

# REGIONAL ECONOMIC POLICY WITH REFERENCES TO GLOBALIZATION

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**Abstract:** *The paper analyses the problems of developing and conducting regional economic policy influenced by the factors of globalization. The authors focus on two key aspects of global integration of Russian regions: diversification of external trade and strategic investments in regional social-and-economic growth as the priorities.*

**KEYWORDS:** regional economic policy, strategic investments, factors of globalization, global integration.

## INTRODUCTION

The territorial specifics of production, economic and social structure in Russia are heterogeneous due to geographic, climatic, historical-and-cultural and re-sources-and sectoral characteristics, which differentiate regions in industrial and social-and-economic aspects, and, therefore, predetermine different vectors of regional economic policy. S. Badoev justly believes that although in the recent decades various strategies of economic development of Russian regions were tried, none has encouraged levelling interregional social-and-economic inequality. On the contrary, economic development of provinces, their production and social infrastructure, the structure of social growth facilities were characterized by unequal distribution. As a result, regions were permanently divided into those with dynamic economies and the depressed regions. Subsequently, the trends of developing regional economy in Russia became more complicated since different groups of regions were governed by different “economic imperatives” (Badoev, 2013, p. 85). Changing the status of Russian regions in the global economy can be possible through institutional modernization of regional economic policy. Many Russian researchers share the opinion that the main objective of regional policy is to support life necessities in a region (in many RF subjects – through a system of inter-budget transfers). For instance, scholars point out that “overcoming crises in troubled regions is typically possible only with a robust regional economic policy, in particular, by redistributing finances across regions” (Vaza-gov, Vazagova, 2012, p. 150). In our opinion, however, in the globalizing economy regional growth is facilitated by a principally different model of economic policy designed to surpass institutional barriers and encourage de-concentration of economic activities within the geographic boundaries of a particular region. Since the existing strategies of economic development of Russian regions are inefficient, eliminating the imbalance in regional development across Russia by incorporating global factors become a very important objective of regional economic policy.

## FACTORS OF GLOBALIZATION AND REGIONAL GROWTH

Efficient regional economic policy under the conditions of globalization is determined by setting the goals of strategic development of particular regions, engaging them into global integration and formalizing the institutions enabling social-and-economic growth in the regions. As N. Zubarevich rightly noted, “regional policy must be aimed at maximizing competitive advantages of the regions, coordinating regional strategies of the government agencies with corporate strategies, alleviating market failures through efficient redistribution” (*Zubarevich, 2009, p.173*).

That is why developing a system-wide approach to regional economic policy is a factor of institutional modernization of regional development. Differentiating concentration of resources and industrial specialization across the national economic space requires maximizing advantages of globalization for regional production structures.

An economic position of a particular region is determined by three groups of factors: inter-regional (industry production structure of a region, capacity for entrepreneurship and innovations, business environment); macroeconomic (fiscal, monetary, political); and global (international integration). Therefore, the system of regional economic policy has two main lines of development.

Inter-regional regulation, efficiency of which depends directly on the actions of regional authorities. Developing a mechanism for adapting to the changing external environment (determined by macroeconomic and global factors as regional authorities cannot regulate them). On the practical side, regional economic policy is a system of measures undertaken by relevant authorities to direct intraregional economic processes and adapt the region to external conditions of macroeconomic and global environment. At the moment, Russian regions have over 80 models of economic policy for communities united by such traditional factors as geographic proximity, common language and culture. The objective of state intervention is to mainstream the inner (endogenous) factors of regional development (*Ignatova, Cherkasova, 2010, p.110*).

Under the modern open economy, regional development to a considerable extent is shaped under the influence of global trends, including:

- Diversification of industrial structure
- Increasing the proportion of services and reducing “non-tradable” types of services
- Increased importance of technological and science-intensive segments of regional industrial complex
- Reducing labour input in production
- Establishing regional industrial clusters
- Organizational changes in business strategies (intensifying franchise, consulting and outsourcing practices) (*Edward Feser, 2007*).

Modernization of the institutions of regional economic policy under intensifying global integration presumes developing such regulatory mechanism when priorities should be: regional assistance to establishing business incubators; implementing programmes for transferring technologies and business practices; facilitating commercialization of technologies for small and medium business; establishing technological zones with high-quality infrastructure and preferential taxation; defining a system of grants and targeted investments.

Increased capital mobility is an objective imperative of globalization, which predetermines expanding financial and tax incentives in the system of regional economic policy for

attracting Russian and foreign firms in regional production branches.

An increased impact of globalization processes upon regional development also sharpens the problems related to creating regional clusters in order to strengthen interregional and international relations, which predetermines the priorities of modernizing the institutions of regional economic policy.

A growing integration of regions into globalizing world economy strengthen interregional relations in production and exchange so measures of regional economic policy must, first, support conditions for placing foreign production facilities in a region and, second, attract foreign investments in a region.

Industrial specialization and geographical concentration of regions as well short- and long-term entrepreneurial, innovative and managerial potential of a region ensure the competitive ability of regional products on the national and global markets, which means that regional economic policy must form and pursue such strategies that maximize the advantages of globalization for the regional business.

## **THE SOUTH OF RUSSIA WITH REFERENCES TO GLOBALIZATION**

Structural and institutional modernization of regional economic policy in the regions of South Russia is necessary because production, sectoral and institutional differentiation of Russian regions demonstrates a faster growth in central districts and the periphery status of regions in the South of Russia (O. Mamedov, O. Ischenko-Padukova, I. Movchan, 2013, p. 24).

In terms of globalization, the regions in the South of Russia (the Southern Federal District and the North Caucasian Federal District) are on the periphery of the external trade system, considerably below similar indices for other Federal Districts of the Russian Federation. For instance, in 2012 export to non-CIS countries from the Central Federal District reached \$199,703 million while consolidated export from the Southern Federal District and the North Caucasian Federal District was \$18,096 million (*Regions of Russia*, 2013, p.984).

The situation across the South of Russia is even more complicated: in the Southern Federal District Krasnodar, Rostov and Volgograd regions are involved in external trade, with export prevalence; in the North Caucasian Federal District nearly all subjects are mostly product importers. Therefore, as K. Belokrylov points out, “in the mid-term horizon efficient regional strategy means increasing export on the markets of traditional products for the South of Russia and import substitution or, at least, decelerating domestic market loss, simultaneously building-up pre-conditions for a transition to innovative development. Otherwise adverse effects of deindustrialization will show up earlier and stronger than positive effects from developing new sectors of the economy will appear” (Belokrylov, 2012, p. 76).

The regions in the South of Russia are poorly prepared for integration in the global economic space, which requires adequate measures of regional economic policy. As O. Mamedov emphasizes, “the most part of the real (not “statistically described”) economy of the North Caucasus (meaning the North Caucasian Republics) is an informal sector – economic activities that are not (do not wish to be) legalized” (Mamedov, 2014, p. 8).

In the context of globalization, regional economic policy must be aimed at stimulating social-and-economic growth of regions with unbalanced development mostly due to targeted strategic investments. Majority of the regions in the South of Russia, face objective problems of adapting to new global business trends. Under these conditions, the strategic goal of regional economic policy is related to such areas that would encourage direct investments from all sources of financing, including foreign ones, support regional economic growth and strengthen cluster elements of regional production.

Investment capacity is a special factor of regional economic policy; its qualitative and quantitative characteristics reflect an ordered set of investment resources and facilitate development of the game-changing, fixed production assets as prospective innovative-technological systems (*Martin Armstrong, Jim Taylor, 2000, p. 28*).

In recent years, regional development in the Russian Federation is characterized by positive trends of investments in fixed capital: in 2007-2012 they increased nearly twofold in Russia in general and in nearly all Federal Districts. Most investments in fixed capital are formed from own funds and funds from the federal budget. I. Frolova analyses the problems of investment capacity in terms of its specifics as a controlled object. She justly emphasizes the importance of systemic, targeted investment management at the meso-level, which strategically is not possible without taking into account the specifics of accumulating and unlocking investment potential as the basis for investment activity (*Frolova, 2008, p.53*).

Under the modern conditions of global integration, attracting foreign investments in a region is a priority of regional economic policy. It is especially important for the regions in the South of Russia where foreign investments in the economy of the Southern and North Caucasian Federal Districts are the lowest among the Federal Districts of the Russian Federation. According to statistical data, foreign investments in the Central Federal District in 2012 reached \$91,913,059; the North-Western Federal District – \$17,959,660; the Privolzhie Federal District – \$6,931,263; the Urals Federal District – \$15,871,998; the Siberian Federal District – \$3,951,760; the Far East Federal District – \$13,582,578; the Southern Federal District – \$3,866,770; the North Caucasian Federal District – \$493,207 (*Regions of Russia, 2013, p.948*).

Such state of affairs is determined not only by several objective reasons (the geopolitical position of the regions, a mono-profile specifics of industry structure in the regions of the South of Russia, etc.), but also poorly developed institutions of regional investment policy. As justly pointed out by T. Kashnikova, at the moment “one can hardly expect many strong foreign investors. They, however, can risk investing in “regional growth points” that have innovative technological capacities. An experience of enabling such capability shows that in some cases a “chasing” strategy is employed - mastering competitive products and strengthening market positions using available resources, particular innovative and intellectual potential of a region. There is also a leading-edge strategy, oriented to use the achievements of scientific-and-technological progress to create new products and technologies, shape demand and new markets” (*Kashnikova, 2013, p.58*).

Under these conditions creating an effective mechanism for attractive investments in the regions of the South of Russia is one of the areas of institutional modernization of regional economic policy and the key element of support of economic growth and engaging the regions of the South of Russia in global integration.

## CONCLUSIONS

The mechanisms of regulating regional growth in the current model of economic policy demonstrate a low level of efficiency since they do not facilitate overcoming regional differentiation of social-and-economic development.

The instruments of redistributing financial resources through a system of inter-budget transfers do not create the necessary incentives for entry of depressed Russian regions into the global economic space.

A more effective model of regional economic policy is a mechanism of regulating regional

growth based on the principles of considering globalization factors: engaging regions in the system of global integration through diversification of external trade and expanding the instruments for attracting strategic investments in a region.

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