

**KAMRAN IMANOV**

**CREATIVE ECONOMY AND  
INNOVATIVE  
DEVELOPMENT OF SMALL  
AND MEDIUM ENTERPRISES**

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# I. Conceptual basis

## 1. Creative industries.

- New conception of social and economical development which emphasizes the cultural sources and creativity of postindustrial economy in modern time quickly formalizes: this innovation sector is known as "cultural industries" in the past, "creative industries" at present.
- **Key elements of creative industries (CI):**
  - CI bases on creative abilities of individuals;
  - CI profits by creative persons' cooperation with managers and technologist;
  - CI connects with selling of creative products, which have cultural or intellectual economic value.
- Mentioned classification features appear from common basis and it is in active on CI SME format, just this determines the identification of their financial support.
- The use of "Creative industries" in the meaning of majority is not occasional: it is considered the connection of some fields here. Accepting this direction as a part of its own policy, their first canonic definition was given as following by Great Britain Government in 1998:

*"Creative industries" are such activities that individual activity, habit or talent is its basis and it carries in itself the creation potential of new jobs and additional cost by producing and use of intellectual property":*
- **In short**, the term "creative industries" is a point of entrepreneurial activity that describes the economic

value of product from existence of cultural element in inseparable form.

## **2. Creative economy**

- ✓ Creative industries constitute the "creative economy" and this concept detected for the first time by John Hawkins in 2001 in his book "Creative Economy". So, an information and knowledge resource has been determined like motive forces and beginning of post-information period that collects the most important value - the activity in itself has been determined.
- ✓ By operational defining the creative economy by Hawkins, 15 creative industry fields have been included here, as well as:
  - scientific-research and development issues;
  - publication;
  - software;
  - TV and radio;
  - design;
  - music;
  - film;
  - toys and games;
  - advertisement;
  - architecture;
  - performing art;
  - handicraft;
  - video-games;
  - fashion;
  - art.

**So, creative economy on the basis of operational definition is a relevant sector of national and international economy that spread the product and services connected with the creative activity.**

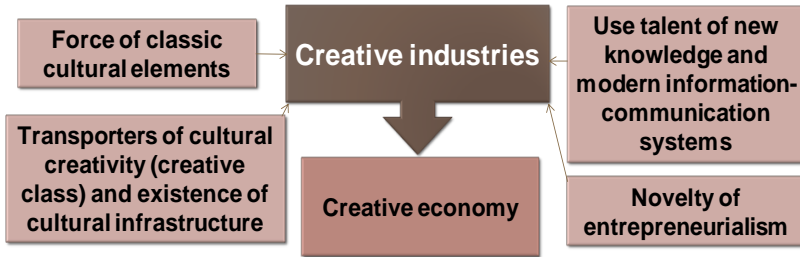
- The term "Creative economy" has been researched in detail in Richard Florida's book and afterwards began to spread widely among the specialists.

**Florida gives the conceptual definition of creative economy as followings:** "Creative economy is determined on the basis of the activity type", "the leading force of the economy and society is creativity, creation of practical new forms on the basis of knowledge of knowledge economy". "Knowledge and information is a tool and working material for creativity and its product is innovation".

Except this, Florida has determined the "creative class" - transporters of creativity and relevant cultural infrastructure that they made and he has shown that the base of creative class is economy, i.e. representatives of the creative class are the producers of economic values in the result of creative activity.

**So, the creative economy considers the transporters of creativity on the basis of conceptual definition and creation of new forms (innovations) in the results of their activities.**

- After Britain Government that firstly formed the list of creative industries and its influence to the economy, the governments of some countries have begun to investigate the share of creative industries in the economy of the countries based on their criteria.
- **In the result,** the creation scheme of creative industries and creative economy must be described as following:



As it is seen, as a term "creative economy" is a network of relations among creative individuals, "creative fields (industries)" and creative infrastructures in "knowledge society".

### 3. Creative economy - sustainable development factor.

- ❖ It is possible to separate the CI superiorities to 5 categories:
  - a) **Creation of additional value in the result of changing the factors** (*labor and capital industrial economy, knowledge and information in post-informational (informational) economy, interchanging in creative economy with innovative technologies and creative ideas*) and **so increasing influence of CI to the general economic growth** (*5% growth in general capacity of economy is comparative with the influence of construction field*).
  - b) **A strong support on increasing the employment** (*the increasing the employment in creative industries exceeds the medium statistic level, it shows itself more vividly in developed countries, for example, this index in Germany is more than the index in car industry*).
  - c) **It is observed that the increasing sector of creative industries effectively influences the diversification of economy, because creative industries represent with SME subjects and the investigations show**

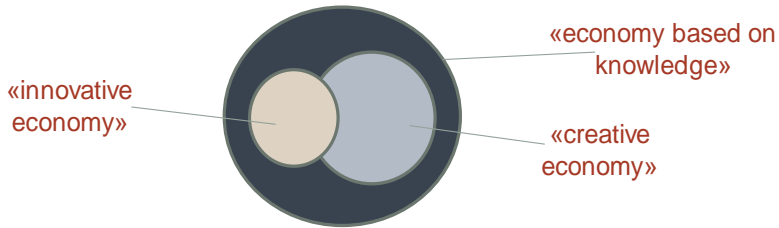


**that there is a correlation between the numbers of SME and GDP per capita. That is why the support on creative sector means the support on innovative development and the increasing of competitiveness.**

- d) Increasing of the competitiveness in the country means the increasing of GDP per capita and increasing of the competitiveness of the country (*creating the innovation market, the original imagination and the idea become a new motive power of economic development*) [Martin Prosperity Institute, 2011].
- e) CI and developed cultural infrastructure form the positive image of the region, strength the branding and so, create conditions for attracting much more tourists and high-educated specialists.

#### **4. Comparison of the terms "creative", "innovative" and "industry based on knowledge".**

- "Creative" and "innovative economy" are crossing concepts, but not synonymic.
- "Innovative economy" assemblies mainly in scientific-technology operations and in their commercialization, it does not consider some products and services of "creative economy", but organizing knowledge (*instructions, methods, technologies, human knowledge and experience, patents, copyright, trademarks, even IP objects that bought basing the license*) which do not include into "creative economy" .
- Either "creative economy" or "innovative economy" includes to the "economy based on knowledge" which is not more concrete, because both of them base on knowledge.



- Recently creation of new term - "creative-innovative economy".

### **Results of the I chapter**

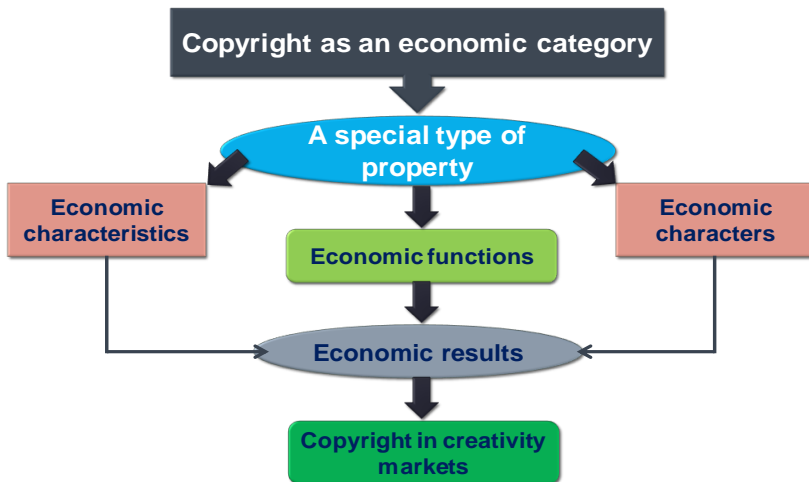
- creative economy connects with the creative environment and creativity as a modern economic power;
- creative industries are usually represented with SME;
- creative industries are leading force of innovative development.

## II. Creative economy and Copyright

### 1. Copyright is a tool protecting the objective reflected results of creation.

- ❖ "Copyright" considers "copyright" and "related rights" which is on close relation with it, is a main part of IP and is a whole of rights for implementation of use control of Copyright object.
- ❖ Copyright considers the users' (*society's*) needs and interests on cultural values and knowledge and bases on balancing principle.
- ❖ Copyright is a financial mechanism for encouraging of the creators.
- ❖ Except cultural and social importance, Copyright has also great economic significance. It acts as a base in activities of several industrial fields and as an economic category Copyright possesses value, economic characteristics, characters and functions, it presents in economic circulation.

### 2. Economic bases of Copyright.



- As a special type of property IP has a property value (*Civil Code*) and the exclusive rights of IPR owner is a monopoly that act as a property.
- IP is an economic subject, IP owner can sell IP, give it to somebody, can determine or forbid its use. The analogy with special property: to sell, to realize freely or reject (*distribution function of economic analysis*) to forbid the infringement of the third persons (*support function*).
- **Economic characteristics and characters:**
  - the goods carrying IP possess the characteristics similar to the traditional goods, its distribution gives the benefit to the society, they can be used by several persons at the same time;
  - it has the use value (*the usefulness of the goods carrying IP increases the productive capacity of the social labor, decreases the social value of products, creates the effect of the economic use*);
  - it has the changing value (*it can be changed with other product in different comparison and quantity*);
  - **it acts on economic boon aspect, except common benefit, it has "external" effect measuring with difficulty;**
  - except the characters (*usefulness, rarity, uniqueness*) belonging to the every commodity, it has special characters too, i.e. this is a special commodity, including:
    - a) its usefulness does not finish during use, it can be used by circle of uncertain people, it does not expose to the physical and moral aging;
    - b) it can be changed to any extent, it has "increasing" effect;

c) The initial copies are very expensive, the next copies are cheap (*high fixed costs and very small border costs*).

➤ **Economic functions:**

- IP legislation determines the capacity of owner rights and general rules of its disposal;
- IP legislation economically determines the efficient producing, trade and use of IP objects;
- IP legislation helps IP creators to determine the market price of their objects.

➤ **Economic results:**

- prosperity thanking to the use of creative capacity, increasing the economy;
- redistributing the income through royalty, payment and tax system.

➤ **Economic essence:**

- it is resource that indirectly brings the benefit, not directly;
- The use of IP by permission of the right holder provides the minimum of risks, maximum of benefit;
- Though monopoly character, IP rights do not negative influence the competition, involve the others to research new solutions ("*small monopoly*").



### **3. Copyright in creative markets.**

- **Economic function** – creating and getting the income, determining the value of property rights and forming the structure of the market by organizing their trade and creating the orients for economic analysis by implementation the economic dimension.
- **Social function** – thanking to the availability the balance creation between right holders and customers, becoming the catalysts of innovations, support to the national and local development.
- **Cultural function** – supporting the cultural diversity and presenting the content
- **Results of the second chapter.**

As an economic category IP completes the "thing" property concept, has got value, characteristics, characters, economical functions and results, also participates in economical circuit and except economical significance, it carries the important social and cultural functions in creative markets.

### **III. WIPO methodical instructions in measuring and accounting the creative economy**

#### **1. The objective difficulties of creative economy, also statistical comparison (*according to the general and several countries*).**

- Dependence of the results of the analyses in the spheres of economic activity, which are registered and in specific characters of accounting methods.
- Though the scale and dynamic of creative economy base on traditional economic instructions (*share on GDP, employment and salary in creative sector, business concentration, local clustering and etc.*), but not indicating of certain spheres of creative economy in national statistics, not registering of employment in creative sector, difficulties of taking into consideration of additional value of creative products and etc. make problems.

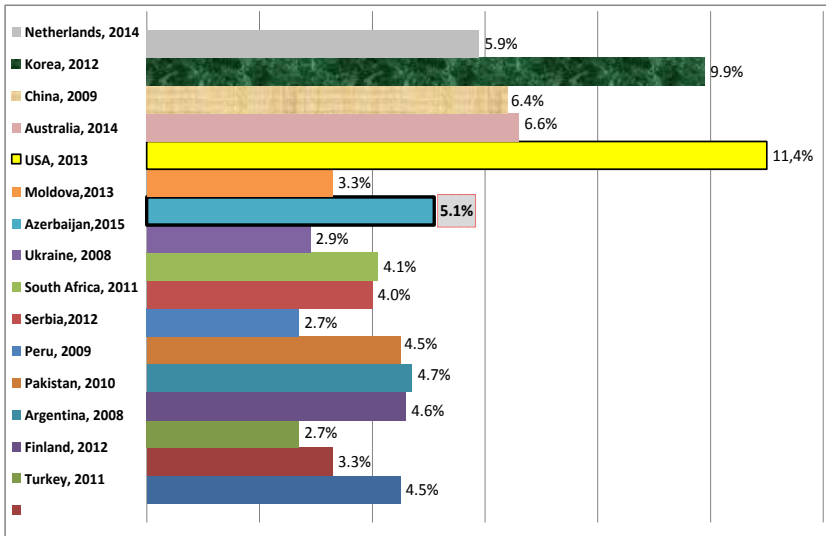
#### **So:**

Though the difference of accounting methods and the difficulties, creative sector intensively develops: in initial years of the third millennium the share of Copyright-Industry in World economy was 5-6%, almost the same amount was in industrial property (11-12%), the last ten-years yearly increasing share of creative economy was 8,8%, it was 2 time more as increasing of World GDP.

#### **2. WIPO methodical instructions**

- The share of creative economy is carried on two directions (*sphere categories*):
  - core (*main spheres of Copyright-Industry*);
  - independent (*direct connected*);

- partial (*indirect connected, partial based*);
- non-dedicated (*others, servant*).
- accounting based on WIPO instructions in different years:



Source: WIPO

- According to the WIPO's information the size of Copyright-Industry in USA which is a leader in creative economy constituted 1922 mlrd.\$ in 2013 or 11,44% of the country's GDP, average yearly increasing was 3,45% (*in case yearly increasing of economy's was 2,25%*).
- the most contributed in inward of creative industry - advertisement industry, content producing for cable TV, broadcasting and publication activity.
- The share of creative industry in USA economy - avia-making, steel mill and metal wares, electronic equipment, industrial equipment, food products,



chemical reagents and etc. outnumber the share of the spheres.

- 11,2 mln. workers were enlisted in spheres based on Copyright in 2013 (*in comparison with amount the workers on 8,26% countries*) and the number of the workers here was too much in comparison with the number of workers in avia-making, car, steel mill, pharmaseptic, textile and etc. spheres. Furthermore creative industry is capable to create the employments more intensively than other leading spheres.
- According to the information of IIPA constituting 156,3 mlrd.\$ in 2013 in USA an export of creative economy prevailed over the export of chemical (147,8 mlrd.\$), aero-cosmic (128,3\$) and agriculture (68.9 mlrd.\$) spheres.

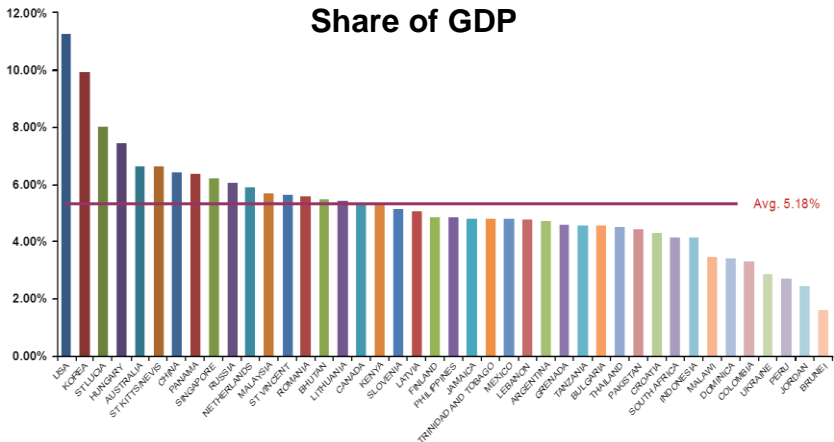
### **3. From "Creative economy: report 2010" jointly prepared by UNKTAD, PROON, UNESCO, WIPO and DTM.**

- ✓ Creative industry is one of the sources of dynamic economic development: the import of the products of creative industry increased twice in 2002-2008 (600 mlrd.\$).
- ✓ though the negative influence of world economic crisis in 2008, capacity of the import of creative industry constituted 14% in 2002-2008 showing dynamic increasing, nevertheless the capacity of world trade decreased 12%.
- ✓ Creative economy provides sustainable social-economic development and so, the following recommendations are proposed in the Report:
  - every country must choose useful strategy of creative economy, including must consider its being connected with public, cultural, scientific-technologic, ecological fields and coordination of its mutual relations.

- taking into consideration the substantiation of creative economy to IP, taking as a base of its intersection and integrations with the art, business, innovations and new business-models, special demands proposed by education, cultural identification, social inequality, ecological factors must be reflected in forming of creative economy policy.
- ✓ Share of developed countries in increasing of the import of creative economy -82%, developing countries - 11%, transition countries - 1%, including developed countries on segments: music and audiovisual sector - 90%, book publication - 80%, design - 50%.

#### 4. WIPO studies on the Economic Contribution of the Copyright Industries, 2014.

- ❖ The research bases on 42 national investigations carried till December in 2013, the database uses more than 60 changers, shows benefit and capacity of creative economy to the point of macro-economic instructions.

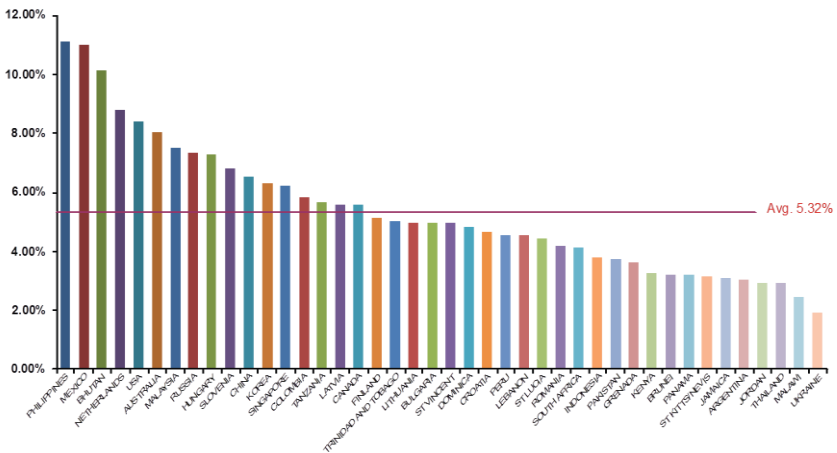


Source: WIPO

❖ **Share of GDP:**

- additional percent value sized from GDP created by Copyright industry is the most important central indicator;
- the research shows that the share of creative economy in GDP increased 11,1% in USA, decreased 2% in Brunei, 5,18% on 42 countries;
- the countries fast passed economic growth demonstrates the instruction more than 5,18%;
- 75% countries demonstrates the share from 4% till 6,5%.

**Share of employment**

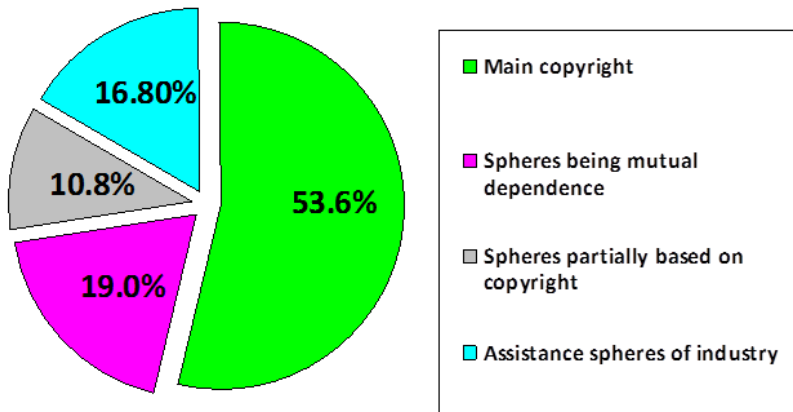


Source: WIPO

- The share of the workers in Copyright industry in comparison with common workers:
  - The research shows that the share of employment outnumbers the share in GDP, and its medium value is 5,32%;
  - The highest share is in Mexico and Filipina (7%);

- 75% countries shows 4-7% employment share;
- the major countries which the share of GDP is higher than medium level shows that their employment share is higher than medium level too;
- **Creation of new employments is the most important social-economic indicator of Copyright sector.**
- It is shown in the research that the share of Copyright industry in GDP has positive connection (correlation) with some international indexes, including:
  - with GDP per capita (*positive, powerful, R=0,53*);
  - with global innovative index (*positive and important, R=0,56*);
  - with global competitiveness index (*positive, powerful, R=0,43*).
- Distribution of creative economy to 4 branches determined on WIPO methods.

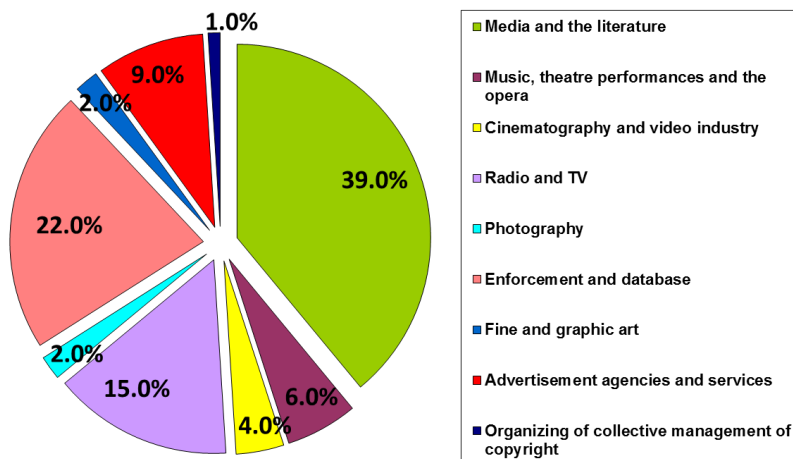
**Distribution of creative economy among the branches, %**



Source: WIPO

As it is seems, 53,6% of the share (*more than the half*) belongs the Core spheres of Copyright industry and these constitutes the nucleus of creative economy.

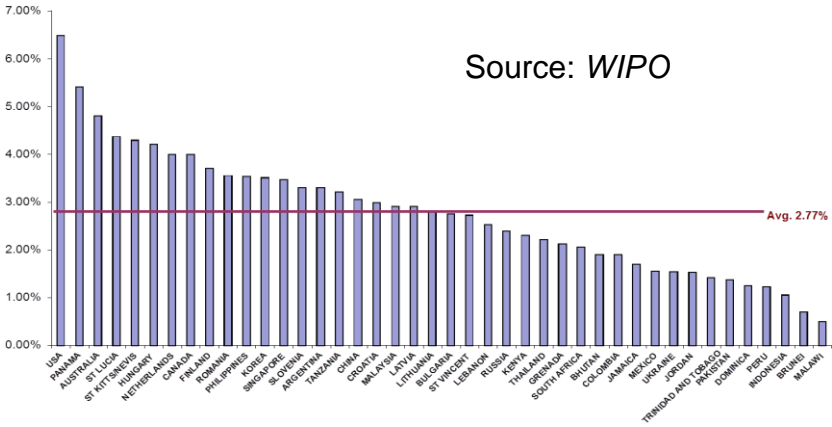
- Distribution of the nucleus of Copyright industries on Core industry fields.



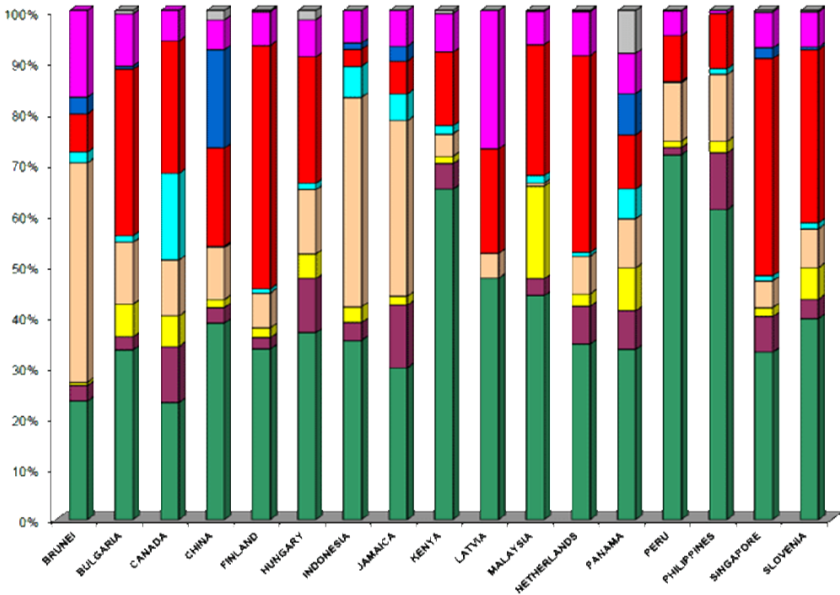
Source: WIPO

As it seems, media and the literature industry constitutes the base of the nucleus (39%), software, databases, radio and TV, music, theatre, advertisement, film and video determine more than 50% share. Here the share of software and databases is almost the half (22%).

- Share in GDP of the nucleus of Copyright industry (Core) (*on the countries*).



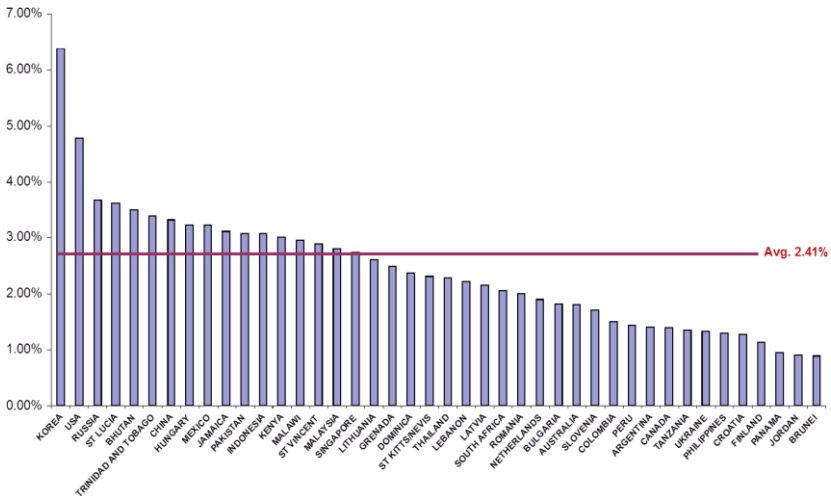
- The comparison of distribution of the nucleus of Copyright industries on industry fields in some different countries.



Source: WIPO

As it seems, distribution of the nucleus of Copyright industry differs from geographical point of view and this diversity is the difference that created by cultural histories and market opportunities. For example, the members of EU – Bulgaria and Finland are strong in software, but Peru is strong in traditional heritage (*where media and the literature is leader*).

- Share in GDP of Non-Core industry fields of Copyright industries (*on countries*).



Source: WIPO

- **Results of the III chapter:**
  - The calculations on methodic instruction of WIPO base on valuing the additional value created in the spheres that protecting by Copyright in valuing the Copyright industry. But the methods do not determine the forming the additional value of the product during its

creation and production or distribution and import, do not take into consideration the informal economy and piracy;

- Furthermore, the methods show that a strong useful copyright legislation exists in the countries that have high-level creative economy;
- Share of Copyright Core sphere of creative economy in developed countries has leading role and twice outnumbers the instructions of developing countries and 75% transition countries. There is the highest medium share in GDP and the highest employment share in developed countries;
- Share in GDP of creative economy closely connected with some international indexes (*positive correlation*), including with GDP per capita, Global Innovative Index, Global Competitiveness Index, International Index on Protection of Property Rights and etc.



## IV. National research on creative economy (including the results of 2015)

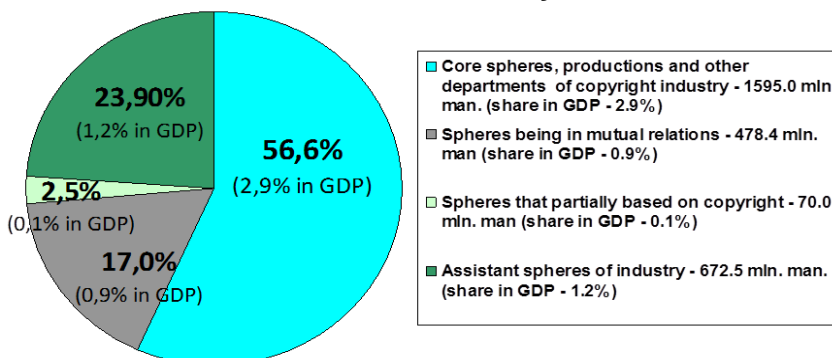
### 1. Principles of the research and the date.

- The research has been carrying by the Copyright Agency since 2003, supplies to the relevant governmental bodies. The research of 2014 has been published in the book "Creative economy and development of Azerbaijan economy" and has been presented in the international symposiums.
- The research bases on methodic instructions of WIPO, has been harmonized to the structure and statistics of national economy.
- State statistic materials are used for calculations, if there are not, then the instructions of state budget reports or the expert evaluations.
- Counterfeit production is not taken into consideration.

### 2. Research information:

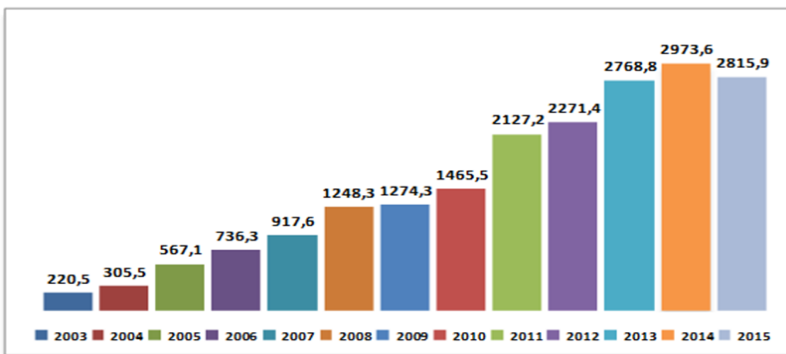
- Share in GDP of 4 groups that forming 5,1% (2815.9 mln. man) of creative economy in 2015 and common share in GDP gave the following results [GDP - 54352.1 mln. man.]:

### Distribution of creative economy on the branches

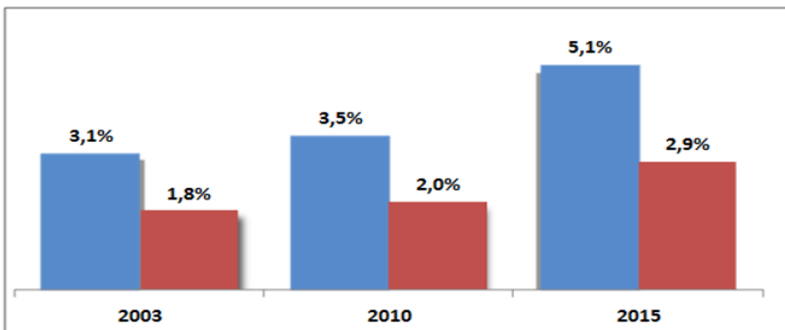


### 3. Results of the research:

- The research shows that including 2015, creative industry has been increased from 220.5 mln. man. to 2815.9 mln. man. (*almost 12 times*) since 2003. Except this, the capacity of creative industry belonged to the core copyright has been increased from 153.3 mln. man. to 1785.6 mln. man. (*more than 10 times*). This is the demonstration of state's leadership to this sphere.



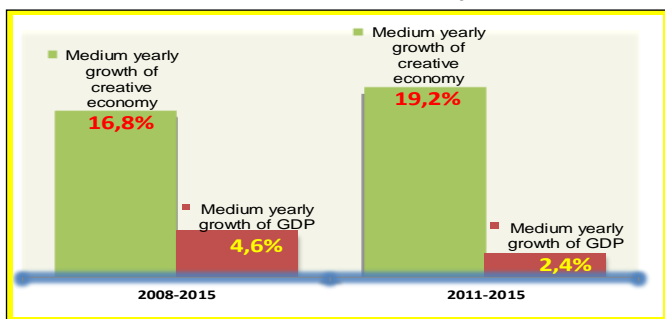
**Yearly dynamic of the capacity of creative economy**  
(mln.man.)



**Dynamic of the share in GDP of creative economy**  
and its core part (%)

- ✓ Another indicator characterizing creative economy shows the share in GDP of copyright industry: this indicator increased from 3.1% to 5.1% (*more than 64%*) in 2003-2015, more than twice, taking into consideration the medium cost of this indicator (2.1%) in 1995-2000.
- ✓ During the same time Azerbaijan GDP increased in very high tempo (8.2 times) (*in the highest tempo in the world in 2005, 2006, 2007*), but copyright industry increased 13 times. Furthermore, the increasing tempo of GDP was like catalyst for copyright industry.

### Medium yearly growth tempo of GDP and creative economy



- ✓ The analysis of medium yearly growth of GDP and creative economy in the last 8 years (2008-2015) and last 5 years (2011-2015) shows that medium yearly growth tempo of CI excelled the growth tempo of GDP 3.7 times (16.8%, *against* 4.6%). Though the medium growth tempo of CI decreased in the last 5 years (2011-2015), its excelling of the medium yearly growth tempo of GDP strengthened: more than 6.3 times. These are the evidence either development of creative economy with preferable tempos or its sustainability according to the UN recommendations against the economic decay (2010).

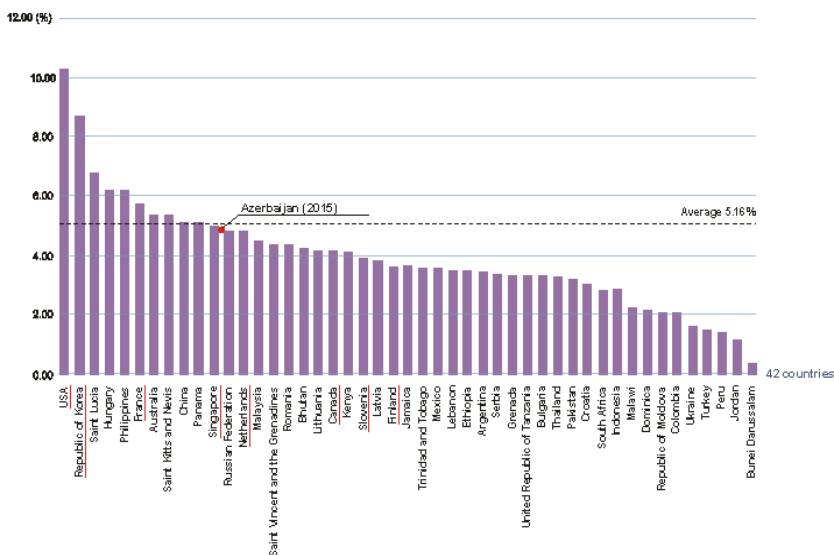
## **V. Comparative analysis of the results of national research**

### **1. Principles of comparative analysis.**

- ❖ Taking into consideration the 42 countries, WIPO research of 2014 on the economic share of Copyright industry and Reports on "Copyright + Creativity + New workplaces + The economic growth" in 2012 among 30 countries are taken as an initial source. Results of the national research are compared with WIPO indicators.
- ❖ Recommendations created in the results of the analysis of values of indicators in the those reports and Global Competitiveness Index, Global Innovation Index and International Index on Rights Protection are jointly analyzed with the results obtained in National research and the relevant proposals are offered.

### **2. The share in GDP of creative industry of Azerbaijan in comparison with other countries.**

## Share in GDP of creative economy on the world countries (2014), %

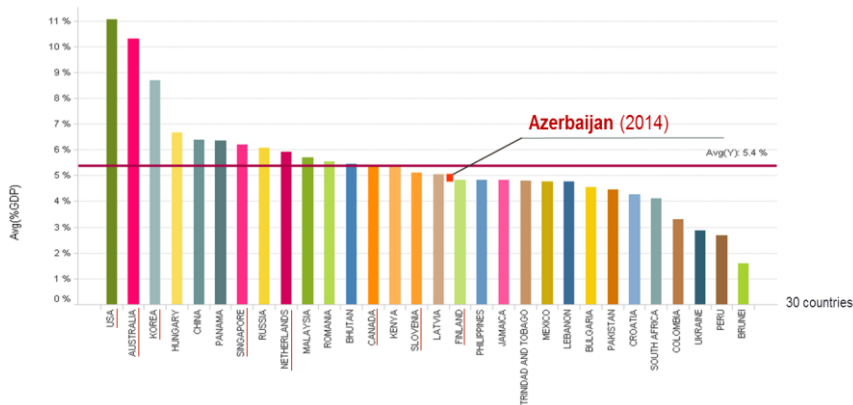


Source: WIPO (2014), CA (the results, including 2015), underlined countries are developed countries based on International Monetary Fund.

- ✓ The analysis shows that the indicator of the share in GDP of Azerbaijan creative economy (*share in GDP - 5.1%, including 2015*) has reached the medium level by excelling more than 30 countries in the row of 42 countries investigated by WIPO in 2014 and does not fall behind some developed countries (5.16%).

## WIPO comparative analysis with calculating in 2012

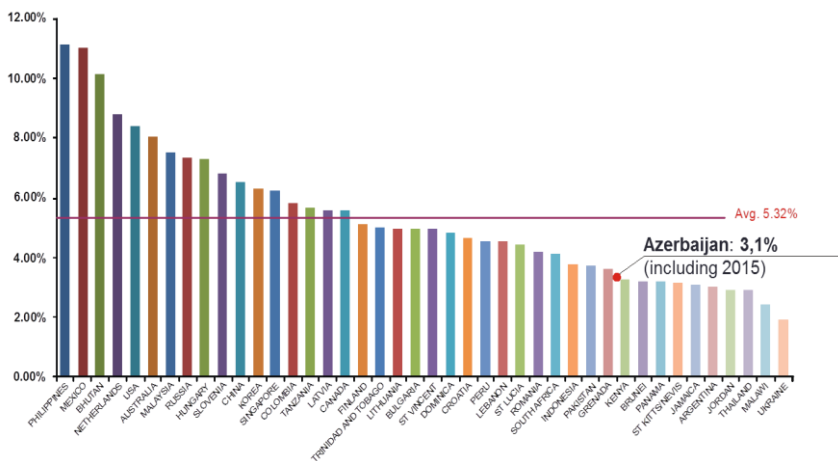
### Share in GDP of creative economy on the world countries, %



Source: *WIPO, CA (the results, including 2014), underlined countries are developed countries based on International Monetary Fund.*

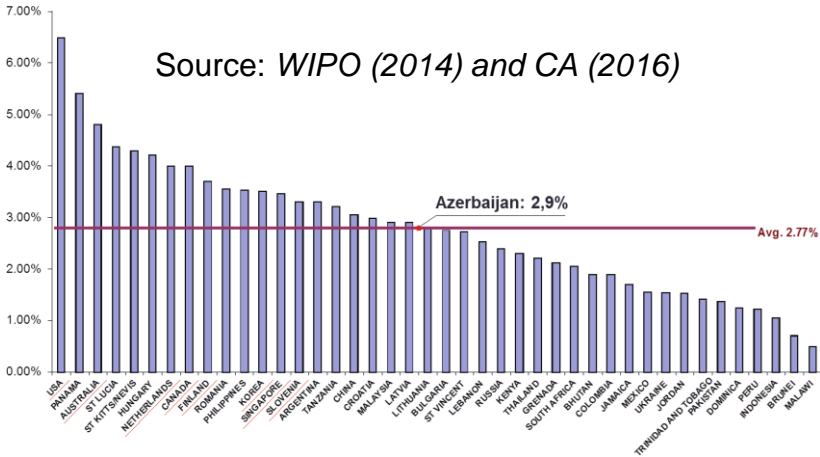
- ✓ The analysis shows that the indicator of Azerbaijan creative economy (*share in GDP - 5% in 2014*) was almost in medium level in the row of 30 countries investigated by WIPO in 2012 (5.4%) and does not fall behind several developed countries.

## Share in the employment of Copyright industry



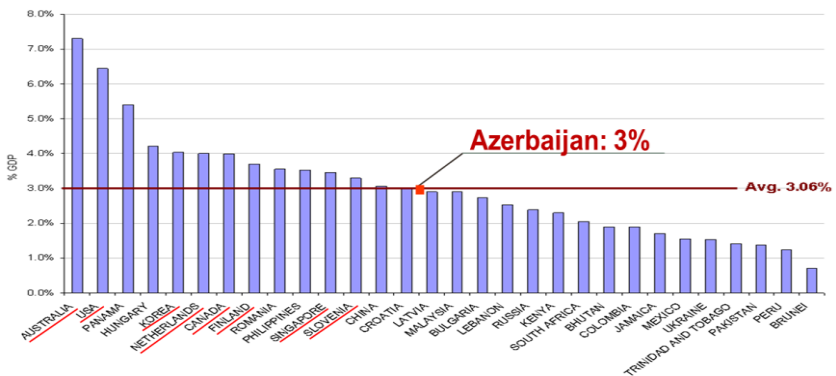
Source: *researches of WIPO and CA (including 2015)*

- The analysis shows that though the medium level of share in the employment of creative industries was 5.32% in WIPO research in 2014, the same indicator of Azerbaijan is low (3.1%) and the workers (*especially small and medium enterprises*) of these creative industry spheres have relevant needs on different directions (*folk art, souvenirs, tourist service and etc.*).
- Share in GDP of Core copyright spheres of economic nucleus of Copyright industry.



- As it seems, according to the researches of the Agency the main share of creative economy (*copyright spheres*) constitutes 2.9%, including 2015 and it is more than medium level (2.77%) shown in WIPO calculation among 42 countries in 2014.
- The relevant calculations are given for comparison, including calculation of WIPO 2012 and CA 2014.

### Core copyright spheres of creative economy



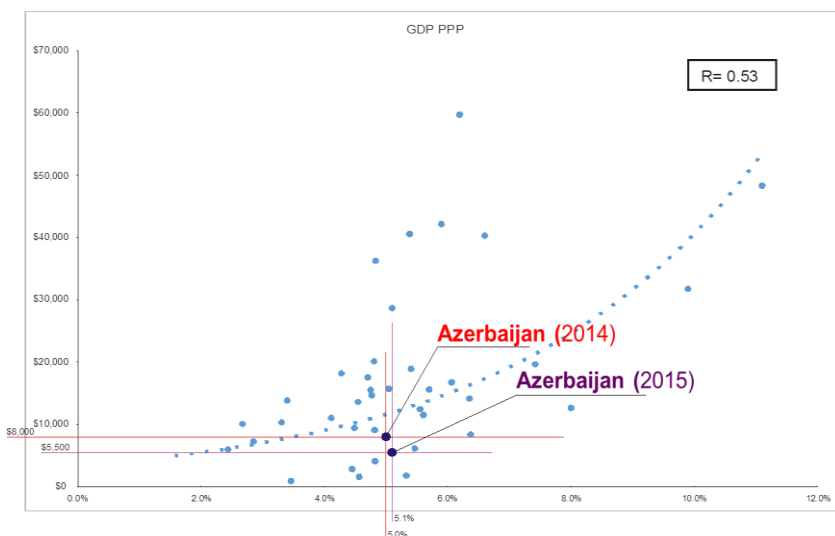
Source: WIPO (2012) and CA (2014)



- As it seems, the indicator (3%) of share in GDP of core copyright spheres of creative economy is in medium level (3.06%) and it does not fall behind developed countries.

### 3. Comparison of the share in GDP of Azerbaijan creative economy with international indexes (GDP per capita and GCI).

#### Share in GDP of copyright industries and relation with GDP per capita



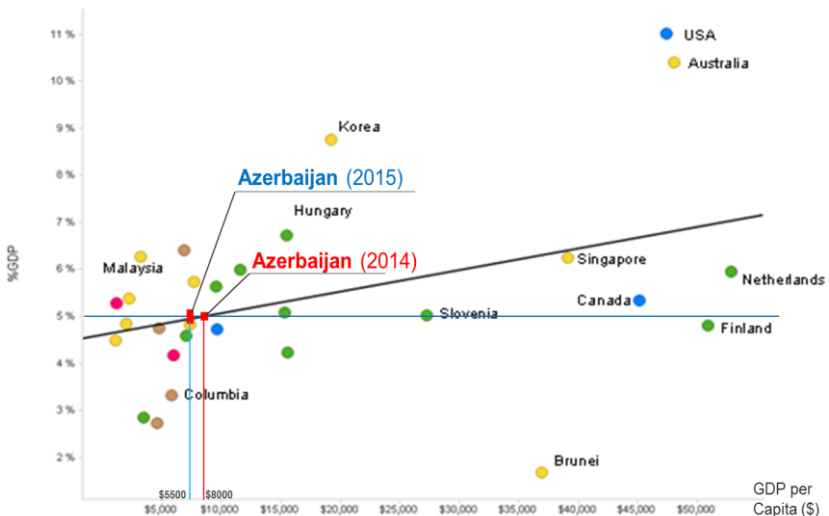
Source: WIPO, World Bank

- ❖ The analysis shows that there is closeness of coordinates among the regression (*stochastic dependence*) between the share in GDP of creative economy and GDP per capita in Azerbaijan in 2014.

This closeness comparatively weakens in case that GDP per capita is 5500\$ in 2015 and the indicator of creative economy is 5.1% in 2015, but in both cases stochastic dependence is in the frame of points destroying that forming its curve.

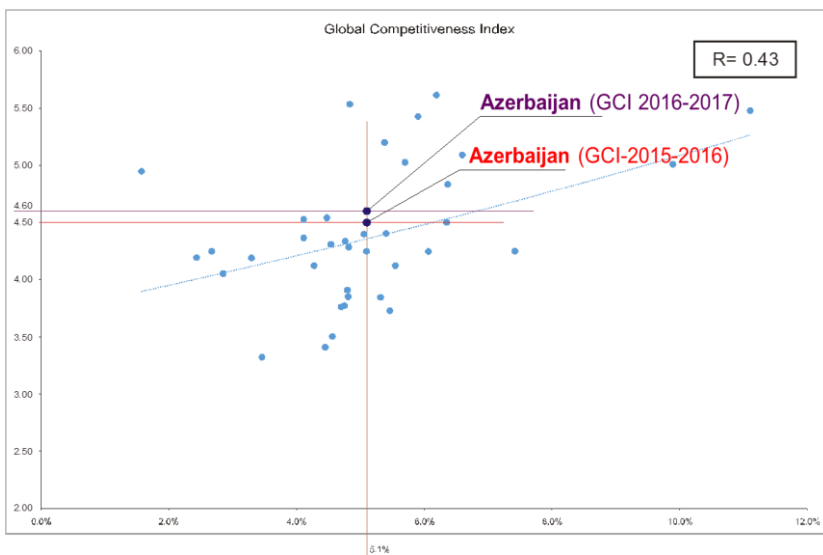
- ❖ It is shown that the harmonization of the coordinates is very high in both cases by giving for comparison the GDP per capita of share in GDP of creative economy and dependence presented by WIPO in 2012 (*it may be fall in regression line and it is the appearance of higher representativeness of national research*).

### Relation of the share in GDP of creative economy with GDP per capita



Source: WIPO, the Agency, World Bank

## Share in GDP of creative industries and relation between the Global Competitiveness Index (2013)



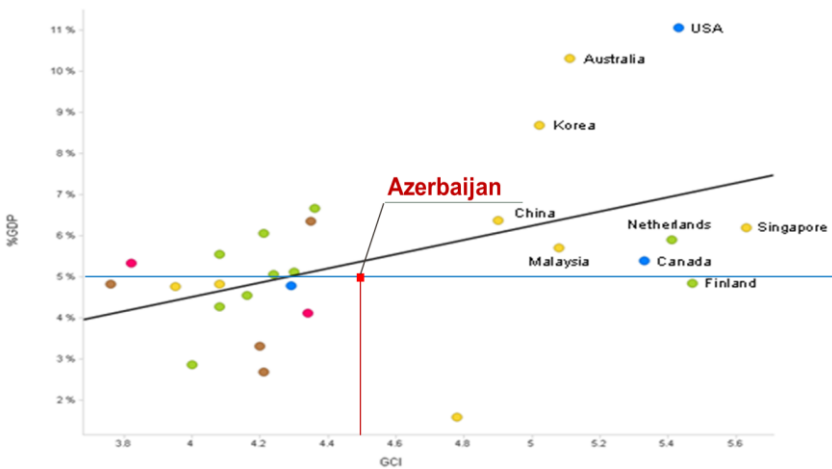
Source: *World Economic Forum, WIPO, CA*

- Global Competitiveness Index of Azerbaijan for 2016-2017 gains 37-th place among 138 countries by 4.6 rating is leader in UIS and excels some countries.
- Indicator of "Enterprises (*Institutions*)" in "IP Protection" column and here has main role in calculating of Global Competitiveness Index. The analyses show that Azerbaijan is a leader in the Southern Caucasus in this sphere, includes in the first trio among the UIS countries.
- Share in GDP of creative industry relation between GCI (*based on WIPO investigation 2014*) show that coordinates of Azerbaijan indicators is more closer to the regression (*correlation*) line, is in dense correlation, though the GCI rating is either 4.6 (2016-

2017) or 4.5 (40th place, 2015-2016). and it is the additional demonstration of representativeness of national research on creative economy.

- Share in GDP of creative industries and relation between GCI in WIPO report 2012 is given as an example, and so, by showing the share of creative economy of Azerbaijan in 2014 (5.0%) and GCI (4.5 points) it is shown that there is the dense connection between them.

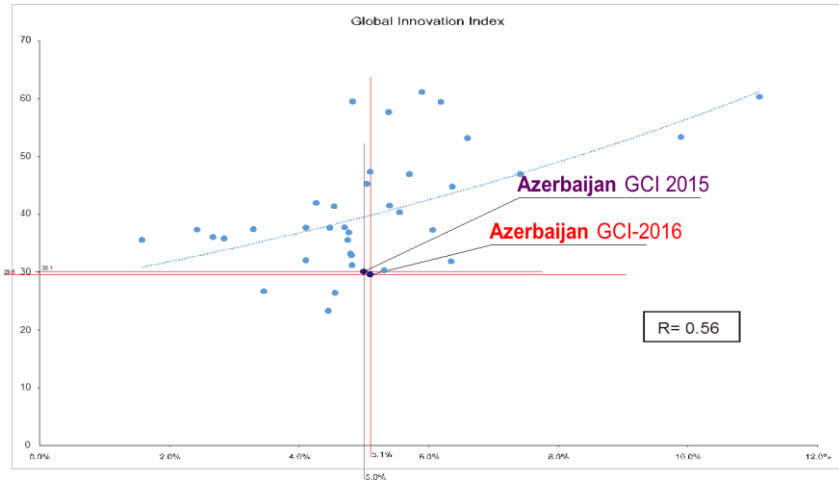
### Relation between share in GDP of creative industry and Global Competitiveness Index



Source: World Economic Forum, WIPO, CA

#### 4. Comparison the creative economy of Azerbaijan with international indexes (GII and IPRP)

## Share in GDP of creative industries and relation between Global Innovation Index

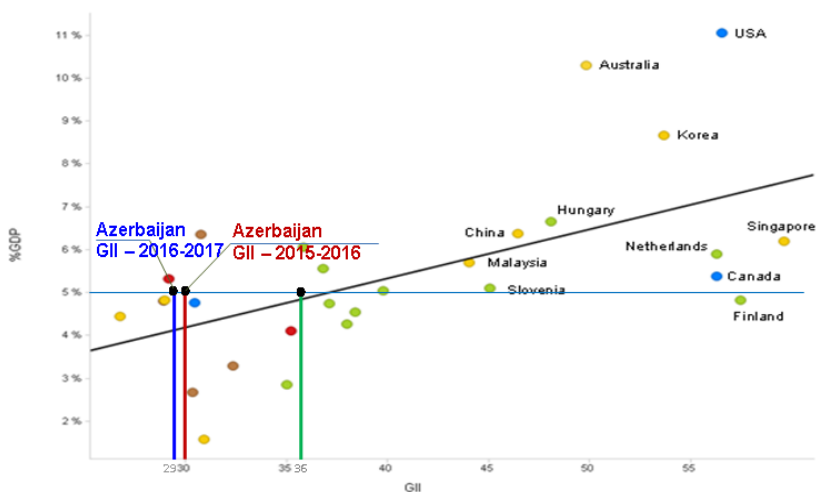


Source: *Cornell University, INSEAD and WIPO*

- ✓ Relation between the share in GDP of creative industries and Global Innovation Index is given from WIPO calculating in 2014 and it is noted that GCI investigation is carried out by Cornell University and French Research Centre in participation with WIPO.
- ✓ As it seems, there is positive relation between the share of creative economy and Global Innovation Index and this dependence is expressed by the relevant regression line.
- ✓ The GCI rang of Azerbaijan in 2016-2017 was 29.6 points among 128 countries and was in 85th place, but rang of Global Innovation Index of Azerbaijan in 2015-2016 was shown 93rd place among 144 countries with 30.10 points.

- ✓ The analyses shows that this position of Azerbaijan is in very weak connection with regression dependence in both cases, difference of coordinates is high and the contrary in 2016 is vividly seen.
- ✓ For the purpose of bringing clearness to the issue, let's base on dense relation between creative economy and Global Competitiveness Index we have shown before. So, Azerbaijan has gained the 71st place on "Property Rights Protection" column with 42 points which is connected with GCI innovations and is in the 48th place with 4.2 points in "Institutions" column where "IPR Protection" index is situated. It is also in 44th place with 3.6 points on "Innovations" part by gaining the 49th place with 3.8 points in "Innovation and sophistication factors" sub-index. And according to this indicator it is a leader in UIS.
- ✓ It must be noted that according to the GCI - 2015-2016 Azerbaijan has gained the 61st place with 3.3 points on "Innovations" and so, has increased its position 15 steps with 0.3 points on GCI-2016-2017 and has remained in the 44th place with 3.6 points. Nevertheless, in comparison with GII-2016-2017 GII-2015-2016, the points of Azerbaijan have decreased from 30.10 to 29.64 though its place has improved 8 steps.
- ✓ **The answer to this contrary must be searched.**
- ✓ If we assume as a basis the dependence between the share in GDP of creative industry and GII in the result of WIPO calculating in 2012, constructed Azerbaijan indicators confirm the contrary that we have noted before (*creative economy 5% - 2014 and 29 and 30 points of GII given recent years*).

## Relation between the share of creative industry and Global Innovation Index

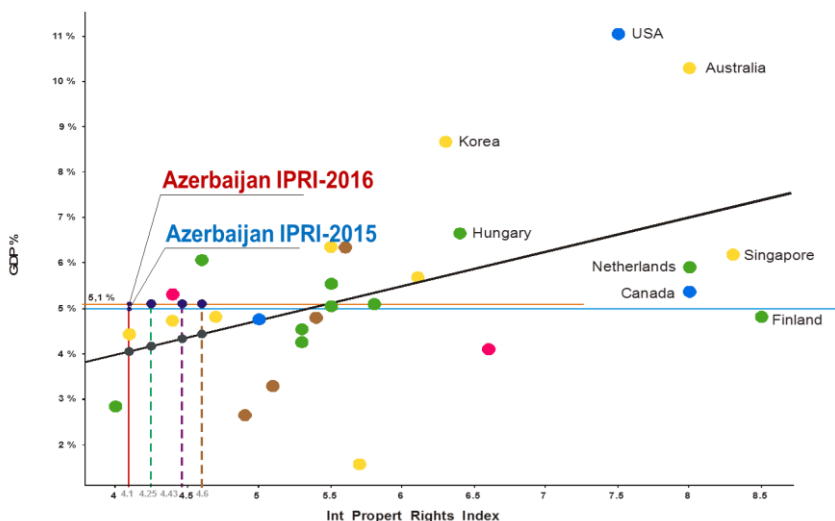


Source: WIPO, Cornell University, INSEAD, CA

- It is clear that in case rang of Azerbaijan is 36 its difference from regression line will be in 0.1% level. This corresponds with 60-70th places on Global Innovation Index (rang is between 37-35). In this situation, Global Innovation Index of Azerbaijan will be corresponding with either on WIPO creative industry or Global Competitiveness Index (*this information elucidated in the international conference held with WIPO in 2016*).

These contraries create the necessity on carefully approaching to the information about Azerbaijan in elucidated statistics GII-2016-2017.

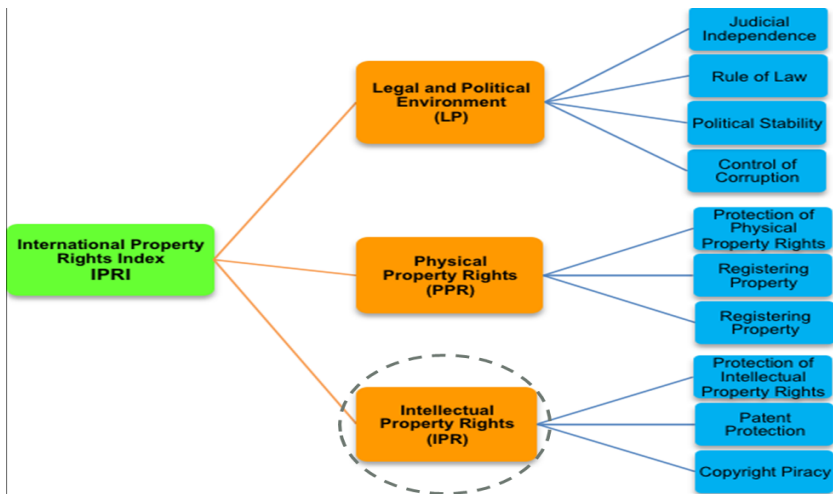
## Relation between the share in GDP of Azerbaijan, Global Innovation Index and International Property Rights Index



Source: WIPO, Copyright Alliance, CA

- It is shown in WIPO Report "Copyright + Creativity = New Employments + Economic growth" 2012 held among the 30 countries there is a strong dependence between creative economy and IPRI. The results of WIPO 2012 are used because WIPO dependence is not given in 2014 calculating.
- International Property Rights Index carries out by Property Right Alliance and Azerbaijan was included into research countries in 2015 for the first time.





$$IPRI = \frac{LP + PPR + IPR}{3}$$

- As it is shown in Alliance Report that the materials used here are based on the information of Economic Cooperation Organization, World Bank, WTO, Office of the US Trade Representative, different international and National Research Centers. And it embraced 129 countries in 2015 and 128 countries in 2016.
- It is shown in IPRI that the IPRI index of Azerbaijan in 2015 was in the 103rd place with 4.1 points, but in 2016 it was in the 109th place with 4.1 points.
- Creative economy for Azerbaijan is 5.1%, IPRI - 4.1 points, the dependence shows itself very weak (*the coordinates distance from regression line*).
- For searching its reasons, it is looking through the WIPO Report 2012 on creative economy, the dependence between the share in GDP of middle creative industry and Rights Protection International Index from one side and from other side, the details of Azerbaijan IPRI Index.

- The Report 2016 lets pay attention to the column "IP protection". The column "intellectual property rights (IPR)" of Azerbaijan was 2.8 points in 2015-2016 (*122nd place*). And it consists of 2 components - "IP rights protection" (*86th place with 4.2 points*) and "piracy level" (*96th place with 1.5 points*). The first component - in the 73rd place (*129 countries*), the second component - in the 95th place in 2015 (*105 countries*). It is shown in the reports of 2015 and 2016 that the third component - on "patent protection" - there is no any information on Azerbaijan.
- So, forming of IPR sub-index for Azerbaijan (*2.8 points, 122nd place*) is below the 96th place.
- To our mind, its reason is Azerbaijan is on the 19 countries row that the indicator of "Patent Protection" is not taken into consideration. The indicator of "Patent Protection" of other 111 countries is taken into consideration with middle-high point (*about 6.9 points*). It puts the countries into unequal situation during the comparison. IPR sub-index of 19 countries are calculated on 2 indicators, but the IPR sub-index of 111 countries are calculated on 3 indicators. And this creates the risk of making mistake from mathematical point of view.
- It is surprised that there is no information on Patent belonged to Azerbaijan, because this information is on 2 international documents.
- Let's note that according to the Global Competitiveness Report elucidated by Davos Economic Forum due to 2016-2017, Azerbaijan gains the 80th place among 138 countries due to the indicator of "Patent Protection" of Azerbaijan. It is in 94th place among 128 countries in WIPO Report on Global Innovation Index. If the indicator of "Patent

Protection" of Azerbaijan is taken into consideration in this situation, IPR sub-index of Azerbaijan can't be decreased below the "Copyright Piracy" indicator (*1.5 points*) which does not satisfy us.

- It must be especially noted that there is contrary results for Azerbaijan in "Copyright Piracy" indicator where it is 1.5 points. So, the point on "Copyright Piracy" indicator of only 3 of the 34 countries that included to the list of piracy countries of the Report 301 of USA State Department on 2016 is 1.5 or is below it. In other 31 countries this indicator is high in comparison with Azerbaijan. It is paradoxical that though more than 90% of these countries, as it seems from the materials that you presented, gained better results from 1.5 points, they have been included into the list of piracy countries. Whereas the indicator on "Struggle against Piracy" of Azerbaijan is worse, it is not in the list of piracy countries.
- As a continuation of that paradoxical situation, it is clear from the analyses that about 95% of the countries that included to the list of piracy countries possess higher result in comparison with Azerbaijan on IPR sub-index (*except Turkmenistan and Uzbekistan, because there is no any indicators about hem*).
- ❖ As it seems, because of being very low the "Piracy level" (*1.5 points*) shows its influence to the IPR column. It is doubtless that struggle against piracy is very important and the attention is paid and will be paid to this in Azerbaijan. It is shown in Report that the level of piracy is based only on BSA information. This indicator is steel high in Azerbaijan in recent 10 years although it has decreased 75% from 96% (*BSA gives*

84%) (*its reason is illegal use of unlicensed software of Microsoft*).

**Note:** Whereas there is 85% software piracy, only 15% software is "clean" and legal, it constitutes 1.5 points.

❖ But there are some problems here:

The first, piracy is not connected only with software segment, it shows itself in publication (*printing products*), music and audiovisual segment (*CD, DVD*).

The second, "Piracy" is shown as "Copyright" in one place in the Report by mistaken.

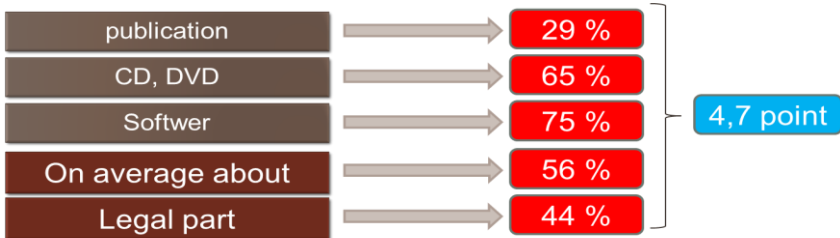
The third, 84% software piracy given by BSA had to be taken with 1.6 points in IPRI report.

❖ If we account the piracy only on software (*though it is wrong from methodical point of view*) we see that according to the formal elucidated statistics, 67% of the existed computers fall to houses share, 17.1% - to organizations (*specially state organization*), 8.1% - to the educational enterprises, 3.5% - to internet clubs, 0.5% - to libraries and 3.3% - to others (*specially private*).

❖ So, total sum of the computers in organizations and the educational enterprises constitutes 25.2%. We especially note that the relevant issues have been carried out in support of the Copyright Agency, the Ministry of Communication and High Technologies, the Ministry of Education and within the cooperation with "Microsoft". And in the result, state organizations, the educational enterprises and some banks works with licensed software. It means that the number of the computers working with software must be more than 25%. Our observations show that the level of computer piracy is almost in this amount. In this case, even if it is accessible that software of private computer users,

also organizations, societies and other users is unlicensed, the level of piracy in this sphere will constitute the most 75%. This means 2.5 points on "Copyright Piracy".

- ❖ If we agree with 4.2 points on the indicator of "Intellectual Property Protection" valued in the Report in this case the total point on IPR sub-index of Azerbaijan together with the indicator of "Copyright Piracy" (2.5 points) will be equal to  $(4.2+2.5):2=3.35$ .
- ❖ In this case, if we agree with the mark of other 2 sub-indexes shown in the Report, IPR index (LP+PPR+IPR) of Azerbaijan will constitute  $(3.636+5.756+3.35)=4.25$  points.
- ❖ In this situation IPR sub-index increased in 2016, common IPRI index increased 25 steps and stays almost in the 80th places.
  - But the main problem does not finish with this: The indicators on different segments of Azerbaijan in 2016 are the followings:



- This is compatible to the 70th places according to the Report 2016. IPR column is in the 80th place with  $\frac{4,2+4,4}{2} \approx 4,3$  points, IPRI index must be  $\frac{3,7+5,8+4,3}{3} = 4,6$  points.
- 4.6 points is compatible to the 77th place. It decreases 1% difference from regression line and conforms to WIPO, Competitiveness Index of Economic Forum.

## VI. Creative economy and SME activity

- ❖ There are the following criterions on SME in Azerbaijan for the beginning of 2016:
  - small entrepreneurs: up to 25 people, 200 thousand manat yearly income;
  - medium entrepreneurs: from 25 people to 125 people, income from 200 thousand manat to 1250 manat and according to this 97% of the entrepreneurs are considered small and 2% of them are considered medium.
- ❖ The share of small enterprise subjects constituted 5.8% in added-value, 0.7% in common benefit, 6.5% in yearly medium amount of the workers in non-oil sector in 2015.
- ❖ Small enterprise subjects (physical and juridical persons) that acted in the country in 2015 was 83017 units (79.7%).

| Spheres  | Number of acting enterprises |       | Number of the workers, person |       | Volume of the product (work and service), thousand manat |          |
|--|------------------------------|-------|-------------------------------|-------|--|----------|
| <b>2015</b>  |                              |       |                               |       |  |          |
| Total  | 100%                         | 17847 | 100%                          | 87626 | 100%   | 959094,6 |
| Industry   | 6,9%                         | 1241  | 7,6%                          | 6667  | 4,8%   | 46197,3  |
| Building   | 8,1%                         | 1445  | 4,5%                          | 3953  | 13,6%  | 130296,4 |
| Agriculture, forestry and fishery                  | 9,2%                         | 1659  | 5,4%                          | 4734  | 3,8%   | 36411,4  |
| Trade; repair of transport                         | 38,1%                        | 6781  | 40,1%                         | 35144 | 29,7%  | 285098,2 |
| Transport and barrack                              | 1,7%                         | 312   | 3,4%                          | 2999  | 4,7%   | 44709,2  |
| Information and communication                      | 2,8%                         | 491   | 3,0%                          | 2619  | 4,6%   | 44094,3  |
| Tourists location and public catering              | 2,9%                         | 524   | 4,0%                          | 3479  | 2,0%   | 19041,9  |
| Operations on real estate                          | 1,6%                         | 295   | 2,6%                          | 2278  | 1,6%   | 15365,1  |
| Activity in resting, entertainment and art spheres | 1,8%                         | 318   | 2,9%                          | 2522  | 2,7%   | 26338,4  |
| Education  | 1,3%                         | 234   | 3,2%                          | 2824  | 7,3%   | 69909,4  |
| Profession, scientific and technical activity      | 7,5%                         | 1339  | 7,1%                          | 6188  | 13,0%  | 124878,6 |
| Health and social services for population          | 1,7%                         | 313   | 4,0%                          | 3528  | 1,3%   | 12761,5  |
| Administrative and assistance services             | 4,2%                         | 732   | 4,4%                          | 3871  | 7,6%   | 72599    |
| Other fields services                              | 12,2%                        | 2163  | 7,8%                          | 6820  | 3,3%   | 31393,9  |

- ❖ As it seems from the list there were 17847 small enterprises in 2015 and capacity of their products was 959094.6 thousand man., were 87626 workers. The small enterprises created their activity in different directions (*industry, building, agriculture, transport and etc.*).
- ❖ As it seems, the share of small enterprises (*underlined*) in creative industry are as the followings from potential point of view:

| Number of the enterprises, % | Number of the workers, % | Capacity of the product, % |
|------------------------------|--------------------------|----------------------------|
| <u>16,3</u>                  | <u>20,2</u>              | <u>29,6</u>                |

- ❖ If we consider that the creative industries are suitable for SMEs, we will see existed needs.

## RESULTS

1. WIPO international researches on creative economy show that this sphere has become an impetus of the competitiveness and economic development, has a leading role in developed and developing countries and possesses stimulating power for other spheres in economic crisis.
2. Special necessity of creative economy consists of the organizing of global informing about its creativity and role of innovations and undeniable importance of intellectual property rights in economic, social and cultural development.

3. Copyright and related rights constitute the base of creative economy according to the results of WIPO and National researches.
4. Policy by the leader of the state and "Azerbaijan model" created on this base provide sustainable social-economic development of the country, carried out reforms improve the business environment and serve to the strengthening the legislative and administrative measures in the intellectual property sphere. So, it leads the increasing of capacity of creative economy based on Copyright 13 times in recent 10-12 years and at present constitutes 5.1% of GDP.
5. It is purposeful carefully approaching to the calculating of GII and IPRI International Indexes on Azerbaijan and using the methodological databases.
6. Attracting the SMEs to the innovative activity and creative economy is one the actual problems.