

**SCTCMG 2018**  
**International Scientific Conference «Social and Cultural  
Transformations in the Context of Modern Globalism»**

**DEVELOPMENT OF FOREIGN TRADE TURNOVER AS FACTOR  
OF ECONOMIC GROWTH IN CAUCASUS**

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*Abstract*

The article examines the problem of foreign trade development in the regions of the North Caucasus, the economy of which is developing. The purpose of the research is to reveal the role of foreign trade in a growing economy and to establish the causes of its optimal structure violations. To achieve the goal, the methods of theoretical and empirical research were applied. The method of analysis aims to study the structure of the foreign trade turnover of the regions. The synthesis method is applied to analyze the regions foreign trade turnover ratio. The induction method is used to register the research results, foreign trade indicators are summarized; and the deduction method identifies concrete results of foreign economic activity of specific regions. The method of structural analysis of the foreign economic activity of the system of the regions, connected by historical, economic and geographical ties, is offered. In order to study the problem of imports impact on the economy of the region, an algorithm of actions on structuring GRP is proposed. The approach to the formation of a methodology for determining the impact of foreign trade on the economy is applicable to the real situation in the regions of the North Caucasus. The proposed method for determining the impact of foreign trade on the economy allows defining the level of inefficient spending in the economy as a result of GRP counting that allows establishing the extent of the impact of imports on the regional economy

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**Keywords:** Foreign trade, turnover, imports, exports, product.



## 1. Introduction

Foreign economic activity, regardless of the national economy development level, is an integral part of it. Therefore, its state has a direct impact on the entire economy. In this process, the degree of its controllability plays an important role. Foreign trade turnover optimal structure formation in a region, defined by us as the research purpose, should become one of the directions of the regulatory activity of the state in this sphere. The article research object is the foreign economic activity of the North Caucasus regions. Goods and services import in these regions has become a determining factor in meeting personal and production needs. This is a consequence of the reduced role of the state in regulating the problems of supplying demand in the regions.

Taking advantage of the geographical location and consideration of all the prerequisites will lead to the establishment of economically expedient proportions in the structure of the foreign trade turnover in the North Caucasus regions that is undoubtedly a necessary condition for their economic growth.

## 2. Problem Statement

There is a problem related to the organization of foreign economic activity at the regional level. The state cannot always solve the problem effectively because of the fact that in certain cases it takes a more concrete form and the effect can be achieved if the problem is solved at the regional level (Kuznetsova, Kocheva, & Matev, 2016). Another problem is that not all regions can equally well solve the problems related to foreign economic activity, owing to the economic backwardness and distance from major transport hubs, scarcity of natural resources (Vakhitova, Gadelshina, & Grigorieva, 2014). There is still a problem related to the equivalence of imported and exported goods. Many regions of the Russian Federation faced the situation where the products with high added value are imported whereas mainly hydrocarbon feed is exported (Andreyeva, Zakharova, & Ratner, 2014).

The regions of the North Caucasus faced the situation that shows that there are prerequisites for economic growth, including by means of effective foreign trade, but the problems in this area remain unsolved. Up to date the foreign trade turnover of the regions is the essential factor of the requirements satisfaction. The regions of the North Caucasus need the foreign policy taking into account this factor (Kuznetsova & Sharko, 2015). Of particular concern is the fact that during the first decade of the new century the commodity structure of Russian exports has further deteriorated (Shuvskiy, 2012). It is necessary to create such conditions that would make the investment in innovation and modernization more beneficial than the alternative ways of resources use.

## 3. Research Questions

Practice shows that even such economically advanced countries as the USA, Germany, Britain, France, Japan, with the economy, capable of providing own-produced consumer goods, need to import a number of goods (Abdulgalimov, 2012), for example, energy resources, in particular household gas and other types of energy carriers. In advanced economies, only a narrow range of goods is imported, and as far as possible, this problem is solved by establishing their own production. The economy of developed countries is focused not only on addressing the deficit of goods within the country, but also on exporting more finished goods. Emerging markets, as a rule, face an ambiguous situation. The import level is too

high. Attempts on the part of developing countries to create modern production facilities that could compete with firms in the developed countries don't always succeed. Thus, the impact of imports on the economies of developing countries is great. The structure of imports was due mainly to the need to overcome the deficit (Kadochnikov, 2015). In order to study the problem of imports impact on the economy of the region, only a statement of the fact that their influence on the economy of the region and the country as a whole is significant, is insufficient. To do this, the following tasks must be solved: the structure of the gross domestic product must be defined to determine the degree of its effectiveness in meeting the needs of society; the specific weight of each element of GDP structures must be determined; the impact of each component on the total volume of gross domestic product must be analyzed; the ways of solving the problem of non-conformity of the products to the needs of citizens and organizations must be determined.

GDP can have a different structure depending on the quality of goods and firms services. They can be: 1) high-quality; 2) average-quality; 3) poor-quality; 4) with a deviation from the norms and requirements, i.e., defective goods. With the exception of high quality products, all other product categories do not satisfy the needs of those who need them in varying degrees. Nevertheless, the goods produced by firms, together make up the GDP. Therefore, they can be divided into the ones which satisfy and do not satisfy the social needs. In order to facilitate the study, let us denote GDP by the letter (A), the part of GDP that meets the needs of society – by the letter (B), the part of GDP that does not satisfy the needs of society – by the letter (C). Thus, we get the following equation:  $A = B + C$ .

Here is a conditional example of using this equation that allows forming an approach to establishing the share of each product category that make up the GDP structure. To do this, it is necessary to assign each of them a conditional value. GDP (A), as a base value, always equals 100%. If one establishes the proportion of the product satisfying the requirement (B) of 70%, then the product of unsatisfactory demand (C) will amount to 30%. Proceeding from the fact that the product of category (C), equal to 30% of GDP, can become an object of import, consumers in the whole country are to find the means exceeding these 30% of the funds in an amount equal to the costs born directly when transporting goods to the country through the customs border, i.e. at the price of imports. Thus, in order to ensure the import of goods, it is necessary to possess the funds, the volume of which consists of the amount equal to inefficient expenditures in the production of GDP and amount equal to the “import price”. This approach to the formation of the methodology for determining the impact of foreign trade on the economy can be applied to the real situation that is developing in the regions of the North Caucasus.

#### **4. Purpose of the Study**

Structural analysis of foreign trade turnover in the regions of the North Caucasus. Before conducting a structural analysis of the foreign trade turnover in the North Caucasus regions, the significance of this region and the existing problems concerning the development of foreign economic relations will be determined. At the present stage, the geopolitical role of the North Caucasian regions in the Russian Federation tends to grow. The prerequisites for such growth are the passing of the world communication lines through the territory of these regions, transit routes linking North and South, East and West (Krutov, 2012). To study the foreign trade turnover of the region, it is necessary to characterize foreign trade relations, analyze the elements that make up the structure of foreign trade turnover. To characterize the

foreign trade activity of the North Caucasus regions, the sources, where this problem is covered will be analyzed. The inactive involvement of the North Caucasus regions in foreign economic activity is due to the state of economic development, especially industrial production, lack of competitive goods production (Evchenko, 2012). In this regard, it is necessary to clearly define the issues, the solution of which makes it possible to establish the features and disadvantages existing in the foreign trade relations of the region. These issues include: the structure characteristics of foreign trade turnover in the North Caucasus regions; determination of the financial component of the import and export in the regions; determination of the potential capacity of these regions to replace imported goods for the products of their own production. The establishment in 2010 of the separate North Caucasian Federal District which included the economically undeveloped North Caucasus regions improved the indicators of the foreign trade turnover of the Southern Federal District by 42%, in which they were included until 2010 (Arkhipov, 2012). This is despite the fact that the funds invested by the federal government in the development of the North Caucasus region over the past decade exceed 800 billion rubles that is 12 times higher than in the previous decade (Voropinova & Movsesian, 2011). To solve these problems, it is necessary to be able to analyze the foreign economic activity of a region. The ultimate goal of this analysis is to optimize the structure of foreign trade turnover as a factor of economic growth on an innovative basis. Let us provide a conditional example, which can serve as a basis for developing a methodology for studying the structure of foreign trade turnover in practice. Let us assume that a region is engaged in both importing goods and exporting them abroad, and the turnover is 100%. Also let us assume that the import is equal to 70% of the total foreign trade turnover. In this case, the export will be 30%. As a result, it can be concluded that the foreign trade turnover is 100%, and the ratio of imports to exports, respectively, will be 70/30. The conditions of the example to study the real ratio of imports and exports in the North Caucasian regions of the Russian Federation will be applied. For this, it is necessary to rely on official data on the foreign trade turnover of these regions, reflected in Table 1.

**Table 01.** State structure of foreign trade turnover of the North Caucasus regions for 20

Regions	2016		
	Total foreign trade turnover in one year, mln USD	The share of imports in foreign trade turnover in %	The share of exports in foreign trade turnover in %
Kabardino-Balkar Republic	74.5	49.0	66
Karachay-Cherkess Republic	139.5	123.4	88
Republic of Dagestan	252.9	206.4	81
Republic of Ingushetia	19.0	17.8	94
Republic of North Ossetia-Alania	103.1	45.2	44
Stavropol Territory	1361.4	531.0	39
Chechen Republic	38.1	36.2	93
In total	1 988.7	1010.1	51

Source: Statistics of the foreign trade of the North Caucasian Federal district for I-IV quarters 2016.

Table 1 shows the import and export data for the period under study. The share of imports in the total volume of foreign trade turnover in all the regions is 51%, exports – 49%, respectively. In the regions, the share of imports is in the range from 39% in the Stavropol Territory to 94% in the Republic of Ingushetia. The data in Table 1 also indicate that this indicator plays a significant role in the economy of the North Caucasus regions, in the Stavropol Territory and the Republic of North Ossetia-Alania. Only the imports-exports ratio is the result of an effective foreign economic policy of regional authorities.

High import indicators in most regions of the North Caucasus are a consequence of economic underdevelopment. The structural analysis of foreign economic activity in the North Caucasus regions makes it possible to analyze only the structure of foreign trade turnover. The further study of the foreign economic activity in the regions requires the comparative analysis of their foreign trade turnover. To improve the quality of the research, it is necessary to conduct a separate imports and exports analysis. This approach provides the opportunity to compare not only the foreign economic activity of the regions with each other, but also to do it in the context of imports and exports as the area of this activity. Comparative analysis of foreign trade turnover in the regions. Comparative analysis allows determining the possibilities of each region for the development of foreign economic turnover, evaluating this activity as a factor of economic growth. Summary data on foreign trade in the North Caucasus regions are given in Table 2.

**Table 02.** State structure of foreign trade turnover of the North Caucasus regions for 20

Regions	Quarters				Total for the year
	1 quarter	2quarter	3quarter	4quarter	
Kabardino-Balkar Republic	11.5	21	20	24	74.5
Karachay-Cherkess Republic	31	36	38	34.5	139.5
Republic of Dagestan	60	70	65	67	252.0
Republic of Ingushetia	3.5	3.5	5.0	7.0	19.0
Republic of North Ossetia-Alania	17	27	30	33	103
Stavropol Territory	340	310	350	361	1361
Chechen Republic	4	16	9	9	38

Source: Statistics of the foreign trade of the North Caucasian Federal district for I-IV quarters 2016

The data of Table 2 show that the level of foreign economic activity in the regions was very low. The low indicators, above all, are associated with such a category as market capacity, which depends on the factors which determine economic development: a region production base, production infrastructure, professional personnel availability. These factors will develop not only the export capacity of a region's enterprises, but also the import of innovative developments from other countries to develop their own production.

The only entity that develops foreign economic relations in accordance with market laws is the Stavropol Territory. This situation in the other regions is dated from long ago. Weak foreign economic relations in these regions are associated with the underdevelopment of the economy. Summary data on imports in the Federal District in general are shown in Table 3 compiled using the data shown in Table 2.

**Table 03.** State structure of foreign trade turnover of the North Caucasus regions for 20

	Quarters				Total for the year
	1	2	3	4	
Kabardino-Balkar Republic	8	12	15	14	49
Karachay-Cherkess Republic	17	33	35	38	123
The Republic of Dagestan	45	50	60	51	206
The Republic of Ingushetia	3	6	4	5	18
Republic of North Ossetia-Alania	7	10	13	15	45
Stavropol Territory	124	146	140	121	531
Chechen Republic	3	15	7	8	33

Source: Compiled by the author based on the data of Table 2

The activity of the regions in the field of imports depends on the fact that consumer goods in almost all the regions are in demand. These goods are not produced in the regions of the North Caucasus because of the lack of industrial base. Producers of goods are also rather highly required. Their share in imports is insignificant, since these regions do not face the problem of the development of large and medium-scale production so acutely. The import comprises mainly household appliances, computers, clothing, footwear, goods made on the basis of agricultural products processing.

Summary data on export in the North Caucasus regions are shown in Table 4, using data compiled in Table 2. The data in Table 4 show that the export potential of the regions under study is low. The regions of the North Caucasus faced the situation, in which the expenses arising from the increasing imports of finished goods for industrial and agricultural purposes are not covered by the exports of the raw materials produced in the country.

**Table 04.** Exports in the region of the North Caucasus for 2016, USD, mln.

	Quarters				Total for the year
	1	2	3	4	
Kabardino-Balkar Republic	2	9	5	10	25
Karachay-Cherkess Republic	10	3	4	1	16
The Republic of Dagestan	15	20	5	16	46
The Republic of Ingushetia	1	1	1	2	1
Republic of North Ossetia-Alania	10	17	17	18	58
Stavropol Territory	260	164	210	240	830
Chechen Republic	1	1	2	1	5

Source: Compiled by the author based on the data of Table 2

The similar situation in the sphere of foreign trade is regular for economically developing countries (Adeleye, Adeteye, & Adewuyi, 2015). Also, it should be noted that despite the fact that the Russian Federation is an export-oriented country, the North Caucasus regions, an integral part thereof, are import-dependent and hydrocarbon exports proceeds are not channeled to these regions to increase their export potential (Makhmudova & Koroleva, 2016)..

## 5. Research Methods

In a developing economy, imports of private and producer goods have become an important factor in meeting the needs of society, because in this society, such goods are produced either in insufficient quantities or are not produced at all. In addition, due to the lack of the financial resources earned as a result of the operation of their own economies, developing countries turn to international financial institutions, created for the purpose of providing financial assistance to the developing and underdeveloped countries, such as the International Monetary Fund (IMF). However, these institutions provide funds on the basis of urgency, repayment and interest payment, i.e. on credit terms. As a rule, international loans do not develop the economy, but only help, as they say, to stay afloat and not drown in the depths of the economic crisis. These loans are also allocated to the purchase of imported goods, as the construction of modern enterprises for import-substituting goods production is expensive and, to a certain extent, responsible. In such a situation, regional administrations, as a rule, chose the path of imports development. However, this path is destructive to the economy. Imports will grow, whereas in-house production will decline, respectively, decreasing the possibility of goods export. The foreign trade turnover situation in the regions of the North Caucasus is similar. With the exception of the Stavropol Territory and the Republic of North Ossetia-Alania, where the ratio between imports and exports is the most balanced, in the remaining five regions import exceeds export by 80-90%. In this case, import growth is due to the reduction of output volumes in these regions that, respectively, leads to a reduction in the export of goods from the country. In this situation, additional cash infusions into the economy of these regions will be absorbed by the import of goods from abroad since imports become easy and reliable source of enrichment for those engaged in the importation of goods into the country. In order to resolve the situation the North Caucasus regions need to strike a balance between imports and exports. This means that exports must be increased that is only possible if to establish the production of competitive, innovative products. This will certainly lead to a reduction in imports of goods. In addition, a balance is necessary because spending on imports should be covered by the income earned from the export of goods. The balance between imports and exports means that these indicators tend to their average value. If the values of import and export are known, for example, these figures in the Republic of Dagestan, according to tables 3 and 4, for the year equal to 206 and 46 mln USD respectively, the amount, to which they should tend, is the sought one. If to designate the amount, which import and export must be equal to as unknown (X) and the known values as (Y) and (Z), we get the formula which can be applied to determine (X) in other regions as well:  $X=1/(2) (Y+Z)$ . Thus, the North Caucasus regions must be brought to import and export balance, since the reduction of import is due to the increase of production and, respectively, is a prerequisite for exports growth.

For comparison, Table 5 shows the data on the ratio between imports and exports in the Republic of Dagestan only, where the import-export ratio situation is similar to the one observed in the majority of the North Caucasian regions and in the Stavropol Territory, where the situation is similar to the situation in the Republic of North Ossetia-Alania, but opposite to the situation in the Republic of Dagestan

**Table 05.** The structure of foreign trade turnover in the Republic of Dagestan and the Stavropol Territory in 2016 in USD, mln.

	1 quarter	2 quarter	3 quarter	4 quarter
<b>Republic of Dagestan</b>				
Y	45	50	60	51
Z	15	20	5	16
X	30	35	32,5	33,5
<b>Stavropol Territory</b>				
Y	124	146	140	121
Z	216	164	210	240
X	170	155	175	180,5

Source: compiled by the authors based on data of Tables 3 and 4

This difference makes it virtually impossible to achieve a balance between these two indicators in the Republic of Dagestan, which is a condition for economic growth, if the federal government does not take special measures to remedy the economy. The same picture of the foreign trade structure is observed in the Republic, Republic of Ingushetia, Kabardino-Balkar and Karachay-Cherkess Republics.

The balance between import and export corresponding to the conditions of the example given in the “Methods” may mean the decrease of imports, the value of which corresponds the cost of ineffective products produced in a region (in our case it is equal to 30% of GRP), by half, and their transition into the category of efficient products that lead to exports increase. It should be emphasized that the imports can be reduced by increasing innovative products production. Imports cannot be fully stopped, since the import of strategic goods, new technologies is a factor of maintaining a high rate of economic growth in the region.

## 6. Findings

The presence of the prerequisites for economic development of the North Caucasus region makes it possible to reduce import dependence of their economies. However, in most regions the authorities prefer goods and services imports from abroad to the development of their own economy, since there are no risks associated with the production and sale of the goods and services produced. This suggests that the problem of import dependence from one year to the next become more and more complicated and state authorities do not take measures to remedy the economy. It has been said that investment and human resources are not the only factors of economic development. According to Hussain and Saaed (2014), the growth of exports is an important factor of economy development. The prevalence of import in foreign trade turnover is a result of the weakness of the production sector and gradual moral and physical obsolescence of the production base. This requires rethinking the current economic policy at the regional level. For the formation of small and medium-sized businesses in the North Caucasus, capable of developing foreign economic activity effectively a number of factors are required. The researchers of this problem Carmen Díaz-Mora, David Córcoles and Rosario Gandoy emphasize the following factors: company size, performance, the possibility of foreign capital involvement and skilled labor (Ruba & Thikriat, 2014). Today the federal government allocates subsidies to the regions to equate their budgetary capabilities.



However, these funds are not used for the development of regional economy. The reason is the lack of principle of their application. We believe that “help and demands” principle can become the main one. To date, the government provides financial assistance to these regions but doesn’t put forward any strict requirement for using these tools to remedy the economy. Professors Ruba Abu Shihab, Thikraiat Soufan Shatha and Abdul-Khaliq are convinced that emerging economies are characterized by a unilateral connection between economic development and exports (Díaz-Mora, Córcoles, & Gandoy, 2015).

The proposed in the “Methods” approach to the classification of the gross regional product by a category, depending on output efficiency, may become the basis for GRP research methods; however, it is not always correct to associate the amount of inefficient spending with the cost of imported goods. However, under conditions of a high degree of import dependence of the North Caucasus regions’ economy, this approach is correct, since these regions need precisely those products that fall under the category of inefficient. It is also important to consider the opinion that for the economic development of the Caucasus regions it is suggested to organize production of competitive products, which will be delivered to the countries with the development level different from the one of the countries where the products from these regions were traditionally supplied.

## 7. Conclusion

The study has shown that the economy of most regions of the North Caucasus is import-dependent, and it has become a problem, but all the preconditions for the solution of which exist. However, to date, no steps have been taken to address this problem. Import has become a single source for meeting the needs of citizens and organizations in such goods as: home appliances, mobile communications, many kinds of clothes and shoes. These are consumer goods, demand for which is growing from year to year. Accordingly, the need for their import is also growing. The study showed a clear imbalance between imports and exports in the foreign trade of the North Caucasus regions. To solve the problem of structural imbalance in foreign trade in most regions of the North Caucasus it was proposed to use the approach, which may contribute to the enfranchisement of the economy from imports, lead to a reduction in imports and increase exports. While the general parameters of the Russian imports do not seem to be bad, the dependence of our domestic market on the numerous goods imported from abroad is very strong (Obolensky, 2015). Export growth is needed in order to earn the income from exports reimbursing the goods imports costs in the region. Upon the establishment of a balance between import and export, it is necessary to achieve the optimum ratio between these parameters. The balance between imports and exports is a qualitatively new stage in the development of foreign trade in the regions. In this case, only the products and services necessary to sustain economic growth will be imported. In this case, mainly new technologies, modern equipment, which are the basis of innovative production, are imported.

The exports of goods that compete in the global market, making it possible to improve the profitability of manufacturers, are an indicator of economic development.

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