

*professor Yannis Tsekouras*

President of Association of Economic Universities of South and Eastern Europe  
and the Black Sea Region ASECU

## **Determinants of Regional Development in the Context of the Globalization Process<sup>1</sup>**

### DEFINITION OF THE 'REGION'. REGIONAL DIVISION OF SPACE

Our purpose in this paper is to seek out the defining factors of regional development as they correlate to the process of globalization.

Our first task is to define – or rather, to describe – the term 'region', in relation, of course, to the main objective of our research. The relevant literature as yet offers no definitive solution to the question of the division of space into regions and the problem of regional delineation. In general terms, however, we can agree that a region is a spatial unit characterized by certain interdependent (geo)physical, economic, cultural and social structures. To attain the socio-economic objectives it sets itself, a region must have a *specific minimum size*, to render feasible the planning and economic execution of the necessary major (and, as a rule, indivisible) infrastructure projects.

If the purpose of regional division of a country, in the context of a single, unified geographical space (such as the European Union), is the achievement of properly programmed, even (multi-sectoral) growth, on the basis of relatively autonomous, self-supporting spatial units, to be coordinated primarily on the national level – then the division of a country into regions must meet certain fundamental conditions. For example:

- a) a **satisfactory minimum size** of the region (in terms of spatial expanse and population), to allow, in the context of (at least) the European dimension, the creation of a market of sufficient scale to promise rapid growth within a relatively autonomous region, guaranteeing use-exploitation of social infrastructure projects and facilities.
- b) **adequate homogeneity** of the region (a zone with uniform structure-articulation in terms of certain features, e.g. mainly physical data, demographics, structure of agriculture, industry and services, transport arteries, indicators of standard of living).

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<sup>1</sup> Presentation on the 8<sup>th</sup> International Conference of the Association ASECU, University of Rzeszow, Poland, Rzeszów, 17–18 May, 2012.

c) an **adequate** (more or less autonomous) **functionality** of the region (zone with spatially complementary interrelationships and inter-dependencies, mainly industrial and commercial, including the regional metropolis, which will be accessible with ‘relative ease’, not only from the second-tier towns and cities of the region but also from its most remote areas (space-time distances > **equal time** > **isochronal**), and will contribute to relieving pressures on the capital and possibly the other major cities of the country in respect of ‘secondary’ functions and decision-taking).

When a region meets the above conditions, it is able to function properly in **political** terms (capacity to ‘legislate’ and to take decisions), in **administrative** terms (autonomous exercise of administration), in **economic** terms (autonomy in respect of its ‘existence’ and management of its economic resources) and, finally, in **technical** terms (autonomous technical support) [See: Tsekouras, 2005, p. 77–78].

A region may lie outside the borders of a state, or extend into neighbouring states (trans-regional unit), as in the case of the Carpathian Euro-region, or be made up of a group of countries, e.g. those of the Visegrad, the Iberian peninsula, the Baltic, or indeed the European Union itself.

Of course, because the researcher or analyst requires statistical data, and these are usually issued by the political/administrative regional unit, the researcher’s division of a country into regions will almost always replicate the political/administrative division of the country.

#### ‘TRADITIONAL’ FACTORS IN REGIONAL GROWTH

The appeal of a region, as a destination for investors seeking to set up industrial or business enterprises, is based on various factors and comparative advantages, such as the presence of raw materials, transport and communication infrastructures, access to markets for both input and output, banking services, specialized workforce, presence of enclaves or clusters generating new knowledge and innovation, relatively high purchasing power, or a sectoral structure oriented to development and exports, the state of the national and international economy, with the consequent demand for regional production, trans-regional cooperation on the national and transnational levels, and so on.

Investors and entrepreneurs do, of course, investigate the extent to which their business, once established in a region, will be able to exploit any ‘forward’ or ‘backward’ linkages, incorporating itself into a ‘productive chain of collaboration’ with other businesses or factories (e.g. the car industry with the iron and steel industries (backward linkage) and the tire industry (forward linkage), the

said chain of collaboration bringing either robust demand or a reduction in production costs.

Moreover, a targeted national policy for the regions must – for economic, social, demographic and/or national-political reasons – contribute to the relatively rapid growth of a region, taking measures such as favorable tax rates, rapid procedures for starting up new businesses, without excessive red tape, exporting of profits, good industrial relations, relatively low labour costs, in order to attract and retain (foreign) productive investment. Such a regional policy may seek to create what Francois Perroux has called a *pôle de développement* or *pôle de croissance*, located closer to the so-called ‘development points’, and by extension to the regions of growth, the choice of which will be based on the comparison of various sites as centres of potential, but as yet unseen, development.

Perroux laid emphasis on productive-technological progress and basic industry, making technological advances and setting an example to be emulated by other businesses and sectors, possibly generating inter-sectoral expansion of ‘**non-incorporated technological progress**’ [See: Richardson, 1969].

This can be the starting point for a ‘development mentality’, and with the passage of time lead to exploitation of the ‘advantages/economies of concentration’, in which case we find ourselves speaking of a ‘field of density’ or ‘spatial field’. Within a regional space specialized clusters may be set up, which will exploit economies of scale in transport/storage costs for inputs/outputs, as well as in the creation of social capital, or education and training facilities, and also the cost of communications, i.e. the concentration and utilization of information (> communication economies). Of course, it must not be forgotten that apart from the economies of scale arising from the concentration of economic activities, this concentration in itself may well lead to negative external economies (diseconomies), e.g. urban congestion and/or overloading of transport systems [See: Richardson, 1969].

The continuing existence of disparities in the level of growth and prosperity of the various regions has led researchers to abandon their view of the regions as homogeneous, undifferentiated units, and to proceed to an intra- and trans-regional flow analysis, seeking the symmetrical development of the various regions. We thus arrive at a policy of unbalanced and balanced growth. In the policy of unbalanced growth, an effort is made to help the less-developed regions, industries or sectors to develop at a faster pace than those which are already at a more advanced stage of development; only when all regions are at more or less the same level of development do we shift to a policy of balanced growth. Otherwise dynamic sectors and industries, who have a powerful impact on growth, tend to be strengthened (> unbalance) even further.

Countries with a federal administrative structure (e.g. Switzerland, Germany) wishing to limit or eliminate differences in levels of growth and affluence tend to make use of so-called revenue-sharing, i.e. *Finanzausgleich*, the redistribution of revenue between government, states and local authorities). In general, this term implies the distribution of all obligations of the public authorities and the income streams associated with them to the various levels of devolution of the state.

More specifically, the purpose of this revenue-sharing is to provide the less central public authorities with the necessary means to carry out the duties assigned them or which they have chosen to undertake, e.g. to promote economic growth in their region, or to secure fairer distribution of income.

It should be noted that central contributions to the regions may be in the form of:

- a) unconditional contributions, not linked to regional spending
- b) semi-conditional contributions, linked in a very general way with regional spending, and
- c) fully conditional contributions, linked in a very specific way to particular regional expenditure.

Given that financial subsidies to less developed regions come from the budgets of socially-economically more advanced areas, the central state has a duty to verify that this aid is being used effectively to achieve the development objectives of the regions, and not merely taking the place of spending which was earmarked for development but is now being channeled into other uses, e.g. redistribution of wealth among social groups, perhaps for purposes of party political advantage.

In selecting regions to receive financial aid, to make them more appealing to foreign investors, various indicators are used: per capital real disposable income, or the new alternative indicator used by Eurostat, 'real individual consumption' (*Tatsaechlicher Individualverbrauch*), both of them expressed in units of purchasing power, in order to remove differences in price in the various EU countries or regions. Furthermore, to establish precisely the degree to which a region is lagging behind, account is taken of other indicators such as a) the percentage deviation of the average per capita tax on natural and legal persons in the region from the corresponding national figure, which gives the tax-paying capacity of the region, and b) the existence of physical and social infrastructures, including transport access, particularly for regions made up of islands, the competitive indicator for the regional economy, and so on.

Apart from central government subsidies to backward regions, there are also grants to individual businesses in the regions. These may be allocated in three ways:

- a) Wage subsidy, where the government pays employers the difference between the new and the old marginal product of labour. This form of subsidy is usually necessary in regions where there is unemployment and/or labour is uneconomically distributed among the different sectors.
- b) Capital subsidy, in such forms as: low interest loans, tax relief or cheap land and low land-based revenues.

c) Price subsidy, which subsidizes the product by covering the difference between the new and old product price.

These are all ways of reinforcing the competitive efficiency of the individual business/industry, so that it will not abandon the region. In this category too we should include subsidies for nascent industries.

### MORE RECENT FACTORS IN REGIONAL GROWTH

It is perhaps unnecessary to remark that we view globalization from the perspective of the economist, for whom the term essentially means the emergence of a global market, in which businesses and nations are becoming more connected and interdependent across national borders through increased economic integration, communication, cultural diffusion and travel, an outcome of a complex interplay of economic and political relations [see: Polanyi, 1994], while for the political scientist, for example, the term represents a gradual erosion of state sovereignty.

Various factors have contributed to the phenomenon of globalization, mainly of course trade, finance, communication and transport. Thus trade expansion creates additional demand for finance, transport and communication, whereas improvement in the latter areas makes trade more efficient [see: UN-ESCAP, 2002, p. 7]. At the same time, widespread internet and mobile phone use has increased productivity – perhaps without precedent. The result of this synergy of contemporary technologies and conventional international production networks (IPNS) developed by multinational enterprises, is the increased speed of integration between countries and regions.

The optimal exploitation of regional comparative advantages (or territorial assets) in the context of globalized production requires that this exploitation complements the **strategic needs** (strategic coupling process) of trans-local actors situated within global production networks (that is: globally organized and interconnected local firms, subsidiaries and suppliers, customers), because often the main-drivers of (regional) development are extra-local. This means that it is necessary to establish the impact of the multiplier of external trade, and the trans-regional multiplier-accelerator of investment on the growth of the regional social product, and on regional balances of payment.

Thus regional growth, under today's conditions of intense domestic and, above all, international competition, resembles a **moving target** [see: MCoe et al., 2004, p. 470].

Account must also be taken of the fact that a peripheral and economically weak region, in its efforts to attract serious investors and achieve economic

growth, finds itself confronted with the problem that ‘the most innovative firms, e.g. in Europe, tend to concentrate in a minority of key metropolitan regions, combining a strong local knowledge capital base, with high levels of connectivity to similar regions elsewhere in the global economy’ [see: MCoe et al., 2004, p. 470].

It should also be emphasized that regional structures and institutions seeking to promote regional growth (> value creation and value enhancement), e.g. by attracting the location of value-added activities, must have or acquire the capacity and potential to retain added value (>value capture) in the region, the said capacity not being defined, of course, as a ‘capacity or a repertoire of resources possessed by actors, but rather as **relational effects** of social interaction’ [see: MCoe et al., 2004, p. 475–482; Allen, 2003]. Thus businesses in a developing region must seek to forge links and collaborations with major multinational/global enterprises.

Alongside, then the traditional factors in regional development that we have mentioned above, globalization has now added new extra-peripheral (e.g. supra-national) factors that will impact on institutions and activities within a region. Thus, in a few words, regional development requires the necessary co-presence of at least four inter-related sets of conditions:

- a) the existence of economies of scale and scope within specific regions;
- b) the possibility of localization economies within global production networks (GPNS);
- c) the appropriate configurations of regional ‘institutions’ to ‘hold down’ global production networks and unleash regional potential [see: MCoe et al., 2004, p. 476], and
- d) competitiveness, which presupposes of course political and macroeconomic stability, to the greatest extent possible, high-tech products, low inflation rates, favorable foreign currency exchange rates, and so on.

To the list of defining factors in regional growth we might add, apart from technical progress, some of the so-called ‘stylized facts’ identified by Nikolas Kaldor [1961, p. 178], such as: positive rate of growth in productivity of labour; positive rate of growth in capital intensity; a relatively high rate of profit which, as a rule, will lead to a high rate of investment; and, according to C.I. Jones [1998], a trade intensity ratio greater than 1 ( $X+M/GDP > 1$ ), i.e. a greater increase in the volume of trade than in the gross domestic (in our case, regional) product (export bias versus home bias oriented economy, or greater productivity of export industries/businesses than of those producing goods for the domestic market).

National and regional institutions (e.g. government agencies, business associations, trade unions) need to work together effectively, unhindered by exces-

sive bureaucracy and red tape, to exploit regional advantages and assets (e.g. technology, organization, development culture) in order to achieve a) **economies of scale** (e.g. through highly localized concentrations of specific knowledge, skills and expertise) which can be utilized through the agglomeration of firms that in turn will provide employment and generate economic outputs within similar high tech industries, and b) **economies of scope**, which ‘might be better achieved through the co-presence of a variety of different industries, that reap the benefits of untraded interdependencies’. Thus the regions in question should be able to reap the intangible benefits (the famous spillover effects) of learning and the cooperative atmosphere embedded in these agglomerations [MCoe et al., 2004].

Following the same reasoning, the establishment of intra-regional, trans-regional and international clusters of mutually dependent or mutually complementary businesses and institutions working together may well provide a boost to competitiveness and growth. It might thus be claimed that competition on the international and global level can be traced back to competition among regions, even among the cities which secure for individual businesses, especially multinationals, favorable conditions for their initial installation and subsequent operation. Regional development policies, designed to achieve convergence, regional competitiveness and employment and European regional cooperation, also receive funding from the European Regional Development Fund through the Community Support Frameworks (see also the Interreg programmes). In the same category we might also include the tentative attempts by the European Union to create so-called Free Economic Zones in regions with relatively high unemployment. These Zones are intended to attract potential investors, offering them significant incentives such as relatively speedy procedures for licensing the establishment and operation of the new businesses, relatively low rates of pay, low capital tax rates, good industrial relations, etc.

### COORDINATED DEVOLUTION

It must be pointed out that in the taking of decisions and exercise of national – or, in this case, regional – development policy, what is required is a proportional balance in respect of the political weight of each agency of public administration. In other words, if the centralist tendencies of the central state are too great, then the special features and needs of the region are easily overlooked, or sub-optimalities may arise, while if the devolved regional authorities are granted jurisdictions with no control from central government, then there may be a tendency to waste, or to over-optimalities.

Therefore, to avoid overlapping, but mainly to avoid conflicts between decisions and plans for socioeconomic development by central government and/or the regions, and to avoid these decisions counteracting one another, it is essential that they all be organically integrated into one macro-spatial plan. In this sense, what we would be looking at is a ‘**coordinated decentralization**’, or, to use an untested term, a ‘**concentrated decentralization**’.

However, these terms – apt as they may seem, or really be – cannot conceal the reality which is taking shape at a relatively urgent pace. This is a reality we might describe as ‘international localism’, not so much in the sense of the various ethnic units – sharing common religious and cultural traditions, dispersed across the various nation states and who, newly awakened to a sense of their identity, are seeking to secede from one state and join another, or demanding full independence, or meaningful (co)federation, or forging strong links with other members of their ethnic grouping around the world – as in the sense that the nation state is losing ground to the supranational and the local-regional.

We should note here simply that alongside the familiar terms **nationalization**, **trans-nationalization**, **globalization** and **regionalization**, we are now meeting the invented word ‘**glocalization**’, whose spirit is encapsulated in the slogan: *think global and act local*.

Furthermore, within the process of European integration we should not allow ourselves to overlook the term **Europeanization**, but here the terms ‘region’ and ‘semi-region’ retain their validity, with, indeed, a perceptible trend towards a two-speed Europe, or even more, with all the tensions that will entail.

The European Union, with its regional development policies, and its application of the principle of subsidiarity (under which powers must be devolved to the lowest – and necessarily devolved – unit, which can exercise them adequately and with greater efficiency) is, of course, seeking balanced growth, or alternatively seeking to limit the creation, or eliminate the existence of sub-optimalities or over-optimalities in the development process, on both the intra-regional and trans-regional level.

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### *Summary*

The paper deals with factors of regional development that appear in the conditions of globalization. After defining special features of region as a concept, the author discusses both traditional and modern determinants of development and indicates a role of socio-economic policy in new conditions. As growing international interdependence of markets, businesses and nations influence competitiveness and growth, "glocalization" is pointed out as a main determinant of modern developmental policy.

## **Determinanty rozwoju regionalnego w kontekście procesu globalizacji**

### *Streszczenie*

W opracowaniu pod dyskusję poddaje się czynniki rozwoju regionalnego, które ujawniają się w uwarunkowaniach globalizacji. Po zdefiniowaniu specyficznych cech regionu autor przedstawia zarówno tradycyjne, jak i nowoczesne determinanty rozwoju i wskazuje na rolę polityki społeczno-gospodarczej w nowych uwarunkowaniach. Wobec wpływu wzrastającej międzynarodowej współzależności rynków, przedsiębiorstw i narodów na konkurencyjność i wzrost, wskazuje się na globalizację jako główny wyznacznik współczesnej polityki rozwojowej.