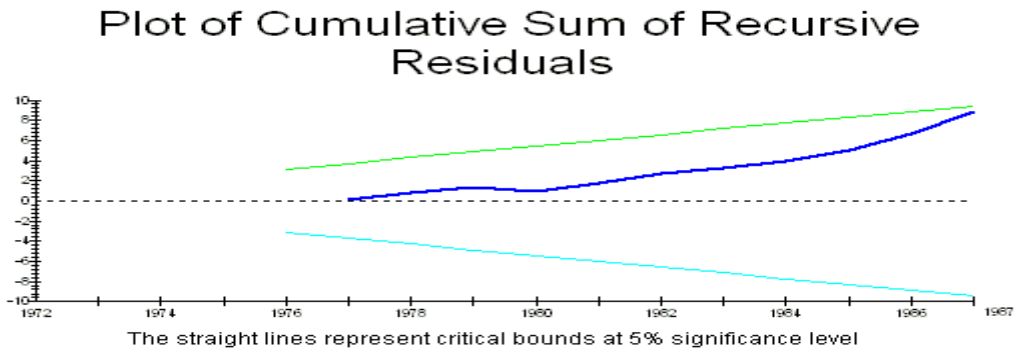


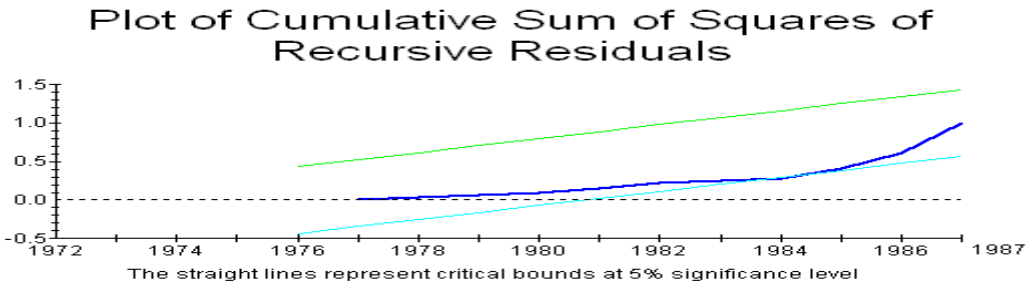
*Abfall versorgung B = -11.2129*CON -.4711E-3*grun abfalle + .37704* einwohner + .029514* kg/capita*



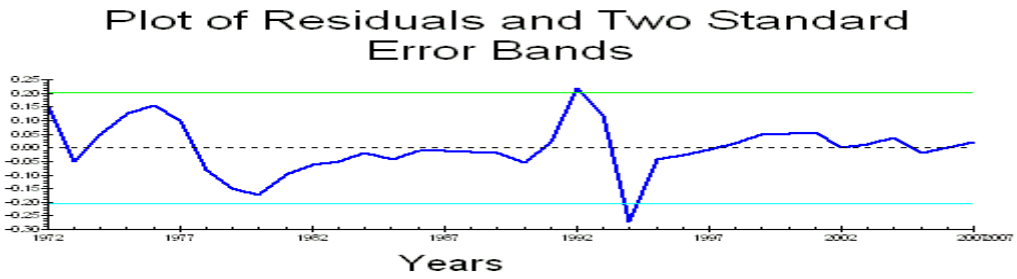


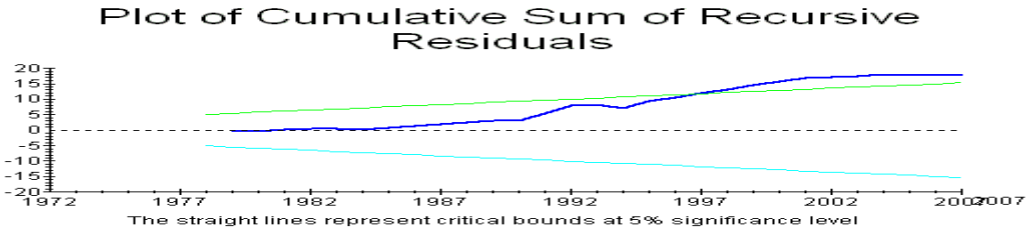
*Abfall versorgung B = -9.1017*CON + .9232E-3*alteisen + .36047* einwohner + .025401* kg/capita*

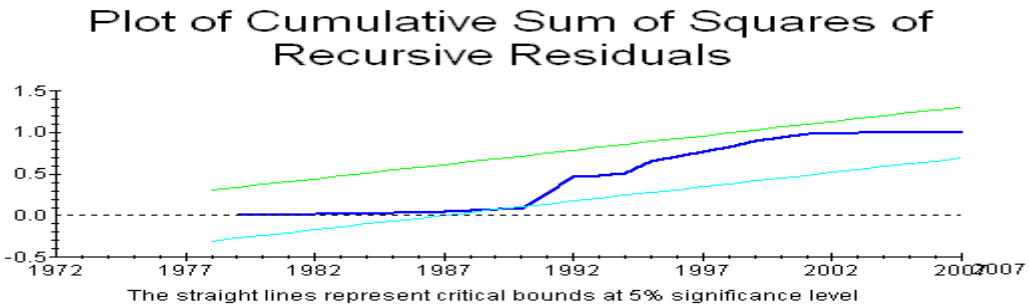




*Abfall versorgung = -9.1664*CON -.025930*C + .21021*industrie + .2856E-3*metzgearbeit + .33283* einwohner + .027013* kg/capita*







Prices rose steadily in the period from 2000-2005 for each category except for cloth, and news .They rose rapidly in alcoholic beverages, other goods and hotel services.

*Consumer prices = .44660*drinks, food -.30042*alcohol + .028827*cloth + .81959*energy housing + .2088E-3*house*
*Consumer prices = -.14875*health + .33770*traffic -.12151*news + .51315*culture + .41900*kinder school*
*Consumer prices = 2.4967*school + .0023731*restaurants -1.4991*other goods*

Relation between the value added from the other services and the number of accounts deposited in the country bank is regressed as follows.
Although number of accounts rises there is strong declining relation between the number of accounts and amount deposited. While the number of accounts that amounts over 50 000 are falling over the years.

*Number of accounts = 2.5976*CON + .70076*deposit until 5000 CHF*
*Number of accounts = .36656*CON + .13121*deposit 5'001-10'000 CHF*
*Number of accounts = .38858*CON + .066478*deposit 10'001-20'000 CHF*
*Number of accounts = .95880*CON + .028819*deposit 20'001-50'000 CHF*
*Number of accounts = 14.9199*CON -.016178*deposit over 50'000 CHF*

But how this influence social life in the country?

Although the number of citizens grows, as well as newly registered cars this growth is not accompanied by increasing value of charity.

*Number of new vehicles= -21.1233*CON -.0029240*rot kreutzs einnahmen + 1.6729*number of einwohner*

Financing of sport in younger age and schools is less supportive than in adult sport financed by members or leistung/professional sport financed by sponsors.

*Total sport = 2443970*CON -2510.1*school sport -2341.4*young + .44188*breitensport + 2451.9*leistung sport + 12142.3*doping prevention*

*Total sport = 1242944*CON + 946.9256*F + 11067.7*doping prevention+ 1445.7*sport organization -3910.7*other expenditure*

Smaller number of children enrolled in kindergarten implies negative pro natal policy. Although country can be proud of good school results and number of children in Gymnasium negative trend in craft, basic occupation can further mean less country promotion, produced work and less knowledge transfer that could bring some craft further to economy.

*Total school = .0011202*kindergarten + 1.2427*elementary + .0064677*sonder school + .0018307*oberschool*
*Total school = -.0018969*ober school + .0049483*real + .0031162*gymnasium*

These are just a few equation that showed that financial success could hinder growth in some other of no less important areas. Just to mention a few more:
-number of hospitals is not rising, there is no long term development program in population policy if half of foreign workers leave, no industry development, no energy production improvements throughout years, no new homes for abandon children, no art craft trading development and marketing for selling these products, no medicine herbal production/development, healthy life eating is not aggressive enough, no enough news about children activities, humanitarian actions, free museums, tourists attraction near the castle etc.

Although each country has is own difficulties there is a strong link here between success in financial world and neglecting some other important aspects of living.

$$y = \frac{K'}{K} + \frac{L'}{L} + A$$

We know that income is rising due to the rise in capital, labor and technical advances. 50% of labor in the country is foreign that further complicates picture in the field of family planning, tax payment in the country, innovative production and future work if financial system of non transparent banking ceased to exist.

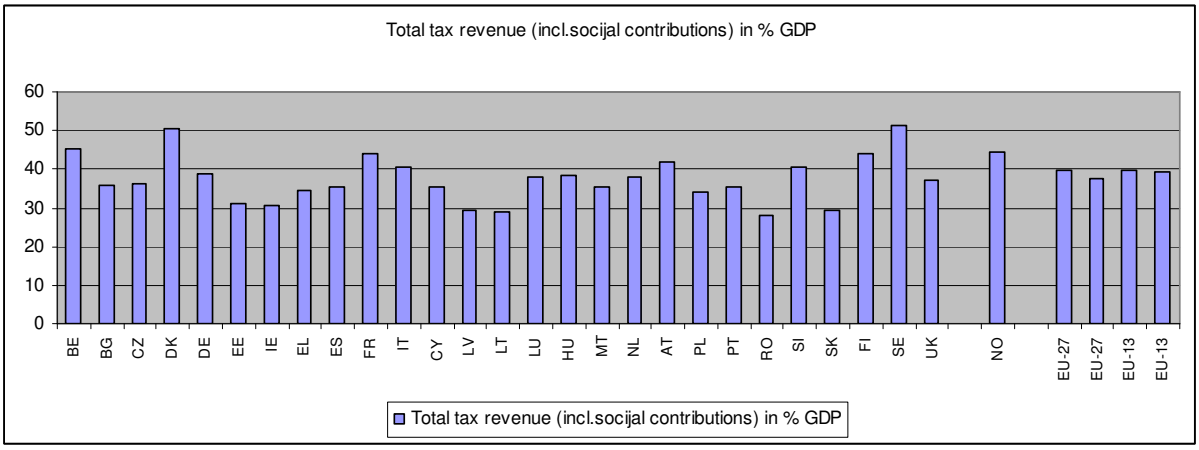
Further more rises in income that partly comes from grey side is not incorporated in the real life of country bringing its shadow over economy and damaging it.
There is a strong linkage between lost opportunity in industry energy investing and profit made from deposits but not used in the country. Capital is tending toward creation of new innovative financial instruments instead of focus on further production in the country and reaching the new markets.
Country is not developing innovative institutes that could bring change in the country / world and further push its own progress.

1.3. Is it Liechtenstein to be blamed for all?

1.3.1. Tax question in Europe

Tax revenue is important part of governmental budget, is source of reaching short term and long term investment plans in the country, contributes with social programs to all citizens what all explains that it reaches about 40% of countries contribution to GDP.

Picture7: Total tax revenue in % of GDP

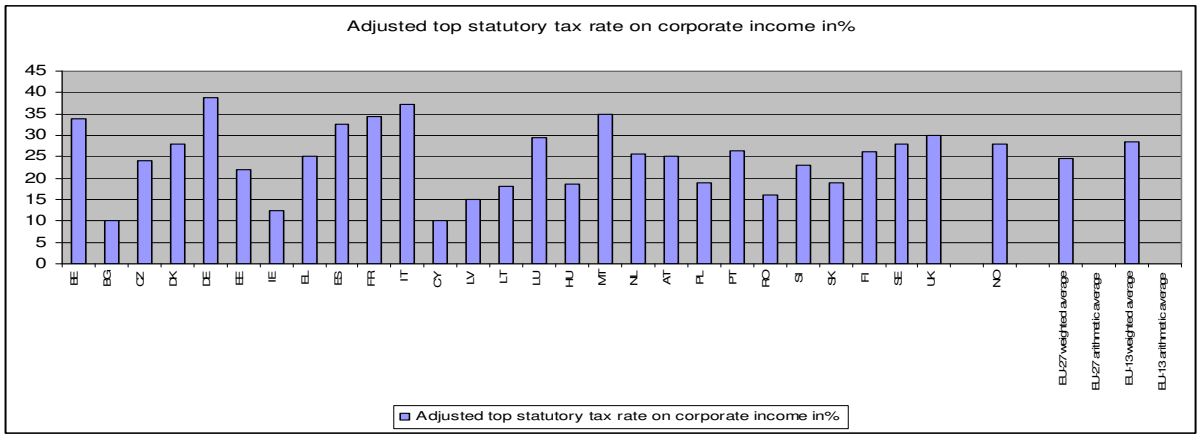


Source: www eurostat.eu

The main sources of government budget are the following taxes: on corporate income, consumption, energy usage, labor, akcise on certain goods, tax on capital etc.

Across Europe large difference in tax rate policies is visible. In order to attract investment some countries are trying to lower rate on corporate income while some well developed economies are among with highest taxation rate on corporate earnings. This policy of low taxation and cheaper labor cost brought some changes in corporate production making some factories to close in western EU and open in Eastern EU countries.

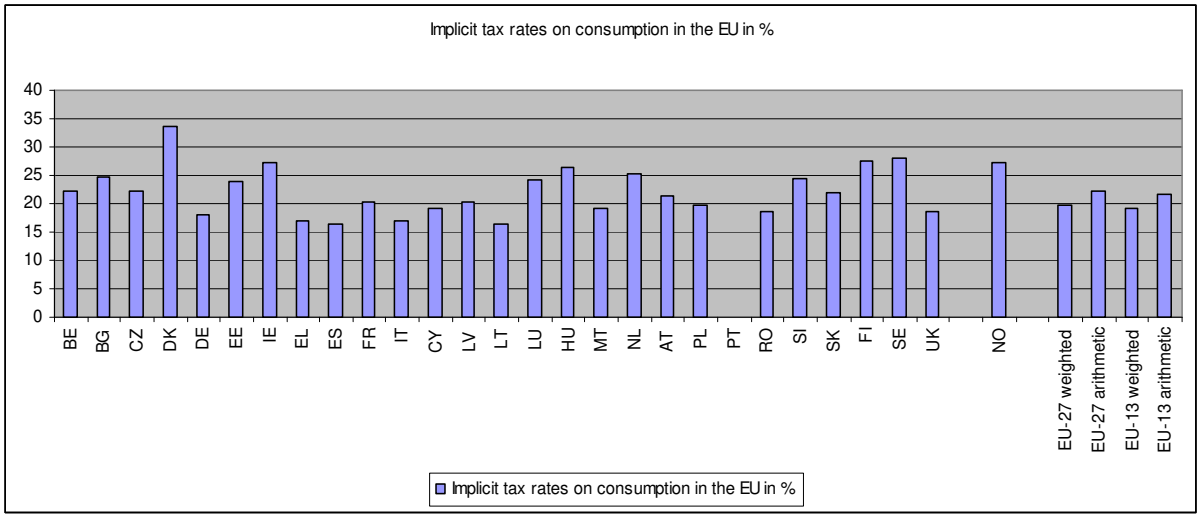
Picture8: Adjusted top statutory tax rate on corporate income in %



Source:www eurostat.eu

Implicit tax rates on consumption in Euro is around 20% but as picture shows this tax rate is also not uniform across EU where certain products are valued differently in each country and could be changed if some other political party wins the election.

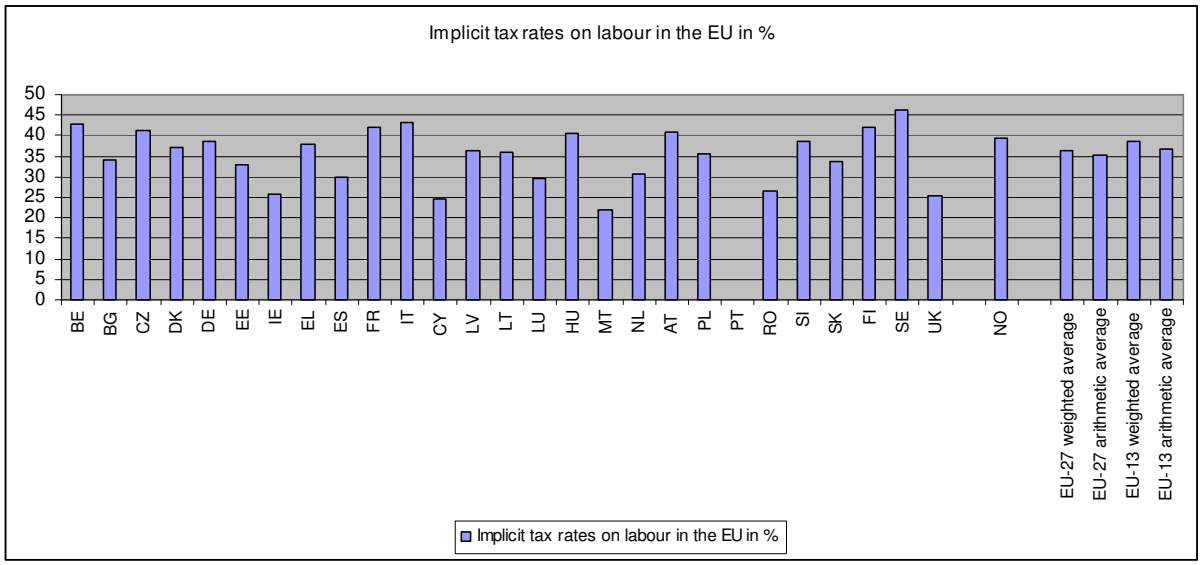
Picture9: Implicit tax rates on consumption in the EU in %



Source:www eurostat.eu

Implicit tax rates vary across Europe where East European countries try to encourage capital inflow while reducing labor tax rates. On average EU27 it is around 35%.

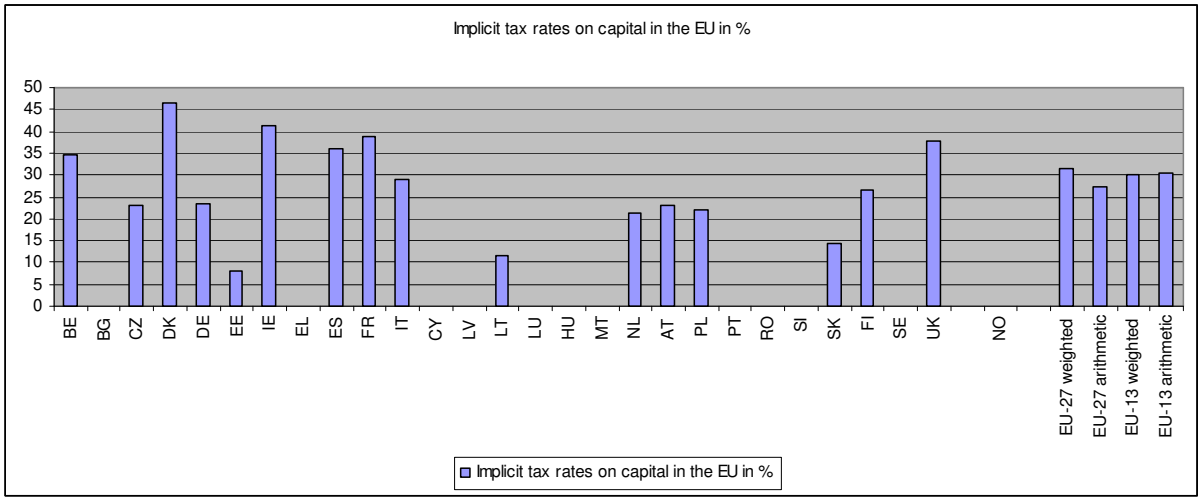
Picture10: Implicit tax rate on labor in the EU in %



Source:www eurostat.eu

Vague picture in the field of implicit tax rates on capital where on average it amounts 25%. It is to note that large discrepancy, lack of data or lack of end taxation results in this area is noted across Europe.

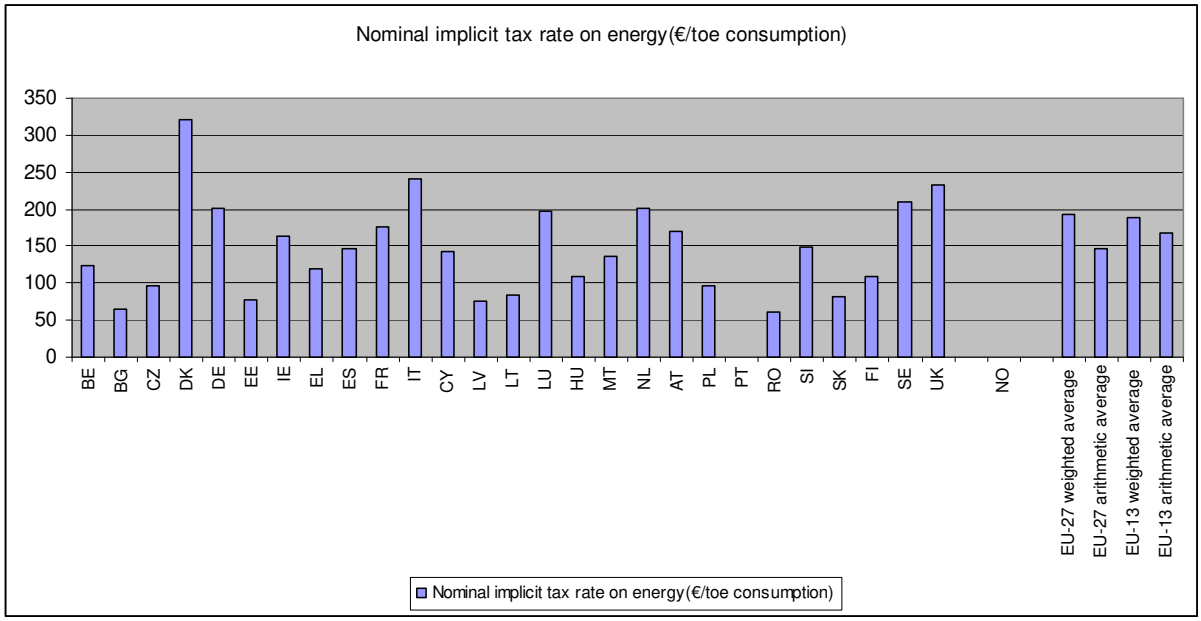
Picture11: Implicit tax rates on capital in the EU in %



Source:www eurostat.eu

Another important tax rate that also varies significantly across continent is the implicit tax rate on energy. It stretches from 20-300 €/toe on energy consumption.

Picture12: Nominal implicit tax rate on energy €/toe consumption



Source:www eurostat.eu

This few graphs depicts clearly that EU is not united in decisions regarding taxes, that some countries try to attract capital by reducing the tax rate, introducing flat tax policy, some try to over impose taxation. But clearly government is very keen to keep an eye on this source of income and regulates it as the budget dictates.

1.3.2. Tax obligation

Each and every citizen is linked to the tax system-whether is it a word about a working adult or child that presents tax deductible item in the family budget. Although each country has its own ways of making tax policy tax obligation has common reasoning and ground. This reasoning also is a root for tax evasion so described in little more detailed as follows:

1) The first group is the tax by its source of origin where we recognized the main categories listed in the formula that follows.

Tax contribution =Income tax+ Corporate Tax +Value Added Tax+ Energy tax+ Environmental tax + Acise tax +error

2) The second important point to note is that tax and government authorities has certain expectation about tax collection and their policy is pointed toward it. But as aims there are errors which can growth through time (known, suspected, unknown, etc)

Tax contribution t+1-Tax contribution t = expected-real +error1

$$\int_{t}^{t+1} Tax\exp ected - taxreal + error$$

$$\sum_{0}^{t+1} Error1 + error2 + error3 + error4 + e$$

Some types of errors are recognized as:

Error 1 = Yearly planned and collected
Error 2 = 5 Year plan connected with reelection: different political party tax programs as well as mid term budget plan
Error 3 = Due to tax evasion
Error 4 = Due to inconsistency in policy, under over population number (mortality/natal / prolong schooling, local /foreign investments)
Error 5 = Generated error through years

3) Propensity to invest /spend/save

The third group to consider is nations, personal, publicly advertised acceptable, necessary decisions between saving and spending. One global example is that western world is more prompt to consume now, borrow from future in other to spend, while East Asian countries are more inclined toward savings. On the personal level these decisions are depended upon age, some investment decisions regarding school, house, etc.

Tax amount=a1+a2*propensity to save+a3*propensity to invest+a4*propensity to high risk+a5*propensity to moderate risk portfolio invsetment+a6*propensity to decline +a7*owner of real estate +a8*age+a9*group mentality +e1

4.) Tax categories

Tax collection and amount expected to be part of government budget depends upon tax rates and collection in categories that are further depended upon:

-Income tax

Income tax = a+a1*Number of employed +a2*Level of tax+a3*Age group+a4*Single+a5*Married+a6*Tax bracket 1+a7*Tax bracket2+a8*Tax bracket 3+a9*Higher school potential/actual droppers +a10*University + a11*Self employed+a12*Risk+a13Work on Sundays/Shifts+a14Minimum salary-number of employees+e1

-Corporate tax

Corporate tax= a1+a2*Profit before tax history+a3*New investments plan+a4* Revenue+a5*Costs+a6*Business outside country+a7*Dividend decision +a8*Taxation policy toward dividend+a9*Export oriented+a10 Import oriented+a11*Subsides

Energy dependence is recognized while diversification is still present among EU country members. Stronger hold on environmental policy could in future resulted in higher taxation on carbon emissions and new ways toward clean emissions.

-Energy tax =a1+a2*Energy import+a3*Energy consumption+a4 Tax exempted household+a5*Tax brackets in order to meet energy efficiency goals+a6*Usage of clean energy +e

-Environment tax =a1+a2*CO_2 emissions+a3* Oil, coal produced energy +a4*Clean energy usage+a5 Other emissions

-Other taxes= a1+a2*Alcohol, cigarettes, lottery,+a3*Bequest+a4*

5.) Error

Error in over understating tax policy, tax collection, predictions regarding tax policy

The first error comes from company taxes while we still have outdated accounting standard that has primarily one goal to boost profit in order to reach high stock exchange price and bring dividends to shareholders or to serve management and protect state own monopolies /trusts.

More broader accounting procedure that is based on numbers, descriptive part , possible innovative programs, mergers and explains life cycle of each company can produce much more results while bringing innovation, helping employment, increasing employee satisfaction, deepening knowledge of a average employee about company and its values.

The second error comes from system itself where retirement system is not governed properly, it s a subject of constant change, it is volatile under stock exchange system that itself suffers from errors.

The third error comes from wealth itself that in order to bring more wealth hoards while not recon that paying taxes would bring any extra benefit it already has.

$\Delta e \to 0$ error is not reducing

$\Delta e \to \infty$ not dealing with tax decisions properly increases further tax, economy, welfare prospects.

1.3.3. Tax system

Blessed with diversities of countries, languages, religion beliefs or non beliefs, geography, economy, tax system but united in desire of one regulated well developed cultural area Europe finds itself on the crossroad of many ways. It experiences meeting of two very different systems of economy that resulted in the third one (transition) that stills tries to find its place under the sun.

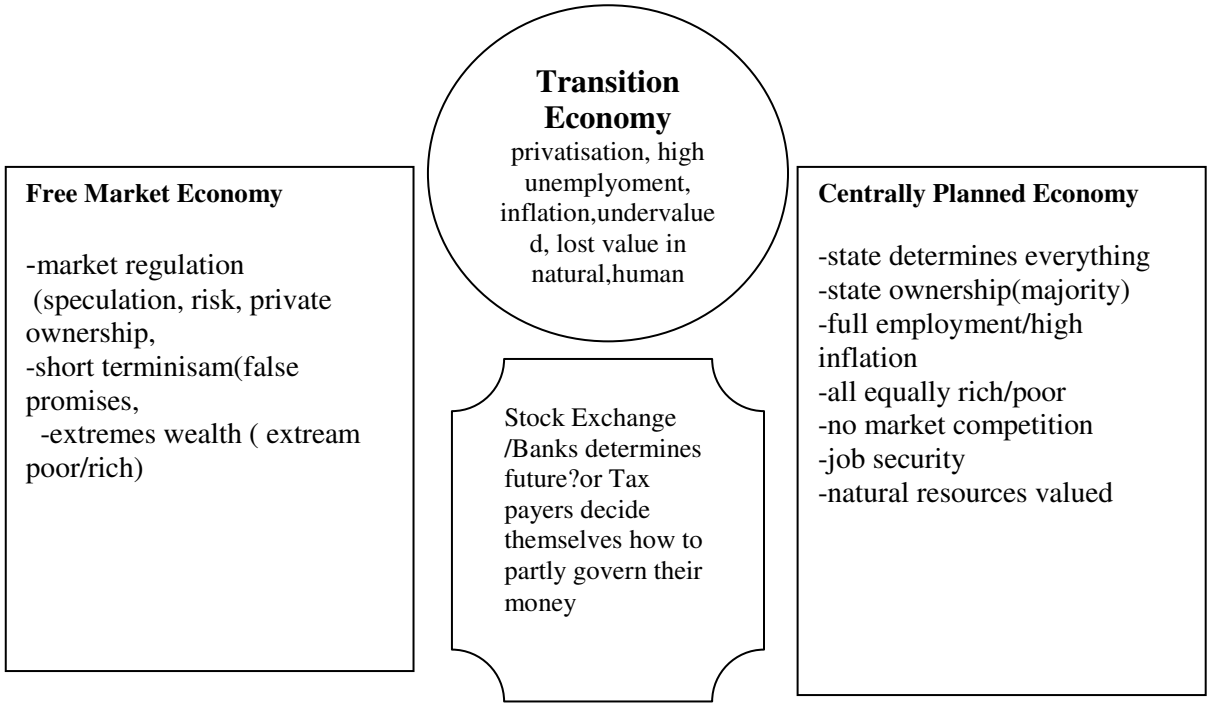
Although very different in its root economic systems experience desire to approach one another and exhibit more and more visible deviation from its basic definitions.

The free market economy is featured with market regulation , more and more often state interference and bail outs, pride to be society of possible speculation with fears that bubble could explode, extreme beliefs and moral standing where double standards are carefully nourished.

The second one is centrally planned economy system left by its creators who decided that centrally planning undermines market, brings inefficient production, although with some good news such as full employment and security.

The mutant between two ways is observed in countries in transition that with the fall of centrally planned system try to enter market economy. Results are often twofold. Destroyed former companies in privatization, small number of newly fresh industrial complex mainly established from existing western brands due to tax, labor costs, rising natural wealth export, import of all kind of foreign goods that has for its consequents lost of jobs.

Although the aim is to reduce error in economic system overall , the last financial crises has shown that accumulated error in each system could bring collapse further burdening future tax payers.



What is observed in each system is that tax payer can not directly decide and this is the big possibility to develop further respecting free economy, social rights and right to govern.

a) Tax payer decides for each payment what projects are to be financed

Tax obligation=a1+a2*Project financed in local community+a2*Project financed in community+a3*Project financed in state+a4*Project financed in Region (Europe)+a5*Project financed in world

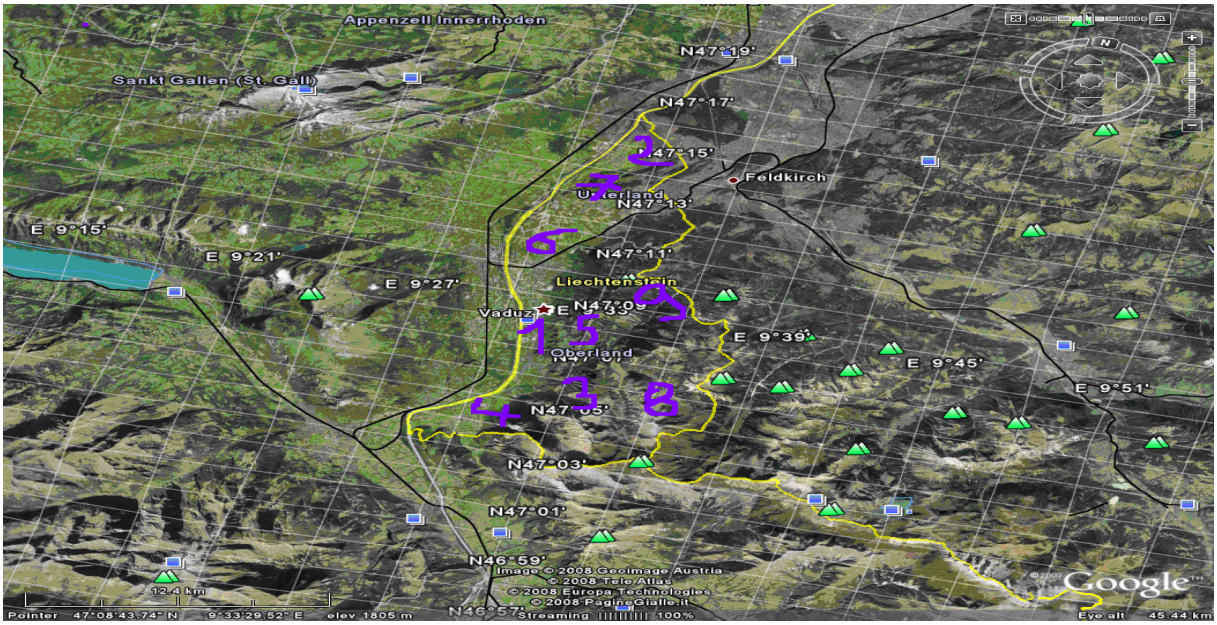
b) Tax payer is really asked, listened, respected and involved in world community

Tax payer=a1+a2*Community involved+a3*Purposes achieved+a4*Wishes +a5*Reality +a6* Community streanghts+a7*Lack of disappointments with political parties+a8*Short terminisam avoided+a8* Long term desires goals met+a9*Politicians not only creators of future +error

c) Tax payer propensity to decline tax obligation is reduced

Tax payer=a1+ a2*tax avoidance become world unpopular+a3*tax differences reduced+a4* social work rewarded/ noted+a5*tax oases ceased to exist+a6*error reduced

1.4. Possibilities



If the economy can't recognize all the possibilities of growth old Chinese art is hear offering help. Let's hear: it says that free living and smooth flow of energy need to be applied.

Imagine place- country Liechtenstein - divided in the areas small houses where each represents a number on the picture and each creates energy with its own.

When entering into country from Swiss border we found a very solid bridge. This is the doorway to house 1.saying

House 1: stands for water and the journey.
Country can present itself through flow of river as well as to artificially make water falls that ends near doorway house 1 and are flowing from the mountains. Waterfalls surrounded with flowers say hi to each newcomer.

Long clean river that hugs the country is not supported neither by plants or trees. Authors see two types of tries: vivid fruit from the country side that symbolizes fruitiness of small country and happiness to unarm each tourist and huge trees at the entrance that symbolizes longer vita of Principality and it's toward better world.

Long area of meadows near river is an ideal spot to place wind turbines in order to produce and preserve clean environment – that could be used for clean transport inside country – train, tram, household, industry energy supply.

This 1 house can support children playground with water fountains water coming from mountings ornamented with dolphins and turtles.

House 2: stands for Earth and relationship

This area is near Austria border. House 2 can be used for cross border trade. Two very nice modern, trade centers could be build.

Trade of all goods produced in each country by discount prices, kindergarten inside, guarded by old turtle that keeps stories from old times encourages better relation between neighbors.

Happiness and art possibility, small waterfall and clean mountains song from Liechtenstein is bounded with grace, beauty and traditional values of neighbor Austria.

House 3: stands for thunder and ancestors

This house is placed on the right side of the street from center of Vaduz till Austrian border across Shan and Maureen.

This area need to be place of different schools (from kindergarten, elementary, high, faculty) and industries (small factories, production). Although Liechtenstein is known to have good education it still has lots of room to make improvements. Larger number of kindergartens with playgrounds is missing – partly financed by state, elementary and high school with more flexible programs adding more art, and universities. In addition to university of philosophy additional university that comprise different art types (paintings, sculpture, film, cartoons, literature, music etc.) can be established.

Small factories could produce pharmaceutical, herbal preparatory either for medical or cosmetic purposes, computer parts and software hardware production

Colors of this area stretch from smoky, rosy and azurite while main tone is ring and bell.

House 4: stands for wind and fortunate blessing

Author sees this house on the mounting south part of country. Lots of small weekend houses, spa resorts, herbal massage places and ski parts need to be incorporated in this area.
Sport, health, rest brings new achievements and fresh energy. Some sculptures from bears and mounting animals made by country artists could be placed near road.

House 5: Tai Chi center

How this country is currently far away from its natural strength and flow of energy is visible from the center of the town. It is ornamented by gift shops, few locals and one dark, even black, safely guarded, expensive comprehensive museum. It really doesn't show the true face of country and present it as cheap tourist attraction with few valuable art craft which are guarded beyond normal understandings.

This area need to be changed with more white sculptures presenting Mother Mary-, bring one small waterfall that falls from mounting through center with fountain. Around should be one bakery with arm breath, art shop for adults, art shop with children art, one old craft shop, flower shop, herbal medicine shop.

Yes people of this country loves to go to the main square where meet, shop and talk in the pleasant surrounding not with some cheap false tourist make up.

House 6: stands for heaven helpful friends

This house is situated along the river near border with Switzerland from Vaduz toward Ruggel. This is the place of many small houses which sleeps with old faces tired and a little slow in solid stable financial jobs. Yes, no need to do anything – we do not need a new shop, a new facade like they are saying. But this part is old and need to be treated as such. Each house each street part can be revived with old crafts, art colony supported with old forgotten occupation. Yes they are still needed in this modern familial derivative world. And can be selling on the street along Shann and in Austria.

Also situates along river can be place of garden, plant growing and wind mills.

House 7: stands for creativity and contemplation

There is a large meadow along river on the north side of country. Ideal for children, playing field and art. Country can make a small art colony where artist from collage gather and work, small artificial lakes ornamented with dolphins can additionally give inspiration to artist who would fill dark not any more dark museum in the center of town.

Social feeling can be expressed here if country decides to build, finance a house for children without parents, lost in poverty and lack of human feelings. They can offer them a solid start to educate and eventually help their countries of origin.

Art, creativity and happy children faces can be place on this desolated meadow.

House 8: stands for mountain and contemplation

This house is placed far inside mountings. Place which offers peace, fresh air and not easily visited landscapes. Small places of hiding, spa , ski places, interchange with sculptures of prayer and contemplation. Piece and solitude, pray where clean thoughts and wild flowers find its way to Earth.

House 9: stands for fire and illumination

House 9 for this country author see in area of much published castle, meadow and wood behind it. Government should have clear plans and energy to keep going improving life of this country by opening investment burro, making improvements in schooling, building hospital, and old house improve energy efficiency, support clean energy. Near small vineyard a small museum should be opened in order for castle to come closer to visitors and tourist. This will show valuable artifacts as well as promote openness and prevent distant only to LNG bank project related link. Government need to be open to citizens suggestions, improvements, and be place of dialogue.

2.Russia

2.1. Russia current

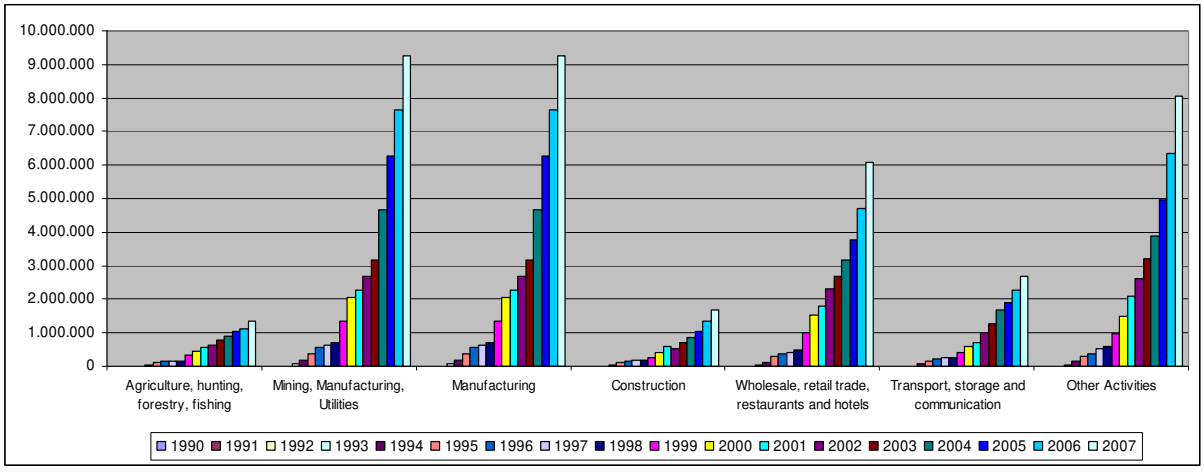
Russia with its 17.075.400 km^2 land is a largest country in the world, covering more than 1/8 of Earth. With its well educated population of 142 mil (8,3 population /km^2) it is spinning through 11 time zones. It is considered worldwide as energy superpower (oil, gas) but also having large amounts of wood that are considered as lungs of Europe, and deepest lake reservoir of unfrozen fresh water.

Besides its excellent space program results –remember Jury Gagarin - and having 10% of the worlds arable land country is still struggling through unsuccessful privatization, getting to know trade liberalization which resulted in huge GDP contraction, enormous inflation, reduce fiscal surplus and more vigorously pursued export of natural resources that further bring country into Dutch disease condition. According to World Bank 1,5% of the population was living in the poverty in the late Soviet era, by mid 93ies 39-49% was poor. In addition to that birth rate plummeted while death rate rose.

After 2000 country experienced 7% growth of GDP (7th in the world) that was driven by none traded services and goods for the domestic market. Progress is visible if we compare average salary in 2000 (80$/monthe) with 2008 ($640/month). In the late period unemployment was reduced from12% (1999) to 6% in 2007. still has federal budget in surplus 6% of GDP, still have large reserves in natural gas (1st), coal(2nd) and oil (8th) in the world.

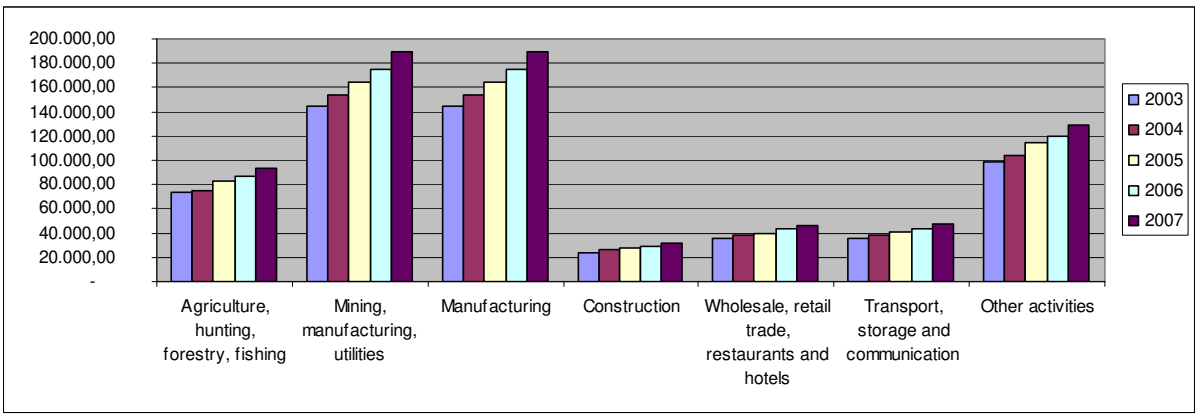
From the uneven data Value Added to Russian economy is rising in all areas but impact by far the most mining, manufacturing and agriculture.

Picture13:
Estimates of Value Added and Selected Components at current prices in Million Nation. currency



Source: www.un.org

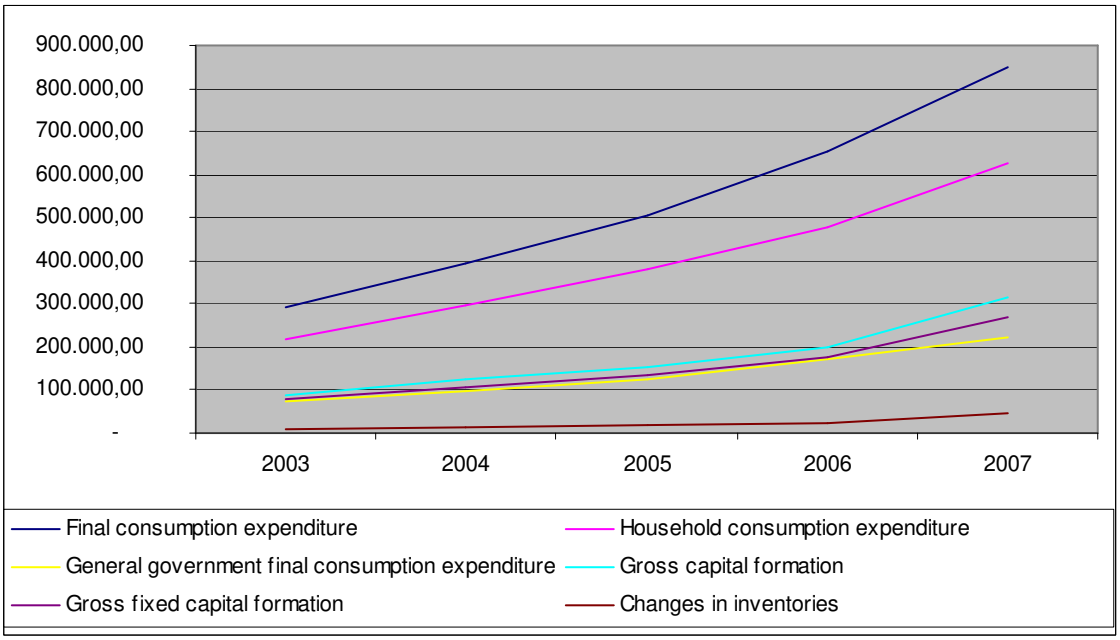
Picture14: Value Added in Russia by Sectors



Source:unece.org

The large increase in final consumption comes largely from household consumption expenditure, while in less amount from gross capital spending and general government expenditure. Inventories are on the rise.

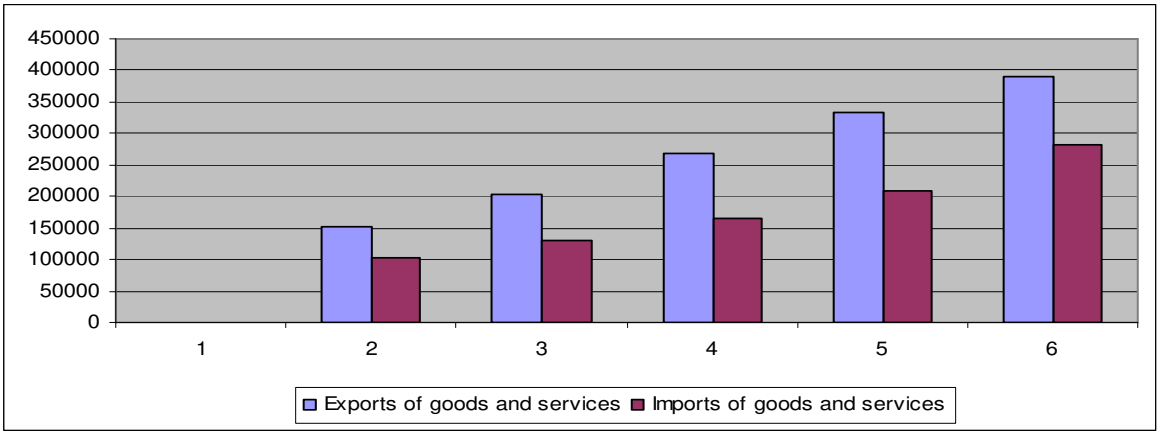
Picture15: Final consumption expenditure



Source:unece.org

Export is growing more than import but problem is that is coming mostly from natural resources.

Picture16: Export and Import of goods and services



Source:unece.org

The fall of 2008 gave Russia some deep concerns regarding the future of economy, solidity of banking sector, fiscal stimulus that has for a purpose boosting bank confidence.

Also crises brought fall in oil prices that extremely negatively influenced Russian economy, lowering domestic demand, GDP growth declined, exchange rate depreciated. Although inflation is falling from high levels mid 90-is unemployment is rising and if crises further deepens country could weaken

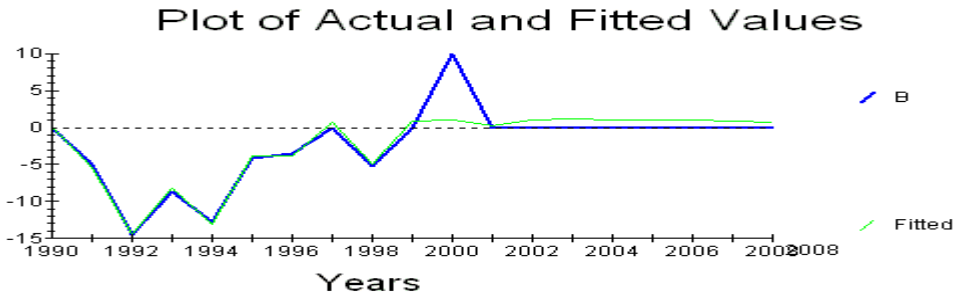
	2006	**2008**	**2009**	**2010**
Fiscal balance (%of GDP)	8,4	4,8	-8	-6
Current account balance (% of GDP)	9,5	5,9	2	2,5

Source: www oecd .org

Some relation from history could further deepen our knowledge about country and bring additional value to future country prospects.

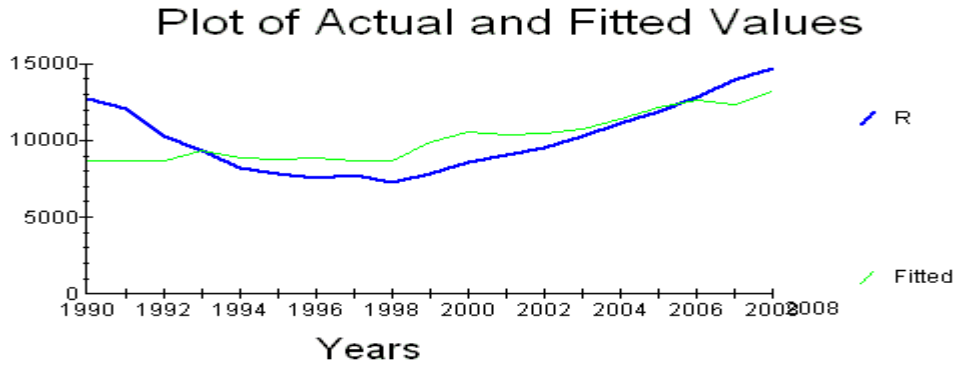
GDP growth rate is negatively related to population while country is experiencing rising depopulation rate what also holds for reduction in the unemployment rate.

*B = .53986*CON -1.0758*total population growth rate + 1.0805*total employment growth arte + .5597E-3*GDP deflator growth rate -.075381*unemployment rate*

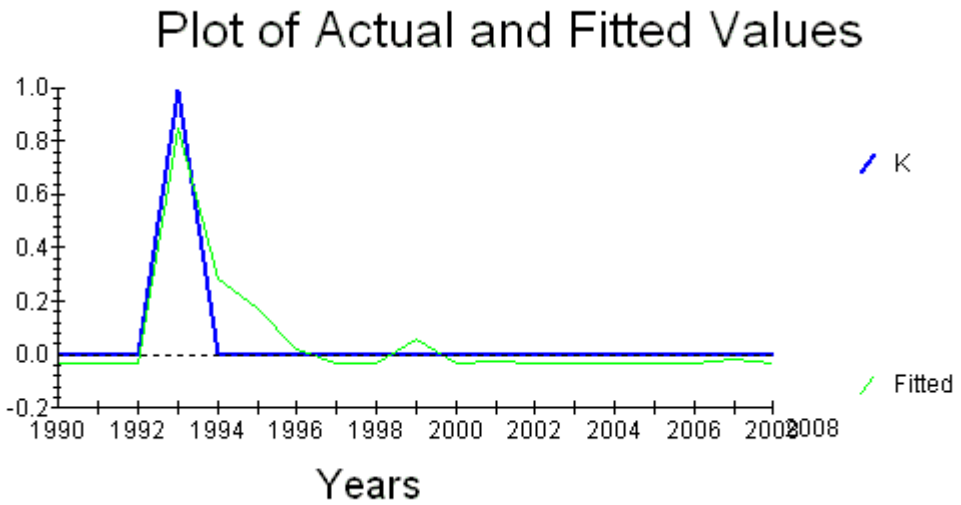


Still positive numbers on the balance of current account –policy that should be managed further – unlikely western counterparts in this area- helps keeping strong GDP growth. Consumer prices fell significantly after 1999 and are lowering, while exchange rate is slowly strengthening.
With crises induced in 2008 it is suggested that Russia is going to enter current account deficit, further lower prices and devaluate exchange rate.
Good policy would keep the current account surplus; avoid overburdening with debt in spite of making good investment mid term programs. Further devaluation of exchange rate would be stopped.

*GDP/capita = 8631.1*CON + .022747*balance of current account + 16.3273*consumer price + 736.2824*exchange rate*

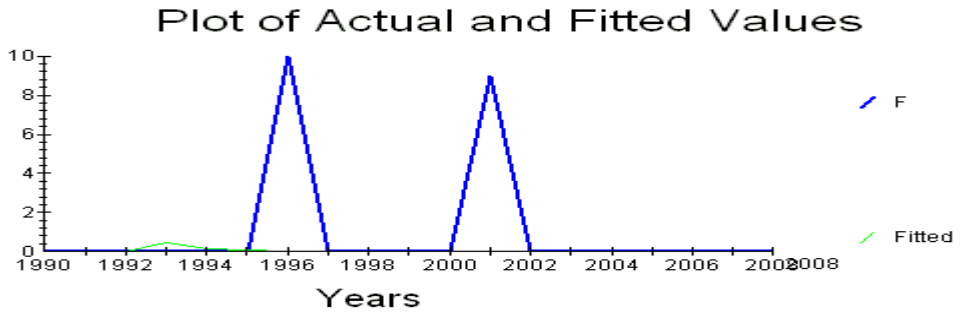


*Exchange rate= = -.028459*CON + .0010025*CPI growth rate + .3456E-3*unemployment rate*



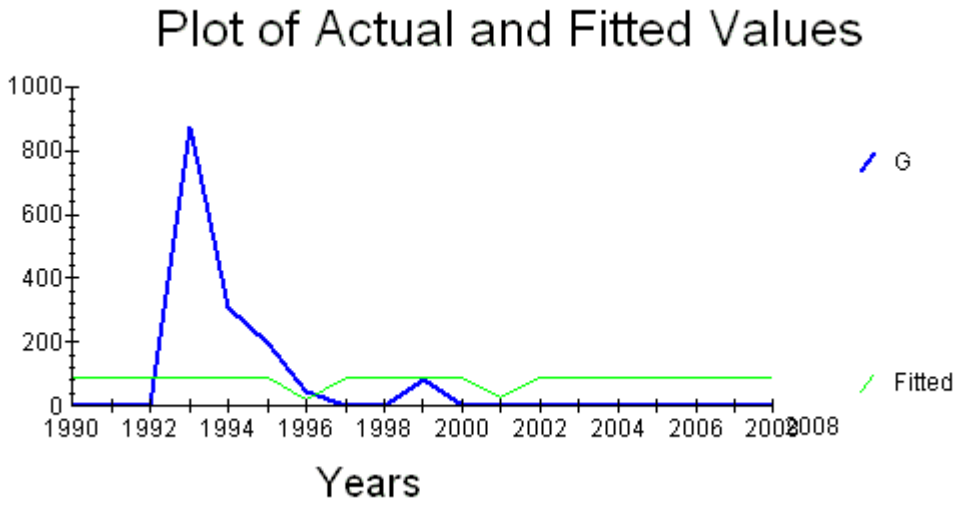
One of the positive sides of socialist economy was full employment stability and security what is undermined by current low quality privatization trend and usage of natural resources.
Negative relation that Russia shows is adverse impact of unemployment on inflation. Declining in inflation could rise unemployment in the Russia in the near to mid term.

*Unemployment rate = 1.1065*CON -.0013291*CPI growth rate*



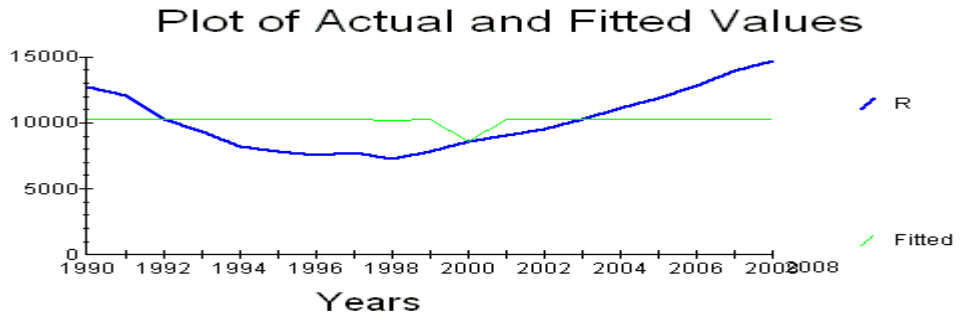
The same holds if we regress past result on unemployment.

*CPI growth rate = 86.5618*CON -6.4512*unemployment rate*



This relation point us to examine is the GDP growth more aggressive than balance of current account. OECD predicts negative numbers in this and next year in the current account.

*Balance of current account %GDP = 3.9143*CON -.2920E-3*GDP per capita*
*GDP per capita = 10228.6*CON -91.0472*Balance of current account % GDP*



2.2. Privatization

Nineties in the 20th century brought turnaround in socialist economies bringing market rules into limelight to East Europe. On the one side high diversified capitalistic market featured with large number of players including numerous small family private companies as well as monopolistic, state governed institutions and non profit organizations such as health organizations and schools presents market with very high dynamics with tendency to grow while reaching new markets. On the other side socialist economies were characterized with slow dynamics, lack of initiatives in private sector, large state governed institutions with tendency to keep the initial state without further growth. Once when highly active capitalist economy found its borders too narrow with large surpluses of goods, started to look over iron fence in order to increase its markets share and introduce dynamics in other parts of the world.

Years after privatization has started the results are mixed or resulted in the total failure of the local market. The main fact about privatization is the massive output fall marked in every single country of the former Eastern block where in the most severe cases the observed cumulative output fall was larger than 50 percent of 1989 GDP (EBRD 2000). Transition brought following facts: output fell, capital shrank, labor moved, trade reoriented, the structure changed, institutions collapsed and huge transition costs incurred. Output fell in all countries of the former eastern bloc in strong contrast to development of China and Vietnam where growth has been fast and substantiated. Capital stock reduced dramatically during the transition although the expectations are that efficiency has increased. What happened is the huge labor movement in all sectors; status amid occupations, of which majority of them starts trading with cheap products from China. The share of value added by industry in GDP declined rapidly. This is due exclusively to the increase of the service share. In the case of Centrally East European countries the reasons are much less clear-cut. The falloff communism created an enormous institutional vacuum. One of the surprises of the transition was the appearance of unexpected costs. The rise of unemployment and income inequality was expected but the rise in mortality rates and the decline on school environmental rates was not expected.
If we look at the past GDP growth of countries in transition we can definitely conclude that they have almost all equal results with GDP growth slowing toward 90-is and strong minus sign for almost 10 years 1989.

Average rate of –6 and minus sign in growth in form of each single country are clear signal that transition period to market economy brought only losses in the first years and should have been handled more carefully more detailed planned slowly considering each fact and consequence of it.

Table1: Output Growth

	Country in Transition	1971-97	1971-80	1981-90	1991-97
1	Armenia	0,9	6,4	1,6	-7,9
2	Azerbaijan	-0,6	6,1	0,1	-11,5
3	Belarus	2	5,5	3,1	-4,5
4	Bulgaria	1,1	6,9	1,9	-8,8
5	Croatia	1,1	5,7	-0,8	-4,2
6	Czech Republic	0,5	3,4	0,8	-4,2
7	Hungary	2,8	4,9	1,1	1,9
8	Poland	2,7	5,9	0	1,8
9	Romania	3,1	9,4	0,4	-2,4
10	Slovak Republic	2,1	5,1	1,5	-1,6
11	Slovenia	3,7	5,7	-0,9	8,9
12	Estonia	1,1	3,8	1,6	-3,4
13	Georgia	-2	5,3	0	-15
14	Kazakhstan	-0,5	3,1	0,4	-6,8
15	Kyrgyz Rep.	0,5	3,3	3,3	-7,3
16	Latvia	-0,1	3,6	2,3	-8,6
17	Lithuania	0,8	2,8	3,7	-6,3
18	Moldova	-1,6	3,7	2,1	-14,4
19	Russia	0,1	3,9	1,3	-7
20	Tajikistan	-1,9	4,2	1,3	-15,2
21	Turkmenistan	-1	2,4	1,5	-9,5
22	Ukraine	-1,6	2,9	1,6	-12,5
23	Uzbekistan	2,2	5	2,3	-2,1

Why such as enormous shock happened we can such through questions about low productivity rates and higher costs, rigidities in economic structures, low level of substitution between factors of production. By following Cobb Douglas formula of future growth states that it is equal to g= K * L

With low mobility of capital, low rate of return on capital and investments, burdened with loans into heavy industries among which defense was the champion socialist economy has a little or no strength to resist to high quality, cheap product from western conglomerates.

On the labor side of equation socialist were not educated in the management skills and knowledge's, what is not easily to obtain overnight and needs at least 5-10 years to have new generation of new entrepreneurs. Although unemployment was not present in socialist economies and constant demand for labor was present, transition brought massive unemployment that was consequents of quick industry break up what further brought to reduction in output. Having heritage of less effective work, incentives to distort work obligation and talents, with absence of organizational motivation establishment of new companies was developing with the slow pace and no new entrants appears. New companies that were established could start with unfavorable, market conditions, high rate of interest for start up capital and tons of bureaucratic barriers that in the most cases include bribery.

Start up destructions should be viewed in many components that varies from one country to another and are represented by following considerations: dependence from trade, a measure of repressed inflation, over industrialization, the premium of black market over official exchange rates, the number of years spent under communism, the distance from western countries, the share of population living in urban areas, initial income per capita, rate of growth of real output, the presence of the national state or federation of states or of a breaking away states inflicted with war.

Transitional economies suffered from significant financial crises due the balance of payment crises or currency crises. The inconsistency between public sector instability and currency overvaluation, which led to current account balance deterioration, was denoted as was of the major determinants of the currency crises in transitional economies. One of the major burdens that brought back the most important member of transitional group Russia was the persistent failure to bring fiscal problems under control. The lack of commitment to fiscal reform at the highest political levels political opposition to such reform the lack of co-operation by regional governments, the lax control over spending (particularly in the military area) and the emergence of influential oligarchs unwilling to share the tax burden all helped stifle the pace of fiscal reform.(McGettigan,2000) Two general views exist to explain variations in the current account as a consequence of public sector instability.

Public activities can have both direct and indirect effects on the current on the current account balance. Construction projects by the public sector may require imports of investment goods, thereby exerting a direct influence on the external balance. Public sector activities affect demand in the economy and an increase in them can also have some psychological effect. Financing budget deficit by issuing bonds leads to higher consumption expenditure due to wealth effects and they raise interest rates. Ceteris paribus, these higher interest rates appreciate the currency ands because of the resulting loss in competitiveness worsen the current account balance. This view is challenged by hypotheses (Barro 1989) which states that an increase in a budget deficit (through reduced taxes) will be offset by increase in private savings insofar as the private sector full discounts the future tax liabilities associated with financing the fiscal deficit. Illnesses that hit USA in the form of twin deficit problems where deficit strikes government budget and current account balance at the same time are seeing in some transitional countries too. In fact almost all transition economies have experienced large deficits in both balances since the start of the transition process. Transition economies collapsed prompting the government to adopt an expansionary fiscal policy in the form of increased expenditures and extended tax incentives to encourage investment. Moreover fiscal deficit expanded as governments tried to absorb the revenue and expenditure pressure associated with the sharp falls in GDP and fiscal restructuring. Current account deficit jumped to record high levels in some economies mainly due to the level of exports consisting predominately of low valued agricultural and primary goods as well as uncompetitive manufacturing goods. Due to growth and investment and real exchange rate appreciation substantial external deficits also reflect high level of imported consumer and capital goods whereby the latter were needed to introduce new technology and make industry more efficient.

The current account is the excess of gross national product (GNPt) over absorption (At):
$CAt=GNPt-(Ct+Gt+It)=GNPt-At$
With C as private consumption, Gt government purchases and I standing for investment. Knowing that the difference between a country's national product and private and government

consumption is national savings, we can state that the current account is also the difference between national savings St and investments:
CA t= St-It=Stp-Itp+(Tt-Gt)
In order to get current account surplus we have to achieve private sector surplus (Sp>Ip) and / or public sector surplus (Tt>Gt). Analogy says that current account deficit must not be matched by private sector deficit and public sector deficit or twin deficit problem. When an economy starts to peruse current account deficit whether there has been an increase in investment, decrease in savings. If the prospect is going to stay negative the country is borrowing abroad or running down its foreign assets to sustain or raise consumption whether by the private sector or the public sector. If the current account deficit is the result from investment increase the country is raising its capital stock more quickly and therefore raising its future output faster.

If we suppose that the current taxes are constant and (Sp-Ip) remains the same an increase in purchases will raise the government budget deficit (Gt-Tt), which in turn affects the current account. In this way a government budget deficit resulting from increased purchases reduces the nation's current account surplus or widens deficit problems. In a small open economy an increase in the budget deficit leads to an increase in interest rate. The increase in the interest rates induces capital inflows leading to an appreciation of domestic currency. A twin deficits situation arises as the appreciation deteriorates net export and in turn worsens the current account.

Some economist support alternative view that says that decline in public savings is offset by an equal increase in private savings and that national savings remains unaffected. With government purchases Gt unchanged and with output Yt held constant at its full employment level These economist argue that a cut in taxes today forces the government to borrow more to pay for its current purchases; when the extra borrowing plus interest is repaid in the future then future taxes will have to rise. Thus although a tax cut raises consumers current after tax incomes the tax cut creates the need for higher future taxes and lowers the after tax income s that consumers can expect to receive in future.

Lately, an intertemporal approach is studied where the levels of investment and savings need not to be correlated. According to this approach large investment or governmental budgetary needs van be suited by external imbalances what is the case with transitional economies. In transition countries there is high correlation between current account and investment. In the case of high correlation between the investment and savings that point us to endogenous fiscal policy. Some transitional countries the current account deteriorates via an increase in investment Government responded in the way to increase the taxes or decrease expenditures at the end the endogenous fiscal policy creates strong positive relationship between saving and investment in transition economies.

It is a clear from the table that the opening up to external trade has been accompanied by significant current account deficit. Central European countries the current account balances were not problematic up to 1994 reflecting contraction in domestic demand, real exchange rate under valuations and external financing constraints. Afterwards significant current account deficit deterioration was noticed in the region peaking at almost 7 percent of GDP in 1998 on average (Lithuania 11,7 Latvia 10,7 Slovakia 9,6) mostly as a result of growing imports of both consumption and investment goods. Deterioration of current accounts in the region was the result of the growth of merchandise trade deficit, downward trends in the

service balance, rising indebtedness and profit repatriation as well as the consequence of the continuous appreciation of domestic currency in most of the examined cases.
Similar events was marked in Central and Eastern region by achieving the top average current account deficit at the significantly higher level (13,7 %of GDP) The major contributors to such a huge deterioration in the current account balance were some economies in the region with current account deficits above 20% of GDP (Turkmenistan 37,4 ,Azerbaijan 30,7) The reasons for that we should look into lost of terms of trade for energy imports, than they ran high negative fiscal imbalances as authorities tried to absorb the revenue and expenditure pressure associated with sharp fall in national income and fiscal restructuring. Furthermore lack to build a competitive and diversified export sector and started to stimulate import. The countries have been undertaken some financial reforms what should lead to an increase in the marginal productivity of domestic investment. Also external borrowing for investment purposes is preferred to borrowing for consumption purposes.

It is worth noting that pre transitional period was marked with high saving rate in all countries and was 32,9% 30,7% and 28,8 % of the GDP. This rate is much bigger than EU-15 average rate of 20% in the same period (1980). Transition period however brought uncertainties, quick changes, in some countries serious conflicts, high inflation and unemployment what caused the enormous drop in the savings rate. Today savings rate stabilized in CEE countries at 20 % of GDP, 17% of GDP in CIS countries.

Pace and transition methods varies from country to country and with different time schedule. The three methods can be recognized and are summed up in the table below:

Approach	Method	Country examples
Privatization by sale	-Initial public offering of shares -Sale by tender (limited or open) -Sale by formation of a new company (joint venture) -Negotiated sale to a single buyer -Management or management/worker buyout	-Poland, Hungary, Czech Republic -Hungary, Estonia, Latvia -Czech Republic -East Germany -All countries
Privatization by free, or almost free distribution	-Vouchers issued to the general population -Vouchers issued preferentially to Management and workers -Free distribution of shares to Management and workers	-Russian Federation, Czech Republic -Russian Federation -Hungary
Mixed and partial models of privatization	-Mixtures of sales and the free Distribution of shares -Selling off part of a company, the Rest remaining in state Ownership for the time being	-Most countries -Most countries

Although each country has its own history of privatization cycles three major ways are present. One is direct sales with the following forms: management/worker buyout, public

offerings and was strongly supported in Poland, Hungary, and Eastern Germany etc. The second type was by free distribution of recourses by vouchers and was recognizes as good method in Czech Republic and Russian Federation.
Majority of countries implemented mixed models of privatizations that include partly direct sales, partly state ownership and partly vouchers system.

It was noted however that privatization was took different pace and different methods during the years and had the chaotic movement in each state and across region. Unclear picture what to do have been lasted for almost 15 years. Until that time majority of factories were cheaply sold out, banks sector was in 80 % in foreign ownership (all countries except Slovenia) and new foreign companies established their businesses.

Many of the privatization problems would be avoided if clear goals were made, long term development policy established and in many states old companies were not privatized and new enterprise could easily be established.

The first steps were in recognizing what to or not keep in the state ownership. It is clear that natural resources hospital and schools was well as some factories and museum should stay in the state hands.

Y= FACTORIES + NATURAL WEALTH+SCHOOLS+HOSPITALS+SACRAL OBJECTS, MUSEUM, CULTURE+OTHER

These decisions about what to privatize need to lie on the following types of reasoning clearly understood by population and agreed with.

Y= LONG TERM INTERESTS+ HIGH COMPETITION INSIDE NATIONAL INTERNATIONAL MARKET+ EXHAUSTABLE NATURAL RESOURCES

Y= EXPERIANCES FROM OTHER TRANSITION COUNTRIES+ CURRENT ECONOMIC SITUATION+ PROSPECTS OF SCENARIO 1+ PROSPECTS SCENARIO2

Y=LONG TERM STRATEGY (INTERNET PUBLICLY ANNOUNCED) + SHORT TERM STRATEGY (APPROVED BY ECONOMIC COUNCIL)

If country decides to sell part or whole to its employees the following should be transparently put in equation:

Y= YEARS OF EXPERIENCE IN COMPANY+ EDUCATION+RISK AND RESPONSIBILITIES+ EXTRA POINT (SINGLE PARENTS, MORE CHILDREN, SPORT, ART) +PATENTS, EXTRAODINARY GAINS TO COMPANY

Each way of one system to another is filled with Scylla and Haribda types of decision but some basic advantages and disadvantages as well as possibilities are recognizes in the able that follows:

HOW	ADVANTAGES	DISADVANTAGES	POSSIBILITIES
SELLING TO WORKERS	SHORT TERM REVENUE; WORKES PARTICIPATE IN WORK AND PROFIT; SENCE OF OBLIGATION ,OWNERSHIP	WORKERS SELLS STOCKS SHORT TERM GAIN; AFTER SELLING NOT CONNECTED TO COMPANY; AGAIN POSSIBLE LOW EFFICACY;	SMALLER PRODUCTION FACILITIES; OBLIGED WORKERS NOT TO SELL IN THE MID TERM LONG TERM (5-10 YEARS) INCENTIVES: PROMISE IF KEEP STOCK TO GIVE LOANS WITH SMALLER INTEREST, TO PAY FOR HOSPITAL; TO PARTICIPATE IN CHILDREN EDUCATION
SELLING TO FOREIGN7DOMESTIC BUSINESS PARTNERS	ADVANTAGES IN SHORT TERM CASH INFLOW; POTENTION OF NEW MARKET IF EXPLICITLY CONTRACTED IN THE LONG TERM CONTRACT	FOREIGN OWNER WOULD TAKE GAINS, SELL COMPANY FOR PARTS, CLOSE PRODUCTION TO SILENCE COMPETITION; EARN ON LAND; GET TO KNOW COMPETITION; WIN THE MARKET AND TAKE THE GAIN	GOOD CONTRACT THAT SPECIFIES EACH DETAL THAT COMPANY IS INVOLVED WITH; SELL IF MARKET IS ENOUGH ENRICHED WITH ITS PRODUCTION THAN IS GOOD FOR COMPETITION; IF THERE IS NO DEVELOPED OLIGOPOLY MARKET DO NOT SELL TO FOREIGN OWNER
NOT PRVATISE AT ALL	PAST ACHIEVMENTS SHOULD STAY IN PEOPLE HANDS WITH CLEAR RULES ABOUT FUTURE PROFIT INVESTMENT; NECESSARY AT NATURAL WEALTH,	COULD GIVE FALSE MESSAGE THAT EFFICIENCY IS NOT IMPORTANT	NATURAL WEALTH SHOULD BE CLOSELY MONITORED AND LONG TERM INVESTMENT PLAN DEVELOPED IN THE CASE SOME OF IT GOODS IS EXPORTED
NOT PRIVATESE BUT HAVING IN PENSION FUND LISTED ON STOCK EXCHANGE	WORKERS RECOGNISE THE VALUE OF THE COMPANY AND REALIZE THAT PROFIT IS THERE FOR COMMUNITY	CREATIVE ACCOUNTING COULD MAKE SOME FALSE PRICE MOVEMENTS, PROFIT IS STILL IN COMPANY AND SOME WRONG BUSINESS DECISIONS COULD BE EASILY MADE	PROFIT IS MANAGED BY TAX PAYERS, INVESTMENT OFFICE ESTABLISHED WITH POOL OF PROFITS THAT HAS O PURPOSE NEW FACTORIES, ROADS, SOCIAL OBJECTS

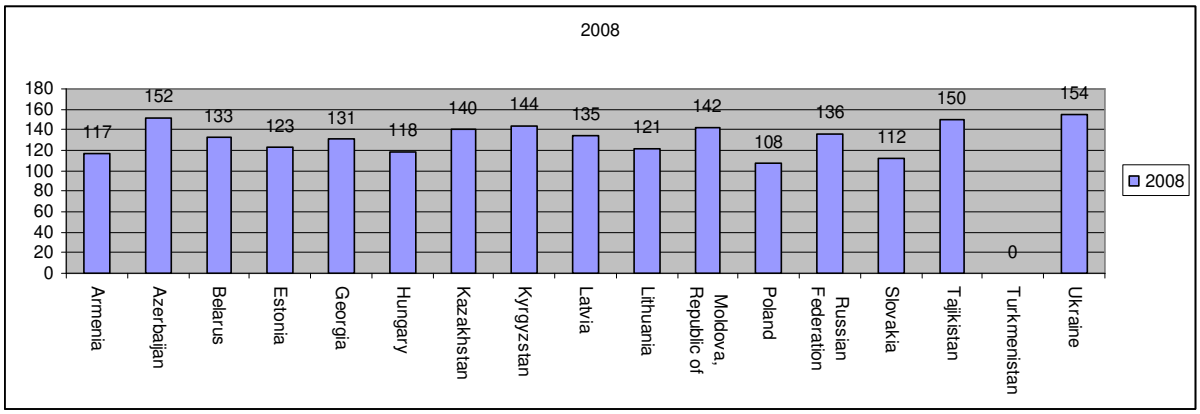
WHO	ADVANTAGES	DISADVANTAGES	POSSIBILITIES
GOVERNMENT	CAN MAKE LEGISLATION EASY TO MAKE A DEAL	NEED CASH FOR GOV BUDGET; BURDENED WITH SHORT TERM ELECTION RESULTS PARTY INFLUENCE	BE ADVISED FROM INDEPENDEND EXPERTS
SELLING TO FORNER PARTNERS	ADVANTEGES IN SHORT TERM CASH INFLOW; POTENTION OF NEW MARKET IF EXPLICITLY CONTRACTED -LONG TERM AGREEMENET	BUY TO SHUT UP COMPETITION, TO MAKE ITS OWN VISION COME THROUGH, TO USE IT TO WIDEN ITS OWN MARKET STREANGHT	LONG TERM CONTRACTS
NOT PRVATISE AT ALL	MORE ADVANTAGES TO DEVELOP AND KEEP NATIONAL ACHIEVMENTS IN THE COUNTRY;	COULD BRING LACK OF INVESTMENTS IN THE FACTORY , IN THE SECTOR, NOT DEVLOP OLOGOPOLY MARKET	PROFIT COULD BE USED TO WIDEN FACTORY, TO ESTABLISHED SIMILAR BRAND ALL IN NATIONAL OWNERSHIP;
SELLING TO EMPLOYEES	RELATIVELY EASY TO ACCOMPLISH; WORKERS THROUGH DIVIDENTS MORE INTERESTED IN MAKING BETTER RESULTS	LACK OF MONEY COULD MAKE THEM SELL AT LOW PRICES, AFTER THAT WOULD BE HARD TO RUN THE COMPANY AGAIN, NATIONAL FACTORY LOST AS WELL AS LOST COMPARATIVE ADVANTAGE IN SECTOR	LONG TERM CONTRACT : CAN SELL ONLY TO OTHER EMPLOYESS ; OR NOT TO SELL AT ALL FIRST 10-15 YEARS;REWARD GOOD WORKERS, INCENTIVE PAYMENT SCHEEMS;

WHAT	FOOD FOR THOUHTS
FACTORIES	MIXED DECISION IF STRONG COMPETTION ON THE WORLD MARKET SELL ONLY TO DOMESTIC WITH LONG TERM OBLIGATION NOT TO SELL
NATURAL WELATH STRATEGIC INDUSTRY, OBJECTS	DO NOT SELL; CAREFULLY MAKE A LONG TERM PLAN OF PRODUCTION, PRESENT USAGE OF INCOME MONEY AND FURTHER INVESTMENT PLANS; FOR WOOD INDUSTRY F..E. MAKE PLAN FOR REPLANTING TREES, DEVELOP MANY EXPORT POSSIBILITIES (OIL GAS TO EUROPE FAR EAST, SOUTH,NORTH) USAGE OF MONEY TO PROTECT NATIONAL INDUSTRY AND DEVELOP OLIGOPOLISTIC MARKET DEVELOP MORE DOMESTIC PRODUCTION (WOOD- FURNITURE INDUSTRY), OIL PETROCHEMICAL PRODUCTS
HOSPITALS	PARTLY PRIVATIZE TO WORKERS THAT WORK INSIDE HOSPITAL, INCENTIVES : ALL GAINS INVEST IN HOSPITAL; ALLOW ESTABLISHEMNT OF PRIVATE CLINIKE; POSSIBILTY FOR INSURANCE HOUSES TO MAKE AN INSURANCE AS COMBINATION OF STATE AND PRIVATE MEDICINE SERVICE
SCHOOLS UNIVERSITIES	ALLOW STATE AND PRIVATE EDUCATION
CULTURAL SACRAL OBJECT	STAY IN STATE OWNERSHIP

2.3. Comparison to other EU countries

If we compare Russia to other European States following results are obtained.
Prices have risen significantly in the Eastern Europe where if 2005=100 prices in 2008 are at the picture that follows.

Picture17: CPI



Source:unece.org

The smallest price rise is noted in Poland, Slovakia, and Hungary that are part of the EU.
Ukraine, Azerbaijan and other former Soviet Republic experienced huge inflation in the period of five years – note that in this period oil prices rose and fell 208 falls significantly.

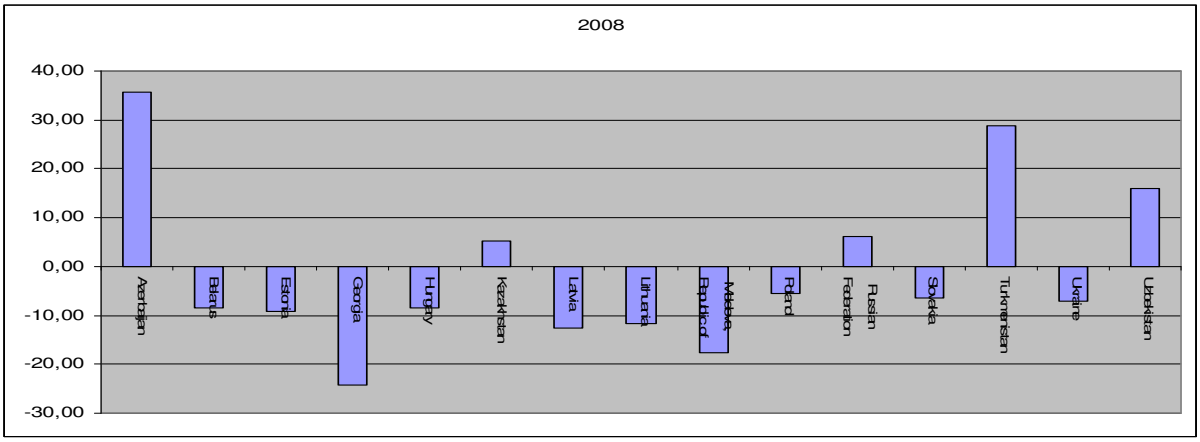
*Russia = .39321*CON -1.5199*Armenia -.68528*Azerbaijan + .22513* Belarus + .69776*Estonia + 2.1962*Georgia + .071276*Hungary*

*Russia = -3.6593*CON + .85577*Kazakhstan + .20631*Kyrgyzstan + .061953*Latvia - 1.4276*Lithuania + .18001*Moldova + .90882*Poland + .25037*Slovakia*

*Russia = .38014*CON + .92575*Tajikistan + .022154*Ukraine*

Negative numbers of balance of current account are noted in the majority of East European Countries. Turkmenistan and Azerbaijan as well as Uzbekistan have positive balance. Russia and Kazakhstan were positive through years - future will depend upon oil prices, profitable wise investment and government flexibility when creating budget policy.

Picture18: Balance of current account 2008 % GDP



Source:unece.org

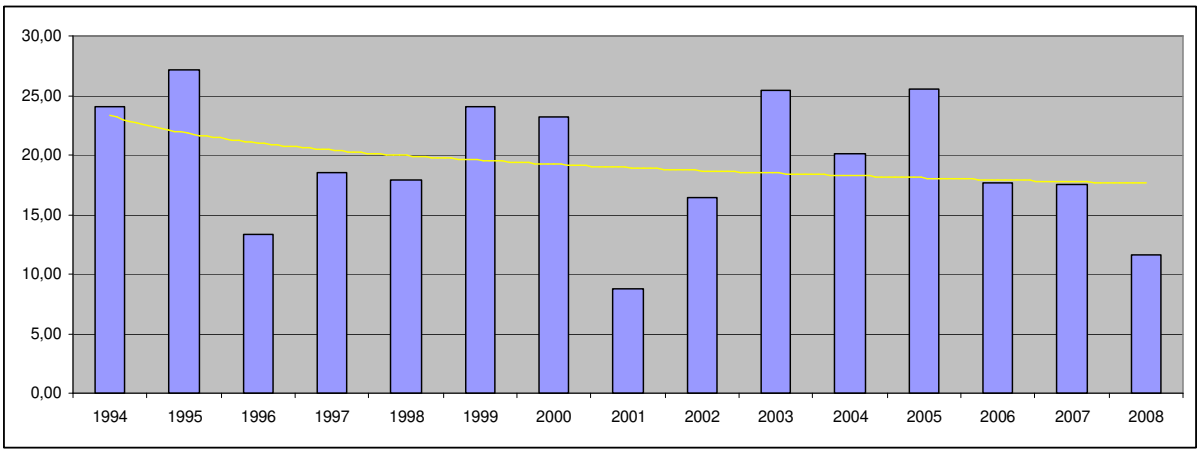
*Russia = -.45110*CON -.11316*Armenia -.023934*Azerbaijan + .18153*Belarus + .37047*Estonia -.27714*Georgia -.23626*Hungary*

*Russia = 2.1390*CON + .50565*Kazakhstan -.099233*Kyrgyzstan -.055753*Latvia + .74049*Lithuania -.35293*Moldova -.85609*Poland + .26423*Slovakia*

*Russia= 1.6926*CON + .097476*Tajikistan + .029937*Turkmenistan + .38339*Ukraine + .075216*Uzbekistan*

Exchange rates are very volatile in Russia in the period from 1994-2008. Future depends upon oil prices, industry development, rise of inner consumption, rise fall in export/import, innovative activities.

Picture19: Russian exchange rates 1994-2001



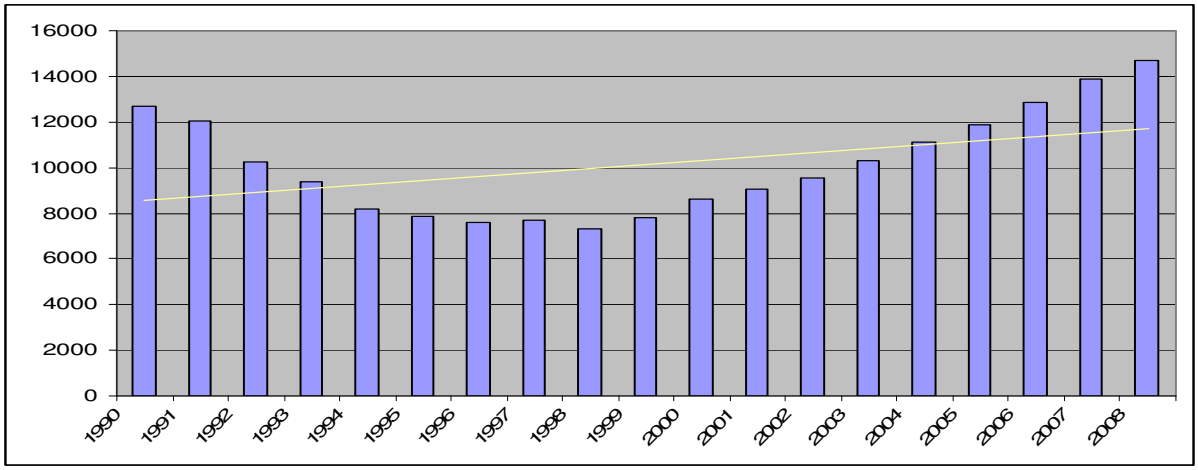
Source: unece.org

Stable exchange rate has Azerbaijan, and Turkmenistan.
Volatile is in Georgia where depreciated after 2001, and in Kazakhstan, Hungary, Kyrgyzstan and Poland. Strengthens in Latvia, Lithia, Moldova, Slovakia and Tajikistan.
Decrease in Belarus.
*Russia = .23031*CON + .025682*Armenia -.42518*Azerbaijan + .2082E-4*Belarus*

*Russia = -.20911*CON + .31799*Latvia + .16797*Slovakia -.19869*Tajikistan*

*Russia= .089984*CON -.10808*Turkmenistan -.7542E-4*Uzbekistan*

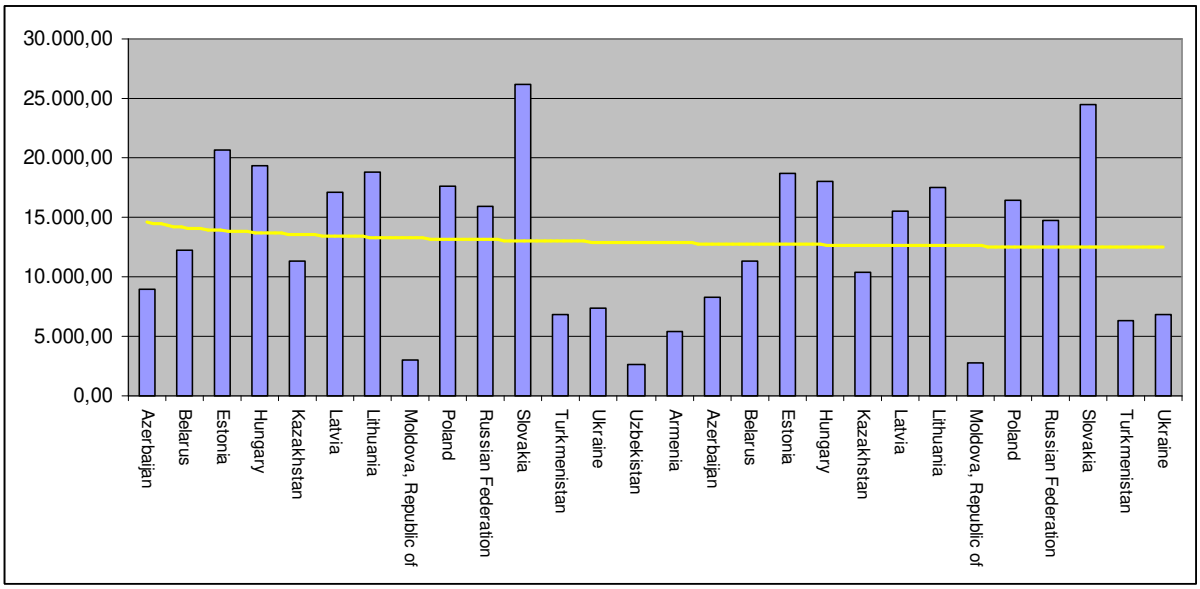
Picture20: GDP/capita in Russia from 1990-2008



Source:unece.org

From the picture that follows GDP/capita is also much diversified across countries.
It is visible that the highest rates are among those states that are members of the EU
The lowest is in Moldova, Uzbekistan, Turkmenistan and Armenia. Russia GDP is less than Poland, Latvia, Lithuania, Estonia and Hungary.

Picture21: GDP/capita other East European Countries



Source:unece.org

*Russia = -26.6514*CON + .63602*Azerbaijan -.36415*Belarus + .69798*Estonia - .33352*Georgia + .54700*Hungary*

*Russia = -9382.5*CON + .73969*Kazakhstan + .96519*Kyrgyzstan -1.2832*Latvia + 1.3434*Lithuania -4.6096*Moldova + 2.1265*Poland*

*Russia = 3507.0*CON -2.4519*Slovakia + .11755*Tajikistan + 2.7929*Turkmenistan + 1.9474*Ukraine + 1.9969*Uzbekistan + 4.2041*Armenia*

*Russia= 6811.9*CON + .037333*Azerbaijan -3.2110*Belarus + 3.9959*Estonia - 2.5746*Georgia -.82150*Hungary -.31738*Kazakhstan*

*Russia= -17030.8*CON -1.7505*Kyrgyzstan + 1.5651*Latvia -3.2858*Lithuania + 1.3957*Moldova + 3.6876*Poland*

*Russia= -9761.1*CON + .92130*Slovakia + .13789*Tajikistan + .30642*Turkmenistan + .24563*Ukraine + 4.0240*Uzbekistan*

If we compare Russia with the countries situated at the Balkan we can conclude that only Austria and Russia has positive balance of current account. Strongest positive numbers were in the period of rising oil prices for Russia with tendency to fall with financial crises.

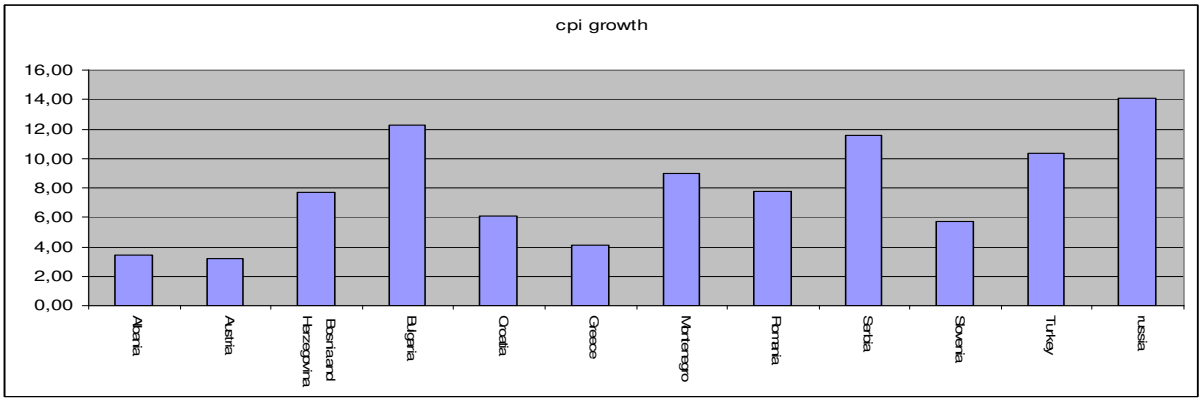
Strong negative numbers are in the all other countries where Bulgaria, Greece, Romania have a large amount of GDP than Slovenia and Turkey.

*Russia = 1.1197*CON + .066684*Albania -.054633*Austria -.040905*Bosnia + .025054*Bulgaria*

*Russia = 2.4841*CON -.60126*Greece + .0070462*Montenegro + .57567*Romania + .20674*Serbia*

Price growth is by far the biggest in Russia and Bulgaria, while the lowest rise was noted in Austria, Greece, Slovenia and Croatia in 2008.

Picture22:CPI growth



Source:unece.org

*Russia = -611.1879*CON + .36867*Albania + 10.1352*Austria + .65900*Bulgaria - .42849*Croatia -3.5060*Greece*

*Russia = 9.3448*CON + .20925*Montenegro + .22360*Romania + .59302*Serbia*

*Russia = -8.0903*CON + .51469*Slovenia + .67773*Turkey*

Having a smaller CPI growth doesn't preserve Albania of having high unemployment rate of 13%, while only Austria EU member has mange to keep unemployment around 4%. Bosnia has the most unemployed people 47%, after comes Serbia 18,1%, Montenegro 19,3%. Croatia has 8,5% unemployment rate, Bulgaria 5,6%, Romania 6,4% and Slovenia 4,5%.

Strengthening exchange rate is noted only in Austria, while Albania, Bosnia, Bulgaria, Serbia and Turkey have a problem with decreasing exchange rate toward USD.

*Russia = -.013810*CON + .096325*Austria*

*Russia = .047933*CON + .20530*Bulgaria*

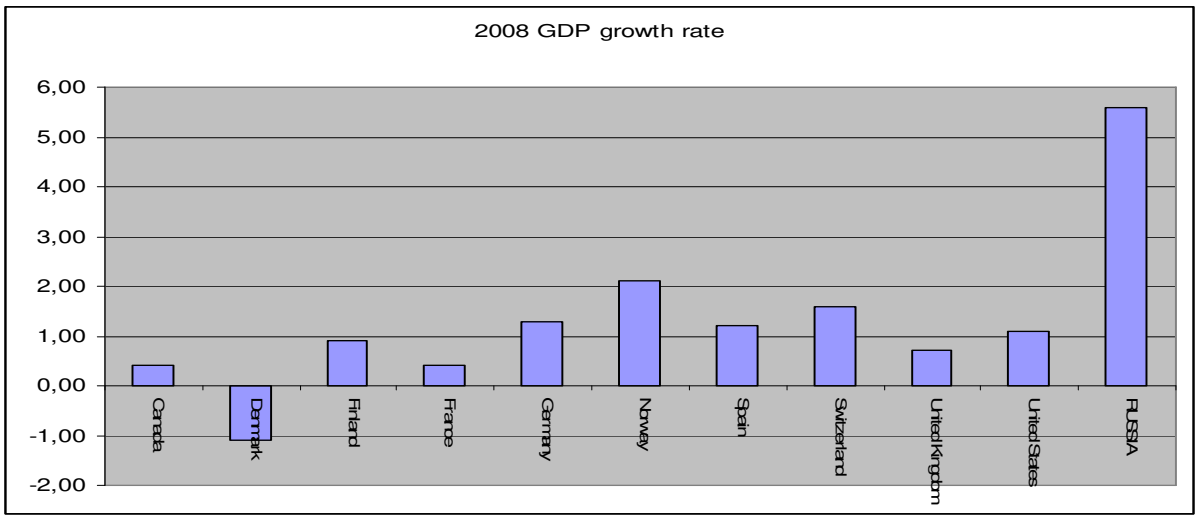
*Russia = -.013810*CON + .096325*Greece*

*Russia = -.013810*CON + .096325*Montenegro*

*Russia = .064450*CON -.14232*Turkey*

If we compare Russia with some developed EU economies we can note that country advances in the GDP growth rate.

Picture23:GDP growth rate



Source:unece.org

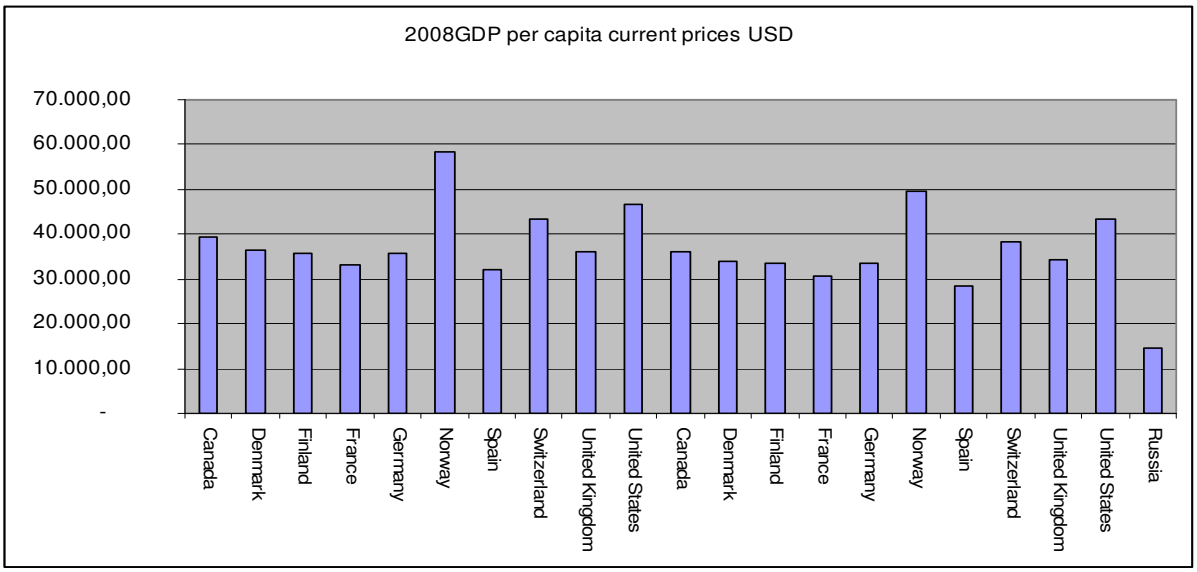
*Russia = -.59940*CON -.12990*Canada + .070958*Denmark + .034985*Finland + .34753*France + .86399*Germany*

*Russia = -.088805*CON + .39128*Norway -.11439*Switzerland + .27746*United Kingdom*

*Russia = -.97209*CON + .25623*Norway -.28441*Spain + .087646*Switzerland + .74762*United Kingdom*

But rise in GDP doesn't make Russia well situated on the picture that presents GDP per capita where it has a last place far below the majority of European countries.

Picture24:GDP /capita USD 2008

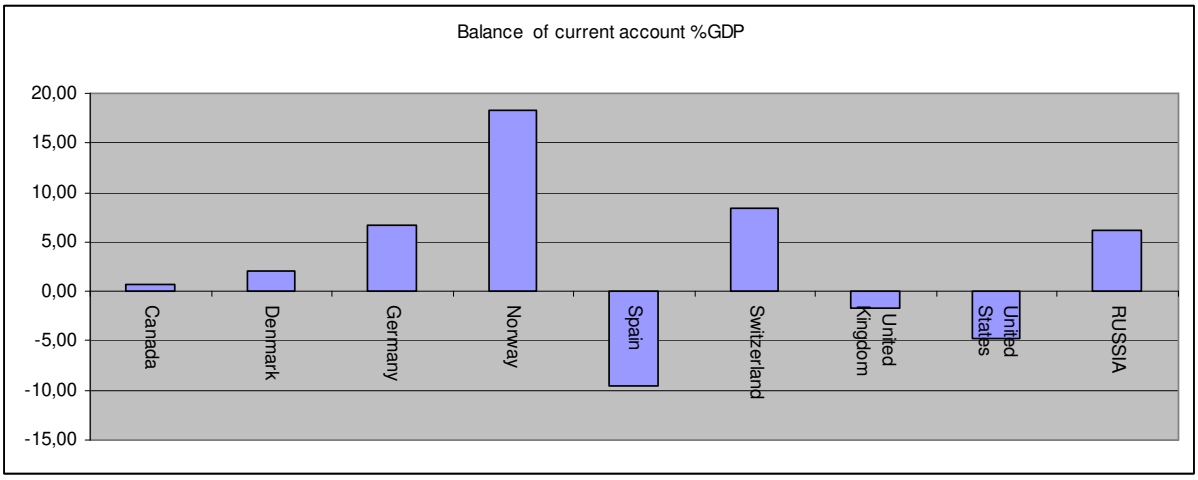


Source:unece.org

Russia is in the group of countries that have positive balance of account (6,1%). Other countries whose history has shown good management of balance account are Canada (0,7%),Denmark (2%), Germany (6,6%),Norway (18,3%),Switzerland (8,4%).

Traditional consumers have negative numbers in the filed where Spain (-9,5%).United States (-4,7%), United Kingdom (-1,6%).

Picture25: Balance of current account,% of GDP



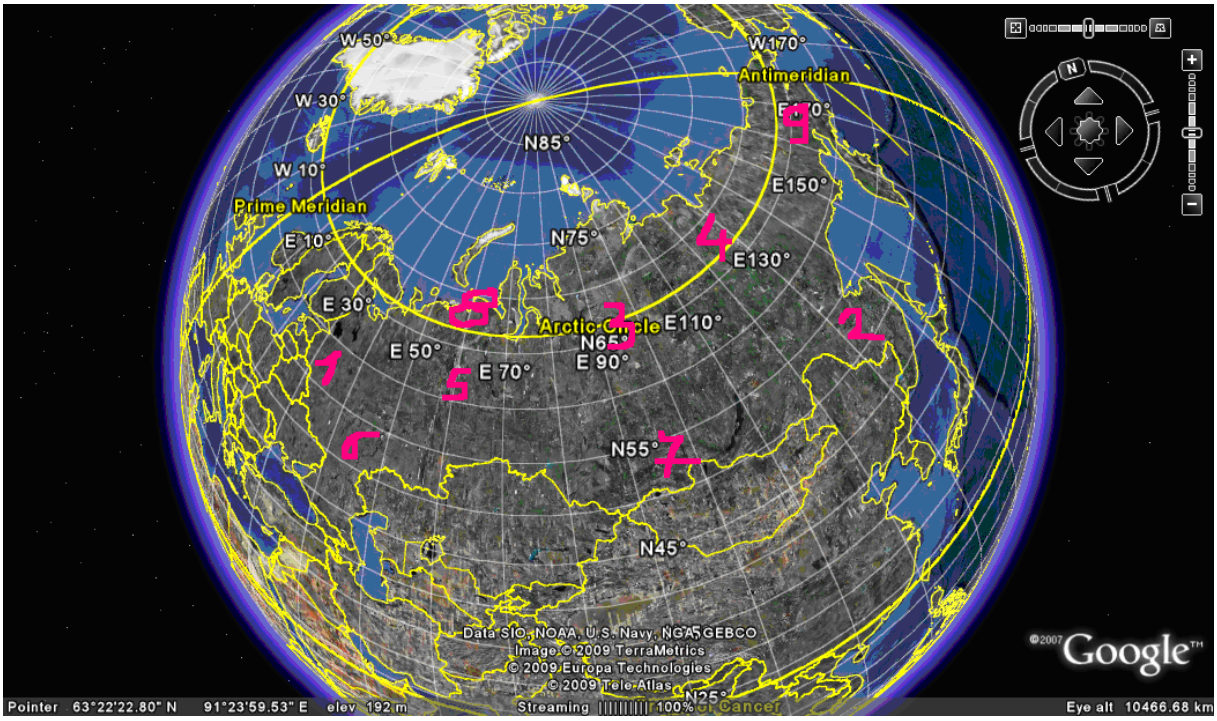
Source:

*Russia = -.026808*CON + .46272*Canada + .016771*Denmark + .84445*Germany - .62288*Norway*

*Russia = 2.0514*CON + .19941*Spain + .015245*Switzerland -.052218*United Kingdom + 1.3030* United States*

Employment growth was 5,7% in 2008 in Russia while other EU/US/Canada countries
Have a small or negative rise in this area. The biggest unemployment rate was noted in Spain, after comes France, Germany and UK.

2.4. Possibilities



House 1: stands for water and the journey.
There are many doorways to each country. I have chosen western portal due to strong history relation with Europe, part of South Slavic tribe are living in the South Eastern Europe and this is the door way to Russian metro poles Moscow (8 mil. population) and St Petersburg (around 4 mil. population).

Long Volga together with long vast fertile meadows greets incomer. But this house and entrance could be used a little bit differently. Long river need to have as many irrigation systems as it is possible and land should be used and arid more. Long trees that follow train ways are interrupted with water.

But what this entrance gate offers to Russia is opportunity to build and develop its own industry making long line of factories along the Europe Russian border that would produce all kind of commodities at competitive prices. This vicinity to Europe has for its purpose: giving Russian, who highly respect Europe and would like to be organized in the similar way moral, physical and intellectual strength to actually use income from the oil tax payer and build a Russian miracle – this is hard in transition society that correlates privatization and moral degradation but with proper wish, efficient usage of oil money and marketing this could be industrial center ; the second has for its purpose to prevent strong degradation in Russian economy which has developed Dutch disease – what means large natural wealth export and import of almost all products..
This line of different kind of production business units is situated close to each other due to followings:

-lower installation, energy costs, one production can support others, possibility to run on free carbon wind energy in future and reduce CO_2, lower investments in infrastructure like roads that connect them, closeness to Europe market and potent ion to sell their products there.

It is so that France was long time inspiration to Russians – by situating industry many new brands, low cost products from missing butter to high style fashion product are possible to be produced and launched in this house 1.

House 2: stands for Earth and relationship

House 2 is situated on the Russian Chinese Far East border. It is ideal place for two friends to meet and discuss news. But saying that don't mean just building the hotel resorts on wild and beautiful Russian Far East Asian soil.

Several business possibilities could be very successfully for both economies:

1. Establishing the Spot Oil/Gas Market
   Oil gas can be traded on the sea port, taken to China, America, and Japan
   End of Pipeline Project
   LNG, crude terminal, Crude storage facilities, Gas storage facilities
2. Building a large trading complexes for exchanging goods with China, Mongolia, Japan, Russia can produce much more grains, and trade it for clothes, electronics with far eat neighbors
3. Large fish market with fish breeding place
4. Trade and business does not exclude tourism and this area can be place where tourist from both side cross the border an enjoy high class hotels resorts and enjoy nature, schools can organize educative excursing, colleges interchange students what would bring additional benefit to both countries in becoming fresh ideas

House 3: stands for thunder and ancestors

This house is situated from far north east of Urals till south Novosibirsk.

Area of waste land like a shelter to many research activities, organization of brand new ideas fueled with common maglev train that connects East and West and North and south of country.

Research how to build houses in the most energy efficient way in the cold Siberian climate, chemical laboratories, language school, herbal plants, can be situated here.

It is south from old nation that can guard their activities with prays and under the blessing of ancestors.

House 4: stands for wind and fortunate blessing

This house is placed Far East and Far North. There are many free spirit space and freedom of movement, dance, buffalo and bear spirit going on in this region.

Dancing, singing and respect for nature and ancestors as well as being part of clean economy movements makes this area like a fresh wind that always again gives new rise to Russian nations. Even in the case of greater mortality currently present in the country usage of this house in the right way can again bring fertility to this nation.

House 5: Tai Chi center
Center of Russia is situated on the whole area of mounting Ural.
Centrally should be placing a nice fountain with fresh water surrounding only by birds, wood life and path that go use on four sides.

On the next cycle a numerous monasteries and churches as well as religious schools need to be placed there. They could pray but also use this land to grow for medical usage plants, grow fruits and vegetables.
Next cycle can be placed with art school where painters, musicians interact work and present their work.
It would be nice to have one large opera ballet concert hall, and have place where sculptors and painters can leave trace through generations.

House 6: stands for heaven helpful friends
Helpful friend in the house 6 are stated on the south west where Russian is bordering Kazakhstan, Uzbekistan, Turkmenistan.

Large hotel resorts, winter summer hotel retreats, vineyard where they can cordially dance and celebrate life.

Schools trips, industry vacations, team building is possible to organize and keep hotels full whole waiting for international guest that will come to meet good food, nice folklore music, old customs do friendly people.

House 7: stands for creativity and contemplation
Deepest and very clean lake Baikal is the place for house 7.
Children large amusement park with educational inspirational activities, art colonies, shamanic placed, hidden mountain paths and nice charming hotels could be build here.

House 8: stands for mountain and contemplation
North Russian areas where seas kisses land night last for 3 months here people wait for Santa Clause stories to become new each year and bring joy .
Contemplation, peace is part of this house and for Russia that is north- North West.

House 9: stands for fire and illumination
From the center of great wooden longs of Earth till Far East Sea like a firing arrow stands the house number 9.
Protecting nature, especially woods with path that hosts fast across country maglev train , host bulls and bears, deer's and towns of future filled with clean energy .
It ends on the place where sun rise and give strength and courage for the next day.

3. India

3.1. India –former colony

Being seventh largest country by geographical area, 2nd most populous with 1,17 billion having 17% of the world population, with two linguistically families: Indo Aryan (74%), Dravidian (24%) with Hindu making 80,50% of population India is significant new economy that could if run and directed properly be one of the worlds engines of further growth.

Although very old forms of life were found on its territory: earliest known human life form was found in Madhya Pradesh from rock shelters , the first human settlement developed in Indus Valley in western India, India is still lagging behind advanced economies discovered in the Mid Century. Republic of 28 states 7 union territories, 12th economy still suffers from high level of poverty, illiteracy, malnutrition but is still enriched by diversity of wild life.
This large Asian country is still struggling with large problems: high malnutrition among age of three 46% in 2007, people living below poverty line 1,08$ a day decreased from 60% in 1981 to 42% in 2005. Despite having a high per capita income earning overall 85,7% population was living on less than 2,5$ per day compared with Sub Saharan Africa 80,5%.

Maybe part of these not so little problems lays in the countries colonial heritage, but certainly a large amount need to be looked at the past and future economic policy.
The first part of the problem is visible from the fact that India's share of the world income fall from 22,6% in 1700 to 3,8 % in 1952 direct consequents of colonial heritage. It has a long history of foreign rulers from 1510 - Portuguese, Dutch, Danish; French .The longest rule was by British Empire from 1612-1947.

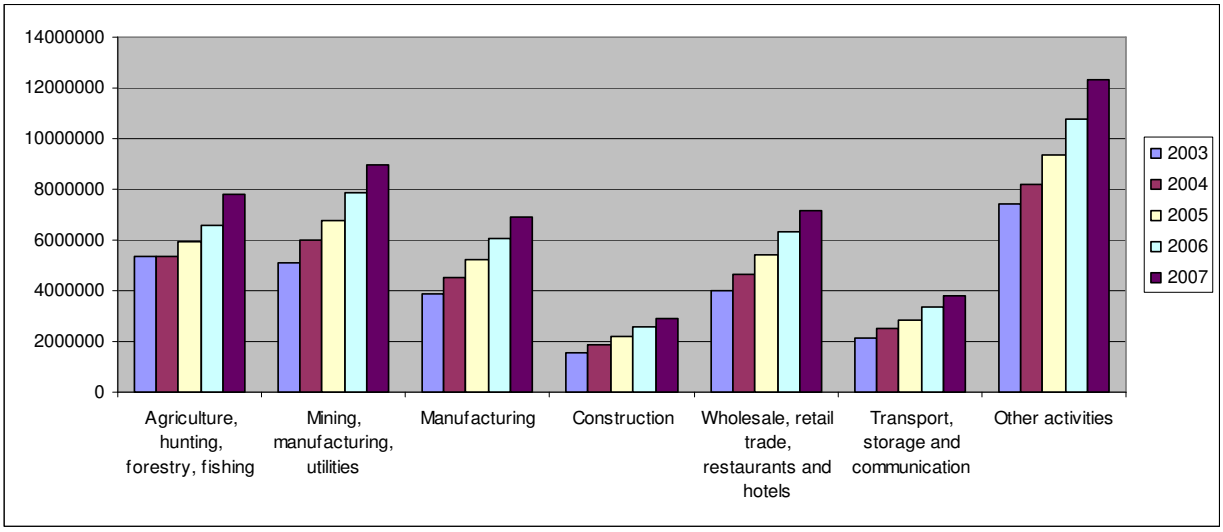
The second part could be looked in the great agricultural influence and monsoons climate. Four major climatic groups predominated in India: tropical welt, tropical dry, subtropical humid, mountain. India's climate is influenced by Himalaya, Thar Desert both of which drive monsoons.

Although rich in mineral resources: coal, iron, manganese, mice, bauxite, titanium, limestone, thorium India export them more than.

Posses' biofuels (jatropha, sugarcane.) 5th largest wind power industry installed 9587 MW. Have 7,6% mammalian of all avian, 6,2% of al reptilian, 4,4% of all amphibian, 11,7% of all fish,6% of all flowering plant species.

From the UNECE data it is visible that large input in the value added sectors comes from other activities, agriculture and manufacturing. Its output is in industrial sector 45%, and agriculture 28% of GDP. In agriculture produces: rice, wheat, oilseed, jute, tea, sugarcane, potatoes, cattle, water, petroleum, machinery, software.
Construction and transport contributes the least to the Value Added to Indian economy.

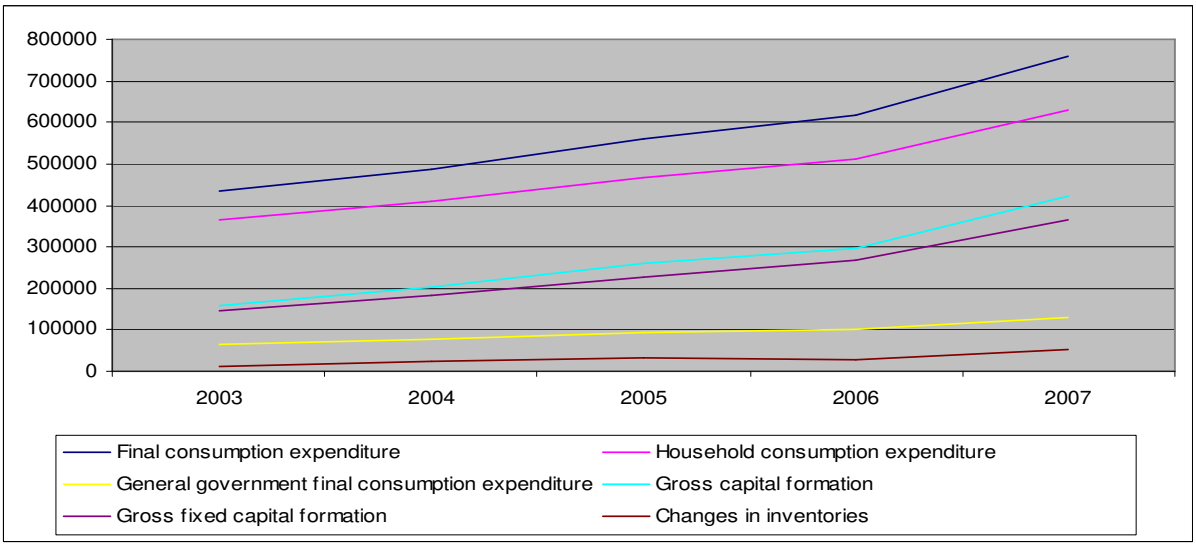
Picture26: Value Added by Sectors



Source:unece.org

The household expenditure is greatest in the final consumption after comes gross capital formation which rises significantly in the last years.

Picture27: Final consumption

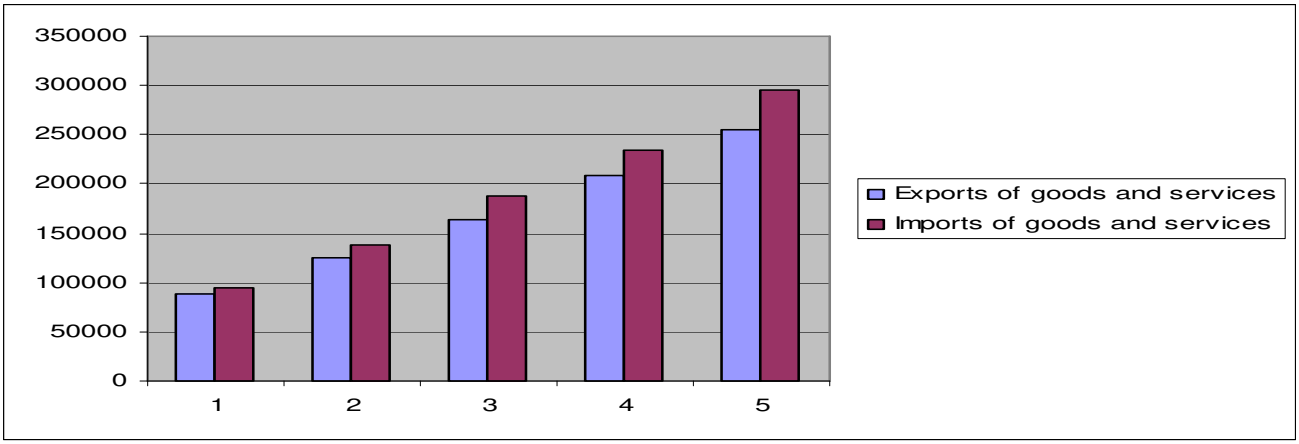


Source:unece.org

Import rises through years but the problem with Foreign Trade deficit lays in the fact that country is exporting its natural wealth and imports finish products which are more expensive.

Among the goods that country exports are petroleum products, textile goods, gems, jewelry, software, engineering goods, chemicals, leather. In import country is dependent upon crude oil, machinery, gems, fertilizes, chemicals.

Picture28: Export and Import of goods and services



Source:unece.org

Some of the data are regressed (2003-2007) and following linear regressions are obtained:

*GDP current prices mil.USD = -5734.3*CON + .029166*Household consumption expenditure + .030041*Government consumption expenditure -.038866*Gross capital formation*

*GDP current prices mil.USD = -16065.5*CON + .076639*Final consumption expenditure -.10968*Gross capital formation + .076592*Changes in inventories*

*GDP per capita = 375.9277*CON -.0063254*Export of goods and services + .0074414*Import of goods and services*

*GDP current prices mil.USD = 3221.2*CON -.7772E-3*U -.0029656*Mining, utilities + .0042780*Manufacturing*

*GDP current prices mil.USD = 2919.7*CON + .013942*Construction - .0085232*Wholesale, hotels + .0046122*Transport, communication*

*GDP current prices mil.USD = 3184.1*CON -.0018042*Other activities + .7465E-3*Construction + .0023783*Wholesale, hotels*

*Export = -122930.1*CON -.0029240*Agriculture, forestry, fishing + .019670*Mining, utilities + .032513*Manufacturing*

*Export = -118669.7*CON + .017988*Construction + .022918*Wholesale, hotels + .041379*transport, communication*

*Import = -153150.2*CON + .088794*Mining, utilities -.10292*Manufacturing + .12367*Construction*

*Other activities = 4745670*CON + 10.2171*Export + 16.4712*Import*

3.1. Two brothers

Since the first human settlement 400.000 years ago in India this part of the world is struggling with different colonial pretensions until it reached independence in 1947.

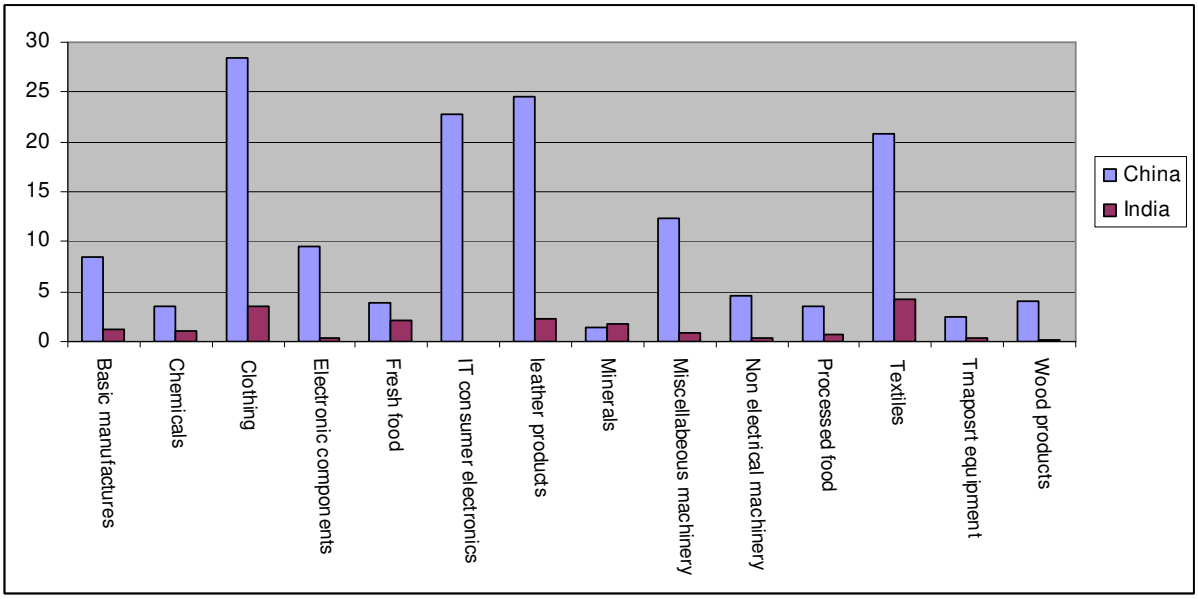
After 90-is globalization become way of living where huge corporations from the west in order to reduce costs found new cheap labor in China and India. These two brothers as some are calling them or tiger and elephant economy although connected with high GDP growth rates still defers in many aspects.

Each country has its own values but some statistical data could help India to put an accent and faster development in the field: while China has 4 computers per 100 people, India has only 1, the similar situation is observed in internet knowledge and number of users in two countries.

Country	Computers per 100	Internet users per 100
China	4,08	7,23
India	1,21	3,24
Developing Countries	3,68	5,95
Transition Countries	11,89	13,98
Developed World	56,64	51,83
World	12,24	13,65

Source: Chinn/Fairlie(2006)

Picture29: China and India comparison



India is rich with following natural resources: plenty of arable land, bauxite, chromites, coal, diamonds, iron ore, limestone, manganese, mica, gas, petroleum, titanium and ore.
Top ten sectors based on RCAI are: silk, gums, vegetables, precious stones, carpets, other textile for floor, cotton, other textile articles, coffee, tea, spices, works of art, collector pieces,

antiques, ores, slag, ash, vegetable textile fibers paper, organic and inorganic chemicals, iron steel, electronically equipment.

Table: India leading export import sector

Leading export sector	2005	Leading import sector	2005
Diamonds(not industrial)	12,68	Petroleum crude	29,23
Clothing of text. fabric	5,51	Diamonds	6,72
Iron ore	4,15	Telecommunication	4,40
Gold, silver, plat, jeweler	3,80	Aircraft	3,23
Clothing, accessories	3,62	Coal (anthracite)	2,53
Medicaments	2,53	Gas(natural)	1,71
Made up articl.of textile	2,24	Statistic, mach.card tap.	1,57
Other organic chemicals	1,85	Textile machine	1,19
Rice	1,53	Iron steel	1,19
Other coated, iron or steel plats	1,42	Office machines	1,08
Total	39,33	Total	52,8

Source: Valli, China National Bureau of Statistics, UN

China is very dominant in exporting of categories such as statistical machines, telecommunication equipment and clothing at the same time importing valves and tubes, petroleum, optical equipment and products of polymerization.

Table: China leading export import sector

Leading export sector	2005	Leading import sector	2005
Statistical machines card tapes	10,10	Valves, tubes	7,35
Telecommunication equipment	7,65	Petroleum	4,75
Clothing of text. fabric	4,3	Binuclear optical	3,75
Clothing accessories	4,19	Telecommunication	3,26
Office machines	3,89	Product polymerization	2,83
Phonographs tape sound records	3,30	Iron ore	2,82
Thermic valves tubes transistors	2,7	Apparatus for electric.	2,78
Footwear	2,44	Statistics.	2,55
Furniture	2,21	Office mach.	1,78
Children's toys indoor games	2,05	Machin.mech .appliance	14,68
Total	42,83	Total	46,56

Source: Source:Valli, China National Bureau of Statistics, UN

India has number of sectors where gained advantage over China: milling products, insulin, rubber articles, copper, works of art. But it also lost advantage that had in following areas: meat, oil, pharmaceutical product, explosives, and chemicals.

India is more advanced than China	China is more advanced than India	Equally advanced
Cereals	Product of animal origin	Vegetables, certain roots
Oil seeds, fruits, grain,	Explosives	Manmade staple fiber
Vegetable ,Fish	Leather travel good	Articles of apparel
Salt, sulphur, earth, line, cement	Articles of apparel	Articles of iron or steel
Silk	Footwear	
Cotton	Bird skin	
Vegetable textile fibers	Tin and articles thereof	
Manmade filaments	Tools, implements,	
Carpets		
Special waver fabric		
Other textile worn clothes		
Stone, plastic, asbestoses', mica		

Source: Source:Valli, China National Bureau of Statistics, UN

East Asian countries gain on its values not just in cheap textile products but in informatics as well. While China has a strong growth in following sectors: telecommunications, mechanical engineering, computer, graphics, and hand writing recognition in India strengths are related to embedded software, drugs, business software, chip design.

Cheap labor force is not the only treasure to both countries. Rising ,better educated population bring innovation and more efficient production in each field.

Number of patents is increasing in both countries where China obtained in 1996 63 US patents while in the 2003 this number increased to 366 with 1,2% of GDP spending on R& D. India had in 1993 30 patents while in 2003 354 with spending of about 1% of GDP on research and developments.

Ration of mobile to fixed telecommunications was in 2000 0,07 and in 2003 0,79 for India while these ration is higher for China where in 2000 was 0,58 and in 2003 1,03.

These rising population strengths combined with discipline, good organization and large conglomerates moving into areas of cheaper labor through years make India and China important import partners to USA, EU and Japan. While Chinas export is rising significantly in all three important economic forces in the last couple o years India is losing its strength exporting less to EU and Japan.

Table: Share of import from China and India

	India			China		
	US	EU	Japan	US	EU	Japan
80-84	0,6	1,5	0,8	0,8	1	3,8
85-89	0,7	1,7	1	1,8	2,1	5,0
90-94	0,7	1,2	1	4,7	2	7,4
95-99	0,9	0,7	0,8	7,3	1,6	12,3
2000-06	1	0,5	0,6	12,3	4	18,3

Source: World Bank, China Statistical Bureau, Census of India,Valli;

Beside labor the second important factor in production is energy. There is similarity in these two countries in this area also while both need to import oil gas to sustain high growth.

Beside labor the second important factor in production is energy. There is similarity in these two countries in this area also while both need to import oil gas to sustain high growth.

Consumption is almost four times higher than production in petroleum products in India while it is two times bigger in China. While China is importing half of its needs for India this percentage is much higher. There is lack of needed refinery capacity for petroleum products in both countries. This relation is much better if the energy is gas where production in both countries almost satisfies consumption. The situation improves on coal and electricity production and consumption relation.

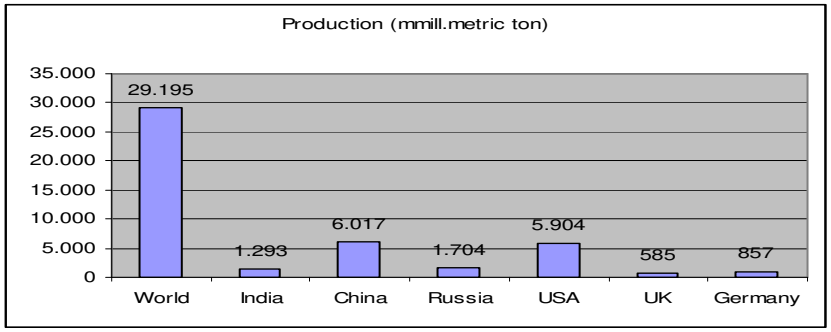
Lack of oil, gas reserves could be compensated with the good relation to Russia (China) and Middle East countries (India).

Place	Production	Consumption	Net Export/Import	Raf.Capacity	Proved Reserves (bill.barrel)
Petroleum					
World	84.416	85.897			
India	883	2.940	-2.056	2.256	5.625
China	3.973	7.849	-3.876	6.246	16.000
Russia	9.789	2.900	6.890	5.428	60.000
Natural Gas					
World	103.977	104.425			6.124.016
India	1.119	1.473	-353		37.960
China	2.446	2.490	-43		80.000
Russia	23.064	16.746	6.318		1.680.000
Coal					
World	6.779	6.737			
India	527	590			
China	2.795	2.772			
Russia	940	819			
Electricity					
World	18.015	16.879		143	
India	703	517		4.012	
Russia	940	819		218	

Source: eia.dov.gov

With increased production based on fossil fuels both countries need to think about introducing clean energy, mechanisms of carbon storage and production of wind, solar appliances what could bring further growth to both countries.

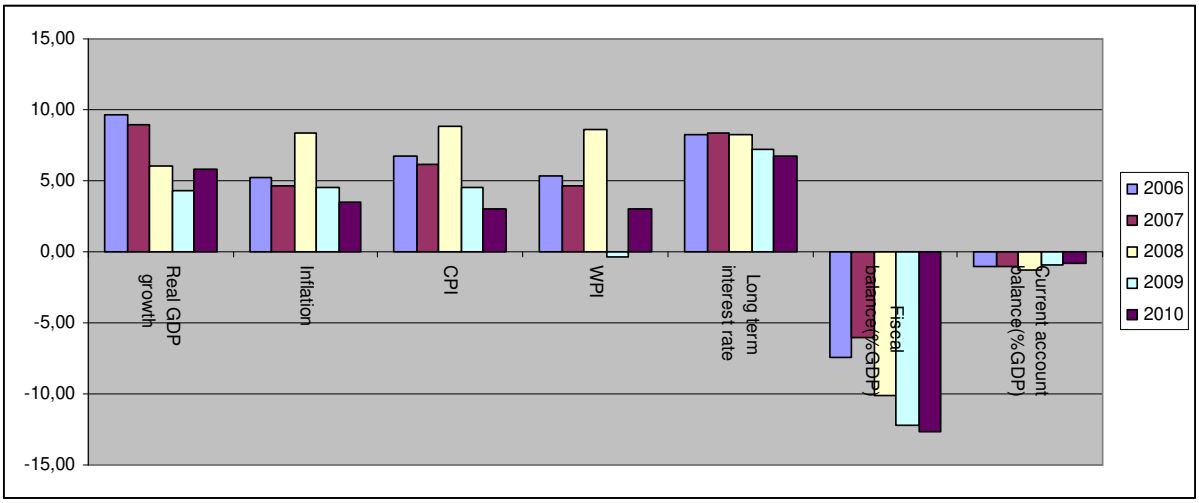
Picture30: Carbon Dioxide



Source: eia.dov.gov

Past data and prediction from OECD experts warn that GDP growth will slow in current 2009 year with possible slow recovery in the years to come. Record inflation will stabilize if growth recovers while there is constant pressure on the fiscal balance in India.

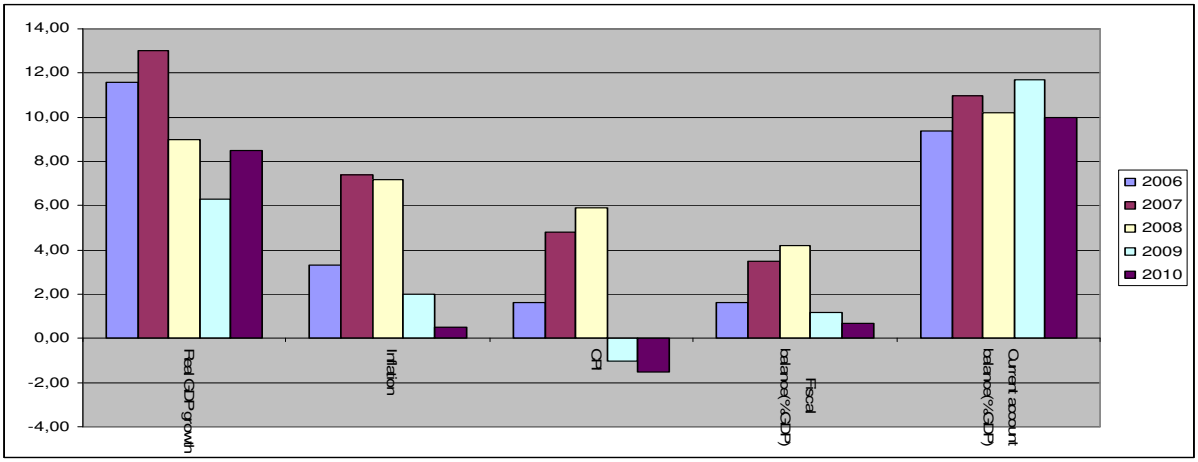
Picture31: India



Source: CMIE and OECD projections

Decreasing GDP growth, higher inflation are similar features are found in Chinas economy but what is worth noting is strong current account and fiscal balance.

Picture32: China

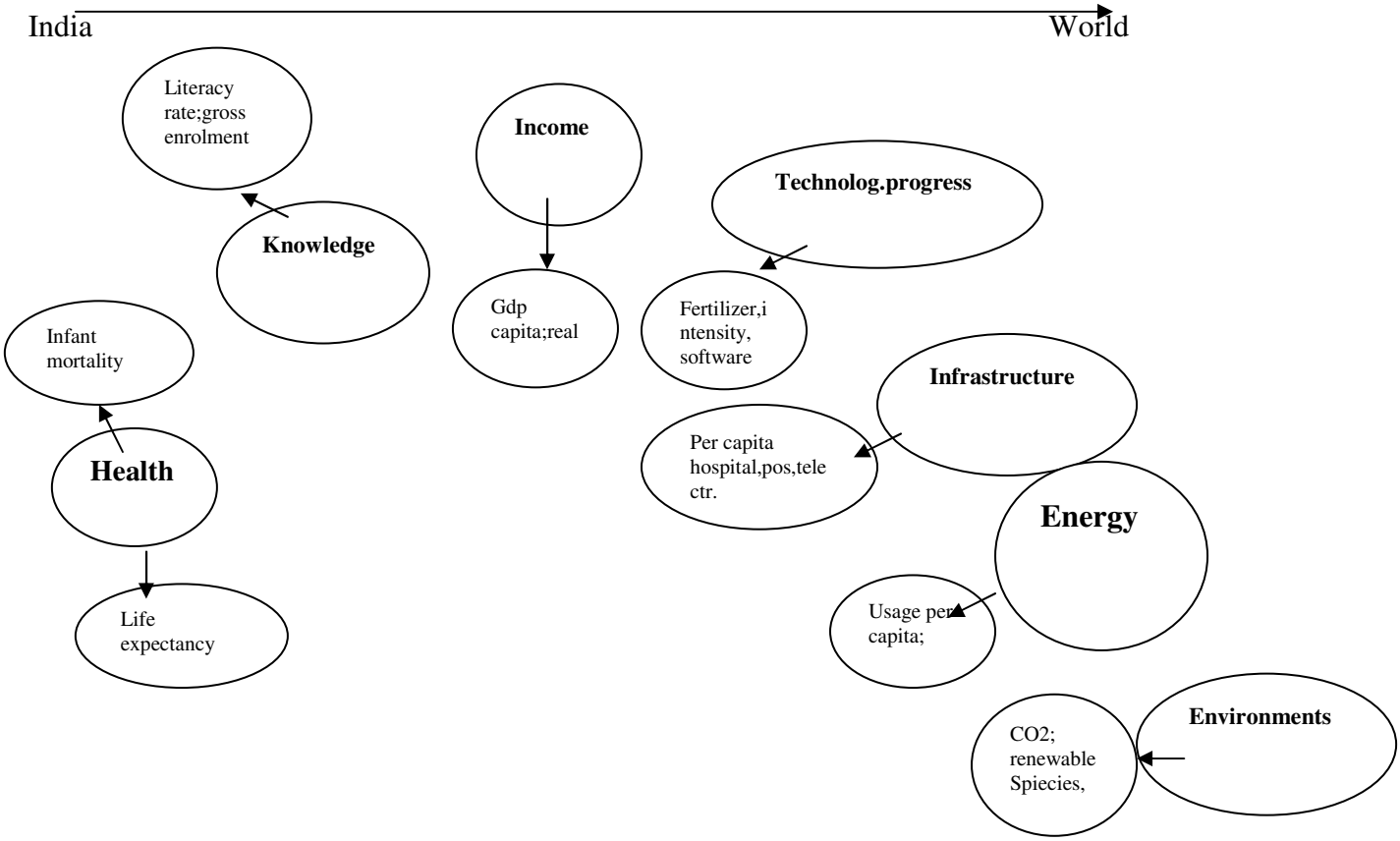


Source: CMIE and OECD projections

3.2. Order out confusion

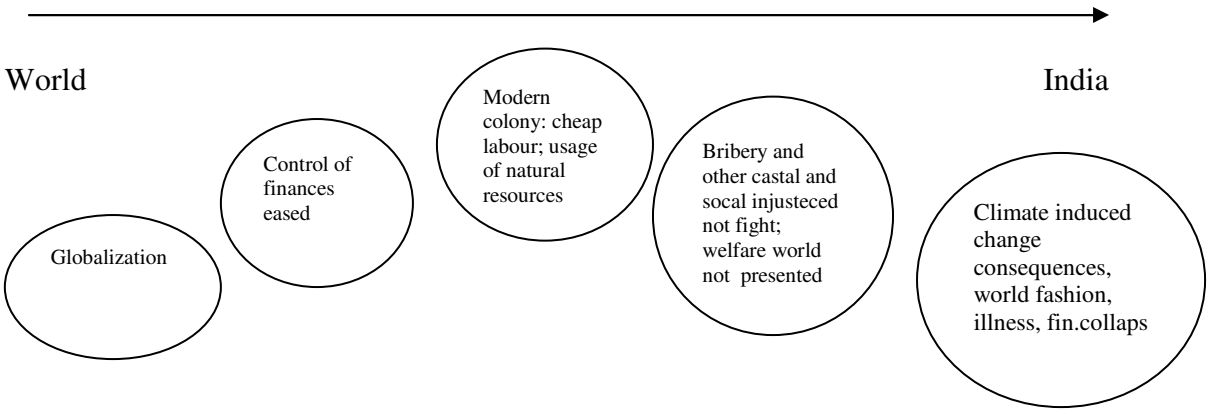
India is surrounded by ocean from three sides. This rhythm of waves was/is not fully appreciated in the country while still has problems with reaching millennium goals, doesn't easily forget colonial heritage, still keeps cast system and in that way keeping the level of progress where next life philosophy could harm the today's achievements.

This wave from India toward outer world was recorded in certain numbers/ pointers as:



Statistical numbers show that a huge gap in each field between developed countries and India exist and there are a many room for improvements.

But ocean really waves in all direction and once there was a closed economy now is opened, old agricultural ways where monsoon shock dictated yield crops now are changed with modern irrigating system, fiscal problems solved with fiscal deficit are now replaced by open financial electronic exchange of information, IPO market, equity issuing and control of financed is eased. Exchange rate regime is changed and cheap labor force attracted foreign investments.



This waves as presented above could be positive and negative while foreign investment will be there until natural resources are fully exported, used, labor force is cheaper than in domestic country, and country keeps the track of open business, transparent taxation, predictive government policy that preserves human, company rights.

On this land of interconnection India need to adapt by evolving inside, growing from globalization benefits and protecting human, natural values in this process. This is not an easy process while still coping with high illiteracy rate, low quality of infrastructure, malnutrition, and need to fight foreign imported financial crises.

As the waves are going into and out of India there are plenty of opposite side waves inside the country. Long and high frequency waves are those of high class society while the lowest frequency is among poorest. Government has its own frequency where tries to send message in each direction regarding tax policy, usage and protection of natural resources, bribery, foreign ownership and labor rights. This sum of views makes a huge wave that can go in positive or negative quadrant depending of the strength, vision, work and direction that goes. It is more understandable if we accept that each human is made of frequencies that vary across ages, day, mood, situation, and many factors that will influence the person to become good member of the society.
Each person is valuable and there is no cast system necessary other than those of making one cast that is living well appropriate to human needs.

Indies should follow waves of mutual communication while persuading its own dreams: infrastructure building ,roads, better railway, car system, development of more competitive goods, develop inner demand and keeping export pace, protecting natural resources, making people of the country literate, employed and worthy.

It is possible to make with series of positive waves advertised all the time: help, construction infrastructure work, transparent tax money usage- each transaction on internet, increase literate rate through media and free books, making order on the place where there was a chaos. This series of positive, confident, well meant waves should follow one after another spreading on the whole south East Asian continent in order to reduce poverty, low standard and lost hope.

$u(x, t) = A \cos (kx-wt+q)$

Long term economic policy
Long waves, medium to low semi amplitude, grow is pointed toward economic strategy that promotes constant GDP growth, low inflation, increased production as well as consumption, export increase. With the passage of time cycles slowly down and new wave of rise need to be induced and new products, labor policy or technological advances are promoted. If peak is reached and slow down begin without proper further growth policy a country could end in depression, recession.

Medium term economic policy
In a period of 5-15 years mid term economic policy is run by state, corporate, banks who implement long term strategies in their policies. The bigger number of waves and stronger amplitude that shows companies profits, valued added.

Short term economic policy
Policy of one year has high amplitude style, large number of waves, and is under possible larger q shift (error, direction etc.)

Energy
Long waves with small amplitude present long term energy policy. The first step need to be made by energy strategy discussed on the country level, embedded in law and slowly build. Diversification of supply, energy resources while promoting the clean energy strategy is part of this wave.

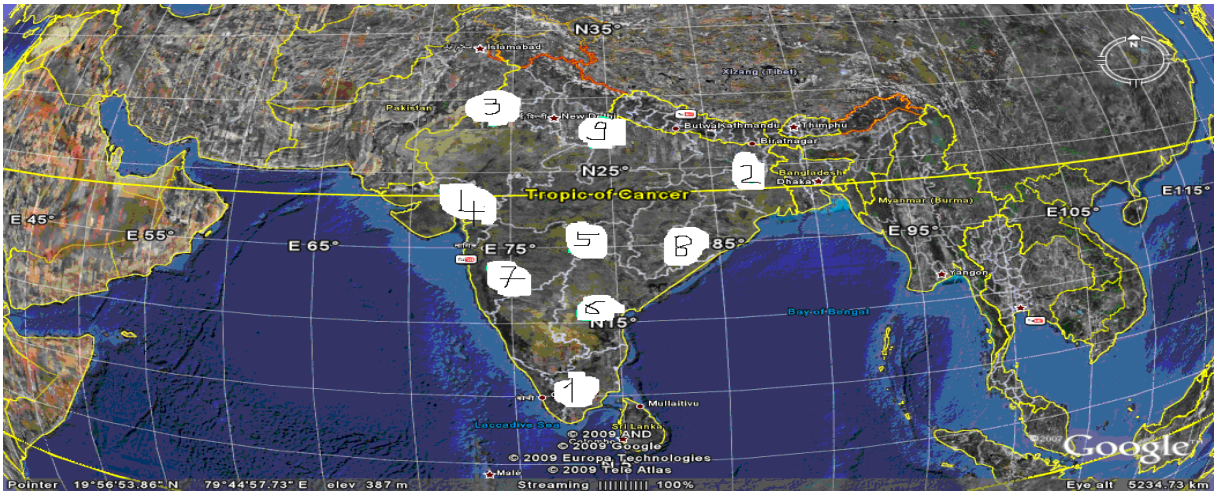
Environmental, natural resources conservation
Number of measures: government policy, control, land usage, law implementations, new knowledge and technologies.

Human rights
Serious of different waves (coastal system) need to be incorporated in the straight solid line of constant equal treatment for all classes with special care provided to young, old citizens.

Subsidies
Subsidy policy is determined on the yearly bases and is influenced by weather, budget, government policy, agriculture aim.

Stock Exchange
The largest amplitudes that have the shortest period of time between occurrence means vivid picture of every days inter transactional areas. In this case x is small but multiplied with large k wave number. Q can mean rise of fall of certain stock in system.

3.3.Possibilities



House 1: stands for water and the journey.
South of India is situated in this house. Number of ports, hotels, tree parts, water gardens with herbal plants, fountains consist the first house. Sugar cane, tee, other agricultural products are shipped from here to all around world.

House 2: stands for Earth and relationship
The North East near border with Bangladesh, China. Two countries situated under Tibet enjoy certain risk: flooding, and are connected with low standard. Combined together working to help one other including trade with China can give rise to herbal/product/wearing trade.

United in common goal to give rise to standard, to use potentials, help each other with low cost input for production and think about common marketing entrance on the world economic stage by protecting their interest. Thinking that whole region is on the path to progress not just one group of people, even country.

House 3: stands for thunder and ancestors
India has settlements 400 000 years old; it has very old combination of Dravidian and Aryan culture that is mixed with nationalities that were so atoned with beauty of the country so considering making it a colony. Respect for past, incorporating past into present for tourist, to further generation. Telling more about Mahabharata, battle between good and evil that took place in the far past in order to prevent any problem in the future. Large parks with animals such as elephants tigers would be perfect to be placed here.

House 4: stands for wind and fortunate blessing
This house is situated on the south west parts of the country. New wind blows energy into country life. It is known fact that India has fast GDP growing rate but is not so endowed with fossil natural resources. There is a possibility for India to develop clean energy resources- this

place can host a factory that produces wind turbines, bio energy machines. But it also can be a travel destination to Middle East rich with oil, end of possible pipeline gas line that goes from Caspian region across Pakistani to India further giving energy to growing industrial product. India is capable of making cheap machines (Tata Nano –auto motor industry can stretch to tractors other agricultural parts).This wind should blow in energy into industry to boost further production.

House 5: Tai Chi center

Reconciliation of all energy is today present in the picture of Taj Mahal. This picture stay but new building can be made. New capital with excellent infrastructure, road as ring with trees that surround it. On the East there are schools and monasteries. On the outskirts of west there should be place for industry sector and trade. South should produce market for vegetables and north research center. In the middle of the town: fountains with clean water, white building museum, theater, church, hospital -all in modern architecture style, white and efficient.

House 6: stands for heaven helpful friends

This is the area south and east and west of the country situated by the ocean. Friends come from all over the world. They can send a message in the bottle as well as ship with necessary products. Trade can go from India to her friends giving them tea, cloths and coffee.
Yes and angel and spiritual Eagle can guide an invisible hand of good deeds.

House 7: stands for creativity and contemplation

Lets play is something that India is good at. Hollywood is reducing films, software industry could make more games, educational tools, this part of the country need to have for its task to educate and entertain whole population. Currently high rate of illiteracy is keeping India behind China but if promoted through games and films, governments would make necessary legislation in order to educate and make its population even more creative than it is today. Creativity is strong in India but need to be wakened and given opportunity.

House 8: stands for mountain and contemplation

India need time to take a hold promote peacefulness and tranquility. Secret rivers, old prayers, wise teaching need to be remembered , with herbal heeling center that could be placed in this area situated in the Eastern part of the country. Look toward Bangladesh could remember India that peace and help is needed and only if we calm down, with healthy stand on the world could country progress.

House 9: stands for fire and illumination

Northern mounting range is situated in this house. White hills, neighboring spiritual Tibet need to be place where Indians saying we have made something. We have achieved...not excellent infrastructure for all, beautiful rich houses, excellent environmental free energy but all that is topped by inner peace, pray, and good relation with its people inside and other global world. Others like releasing creative energy, leaving colonially burden behind, forgetting coastal system - will come. Fire and fulfillment with good relation spiritual self.

If we shadows have offended
Think but this and all is mended
That you have but slumbered here
While these visions did appear

And this week and idle there
No more yielding but a dream
Gentled do not reprehend
If you pardoned I will mend

Shakespeare W.

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