

dr Victor Reutov

Crimean economic institute
SHEE «Vadym Hetman Kyiv National
Economic University» Simferopol

Global Regionalization as a Way to Counteraction the Global Financial Threats

INTRODUCTION

The analysis of social and economical phenomena and processes that take place in the global geo-economic space under influence of the financial crisis is indicative of the change of world order paradigm in the nearest future, transfer to the new level of global transformations. In this regard, search and substantiation of the most efficient mechanisms of relationships between countries which are leaders in the world economics and countries which are trying to take up leader position, is taking place. So the aim of this article is to identify the role of modern regional integration processes in the formation of the financial and economic capacity, which can withstand the global financial threats.

Regionalization is one of the most significant trends in contemporary world politics. Therefore, it is important to explore in depth the origins, dynamics and future prospects of the process of regionalization. Regionalization represents a reshuffle of the power and decision making from the national to the regional scene with far-reaching consequences.

The new wave of regionalization needs to be seen against the background of the current transformation of the world: the growth of interdependence, transnationalization, and globalization. Today, the world society is made up of many transnational currents. For a long time, the world order was regarded as firmly established by a system of relations between States. Now, we must learn to deal with a world that is highly mobile. The movement of people, capital, technology, and ideas is as important today as control of territory was yesterday. We must therefore build an analytical framework which takes into account not only political issues but also economic behavior and social aspirations. Globalization is an empirical process of world integration driven by a variety of economic, cultural, political, and ideological forces as seen in such areas as market expansion, a global production pattern as well as cultural homogenization. Clearly, globalization deals with the integrative forces active within the world society, and the planet as a whole is the focus of study.

The humankind has commenced global transfer to the breakthrough state, conceptually new organization of society, which is different from the one we have got accustomed to and traditionally identify ourselves with.

MODERN REGIONALIZATION IN THE CONTEXT OF GLOBAL TRANSFORMATION

The USA, as well as the whole world (after all, the American economy is still basis of the world economy), has faced the effect of risks conservation law, due to which risks' total value in a big system is presumably constant. As a result, decrease of individual risks of this system's elements significant number inevitably leads to their rearrangement to the higher level and, correspondingly, increase of system-wide risks. In particular, minimization of individual risks increases system-wide risks so, that this generally leads to system breakdown.

The USA has officially entered the recession in December 2007, and there is practically no doubt that it will be the most longstanding one since the Great Depression. Economic decline in the USA in 2009 was at maximum level since 1973. Unemployment is at maximum level over the past 16 years. According to opinion polls data, more than the half of American citizens expects worsening of economic situation.

In 2009 there was economic decline in all countries of the "Group of Eight".

Demand contraction is attaining wide-scale and avalanching characteristics and leads to production closing up. The only sound way to cope with economic depression is substitution of lacking commercial demand by the state one. This principle was presented by Franklin Roosevelt; John M. Keynes, based on Roosevelt's activities, transformed this principle into a successful economic theory; and the Japan government implemented it in the beginning of 2000th and brought the country through depression (with great efforts, though, but without war).

It is an indubitable fact the US hegemony in the globalized word is coming to a close. There is a running process of new world order creation, and places of new leader countries in this process are being established. A global economic system with several centers (four, five or six) is going to take over the existing system.

Currently the world is moving towards the multipolar world. The question at the issue is whether this multipolar system will be pro forma in relation to each other, or the countries will actually cooperate and try to solve global problems (financial instability, climate changes, ecological problems, epidemics etc.) together.

In parallel with this, there also are domestic interests that unite countries with each other, as currently it is important for each country to be strong not only in its domestic policy, but also capable of cooperation around mutual global problems. We are now witnessing the new global process – easternization, i. e. empowerment of the East.

It is being formed in wide sense, as India, China and Russia are mature countries with developed economy; and Korea and Indonesia may eventually join them. This will lead to shift of center-of-gravity in global economy from Europe and the USA towards the East. Yet this is not the most important issue. The main thing is that global economic centers will co-exist.

Globalization is transgressing in its development to a higher stage – stage of global regionalization, thus becoming one of the most important development trends of the modern world. Thereby, it acts as integration of local communities and shows itself in localization, borders formation between territorial and social complexes, emerging of self-sufficient economic and political formations, preservation of cultural differences of ethnic and social groups, and intensification of their feeling of difference [Bullon-Cassis, 2011].

Global regionalization processes have activated simultaneously at several levels: macrolevel, mesolevel and microlevel.

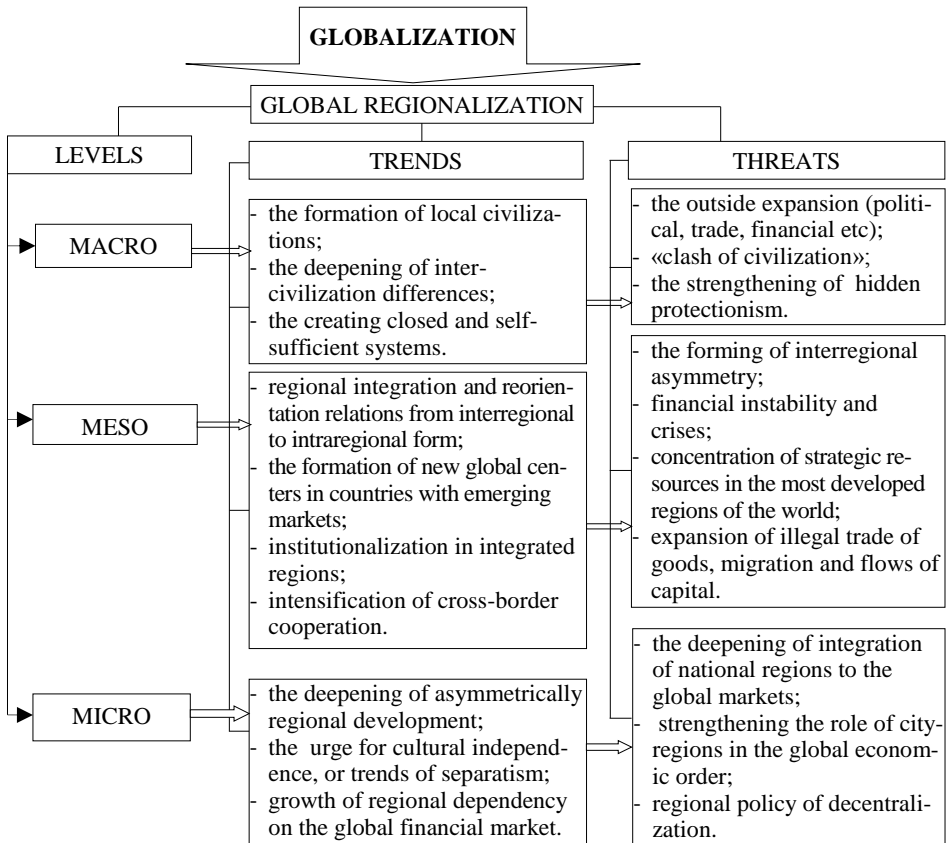


Figure 1. Global regionalization processes: levels, trends, threats

Source: author's work.

At macrolevel regionalization shows itself, on one side, in urge of local civilizations to protect themselves from the outside expansion. This leads to the so called “clash of civilizations”, which may become a key problem of the new world order [Huntington, Samuel, 1996]. In the modern world the main conflict will occur between different types of civilizations, as inter-civilization differences are inherently fundamental.

Regionalization at this level is accompanied by the fact that several civilizations, having absorbed relatively neutral social area, gradually outline borders of permanently conflictogenic areas – lines of “tectonic” faults in the places of civilization “plates” touching. Fault lines between civilizations are future front lines. Apparently, central axis of the world policy in future will be an economic conflict between the West and the other world. This is due to the fact that the West is trying to impose its values as universal, keep military advantage and establish its economic interests – this all runs into resistance. From the other side, regionalization at the macrolevel is shown in the fact that postindustrial countries, being initiators of globalism, are moving themselves towards regionalization, by creating closed and self-sufficient systems. This is in particularly evidenced by closing of trade and investments streams within postindustrial system, strict borders of immigration policy in the West, etc. Therefore, the Western countries, having secured advantage over agricultural states, are interested in maintaining and sustaining their own stability and independence.

At the mesolevel global regionalization which is of supernational nature, is shown in the urge of integration of some territories, which are parts of different countries for example, creation of the European Union. Another example is Asia-Pacific Region (APR), which includes over 40 countries. Here the new center of world economy and policy is being created.

Cross-border cooperation combines regions in mesolevel according to their joint specificity, territorial proximity and belonging to common geographic areas (for instance Baltic Sea Region, Pyrenees, Carpathian Mountains so on). On the one hand cross-border cooperation stimulates redefining of existent borders as a new form of regional integration, but on the other hand provokes some difficulties connected with illegal flows of goods, labor forces and capital between regions. The latter explains the existence of some problems in international regulation of cross-border cooperation.

At the microlevel the processes of global regionalization have evolved within national states. Here regionalization is related to diversity strengthening of economic or political development of various territorial communities within the country, their urge for cultural independence, sometimes even for to separatism. In this context regionalization, which is accompanied by economic and ethnocultural differentiation, often leads to political splitting, conflicts and instability in previously integral state formations.

The process of new regions formation is accompanied by reorganization of their relationships with the state, inside of which they emerged and, simultaneously, by change of relationships with neighbor territories inside the state, as well as outside. Thus, global regionalization changes both geopolitical and geoeconomic world structure.

THE INCREASING ROLE OF GLOBAL REGIONALISATION IN THE POST-BIPOLAR WORLD

The modern global regionalism may, first of all, be qualified as the beginning of historically new and higher phase of global economy development. In this regard, the most significant constituent of regional cognition paradigm is studying region as an element of multilevel system of competitive interaction in regions network. The problem of global regionalization is revealing general tendencies in the processes of regions creation under conditions of multiple globalization. Globalization introduces considerable changes into condition of country's inner regions, their potential readiness for mutually motivated integration and interaction. This is shown through the fact that regions start to depend more on global processes and effects; not only in terms of countries' macroeconomic policy, but also their own activity; new possibilities of globalization allow regions not only to influence on their condition, but also "outrun" development of their country.

Pulling in regions into globalization is performed through formation of space-distributed network system of production and exchange. Regions become participants of global competition for resources (material, financial, social, intellectual etc.), as in order to make decisions on intensive capital investments, the determinative circumstance is finding relevant conditions, not the territory's geographical location. It appears that globalization challenges regions and determines the necessity to activate their position as participants of global processes of production and exchange.

In the context of global economic transformations, neither China, nor Russia, nor the USA and other countries will entirely dominate. Most likely, there will be influence of several strong countries. Other countries, such as the United Arab Emirates, may also join them.

In the post-bipolar world strengthening of regionalism is accompanied by increasing role of boundary states located "on the outskirts" of economic space. There stands out a group of countries which efficiently uses boundary functions between post-Soviet countries and Western Europe (Finland, Turkey, Cyprus etc.). Finland is the only member of the European Union which is a direct neighbor of the great post-Soviet country – Russia. Turkey and Cyprus, located at the European periphery, have appeared especially attractive for tourism and as a tax harbor, accordingly.

Polarization of the world economic space is intensifying. Except of world economic superstates (the USA and Japan) there is singling out “the Big Seven of North” (the USA, Japan, Germany, France, England, Italy and Canada) and “the Big Seven of South” (China, India, Brazil, Indonesia, Mexico, the South Korea, Thailand). This division is conventional. Thus, for instance, China may rightfully claim for joining the “Seven of South”, whereas Russia is already participating in this political institution. Currently these structures are technically united into the “Twenty”, but actual division with perception of new leader countries in global sense remains at old level.

In the second half of the 20th century the specific weight of Asia among the planet population increased from 55 to 60%, whereas European and North American ratio decreased from 31 to 22%. During this period specific weight of Asia in the world GDP increased from 17 to 35%, and in Europe and North America it decreased from 72 to 52%. World leaders’ weight has changed. The US ratio of population decreased from 6 to 5%, and in the world GDP – from 31 to 21%. Ratio of China among the world population has remained at 21% level, whereas its specific weight in the world GDP increased from 3 to 10%.

The end of the 20th century was marked by considerable strengthening of positions in the world economy of such regional integration blocs as the EU, NAFTA, APEC, MERCOSUR, ASEAN etc. They are presented by strong coalitions of countries that pursue their national economic interests by provision of, primarily, favorable conditions for realization of international cooperation on regional scale. Practice of big integrating regional alliances creation gives ground to bear on external and inner unity concept. In the European Union such example is its regional and structural policy, which has changed the idea of integration unity.

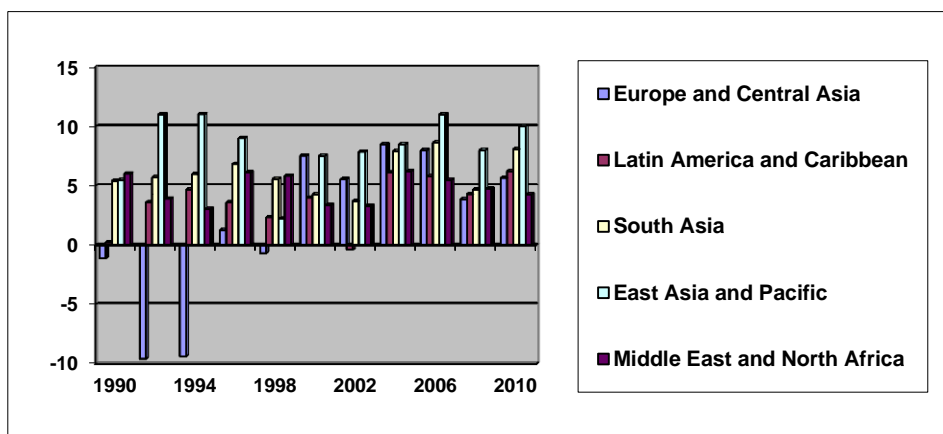


Figure 2. Dynamics of growth of regional Gross Domestic Product (annual, %)

Source: author's work on the basis of Region overview by World bank (web.worldbank.org).

Simultaneously, at all continents there emerge or strengthen integrated regional alliances. The European Union (EU) and North American Free Trade Agreement (NAFTA) stand among them, accruing almost 40% of world GDP. Such organizations as Asia-Pacific Economic Cooperation (APEC), Association of Southeast Asian Nations, Organization of Petroleum-Exporting Countries (OPEC) and many other regional alliances are created. The EU and slightly lagging APEC are leading in the structure of world export among regional alliances.

REGIONAL INTEGRATION PROCESSES ARE NECESSITY TO WITHSTAND AND GLOBAL FINANCIAL THREATS

Growth of trends for positions strengthening of countries' regional alliances, intensification of interstate regional cooperation and emerging of regional form of world economic development unevenness has specified the fact that strengthening of financial stability and competent positions at the world market has began to take place together with creation of wider economic space. Under such conditions regional integration, being a breakthrough level of national economies interaction, is characterized not only by overcoming of inner obstacles in international cooperation development of member-countries, but also by dynamic internationalization of social reproduction processes and forming a regional model of international labor division.

Up until recently it was considered that the highest form of international regional economical integration is a political union, however, intra-regional disproportions arisen as a result of wave-like movements of capital through the territory of countries and their inner regions, and the unevenness of social and economical development caused by it, have raised the question of intra-regional unity as the highest form of integration [Chuzikov, 2008].

The majority of researchers consider that political union is not created to the full extent yet. As regards to the regional unity, this problem will remain on the agenda of many countries, regions, integration alliances, in spite of availability of powerful toolkits of regional disproportions leveling.

Regional integration processes conduce to unification of member countries' resources and create strong supranational formations with total financial and economic potential that can withstand global financial threats. And the necessity to agree unified position in domestic and foreign policy predetermines attention to a state as to a major defender of national interests.

The leading states of regional integration alliances use the process of unification for solving, first of all, their own problems, particularly, at other participants' expense. Therefore, there exists a possibility to fall short of expectations on resistance to financial threats due to dangerous dependence from leaders in case the relationships between participants are not carried out on principles of parity.

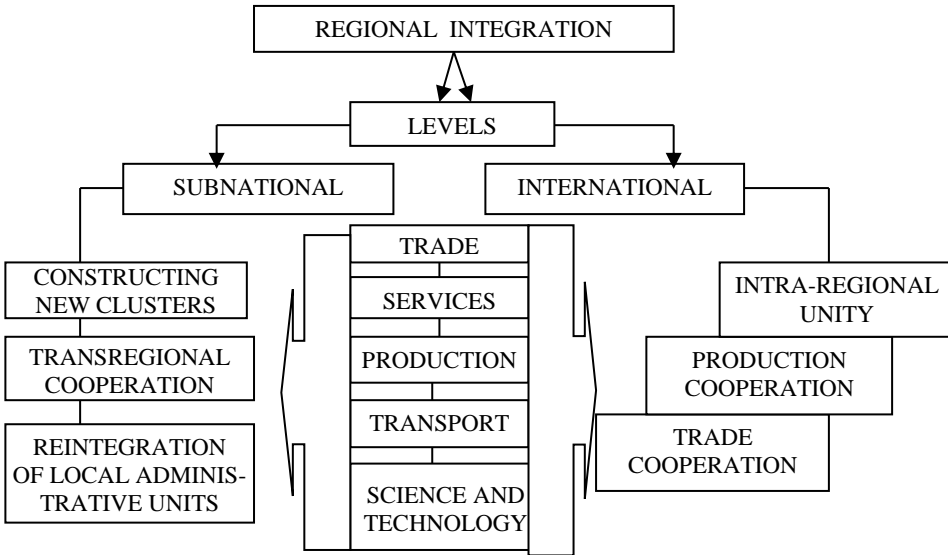


Figure 3. Modern form of international regional economical integration

Source: author's work.

The globalism also requires existence of such organizations as the UN. The UN organization will be necessary for a rather long time (though it also needs to be reformed) as only this organization can provide support, required by all countries. There is no point in drawing a distinct line between a global organization and local, as both of them form on their levels the regulatory process of global economy. During the crisis we could see how efficiently the state manages global financial processes, this means that in order to improve this process it is necessary that states, as well as new participants in this regulatory process, reach an agreement with each other. This will be possible either on global or regional level. Moreover, the latter variant is the most promising in the context of global regionalization process. Currently strong regional organizations are moving to the forefront, and integration process may take place between them. If we look far ahead, it is unlikely that within the next 5–10 years there will take place integration in the area of information or economic policy.

For many regions this process is going on hyper slow, though regions gain more and more weight in the world economy now. The problem of inner and outer integration is characteristic not only for the EU and is considered not only by economists. Famous American political analyst Shivley Phillips indicates that regional integration is not only consolidation of big and small forces; first of all, it is availability of a strong positive effect which will be impossible in case of separate economic management. However, in this case general coordination of the whole community efforts is of great importance [Shively, 1991].

The same may also be said about organizations that perform certain special role (for example, CSTO, as well as organizations that carry out humanitarian mission). This is done so that small countries do not lose their right to vote in the global world. In this case it is impermissible that half of the countries fall outside the global regulation.

CONCLUSION

Sustainable development of the nations can be provided only through availability of strategic competitive advantages which give the main opportunities to provide national security under pressure of the global political, economic and cultural challenges. Global regionalization defines the strategic role of the economic system in the modern world economy through its influence on the main global trends.

Thus, the epoch of global economic transformations, which we are witnessing now, asks more questions than gives answers. What does it bring to countries of the world – threat or new possibilities? However we cannot but agree that it is an objective process, and there is no other real alternative to it. There is no point of return. Attempts to limit the process of global economic transformations will only lead to more serious negative effects.

It is extremely difficult to anticipate the future and ways of solving key problems that society in general or any particular country faces. Since globalization development the substantial improvement of living conditions has taken place practically in all countries. Though, the most impressive results were achieved by countries with developed economy and only several developing countries.

Spread increase between income in the countries with high level of income and countries with low level of income cannot but give rise to concern. Also the matter of high concern is that considerable number of our planet population is below the poverty line. However, it might be a mistake to come to an early decision that globalization is the cause of it, and that nothing can be done in order to improve this situation. On the contrary, the countries with low level of income could not integrate into the world economy as quickly as other countries, partially due to their chosen policy and factors that cannot be controlled. Not a single country, especially the poorest, can afford to stay isolated from the world economy. Every country shall approach to poverty reduction. This is declared in the UN policy paper “Millennium Development Goals”. International community shall try to assist (by means of strengthening the international financial system, with the help of trade and contribution) the poorest countries in their efforts to integrate into the world economy, achieve high development rate and poverty reduction. Specifically this way will provide access of all people in all countries to the benefits of globalization.

The globalized world is defined with the process of active international regionalization which includes strengthening of positions of regional integration associations (EU, NAFTA, MERCOSUR, ASEAN etc.) and national regional complexes (clusters, special economic zones, metropolitan areas). So there are two possible directions for a country to counteraction of global financial threats by means of regionalization: 1) to stimulate development of intraregional economic ties within integration coalitions; 2) to conduct balanced regional policy to support national regions when coming to the global market.

BIBLIOGRAPHY

- Bullon-Cassis L., *Towards «Post-Globalization»: Neoliberalism and Global Governance after the Global Financial Crisis* // W-2011 [Electronic resources]. URL: http://www.cris.unu.edu/fileadmin/working_papers/W-2011-1_new.pdf.
- Chuzikov V., *Global regionalism: History and modern methodology*.- K.:KNEU. – 2008. – 272p.
- Duranton G., Overman H., *Testing for location Using Micro-Geographic Data*// „The Review of Economics Studies”. – 2005. – N 72(4). – P. 1075–1106.
- Global Economic Prospects. Uncertainties and vulnerabilities. January 2012 // The World Bank[Electronicresources]URL:<http://siteresources.worldbank.org/>.
- Huntington, Samuel P., *The Clash of Civilizations and the Remaking of World Order*, New York, Simon & Schuster, 1996.
- Kofman E., Youngs G. (edts.), *Globalization: Theory and Practice*, L., 1998.
- Makarychev A., *Regionalism and International Relations of Subnational Units*, „Globalization of Eastern Europe”. – Hamburg: Lit, 2000. – P. 445–461.
- Region overview by World bank [Electronic resources]. <http://web.worldbank.org/external/countries>.
- Robertson R., *Globalization*. L., 1992.
- Shively W.P., *Power and Choice. An introduction to Political Science*,- 2nd ed. – N.-Y. – St. Louis. – 1991. – 342 p.
- Wolf M., *Financial crisis tests durability of globalization*, „Financial times” 2008, October 10 [Electronic resources]. URL: <http://us.ft.com/ftgateway>.

Summary

The article is focused on global regionalization as one of the most important development trends of the modern world. It presents levels of global regionalization processes and their influence on possible changes in the world (macro, meso, microlevels). The paper seeks to study the regional aspects of the post-bipolar world and shows modern form of international and regional economical integration. At the same time, the attention turned to possible directions for a country to counteract the global financial threats by means of regionalization.

Globalna regionalizacja jako sposób przeciwdziałania globalnym zagrożeniom finansowym

Streszczenie

Artykuł koncentruje się na globalnej regionalizacji jako jednym z najważniejszych trendów rozwoju współczesnego świata. Przedstawia on poziom globalnych procesów regionalizacji i ich wpływ na ewentualne zmiany w świecie (makro-, mezo- i mikropoziomów). Artykuł ma na celu zbadanie aspektów regionalnych podwubiegunowego świata i pokazuje nowoczesną formę międzynarodowej i regionalnej integracji ekonomicznej. Jednocześnie zwrócono uwagę na możliwe, poprzez regionalizację, dla kraju kierunki na przeciwdziałanie globalnym zagrożeniom finansowym.