The potential of transitive economies' growth based on innovative strategy

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Abstract: - Estimating the potential of transitive economies it is essential to understand not only what the perspectives are but as well which strategy to follow to get the most considerable results. This paper proposes a strategy which can help countries like China, Russia etc. The purpose of this article is to present the way for further development that is based on the powerful tool for growth and sustainability – innovations. The aim is achieved through comprehensive analysis of the current state, strength and weaknesses of transitive economies. The work must be attributed equally to the two authors.

Key-Words: - competitiveness, economic growth, innovations, transitive economies, blue ocean strategy.

1 Introduction

Contemporary growth trends require advanced national economies become more and more sophisticated and effective to secure and protect their level of competitiveness in the world market. This challenge is even more complex for transitive economies as they should move twice faster to be at the same level as developed countries. Developed countries basically have a historical advantage as the fundamentals of their competitive position were established well before.

Nevertheless transitive economies play more and more important part in international economy. According to the latest researches of economists and analytics from Morgan Stanley nowadays around 50% of global GDP falls within transitive economies, whilst in years 1997-1998 their share amounted only 37% [1]. Therefore it is important to understand why in spite of high rates transitive economies are still far behind developed countries.

There is a lot said about means to increase competitive power. Previously, the main ways to improve competitiveness were reduction of production costs, improvement of product quality, increase of work productivity, standardization of the production and administrative processes. To accomplish the outlined tasks there was provided plenty of variable means from concentration of production, diversification of resources used till purchase of complex and valuable production equipment. Now competitiveness is increasingly associated with innovations as the most straightforward and impactful way to raise its level. The enormous budgets are allocated for innovation evolvement. Hence, it is important to analyze what influence the innovations actually has on competitive position of the economy, what types of innovations have the greatest impact on the economic development of a state.

2 Methodology

In the performance of the research there were used following methods: mothod of dialectical knowledge, systematic approach, statistical analysis method, calculating and constructing method, monographic etc.

For the purposes of the present study data was collected from variety of sources. International sources like Organization for Economic Co-operation and Development, World Economic

Forum, CIA World Factbook have provided us with general statistical data for comparison of current state and perspectives of growth of transitive economies against developed countries. National sources as databases of Central Bank of Russia, Russian Federation Federal State Statistic Services, Ministry of Finance of Russian Federation were helpful to illustrate innovative potential of the chosen country with transitive economy. Information and reports from particular companies as Kaspersky Lab, Cognitive Technologies, Fitos were effective to show real examples of innovations created in transitive economies recently. These companies were selected as they have demonstrated the highest level of innovative activity compared to others. Data received by special researches like Consumptive multiathlon of Sberbank and Digital presence of Comscore was used to prove the stated hypotheses. In order to make our study as up-to-date as possible we used data from information agencies and titles applying only to the most trustful ones as Forbes, Korrespondent, Euroinfo and Finmarket.

3 Problem Formulation

For the moment transitive economies apply different strategies in an effort to compete with the developed countries using all available sources - cheap resources, transferring to their territories ecologically dirty production which is gradually completely displaced from economically developed regions, implementation of tough policies in favor of entrepreneurs, etc. Despite the fact that these countries certainly grow rapidly the level of competitiveness is still far from that of Europe and the U.S. There is a point of view that transitive economies need to elaborate conceptually new policy of development and acquirement of competitive advantages [2, 3, 4].

The primary aim of the present research is to investigate the current level of competitiveness that transitive economies are showing and to work out an applicable strategy how to increase this level.

The main worldwide assessment of competitiveness of a country certainly is the Global Competitiveness Index which is yearly published by the World Economic Forum [5]. The Index consists of 12 pillars which are grouped in 3 subindexes:

1. Basic requirements (Institutions, Infrastructure, Macroeconomic stability, Health and primary education);
2. Efficiency enhancers (Higher education and training, Goods market efficiency, Labor market efficiency, Financial market development, Technological readiness, Market size);
3. Innovation and business sophistication factors (Business sophistication, Innovation).

According to the last report of the Forum (for year 2013-2014) transitive economies occupy different positions in the ranking. For example, the ranks of two transitive economies which are the most interesting and challenging according to our reckoning – Russia and China – are 64 and 29 correspondingly. The majority of transitive economies doesn't show high performance when assessing their competitiveness. To understand the reasons of sufficiently low level of this measurement it is essential to analyze strong and weak points of transitive economies. It is commonly supposed that excessive generalization can lead to the false results; nevertheless, general economic characteristics make the analysis of the problems within a unified approach reasonable.

Transitive economies obtain extremely low scores of government agencies and the efficiency of product, labor and financial markets. Furthermore, countries with transitive economy are instantiated by the extremely low level of competition due to the ineffectiveness of antimonopoly policy that is carried out by the governments, the excessive level of administrative barriers and distrust of the citizens to the existing financial system. The mark of the business development and technological adaptation on the part of commercial organizations as well as on the side of population remains low [6, 7, 8].

In the meantime, at the moment the most part of transitive economies have a number of strengths. For instance, as follows from the Country Profile Highlights Russia has four strong points, namely:

- ameliorative macroeconomic stability: rate of growth of central government debt in Russia slowed down in year 2013 to 15,0% against 18.1% in year 2012; trade balance surplus is still kept - $177,3 billion and there is a constant upward trend for international reserves of the country from 498 649 (dated 01.01.2012) to 537 618 (dated 01.01.2013) [3]. The budget of the year 2013 was computed and balanced with primary proficit in the amount of 49,78 billion rubles [10].
- maturity of higher education: at the beginning of 2013/2014 academic year, the number of higher education institutions totaled 969, with an enrollment of 5,646,700 students. Moreover the figure of competition per 1 university place is very

impressive – according to the latest information it reaches 3,74 [11].

- quite endurable infrastructure: the extension of railway lines in Russia is 121 thousand km as on the year 2012, the extension of highway transportation facilities is 1444 thousand km – this is one of the best results for Europe, the extension of inland waterways is 101 thousand km, the extension of transfer pipelines is 205 thousand km and the extension of underground lines has increased by around 20% in the last 12 years and now equals 497 thousand km [11].
- large internal market: in consonance with the research which was conducted by Sberbank Investment Research - "Consumptive multiathlon: Russia gains the lead" - 80% of GDP growth is proved by domestic consumption. According to the expert evaluations by the year 2020 Russian consumer market can become the largest market in Europe and the fourth in size in the world [12].

These features are common for a lot of transitive economies as well as high growth rates which are typical, specifically, for Indonesia (5.3%), Malaysia (4.7%), China (7.6%) [13]. Economy of China is broadly similar to other transitive economies. For example, commodity and financial markets in China also remain ineffective, the institutional environment is slightly improving but still faces dozens of challenges such as corruption, low level of self-regulation and ethical standards. The similar situation stands for technological adaptation. Key strengths of Chinese economy are a favorable and stable macroeconomic environment, a significant decline in government debt towards GDP over the last three years from 43.5% in 2010 to 31.7% in 2013, reduction in inflation to 2.6%, notable surplus of exports over imports: 2210.0 billion dollars compared to 1772.0 billion dollars [13]. Though for the Chinese economy it is peculiar to have extremely high savings (mare than 30%) and investment rate – this fact significantly reduces the magnitude of potential home market. The critical weaknesses of the economy are the following: so far Chinese economy has had high productivity of labor market although it is already showing the decreasing trend and the rise in unemployment to 6.4%, in other words, the unemployment has grown by 35% over the past 3 years [13]; unsatisfactory level of higher education development, in particular, the conflict between educational programs and practical business needs; the higher education in the state is solely fee-based; innovative activity growth which is though not fast enough and is realized exceptionally owing to inflow of foreign enterprises to the Chinese market.

Each of the represented indicators directly affects the competitiveness of national economies of the countries. It is worth noting that over the past few years the growth rate of transitive economies have slowed down considerably, which is clearly demonstrated in Table 1 (in appendix). Consequently transitive economies cannot choose but seek a new strategy to boost their economic development, improve their investment attractiveness and competitiveness of their products and services on the global market. It depends specifically on the choice of the strategy whether transitive economies will become sovereign and strong players in the international arena or will remain overtaking raw-material appendage for a long time [14, 15, 16, 17].

It is also important to emphasize that transitive economies are quite diverse, and their development is driven by various factors. Thus, GCI classify China as efficiency-driven country – which means that due to the economic growth Chinese companies and the government have to raise salaries to workers, as the result the country loses low-cost labour as a competitive advantage and should increase the efficiency of business processes of the organizations and quality of the products in order to make them required on the market. Whereas Russia, as follow from the report, is currently in transition from efficiency-driven to innovation-driven which means that Russian economy is set for significant innovation development in the near future, long-term investments in higher and post-graduate education, support of scientists and innovations.

The term competitiveness has a variety of different definitions. For instance, in professor Rubin's opinion competitiveness is the ability of a particular subject or object to surpass competitors under given conditions [18]. In the opinion of Michael Porter, the competitiveness is determined by the ability of the industry to evolve and create innovations constantly [19]. According to the OECD this notion can be defined as the ability of the companies, enterprises, regions, nations and supranational regions to maintain relatively high level of the income and employment and, at the same time, keep being open to international competition [20]. In accordance with World Economic Forum competitiveness is the ability of the country to achieve high rates of GDP per capita growth.

As follows from the above mentioned definitions the competitiveness of the economy implies potential development by contrast with the indexes, like GDP or GNP which describe an actual situation in a particular country [21, 22]. It should also be noted that according to GCI developed countries are in a tremendously better position than transitive economies. To verify this it is sufficient to take a look at top ten in GCI – you won't find a single transitive economy there (see Table 2 in appendix).

In compliance with specified logic this fact indicates that developed countries have more opportunities for growth which is mainly due to the fact that these countries have already passed to and are actively working as part of more productive innovation-driven economies. Consequently, if transitive economies don't start active implementation of innovative policies in the closest time the gap between developed countries and countries with transitive economies will only increase. It has to be emphasized once again that the exploration of the innovations in countries with transitive economies should go twice faster just to overtake the developed countries in level of competitiveness [23, 24, 25].

Thus, potential performance and possibilities of the countries in the form of GCI have been examined. From our point of view it is important to compare them with the indices representing the real economic growth in the country - the conventional measurement of GDP. We suggest to consider how significant the discrepancy between the existing and probable layouts of economic forces is. The comparison is presented in Table 2.

As reported by The World Factbook [26], which is annually published by the Central Intelligence Agency of the United States, China ranks second after the U.S. among all the countries in GDP (PPP) in year 2013 (see Table 2) (It also should be noted that European Union is not considered within a framework of this study taking into account that we mean rating of sovereign states only). As can be seen from the above it is possible to confirm the conclusion that the competitiveness of the country does not reflect the current state of national economy.

The given conclusion is also ascertained with performed calculations. The assumption has been made that the example of China may be an exception, and decided to calculate the level of correlation between the GDP and index of competitiveness of the country in a given year (for the purposes of our study data for year 2012 was taken). The resulting correlation equals to 0.10. Furthermore, if we take the data on competitiveness for year x and data on GDP on year x+1 (herein we took GDP for year 2011 and GCI for year 2012) (data from the World Bank), the correlation will not be much different - it is only 0.11. These extremely low correlation indices allow us to make well-founded conclusion that the index of competitiveness merely makes forecasts on how the country can develop in long-term perspective if the current trends and the existing economic structure will not be changed.

In this context it is worth to observe that nevertheless the figures of GDP are currently quite considerable and GDP growth values (7,6%) still preserve remarkable level it is absolutely necessary to pay attention to the weaknesses we come across while analyzing the index of competitiveness. Both for China and other transitive economies the most challenging common weakness still remains innovative activity. Chinese have learned to copy technologies quickly and proficient enough but they still have not learned how to generate fundamentally new ideas. In transitive economies they prefer not to engineer actual innovative products but focus efforts on improving existing technologies. Beyond that, here innovations have a broader meaning - new ways of customer service and new business processes are also considered as innovations.

A number of enterprises in transitive economies are operating in extraordinary economic and innovative environment established by the existence and sometimes even predominance of government-owned corporations (China) or large parastatal enterprises (several Arab states). In such situation the lack of competition may reduce incentives to innovate or deplete the innovative potential of local markets, although large state-owned enterprises (for example, in industries such as oil, aerospace and telecommunications) sometimes become technological leaders because of tremendous investments in experimental development (as have happened in some Latin American countries). Moreover, in countries with less developed economic systems extensive measures and projects of national research and development policy can affect the innovative activity more than initiatives and strategies of private enterprises.

Certainly each country has its own characteristics of innovative activity. For example, in Russia there is a considerable number of organizations involved in research and development - 3566 items (year 2012), however, as in other transitive economies, most of them (1467 items) are state-owned. Besides, the number of employees engaged in research and development is also

sizeable - 726,318 people – and the amount of researchers who have post graduate degree is 109 330 people (for comparison, in Germany there is about 290,000 researchers in total) [11]. The percent of Russian researchers in the world is 8.9%. Innovative activity of organizations which is calculated as the proportion of organizations implementing technological, organizational and marketing innovations in the total number of surveyed organizations in the reporting year 2012 totaled 10.3%. In 2010 Russia was on the list of top ten countries in the world ranked by the total number of applications filed (32,763 items) as well as patents issued (23 618 items) [27]. By 2012, the overall number of patents being in force have reached 254,891 items [11]. Therefore, we can draw a conclusion that innovative potential of Russia is impressive as well as facilities of many other countries with transitive economy (if we analyze their statistical data). Though the potential does not show us the real existing indicators of innovation maturity which remains quite low with the transitive economies.

4 Problem Solution

It appears that transitive economies have limited perspectives either continue being net importers of innovations or to invest in innovations more intensively than developed countries do trying to bridge the gap that exists at the moment. In the estimation of the scientists both of the mentioned ways do not give the transitive economies the actual possibility to sufficiently reduce the gap in foreseeable future. For this reason it is necessary to look for another way out.

This study sets out in search of the strategy that will lead transitive economies towards high competitiveness of their products and services. This strategy certainly should be based on innovations as the only possible mean to establish stability inside the country and gain attractive image worldwide [28]. But first the effects of different types of innovations on the performance of the national economy in whole and on operations of companies in particular should be investigated.

For the purposes of our research we propose to consider the classification of innovations that was made by Clayton M. Christensen, Professor at Harvard Business School. Clayton Christensen suggests to divide innovations into following groups:

1. empowering innovations which make expensive products and services available for a wide range of people.
2. sustaining innovations – the substitution of out-of-date models with new ones.
3. efficiency innovations optimize the process of creating goods and services generally by means of additional investments in equipment and automation.

Classic examples of empowering innovations are Henry Ford’s Model T, which has made it possible for the car to become a mass commodity, and personal computers. One can hardly say that in countries with transitive economies a large number of products of this kind have been created in recent years. Nevertheless, it should be noted that such innovations have been developed yet and are now widely used, for instance, in IT sector. Thus, Kaspersky Lab has produced an antivirus that was evaluated on its merits not only in Russia but also abroad. Up to the present the company's revenues in Russia and CIS countries account for only 20% of the worldwide turnover which is less than the revenue from sales in Germany alone where it is sold about 25% of the total production [29].

The Russian company called Cognitive Technologies made the systems for enterprise automation, recognition, data entry and processing of documents in Russian reasonable-priced and comprehensible for domestic enterprises. Especially it is worthwhile to say that the company have created the first system for Russian-language handwriting text recognition and its conversion to editable form [30].

The family of iPhone smartphones can be given as the example of sustaining innovations. Every manufacturer is practicing sustaining innovations to a greater or lesser extent. The scale of these innovative activities depends on the volume of intellectual and financial resources of the company. For example, Yaroslavl electric machine plant and Vladimir electric motor plant (which is the part of the "Ruselprom" concern) implemented the new generation of electric motors: unlike traditional ones they have an electronic frequency converter which optimizes the work of the engine in accordance with the external conditions [31].

One of the latest researches – in 2013 Russian scientist Dmitry Prokopiev have produced a unique power-supply source that is able to operate without recharging for about 12 years. He developed a tritium-based battery which is sheathed in hermetic package [32]. The field of application of the battery is really huge. Thus, the construction can be used as an source of energy in places where there is required long-term performance without removing and recharging, for example, in cardioaccelerator. Also the innovation can be used in the space and aviation

industry. It is obvious that the outgoing current will be lower than that of conventional batteries, but this will be offset by the durability of the device which is predicated upon half-life period of tritium. Such power supply unit can actually replace a lot of previously used facilities. It should be mentioned that the development of power source that can work continually for a long period is important as for transitive economies as well as the Western countries.

Each of indicated types of innovations effects the economy in its own way. Both empowering and sustaining innovations create jobs, but efficiency innovations, on the contrary, cut workspaces. Professor Christensen points out that the Western economies are now almost entirely focused on the latter form of innovation since they can provide a fast return on investment - around year and a half. Whereas development of empowering innovations takes at least 5-10 years. Developed countries are currently focused on the short term perspective, forgetting that the cut of workplaces weakens the economy and the lack of real innovation does not allow it to make significant steps forward [33]. The world community is now actively engaged in the problem of depletion of exhaustible non-renewable resources and is already beginning to realize that innovation, in fact, is the only sustainable source of value creation. A real value is created by the first two types of innovations. Unfortunately, this trend for efficiency innovations is transmitted to transitive economies, especially those where economic growth is slowing down such as Russia and China. Countries with transitive economies ought to reconsider their development strategies rather than follow the same way as European countries.

The center of professor Christensen's concept is the term «disruptive innovations» which is a special type of innovations that changes the balance of the value on the market. At the same time old products become uncompetitive due to the fact that the characteristics of the products and services that were important before cease to be significant. These innovations are directed to conquer the markets, penetration of new consumers groups.

The purpose of the companies with such products is the creation of new markets that are competition-free and are characterized by a high rate of return. As a rule this type of products is based on a very complex technology, but it is non-mandatory; the only imperative is that the product itself should be simple and easy to use. [34]

Examples of sort of innovation are provided by Clayton Christensen himself and are always paired disruptor-disruptee to demonstrate the destruction of the old markets and the formation of the entirely new ones – the examples are listed in Table 3 [34].

It is hardly possible to give plenty of examples of disruptive innovations implemented in countries with transitive economy in recent years. Though if we analyze the market thoroughly it will becomes clear that despite the fact that such innovations are inconsiderable in number but it does not prevent them from expanding the markets. Here are few examples of disruptive innovations that were developed by Russian researchers after collapse of the Soviet Union.

One of disruptive innovations has been developed in a very unexpected industry - pharmaceuticals. The company "Phytos" was able to gain a beachhead on drug market using unique knowledge and ingenuity. In the pharmaceutical market in Russia foreign companies control almost completely the most important and expensive sectors. The company has managed to create and begin mass production of highly-efficient product based on the discovery of new characteristics of medicinal plant. In the official medicine new medicinal plants appear very rarely - 8-10 plants per century. This is explained by the fact that it is required a long period of 10 years for the full investigation of chemical and pharmacological properties of a single plant and preparations based on it. To produce medications Phytos company has developed a unique microbial technology which is unique in the world. This one medicine can replace multiple medications with an endless list of side effects - this creates a huge market of consumers [35].

Some of disruptive innovations have been created in the framework of Russian innovation project – Skolkovo which was created in 2010 for the research and development and commercialization of the results of R&D. In the complex there are provided special economic conditions for companies operating in priority sectors of Russian economy modernization, namely, telecommunications, aerospace, biomedical technologies, energy efficiency, information technologies, nuclear technologies [36]. Thus, the IT cluster which is part of the project have presented the world's first nonscreen (air) interactive display Displair. The image is created in the air, it is physically permeable and interactive. The air with the addition of pure water drops – that are absolutely dry and hard due to very small size - is the basis for the display. Sensors inside the device and unique software help to accurately and quickly perceive each touch to the image in space. The screen Displair is able to project any multimedia

content into the air. The main implementation areas for Displair technology are advertising (ATL/BTL), interior and exterior design, game industry, interactive terminals, electronic menus, training and simulation tools, medicine (relaxation/rehabilitation). The initial investments in the project have amounted to $3.5 million.

Table 3

Disruptor	Disruptee
Personal computers	Mainframe and mini computers
Mini mills	Integrated steel mills
Cellular phones	Fixed line telephony
Community colleges	Four-year colleges
Discount retailers	Full-service department stores
Retail medical clinics	Traditional doctor's offices

Source: Compiled on the basis of the data from www.claytonchristensen.com

Currently in Russia there is implemented another disruptive innovation in the field of energy. As already was mentioned before energy is one of the priorities for the Russian economic development, the nuclear energy industry, in turn, is the undisputed favorite of innovations in the energy sector. This is precisely why huge investments for the researches inflow in this area. In the near future additional fourth power-generating unit will be built on the existing nuclear power plant Beloyarskaya. This energy unit will be supplied with the world's first closed-cycle nuclear reactor of BN-800 type. This innovative model will allow the unit to recycle spent nuclear fuel directly at the plant. This truly breakthrough construction will simplify the process of nuclear fuel reprocessing and reduce the cost for it as well as increase the security of such a process. The project costs are estimated to be $ 1.2 billion [38].

The ways to implement disruptive innovations were studied by European scientists Kim W. Chan and Renee Mauborgne – the authors of blue ocean strategy which offers methods of creating the innovations that will take a company away from the "red ocean" – highly competitive and low-profit markets – and lead it into a " blue ocean " – absolutely new markets where the competition does not exist. This becomes possible thanks to the creation of disruptive innovations or, in other words, innovation value. Due to this strategy, it is possible to build business system of the company in accordance with the task of simultaneously achievement of both differentiation and cost reduction.

To illustrate the concept of value innovation there is a classic example of CNN which has created the first twenty-four-hour world-wide news net in response to the globalization processes [39].

Russian example of value innovation is social network Vkontakte. The website has been created in the image and likeness of Facebook – already well-known at that time. After analyzing the Russian market the team of Vkontakte offered to the users the value added in comparison with other social networks, namely, the ability to post and share not only text messages and photos but also personal video and audio files, listen to the music and watch the videos directly on the website. This brings a real value innovation for the users: this can be proved by the fact that currently Vkontakte is one of the most popular websites in Russia and the CIS, its daily attendance is more than 60 million people [40]. At the average users spend online in Vkontakte 306.7 minutes per day [41].

The strategy of blue oceans has proved to be extremely effective for businesses and it may be assumed that that it will be productive as well as the development strategy for countries with economies in transition. If it is considered from this perspective it is necessary to examine how the state can create value innovation and disruptive innovation.

Transitive economies definitely can continue to focus on sustaining innovations as this type of innovations will help to gradually improve the current situation - to reduce poverty, combat inflation, increase growth rates. However, in this case transitive economies do not have to expect any significant changes and shifts in economic, political or social sphere. Disruptive innovations on the contrary will assist transitive economies to make a huge leap in the value and competitiveness of their products and services. While analyzing the business world it should be acknowledged that disruptive innovations are frequently used as the main strategy by the companies that are just entering the market. In our opinion, that's exactly why this strategy will perfectly match transitive economies.

This is also true because the proposed strategy is radically different from the strategy of "skimming" in the traditional scheme of high-tech innovations promotion and sales. The skimming strategy is based on overpricing and access and quantity limitation to obtain abnormal profit. The strategy of blue oceans is focused on creation of new demand by the enormous increase of value to users at affordable prices. This creates a powerful incentive

for the enlargement of the internal market, economic recovery, performance improvement. Therefore, the breakthrough in value is beneficial for all stakeholders of the national economy.

It is also worth noting that it makes no sense to develop innovations that have a low degree of legal protection at the country level since such innovations can be easily copied. The creator of the idea in this case bear significant cost of creation of the innovation and acquires the benefits of the blue ocean only for a short period of time. Thus, we need to focus on development of high-tech innovations that are protected by intellectual property laws in the country and in the world.

The development of this type of innovations is only feasible to provide at the state level if the authorities understand the need for orientation on disruptive innovations and is ready to set clear goals and objectives for research institutes as well as, of course, to allocate an appropriate budget. It is essential to comprehend that investments in disruptive innovations are long-term investments and will return at the earliest after 5-7 years given that the search for new markets is labour-intensive and time consuming process. Thus, it is necessary to establish a centralized integrated innovation policy [43, 42].

According to the common opinion, more and more countries, including those with transitive economy, come to this decision and include in federal and regional budgets notable investments for innovations. For example, in Russian budget for 2014 for the item "Development of science and technologies" are allocated funds of $4.3 billion and for "Economic development and innovative economy" – around $3.8 billion, for a total it is nearly 4 % of the whole annual budget [10]. These figures can be compared to public expenditures on innovations in Germany (the country ranks first in Europe for innovative development) which are amounted approximately $6.2 billion. We can see that there is no gap in budgeting of innovative activities. However, as the authors have noted before, investments alone are not enough, there is a strong need for a common policy on innovations.

In 2011 in Russia there has been created and adopted the Concept of long-term social and economic development of Russian Federation until 2020 (hereinafter - the Strategy 2020). One of the chapters of the Strategy is devoted to the transition from encouragement of innovations towards innovation-based growth. In the final report the Strategy experts have marked the major problems of innovative policy in Russia which are generally applicable to most transitive economies as well there are given some recommendations to deal with the challenges [44].

In spite of definite potential in the field of human capital and scientific achievements the development of innovative processes in many transitive economies still remains at the low level. Innovations of the enterprises are very few, science continues to operate under the conventional model and is rend from business and education. The state sponsors the traditional high-tech sector and not the diffusion of innovations in all sectors of the economy. The high-tech market will exceed in scope all the other markets in the near future. However, in order for science to become a source of new technologies it requires a serious state support and the alignment of the system "education - science - production - the market" [45, 46, 47]. It is worth noting that to generate disruptive technologies it is necessary to form a single information space in two main directions: the first one – from science to business, and, the second one – between the directions of research. The first direction guarantees the commercialization of the innovation. The second one gives more room for innovations since, according to the opinion of the experts, it is typical that radically new ideas come from related fields, namely, the creation of cross-disciplinary university departments and laboratories, conducting cross-disciplinary researches, will contribute to push this type of innovations.

The conversion to innovative economy is a complete imperative for development in Russia and other countries with transitive economy. It is appropriate to stimulate not only supply but also the demand for innovations, develop competitive mechanisms. The support for innovative activity as a matter of priority should be directed to those sectors that are capable of or are already involved in international competition and cooperation. It is also relevant to restructure the scientific and technological complex for greater integration with business and education. Transitive economies should actively attract multinational players on the innovative market and develop mechanisms of networking.

The institutional measures to support the creative class and to implement social functions of innovations, including to prevent the "brain drain" and increase the degree of society involvement in the process of innovations are essential.

The enhancement of business to develop disruptive innovations can also be implemented using tax policy – by establishing preferential rates for innovative businesses organizations. Thus, support of disruptive innovations will be available

not only for large corporations but also for small and medium businesses. Tax incentives for innovative organizations is one of the most important and durable elements of public policy in the developed countries. The benefits are systemic and accompany innovative products from the research stage and establishment of mass production till the stage of delivery to the consumer including foreign ones. This component is necessary to adapt in Russia and other transitive economies within the shortest possible period of time [48]. Moreover, there is a valuable resource for innovations that in transitive economies has too little attention paid to – venture capital. In developed country this facilities is one the fundamental tools for innovative growth [49].

To meet the objectives of the Strategy there are defined the values of the indicators that should be achieved. That will help the country to ensure sustainable economic growth and development. By the year 2020 it is expected to increase in the share of industrial production enterprises engaged in technological innovations to 40 - 50 percent. The figure is considerable if the country is able to perform this indicator this will attract investments, including foreign ones, to the production sphere. There are also plans to raise the share of Russia in the global markets of high-tech goods and services (atomic energy, aviation technologies, space technologies and services, special shipbuilding, etc.) up to 5 - 10 percent. The increase in domestic expenditures on research and development is anticipated to grow to 2.5-3% of GDP. The increase in funds certainly will intensify the cooperation between research institutions and business and induce the commercialization of R&D results in Russian companies. Increasing the share of export of Russian high-tech goods in total world exports of high technologies products up to 2% and increasing the share of innovative products in the total industrial output of up to 25 - 35 percent will make Russian products more competitive in the world. According to the plan the gross added value of the innovative sector in GDP of the country should be raised to 17 - 20% which will contribute to the budget growth and further investments in innovations. There are two more indexes that are directed to scientific development:

- the increase in number of patents registered by Russian individuals and legal entities in the patent offices to 2.5 - 3 thousand annually and
- enlarging the share of funds, received due to the implementation of research and development work, in the structure of funds, received by the leading Russian universities from all sources of funding, up to 25% [26].

The achievement of these results will directly encourage disruptive and empowering innovations which will bring country to the new level and will help to be more self-sufficient and effective.

5 Conclusion

Transitive economies have made a serious work and became a significant partners in foreign trade and international production [50]. This paper is focused on the central question that transitive economies are facing right now: What kind of development strategy should we use to ensure the stable growth for the country and competitiveness for our goods, services and works. Our findings can be summarize as follows.

First, transitive economies find it difficult to compete in existing markets as in this case they play by the rules that were established by others and are convenient for the developed countries. This is comparable to the competition in the red ocean with giant corporations who have power and attractive brand, wide range of products and services, established distribution channels and broad consumer market. The only thing that can oppose to them is cheap resources but the development of the economy increases the cost of resources – so that this advantage will be lost over time. This process is well seen now in China where economic growth is gradually slowing –GDP growth in 2013 is 7.6% against 10.3% in 2010 – and the wages are rising. Now China has to find new strengths to ensure the stability of its economy on the world stage.

Second, for the stated reason the creation of new markets through high-tech disruptive innovations is a strategy that would help transitive economies not to adapt to the rules which are applied in the existing markets but to generate their own rules and form blue oceans. This would allow transitive economies to reinforce and stabilize economic growth and ensure a high level of development in various sectors of the economy and in social sphere as well as to ensure the competitiveness of their products and services both on the domestic and international markets.

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Appendix

Table 1

Country	GDP - real growth rate (%)			
	2011	2012	2013	max
Argentina	8,9	1,9	3,5	11,8
Brazil	2,7	0,9	2,5	10,1
Chile	5,8	5,6	4,4	16,15
China	9,3	7,7	7,6	14,2
India	7,5	5,1	4,7	11,4
Indonesia	6,5	6,2	5,3	7,16
Kazakhstan	7,5	5,1	5	16,9
Malaysia	5,1	5,6	4,7	10,3
Pakistan	3,7	4,4	3,6	10,22
Thailand	0,1	6,5	3,1	19,1
Tunisia	-1,9	3,6	2,8	7,5
Turkey	8,8	2,2	3,8	12,6

Source: prepared based on data from www.ereport.ru

Table 2

Country/Economy	GCI 2013-2014		GDP (PURCHASING POWER PARITY), 2013	
	Rank	Score	Rank	Score
Switzerland	1	5.67	37	$ 370.300.000.000
Singapore	2	5.61	41	$ 339.000.000.000
Finland	3	5.54	58	$ 195.500.000.000
Germany	4	5.51	5	$ 3.227.000.000.000
United States	5	5.48	1	$ 16.720.000.000.000
Sweden	6	5.48	35	$ 393.800.000.000
Hong Kong SAR	7	5.47	36	$ 381.700.000.000
Netherlands	8	5.42	24	$ 696.300.000.000
Japan	9	5.4	4	$ 4.729.000.000.000
United Kingdom	10	5.37	8	$ 2.378.000.000.000
China	29	4.84	2	$ 13.370.000.000.000

Sources: www.weforum.org; www.cia.gov