

Proceedings of
the 31st International Business Information Management Association Conference
(IBIMA)

25-26 April 2018
Milan, Italy

ISBN: 978-0-9998551-0-2

Innovation Management and Education Excellence through Vision 2020

Editor

Khalid S. Soliman

International Business Information Management Association (IBIMA)

Copyright 2018

Table of Content

Brand Management Practices in Technology Parks and Incubators – An Exploratory Study..... <i>Andrea Lučić, Marina Dabić and Sijetlana Bušić</i>	1
The Contribution of Accommodation Capacities to the Development of Romanian Tourism..... <i>Paula Stoicea, Irina-Adriana Chiurciu, Elena Soare and Dragoş-Ion Smedescu</i>	12
The Aspects of Formation and Development of Possessory Risk Management Systems of Organization in the Russian Economy..... <i>Mikhail V. Khachatryan, Inga A. Koryagina and Maria Nikishova</i>	24
Factors Determining Retail Patronage Behavior: The Case of Islamic Retail Store <i>Hendy Mustiko Aji</i>	35
Evaluation of the Use of Cloud Data Center..... <i>Alexey V. Bataev</i>	50
Analysis and Development the Digital Economy in the World..... <i>Alexey V. Bataev</i>	61
Cognitive Science as a Pivot of Teaching Financial Disciplines..... <i>Ekaterina Yakovlevna Litau</i>	72
Behavioural Intention of Taxi-Hailing Online App Users..... <i>Usep Suhud, Setyo Ferry Wibowo, Afif Khairi and Greg Willson</i>	81
China and Asia: Some Economic Aspects..... <i>Pukala Ryszard, Kaidarova Saida, Makysh Serik and Zhumanov Kairat</i>	91
Effects of money attitudes and credit card usage on young Malaysians' compulsive buying..... <i>Shaizatulaqma Kamalul Ariffin, Christopher Richardson, Nabsiah Abdul Wahid and Yusliza Mohd Yusoff</i>	96
Corporate Reputation, Brand Image, and Brand Loyalty: Do They Influence Purchase Intention of an Artificial Sweetener Customers?..... <i>Usep Suhud and Surianto</i>	110
Problems and Prospects of Hospitality Industry Development in Modern Russia..... <i>Konstantin B. Kostin</i>	123
Decision Support System Model for Multi-Use Aquaponics Production Platform..... <i>Gheorghe Adrian Zugravu, Camelia Fasola (Lungeanu), Maria Magdalena Turek Rahoveanu, Ştefan Mihai Petrea, Marian Tiberiu Coadă, Adrian Turek Rahoveanu and Bondari V. Valentina (Suparschii)</i>	138
Identification of Life Cycle Stages as Part of Environmental Life Cycle Costing in Business Practice..... <i>Michal Biernacki</i>	147
Simulation Modelling in Solving the Problem of Increasing the Competitiveness of Enterprise Products..... <i>Shchetinina Irina Valerievna, Amelin Stanislav Vitalievich, Volodina Natalia Leonidovna and Elfimova Irina Fedorovna</i>	151
The Coordination of Regional Economy and Environment from the Perspective of Marketization: A Case of Heilongjiang Province, China..... <i>Zhu Yue, Liu Tiansen, Liang Dapeng and Song Yazhi</i>	161

Adult Training and Economic Relaunch of Rural Areas.....	4192
<i>Panait Mihai Vlad and Adrian Turek Rahoveanu</i>	
Black Sea Resources. Opportunities for the Romanian Fisheries Sector.....	4197
<i>Silvius Stanciu</i>	
Satisfaction and Loyalty of Customers in a Financial Institution: A Case Study.....	4207
<i>Paulo Jorge Afonso da Silva Madaleno, Paula Odete Fernandes and Jorge Manuel Afonso Alves</i>	
The Effect of Financing Changes on Discretionary Accruals Estimation.....	4218
<i>Jorge Manuel Afonso Alves and José A. C. Moreira</i>	
University Governance Practice and Student Satisfaction to Enhance Student Loyalty.....	4233
<i>Sri Setyo Iriani, Sanaji and Monika Tiarawati</i>	
Overview of selected predictors of unethical behavior in the workplace.....	4243
<i>Zuzana Kotuliaková and Ivana Blahunková</i>	
Changes in the Value of Mortgage Collateral in the Context of Mortgage Loan Securitization in Poland.....	4248
<i>Magdalena Bywalec</i>	
Ecological Development Eco-indicators of Russian Macro-Regions: Level and Trends for Change.....	4253
<i>M.F. Zamyatina and R.S.Fesenko</i>	
Leadership Embedded Within Centralized and Decentralized Networks: A Case Study of IT Software and Services Company.....	4260
<i>Michal Organa</i>	
Assessing the Impact of Recession on the Consumer's Buying Behavior in Saudi Arabia.....	4273
<i>Iffath Sultana and Nadia Yusuf</i>	
Branded Marketing Event: Understanding the Influence of Experiential Elements and Attendees' Engagement.....	4282
<i>Norhidayah Mohd Rashid, Hairunnisa Ma'amor, Masrur Mohd Khir and Wan Soraya Wan Abdul Ghani</i>	
Theoretical Aspects of the Shadow Economy and Its Current State in the World Economy.....	4288
<i>Saltanat Kondybayeva, Symbat Abilday, Bulat Mukhamediyev, Bakhyt Baitanayeva and Assel Abylay</i>	
Technological Modernization of Kazakhstan in the Face of Global Challenges.....	4295
<i>Aubakirova Zhanar, Aitbembetova Aida, Mukhamediyev Bulat and Turarov Dauren</i>	
The Influence of the Associative Forms in the Development of the Romanian Agriculture during the Last Century.....	4302
<i>Andrei-Mirel Florea, Riana Iren Radu and Silvius Stanciu</i>	
Food Market of Kazakhstan: Current State and Innovative development Directions.....	4312
<i>Saltanat Kondybayeva, Shynggys Nurgazy, Ospanov Serik, Bulat Mukhamediyev and Gulnar Sadykhanova</i>	
Modeling Business Processes for Decision-Making.....	4318
<i>Hana Tomaskova</i>	
Tourist Preferences in Český Krumlov (Czech Republic) Depending on the Country of Their Origin.....	4322
<i>Roman Švec, Petra Martišková and Marie Slabá</i>	

Theoretical Aspects of the Shadow Economy and It's Current State in the World Economy

Saltanat Kondybayeva, Almaty, Kazakhstan, al-Farabi Kazakh National University
Saltanat.Kondybaeva@kaznu.kz

Symbat Abilday, Almaty, Kazakhstan, al-Farabi Kazakh National University
symbat9393@mail.ru

Bulat Mukhamediyev, Almaty, Kazakhstan, al-Farabi Kazakh National University
bmukhamediyev@mail.ru

Bakhyt Baitanayeva, Almaty, Kazakhstan, al-Farabi Kazakh National University
baytanaeva2007@rambler.ru

Assel Abylay, Almaty, Kazakhstan, al-Farabi Kazakh National University
assel_abylay@mail.ru

Abstract

The article dedicated to expand the meaning of the shadow economy. The shadow economy is one of the biggest challenges to the any economy, because it has consequences in terms of tax evasion, labor market distortion, unfair competition, and inefficient allocation of resources. In the market economy conditions, the shadow economy became one of the survival part. The shadow economy is closely interwoven with the legal and real sector of the economy and is an integral part of it. In its activities, it also uses the services of the state, its material and social factors, labor power, etc. The article describes the theoretical aspects of the shadow economy, such as the classification forms by activity, the main features, describes the ways of avoiding taxation and give definitions to the forms of shadow activity, describes the groups of shadow economy, shows the examples of undeclared work and its features. The article shows the subjects of illegal activities in the frame of the pyramid conception. Any activity in the frame of the shadow economy is criminal, but not every falls under the norms of the existing legislation. Of course, it also shows advantages and disadvantages of illegal activity, like identifies three positive functions of the shadow economy in the market economy, negative effects on a whole country. The article analysis the current state and dynamics of the shadow economy in developed countries, the main reasons of existing shadow activity in countries, shows statistic data from 2003-2016.

Keywords: shadow economy, tax evasion, undeclared work, informal economic activities

Introduction

The shadow economy is a multi-dimensional, multi-faceted phenomenon, which inescapably accompanies formal economies around the world. Nevertheless, its features and sizes can be vastly different: from relatively gentle, stable, and acceptable to extremely destructive to the economic tissue and long-term economic growth. In countries where shadow economies are present largely or where they show upward trends, these informal sectors are invariably a symptom of deeper disturbances in the economic structure, regulation, and institutions.

Schneider et al (2010) mentioned in the transforming socio-economic systems, the role of the shadow economy is ambiguous. On the one hand, tax evasion increases the competitive advantages of enterprises practicing shadow activities, allows receiving additional income for their employees, and reduces the level of real unemployment. On the other hand, the shadow economy damages the state budget, reduces the effectiveness of macroeconomic policies, worsens the investment climate, the competitive environment for law-abiding taxpayers and damages the national interests of the state.

Materials and Methods of Research

Features of the Shadow Economy. The shadow economy was born with the advent of economic relations and is inherent in all economies of modern countries. It as a phenomenon penetrates all spheres of economic relations and realized in many forms, from using offshore, salaries in envelopes to production by illegal migrants. The shadow economy is hidden from control, taxes are not paid in it, which causes many problems with filling budgets of all levels.

There are three main groups of actions, which can be defined as shadow economy:

- Informal economy, otherwise called, "second" or "white-collar" - is the organization of enterprises producing alcohol and food, mining precious metals and stones. Goods and services produced privately and not subject to taxes will be referred to here.
- Fictitious economy or "gray", "informal" - is the export of capital through "fake" contracts and contracts, tax evasion. This group of "shadow businesses" includes quite legal companies that operate in an unlawful manner, hiding their real incomes. The annual volume of operations of the shadow economy in this group is estimated at tens of billions according to official data. These are postscripts, thefts, speculative deals, bribery and all kinds of fraud related to the receipt and transfer of money;
- Black economy, "illegal", "underground" economy. It is understood as completely criminal activities, including drug trafficking, theft and robbery, extortion and other property crimes. Here, in some cases, you can include the actions of monopolists and raiding.

Therefore, the shadow economy manifests itself in three forms: informal, fictitious and black. It should be noted that in real life it could be difficult to attribute a phenomenon to a specific form.

In a research study by Friedrich (March 2012) considered the forms of the shadow economy. First, we will dwell on tax evasion as the most common form of shadow operations.

There are several ways to avoid taxation:

- Concealment of objects of taxation;
- Underestimation of objects of taxation;
- Concealment of funds from payment of taxes for the purpose of non-payment or in the presence of arrears;
- Improper use of benefits;

Customs violations also relate to the form of tax evasion. In order to reduce customs duties, "gray" and "black" customs clearance schemes are used. It should be noted that people's reluctance to pay taxes is due to their dissatisfaction with the state's fiscal policy. A shortage of taxes does not allow the state to improve the economic and social conditions of life of citizens. Because of such a cycle, the shadow economy is further developed.

Frey et al (1984) mentioned that shadow activity was widely spread in the sphere of employment. For example, a non-contractual lease based on an oral arrangement, which is most often found in small private firms operating in the sphere of trade and personal services. Organizing recruitment, thus, the employer plans to reduce the costs associated with the legalization of the employment relationship.

Kucera et al (2008) showed that often there is a discrepancy between the actual and formal terms of hiring and remuneration. For example: an employee signs a formal employment contract in accordance with the legislation conditions with a sufficiently low amount of payment, the actual terms of employment are determined by an oral agreement. The salary "in the envelope" can be several times higher than the salary "according to the statement".

It is also necessary to note a form of shadow economy, such as illegal migration of labor from the developing countries, as described by Kondybayeva et al (2013). At the same time, there is a two-way communication between illegal labor migration and the shadow economy. On the one hand, the shadow economy causes illegal migration, as it places a demand on the cheap and unprotected labor of migrants.

On the other hand, the presence of a large number of illegal migrants in the country, for whom official employment is not available, stimulates the development and prosperity of the informal economy.

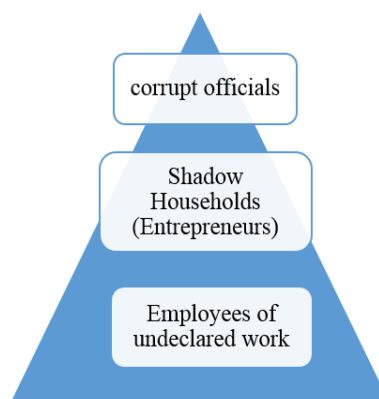
Undeclared work has features in the shadow economy by the fact that activities that are in themselves illegal are not included. For example, drug dealing is included in the shadow economy, however not part of undeclared work. Undeclared work consist of tax evasion and evasion of social security contributions. Since evasion in connection with sales and services at full market price and the non-declaration of any form of capital or transfer income are not counted, it does not make up the whole amount of tax evasion in a state. Consequently, undeclared work mostly involves a production labor force, only considering highly regarded activities that could just as well take place in the formal economy. For instance, tax administration is not declared the work in the building sector, or childcare the income, or work as a waiter/waitress in the tourist industry, as they are not officially notified to the tax authorities. Table 1 describes such informal or non-declared activities.

Table 1: A taxonomy of informal (non-declared) economic activities

Type of activity	Monetary transactions		Non-monetary transactions	
Illegal activities	Trade in stolen goods; drug dealing and manufacturing; prostitution; gambling; smuggling; fraud; etc.		Barter of drugs, stolen goods, smuggling, etc; produce or growing drugs for own use; theft for own use	
	Tax evasion	Tax avoidance	Tax evasion	Tax avoidance
Legal activities	Unreported income from selfemployment; wages, salaries and assets from unreported work related to legal services and goods	Employee discounts, fringe benefits	Barter of legal services and goods	All do-it-yourself work and neighbor help

Source: The table is from Feld and Schneider (2010, p. 112)

The shadow economy is organized according to the pyramid principle. According to the research of Senchagov (2002) the shape of the pyramid explains: first, it maintains verticality (the dependence of "below located" on "above-located") interaction of subjects of the shadow economy. Secondly, with a certain percentage of assumptions clearly demonstrates the number of participants in each horizontal segment. Picture 1 describes the subjects of the shadow economy.



Picture 1: The subjects of the shadow economy

Socio-Economic Consequences of Shadow Economic Activity

It will be a mistake state that shadow economy has only negative influence on economy. Shadow economy, as any phenomenon has its positive and negative sides. The positive factors called stabilizing and negative factors - destabilizing.

Cassel et al (1998) identified three positive functions of the shadow economy in the market economy:

1. "Economic lubrication", consisting in smoothing out the fluctuations in the economic situation through the redistribution of resources between the legal and shadow economy (when the legal economy is in crisis, production resources are not lost, but are poured into a "shadow", returning to the legal one after the crisis is over).
2. The shadow economy feeds with the resources legal, thus fulfilling the function of the "built-in stabilizer". Most of the shadow operations are carried out to solve critical problems of the enterprise, to prevent production stops, to keep people in one or another sector, to introduce innovations that were not sanctioned from above. Naturally, shadow operations were conducted in order to obtain such incomes that the official economy could not provide. As a result, business executives, under the influence of shadow activities, formed a very diverse set of models that complemented the "official" motivation and included both "higher" and "lower" motives that were suppressed by the official economy.
3. "Social shock absorber". This function consists in the formation of a non-state financial base for solving social problems, as well as in mitigating undesirable social contradictions (for example, informal employment facilitates the financial situation of the poor). Shadow employment provided a social niche for enterprising people who could not realize themselves in official structures. However, in general, the influence of the shadow economy on society is rather negative than positive. From this point of view, identified the following destabilizing directions of this phenomenon.

1. Redistribution of society's revenues in favor of relatively small privileged groups (bureaucrats, mafia), which reduces the welfare of society as a whole.
2. Deformation of the tax system, which is one of the main consequences of the shadow economy. Evasion from paying taxes leads to an increase in the tax burden on law-abiding taxpayers. As a result, part of them goes into the shadow, and then the circle closes: the increase in tax pressure on the remaining again leads them into the shadows. The total volume of production of goods and services does not change, however, its official part is decreasing.
3. The disorganizing function is the lack of organization in the production processes in the formal economy and the impediment to the creation of normally functioning, "healthy" economic organizations.
4. The destabilizing function. There is a decline in the competitiveness of the economy in connection with the withdrawal of a significant portion of funds from legal production and a reduction in the volume of investments and working capital. Together with the reduction in the fund of working time, this leads to a sharp decrease in the volume of GDP in comparison with its potential level.
5. The blocking function of the shadow economy is connected with the problems of corruption in the state apparatus, the low role of law and the judicial system, its subordination to the administrative apparatus and "shadow" capital.
6. The criminalization of society. The shadow economy contributes to the strengthening of the criminal situation in a society that engenders numerous conflicts, including those involving violence.
7. Expansion of uncontrolled trade in low-quality goods.
8. Social insecurity. The shadow economy has become one of the reasons for the reduction in budget revenues and, accordingly, the financing of state programs and institutions, which means that the state does not fulfill social programs, obligations to the population.

Shadow economy in the World economy space. In the early 2000's in developed countries, the shadow economy was equivalent to an average of 15% of GDP, in countries with transitional economies - 23%, in developing countries - 39%. The table 2 shows the countries with the share of the shadow economy as a percentage of GDP.

Table 2: Share of the shadow economy, % of the country's GDP (2003-2016)

Country/Year	2003	2004	2005	2006	2007	2008	2009
Austria	10.8	11.0	10.9	9.7	9.4	8.1	8.5
Belgium	21.4	20.7	20.1	19.2	18.3	17.5	17.8
France	14.7	14.3	13.8	12.4	11.8	11.1	11.6
Greece	28.2	28.1	27.6	26.2	25.1	24.3	25.0
Ireland	15.4	15.2	14.8	13.4	12.7	12.2	13.1
Italy	26.1	25.2	24.4	23.2	22.3	21.4	22.0
Luxembourg (Grand-Duche)	9.8	9.8	9.9	10.0	9.4	8.5	8.8
Spain	22.2	21.9	21.3	20.2	19.3	18.4	19.5
United Kingdom	12.2	12.3	12.0	11.1	10.6	10.1	10.9
28 EU-countries – Average (unweighted)	22.6	22.3	21.8	21.1	20.3	19.6	20.1
Country/Year	2010	2011	2012	2013	2014	2015	2016
Austria	8.2	7.9	7.6	7.5	7.8	8.2	7.8
Belgium	17.4	17.1	16.8	16.4	16.1	16.2	16.1
France	11.3	11.0	10.8	9.9	10.8	12.3	12.6
Greece	25.4	24.3	24.0	23.6	23.3	22.4	22.0
Ireland	13.0	12.8	12.7	12.2	11.8	11.3	10.8
Italy	21.8	21.2	21.6	21.1	20.8	20.6	20.2
Luxembourg (Grand-Duche)	8.4	8.2	8.2	8.0	8.1	8.3	8.4
Spain	19.4	19.2	19.2	18.6	18.5	18.2	17.9
United Kingdom	10.7	10.5	10.1	9.7	9.6	9.4	9.0
28 EU-countries – Average (unweighted)	19.9	19.6	19.3	18.8	18.6	18.3	
Source: Schneider, Report 4/2016 (December)							

Thus, in the most developed countries, the share of the shadow sector in the national economy is much less than in other groups of countries. However, developed countries are also heterogeneous, and among them, there are countries with high rates of shadow activity.

Dell'Anno et al (2004) mentioned the excessive tax burden on enterprises is main a reason of the motivation for shadow activity in the developed countries. Greece, Italy, Belgium and Sweden have the highest level of tax burden in Europe.. At the same time, developed countries with the lowest level of tax burden (as USA and Switzerland) have a relatively small shadow sector. In a number of countries (for example, the United States), the shadow economy is largely associated with intensive flows of immigrants from countries in the periphery of the world economy.

Especially it should be noted, that countries with a more developed market economy created a sufficiently effective mechanism of institutional counteraction to the informal sector. The central link here is the state.

Feige (1996) mentioned that developed legislation and powerful law enforcement agencies narrow the field of shadow activity. The newest information technologies enable these countries to control effectively the financial flows and the nature of income of legal entities and individuals. The tax crimes are among the most serious. For example, in the United States for an incorrectly filled declaration, you

can be fined up to \$ 1 thousand. High prestige and civil servants' social package guarantees restrain the spread of corruption.

Socio-economic and political stability in developed countries is an essential condition for effective market economy and deterring shadow activity. Violations of this balance lead to bursts of economic crime.

Conclusion

Obviously, the shadow economy is based on spontaneous market economic relations. In this environment, only the market operates, there is no state, no corporate, no other regulation. The means of production and its results are private (personal) property of the entrepreneur-shadow business. In addition to the scope of shadow activities, the diversity of its forms has also increased. Classification the forms of the shadow activity is difficult, the main reason of this issue is constantly changing legislation. Most of the developed classifications quickly lose relevance due to close attachment to legislation.

According to the statistics, we can state that in the market conditions shadow economy survives, and developing. The scale of the shadow economy and its share in GDP by country vary considerably. On the one hand, the shadow economy participates in the creation of real GDP and is involved in the reproduction process; it produces socially useful goods and services. The shadow economy supports employment of the population. On the other hand, the shadow economy distorts the overall picture of the socio-economic situation of the region or the country as a whole, often makes it impossible to assess the structural changes, dynamics and prospects for economic development, which complicates the tasks of forecasting and strategic management

References

- Cassel, D. and Cichy, U. (1998), 'The Shadow Economy and Economic Policy in East and West: A Comparative System Approach', *The Unofficial Economy*, 56.
- Dell'Anno, R. and Schneider, F. (2004), 'The Shadow Economy of Italy and other OECD Countries: What Do We Know?', *Discussion Paper*, Department of Economics, University of Linz, Linz.
- Feld, L.P. and Schneider F. (2010), 'Survey on the Shadow Economy and Undeclared Earnings in OECD Countries', *German Economic Review*, 11 (2), 109–49.
- Feige, E.L. (1996), "Overseas Holdings of U.S. Currency and the Underground Economy" in S. Pozo, ed., *Exploring the Underground Economy*. W.E. Upjohn Institute for Employment Research, Kalamazoo, MI, 5–62.
- Frey, B.S. and Pommerehne, W. (1984), 'The Hidden Economy: State and Prospect for Measurement', *Review of Income and Wealth*, 30 (1), 1–23.
- Friedrich, S. (2016), 'Estimating the size of the shadow economies of highly developed countries: selected new results', *CESifo DICE Report*, 4, December 2016, 44-54.
- Friedrich S. (2012), 'The Shadow Economy and Work in the Shadow: What Do We (Not) Know?' *Johannes Kepler University of Linz and IZA. Discussion Paper*, 6423, March 2012, 73.
- Kondybayeva, S.K. and Ishuova, Z.S. (2013), 'The effect of monetary policy on real house price growth in the republic of Kazakhstan: A vector autoregression analysis', 22 (10), 1384-1394.
- Kucera, D. and Roncolato, L. (2008), "Informal Employment: Two Contested Policy Issues", *International Labor Review*, 147 (3), 321–48.

Senchagov, V.K. (2002), 'Geopolitics, globalization, self-preservation and development', *Economic security*, 320.

Schneider, F., Buehn, A. and Montenegro, C.E. (2010), 'New estimates for the shadow economies all over the world', *International Economy*, 24 (4), 443–461.