Region - engine of growth in global economy

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Abstract

Globalization changes the role and functions of the border and creates new forms of regional cooperation and development, arising from the need to generate development opportunities and to enhance international competitiveness of states in the international interconnected frame of the the present. In this context, the micro-region represents a pole of development and growth not only adapted to strong economies, but also to countries in full process of development and growth, seeking solutions to annihilate the effects of the global crisis and to globally increase their competitiveness. The starting point for the introduction of these mechanisms is to identify the suitable resources in order to become the center of the region's development and the source of attracting foreign capital.

Keywords: globalization, new regionalism, region–state, success stories

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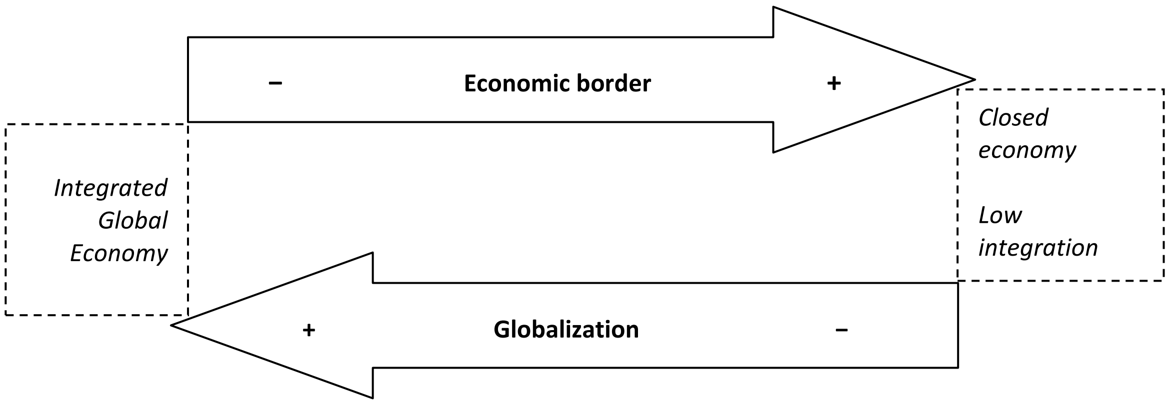
Border, globalization and regionalization

The economic borders between states have had strong fundaments throughout the time to exist and to develop.[1] The way in which economic borders are currently redefined largely depends of the perspective in which globalization is analyzed. If we were to represent the relation between borders and globalization on an ax (Figure 1), on one end we would find the world with a fully integrated global economy, without economic borders, and on the opposite end we would find the inter–national economy where there still are economic relations between distinct nations, the degree of economic integration is small and the economic borders maintain their important roles, especially within the relations between the wealthy North and the poor South.

Fig. 1. The relationship between border and globalization



In specialty literature there are several different perspectives of globalization. The first of these sees globalization as the fulfillment of the principles of liberal economy as they succeed in bringing growth and development by the integration of national economies in a world without borders. According to *New York Times* columnist Thomas Friedman, the term globalization implies "the integration of the markets, the nation–states, and the technologies at an unseen level,"[2] and "the world is flat," without borders. He also believes that the strength which determines the uniqueness of this phenomenon is "the newly discovered power of the individuals to cooperate and to compete globally,"[3] as a result of the technology process induced by the technological convergence. The International Monetary Fund (IMF) supports this concept, defining globalization as "the growing economic interdependence of countries worldwide through the increasing volume and variety of cross–border transactions in goods and services, of international capital flows, and through the more rapid and widespread diffusion of technology."[4]

The business strategist Kenichi Ohmae believes that the emergence of global economy is the foundation for the retraction of borders, using the term "borderless world" to describe a world where all obstacles in the way of the movement of production factors were removed. To him, the economic border is not only irrelevant, but it represents a factor that damages the economic relations between businesses or states: "the global economy ignores barriers, but if they are not removed, they cause distortion."[5] The global economy follows its own logic, which is different from the logic of state borders. When analyzing the more specific area of business, characterized by four main elements – communication, capital, corporations, consumers – Ohmae believes that there are absolutely no borders left.[6]

George Ritzer gradates the idea, stating that integration does not represent an inevitable component of globalization, because the process can involve sometimes better integration, but it can also reduce the level of integration. According to Ritzer, globalization is a transplanetary process which involves "increasing liquidity and the growing multidirectional flows of people, objects, places and information as well as the structures they encounter and create that are barriers to, or expedite, those flows."[7] Even if the market is global, there are still many economic barriers that hinder or block the movements of persons, goods or information, like trade agreements, regulatory agencies, borders, customs barriers, standards or "the digital divide" between the developed states and the developing world.[8]

Ritzer moves to a second perspective on globalization, according to which states aren't any more integrate nowadays than they were prior to the First World War and that the world economy was even more global back then (idea supported by Hirst and Thompson). Economic integration is not global, but regional, as capital flows, trade and investments are focused within the triad Europe, North America and Japan/Eastern Asia, and the developing countries are marginalized.[9] What's more, this perspective emphasized the fact that globalization deepens the differences between North and South, as well as the inequalities from developed countries.[10] Stiglitz believes that these problems are not related to economic globalization itself (which has the potential to create wealth for all), but to how it was implemented and shaped by politics, to meet the interests of rich countries and the interest groups in within them.[11]

Considering all this, the world remains an ensemble of individual states, separated by the barriers set to trade between rich and poor countries. According to Anderson and Bort, the borders maintain important differences between states, especially concerning the economic activity and management.[12] Robert Gilpin supports this idea, stating that "whereas powerful market forces (trade, finance, and investment) jump political boundaries and integrate societies, governments frequently restrict and channel their economic activities to serve the interests of their own societies and of powerful groups within those societies."[13] From this perspective, the economic border remains in the world economy and its role is to protect the states, especially the developed ones, which own the necessary means to impose their own will and requirements on the global market and before the poor or developing states.

The third perspective on globalization particularly considers the consequences of the erosion of the states' sovereignty by the supranational organisms and transnational corporations, and the creation of a diffusion of authority.[14] Many of the states' economic prerogatives are taken by these organisms (European Union (EU), IMF, World Bank, World Trade Organization), therefore making changes regarding the relevance of economic borders, seen as an ensemble of economic policy measures adopted by each state according to their economic culture and specific national interests. The states' inability to control the generated economic flows dominated by transnational companies, as well as the economic and financial crisis over the past few years are serious threats to the nation–state.[15]

Transnational companies are wealthier than the majority of developing countries. However, what's most important, aside from money, they also have political power which allows them to influence governments when they disagree with their regulations concerning the economic policy (remission or reduction of tax, regulation of foreign direct investments, subsidies) to act according to their best interest. What's more, corporations are those who made the spread of technology possible from the industrialized countries to the developing ones, allowing the usage of modern production techniques, which have reduced the differences between the economic environments of the world's states.[16] The new information and communication technologies have facilitated the access to information about products offered by global companies for consumers from all over the world, thus creating demand on the markets of developing countries, offering companies the opportunity to reach new markets, and strongly shaking the states' protectionist barriers. Therefore, corporations play an essential role in the leveling of the conditions from the markets of different states, in the harmonization of national legislation regarding foreign investments, thus leading to the reduction of the role and power of economic borders.

Regardless of the perspective through which globalization is seen, all converge to the idea that *what is currently gaining power and relevance is the region.*

Kenichi Ohmae believes that the region is the economic unit of the global economy, the new growth center of the world. He defines regions not just as an ensemble of states, but as areas that represent development poles within different countries. Global economic development will inevitably lead to the withdrawal of the nation–state before the "region–state," which has a main characteristic "the openness to the outside world," the rest of the world being just a source of prosperity to it.[17] In the same perspective, other authors consider that "taking the state seriously as the principal architect of development has already become a cliché."[18] We are therefore standing before an open economy where important economic decisions are made at a regional level.

Thomas Friedman also speaks of the "regional globalization," considered as the local and regional factor that globalizes itself due to the new information and communication technologies.[19] This regional globalization is the one that keeps in mind the cultural specificity of each nation, thus cultivating global diversity. The economic is of no relevance, being considered the driver of globalization and unification of the planet.

The relationship between globalization and regionalization is also seen by specialists from several perspectives.[20]

The first direction considers that regionalization is the opposite process of globalization. Since globalization implies openness of national economies and the creation of a global market for companies, they choose the regionalization option to counter or limit the negative effects of global competition. Going further, some authors believe that regionalization fragments the global economy and it slows down the process of liberalization, eliminating the countries' desire and motivation to engage in world trade.[21]

The second line of analysis sees in regionalization the logical response to the globalization process. This is because the economical theory considers the regional integration as the best alternative to global free trade. Krugman supports this view, stating that "it often seems easier to negotiate free trade or at least trade liberalization on a more local basis" and it considers that "the 1980s saw a shift of emphasis away from global trade negotiations toward regional deals."[22]

The regional groups have been formed as a reply to the three dimensions of globalization: the replacement of national markets by world markets, the decline of geographical determinants of financial location and the internationalization of the division of labour, and the strengthening of multinational and private policy–making structures vis–à–vis the public authority of the state.[23]

Therefore, the states conclude regional agreements as a reply to the pressure coming from the interest groups in the society, represented by business groups, which need larger markets in order to be able to achieve economies of scale, and in the same time, they need the diversification of production across the frontiers, to locate different stages where they can be most efficiently performed.[24]

Regionalization is also seen as a stimulus for globalization, constituting a core component for a deeper global integration, a good preparation for an open international economy. Regional trade liberalization and cooperation arrangements are seen as necessary intermediate steps, enabling nations and companies to cope with the risks and opportunities of the global market and to accept new multilateral rules.[25]

The new regionalism

The economic literature distinguishes between the old type of regionalization, which aims primarily to reduce or eliminate trade barriers, and the new regionalization that involves the harmonization of national policies towards economic integration. This new type of regionalism emerged as a result of negotiations in the Uruguay Round of General Agreement on Tariffs and Trade (GATT), and the European Union is seen as a model in this respect, due to its features regarded as essential to a deeper integration: facilitation of the financial and foreign direct investment flows; the liberalized movement of labor force; harmonized macroeconomic policies in order to develop a stable macroeconomic environment; institutions and funds securing a coordinated regional integration policy; an active policy to improve communications and transportation infrastructure; coordinated legislation and common rules for product and factor markets; and a monetary union with a common currency.[26]

This new regionalism has two sides. The first direction addresses cross–border coalitions at both the levels of meso–regional (different states that tend to integrate their economic, political, or military activities) and macro–regional integration (trading blocks, regional organizations, transcontinental frames – e.g. BRIC countries). The second direction involves new forms of governance at the urban level (metropolitan regionalism).[27] The new micro–regional structures, which Ohmae calls "region–states", fall in this perspective, being very competitive in the global market due to a combination of facilitator factors.

The regional integration agreements made at mezzo and macro–regional level are characterized by the total or partial elimination of trade barriers between participating states that can be neighbors or at a large distance. The mechanisms for this type of integration are: bilateral agreement, free trade area, customs union and common market. "The experience of long–established and successful regional groups such as the EU and the North–American Free Trade Agreement (NAFTA) suggests that regional economic integration provides a strong boost to intraregional cross–border investment linkages."[28] But the problem here is the fact that the main beneficiaries of these forms of integration are the developed countries. The Governments of the developing countries face challenges in the short and long–term in which concerns the increase competitiveness regionally and globally, and traditional responses no longer offer viable solutions. That is why the mechanisms for micro–regional integration emerge as a viable solution for the border–states and regions that have resources that can be exploited in order to attract investment to create wealth and prosperity within.

The region–state

Ohmae argues that the world no longer has to be regarded as a set of monolithic states, but as having states formed by sets of regions. In this context, the borders have no relevance any longer, being a burden to the countries bordering it, since the state–region is not a political entity, but an economic one.[29] Although it is a vision taken to the extreme, in fact there are regions that represent centers of development for the states to which they belong to, engines that drive the economy of that country towards economic progress. Some regions coincide with the states themselves, while others represent development poles from the inside of a state or common areas of many countries.

The characteristics of the state–region, according to Ohmae, are:[30] an intern market large enough to attract foreign investment (with between half a million and 10 million people); the presence within the region of at least one major international airport or port, along with a good transport infrastructure; some modern universities and research facilities to attract valuable students and to "produce" high level graduates or highly trained workers; opening outward, considering the rest of the world as a reservoir of the needed resources for development; the existence of an attractive environment for the social and professional life (pleasant physical environment: parks, recreation areas, areas that attract investors).

Tokyo Metropolitan Area (or Greater Tokyo Area) is home to around 28% of Japan's total population (about 13.19 million inhabitants). The dominant position of the metropolitan Tokyo in Japan's economy mainly results from the city's capacity to adopt new technologies and to attract corporate headquarter activities. Therefore, Tokyo holds supremacy in all fields: industry, services, and financial information, becoming „something the Japanese call *one–point convergence*."[31] That is why Tokyo is a world–city, which involves in the same time a global command center for corporate headquarters, the center of gravity for hightechnology industries, and a regional milieu that encourages small firms to cooperate into flexible production networks.[32]

In China, the unique territorial advantages of eastern regions like the *Pearl River Delta Economic Zone* (centered on Guangzhou and Shenzhen), the *Yangtze River Delta Economic Zone* (centered on Shanghai), and the *Jing–jin–yi Economic Zone* (centered on Tianjin), have transformed them in three major growth poles, having major contribution to the country's economic development (41% of economic aggregate).[33] But there are also regions like *Chengdu–Chongqing*, in the western part of the country, viewed as new economic growth poles, which are expected to play a leading role in linking China's advanced east and backward west. The Chengdu–Chongqing region has a large population, a great transport infrastructure and a promising growth potential. The industries settled in the region – the clean energy industry, heavy equipment manufacturing, hi–tech industry, defense science and technology industry and agricultural product processing industry – are now playing a vital role in China. This economic zone is also becoming a comprehensive transportation hub, a communication hub, a logistics center, a commerce and trade center, a financial center as well as a modern city agglomeration and a vital entrance for west China to welcome and participate in global cooperation and foreign investment. The development trend shows that in the next years Chengdu–Chongqing Economic Zone might realize an economic yield of 10% of China.[34]

Medicon Valley is a border area in the Øresund region located on the frontier between Denmark and Sweden, which has a solid public and private scientific basis, a long tradition of pharmaceutical experience in clinical research, an innovative and entrepreneurial environment, a venture capital sector well developed, a high level of science and technology transfer between universities, hospitals and industry and a well–developed public health system. The region represents 13.5% of the research and development sector in the European Union. Public authorities have created favorable conditions for business to attract more investors from abroad. Øresund Region has the lowest corporate taxes. The rates for foreign staff are very appealing and profitable to a period of three years in order to encourage people to settle in the region. For these reasons, Medicon Valley is perceived as a region with a friendly business environment, focused on strengthening the administrative procedures for businesses to be able to direct their activities towards innovation and development.[35] The population has international horizons, it is open and reliable, and corruption is almost nonexistent. However, this represents a highly qualified labor, especially in IT and biotechnology.[36]

Silicon Valley is a region of the San Francisco Bay area in Northern California (USA), with an extraordinary economic development, which there are based some of the largest companies focused on information technology (IT programming and design, semiconductor manufacturing, scientific research, internet, telecommunications, information processing, architecture, manufacturing computer components, software development, pharmaceuticals, aerospace and communications equipment production). The region ranks first in the United States in terms of investment, attracting about 45% of the total nationwide, according to the MoneyTree report conducted by Pricewaterhouse Coopers.[37]

Silicon Valley has a regional–network–based industrial system that promotes collective learning and flexible adjustment. Companies compete intensely while learning from one another about changing markets and technologies through informal communication and collaboration. In this system, the organizational boundaries within companies are porous, as are the boundaries between companies themselves and between companies and local institutions, such as trade associations and universities. Corporate loyalty governs relations between companies and their customers, suppliers, and competitors, reinforcing a regional culture that encourages stability and self–reliance.[38]

The region has 2.9 million inhabitants and a multi–ethnic structure of the population (37% White, 30% Asian, 27% Hispanic, 2,5% Black, 4% Multiple and Other), and Net Foreign Immigration has a value of +10.955, which shows the opening of the region and the development of multicultural awareness. The educational level is very high, 80% of residents having at least studies at the college level, which leads to labor force focused on research and development. The focus on research and development within the region is proved by the large number of patents than the national average. The academic environment collaborates with the IT market in the development of this area in order to achieve maximum performance and results.[39]

At the foundation of success of the Silicon Valley region are several factors. Some give credit the pleasant climate that encourages researchers to start a life there. Others argue that the proximity of an academic center of the size Stanford University is the key to an amazing development of the cities in the region – the complementarity between specialized labor and dynamic business enviroment ensures a competitive economy.

Since these factors can be encountered as well in other areas of the United States and of the world, many tend to offer the main credit at law passed in California in 1872, which declared null and void any contract between an employer and employee if the contract restrict in any the employee's freedom to change employers, even with a competitor's current employer,[40] removing from the start any non–competition clause that any company would want to impose to human capital. Certainly, the combination of all these factors has exploited the potential of this region, leading it to success that it is today, making it resistant to repeated economic crises and to be another example for regions around the world.

Bangalore is an Indian city also known as the Silicon Valley of India, which represents another example of a successfull region–state. The region has developed around human resources, represented by extremely large population of India and by people with technical skills. Bangalore, together with cities like *Hyderabad* and *Pune* are nowadays "more closely integrated into global business because they are not only developing software and systems, but they also are conducting fixed–line, outsourced business functions on behalf of American and European companies. [For that reason], they have become part of an integrated whole of global corporations."[41]

Given the characteristics of the state–region, there are other concepts that can be assimilated to it or defined in relatively similar terms: growth pole, special economic zone, development corridor and cluster.

The *growth pole* is built around existing resources in a particular area of the economy or on the border between two states and it consists of investments in several public and private sectors starting from opportunities available there. Therefore, the growth pole contributes to enlarging the market size, which increases its attractiveness to potential investors and multiplies the business opportunities. The private investments, in their turn creates jobs, lead to higher wages and generate economies of scale. Their effects are visible beyond the borders of a state, creating opportunities and positive effects for regional integration.[42]

The *special economic zones* represent spatially delimited areas within an economy, which offer particular trade incentives (including the provision of superior infrastructure and operating conditions) to firms who choose to physically locate within them. They are usually designed as supply–side competitiveness measures, aimed at overcoming barriers that hinder investment in the wider economy, including restrictive policies, poor governance, inadequate infrastructure, and problematic access to land.[43]

The *development corridors* are feeder infrastructures, achieving outcomes by "connecting economic agents along a defined geography. They provide connection between economic nodes or hubs, usually centered on urban landscapes, in which large amount of economic resources and actors are concentrated. They link the supply and demand sides of markets."[44]

Clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers, and associated institutions (universities, government agencies) in a particular field in a nation or region.[45]

Beyond the obvious common features with the concepts presented above, the state–region is a more complex concept, which contains, in addition to the purely competitive dimensions, also aspects on environment and perception of openness to the outside. It follows from this that the state–region should have an important cultural dimension, along with the economic one, necessary in the global world, assuming the development of a multicultural or international identity. *It is therefore, in our opinion, about a social construction performed on a foundation provided by economic opportunities.*

In the EU, globalization did not determine the dissapearance of national or regional cultures, due to the increasing interest into local culture. That is why Europe is "an area of cultural borders"[46] and this represents constantly a challenge for euroregions, which need to find cultural similarities (besides a minimal economic balance) in order to reach an optimal development.[47] Consequently, the cultural stake is all–important, so that the development of a multicultural environment within euroregions, countries or micro–regions is a real challenge, and in the same time an achievable matter, considering the fact that the European culture is built on a system of common values.

Conclusions

Globalization changes the role and functions of the border and creates new forms of regional cooperation and development, arising from the need to create development opportunities and to enhance international competitiveness of states in the international interconnected frame of the the present. The region represents in this context a pole of development and growth not only adapted to strong economies, but also to countries in full process of development and growth, seeking solutions to annihilate the effects of the global crisis and to globally increase their competitiveness. These solutions must take into account the cultural dimension of regional integration mechanisms, whereas culture is a border impossible to eliminate, particulary inside the European Union, where cultural borders acquire a new ever more visible role.[48] That is precisely why we have identified within the experiences presented in this paper a necessary and multicultural identity, already present in the successful region–states, that was formed as a result of the opening of people from different parts of the world (with different mentalities, socio–cultural characteristics and behaviors), and their desire to contribute to achieving common goals beneficial to all. The communities of these areas have understood that precisely these cultural differences, if well managed, are generating creative competition and innovation, factors that lead to economic and social prosperity.

A very suggestive description of the features of successful regions applicable to all such existing structures in the world economy today is carried out by *2013 Silicon Valley Index*, a report based on indicators that measure the strength of the region economy and the health of its community, elaborated by the Joint Venture Silicon Valley and Silicon Valley Community Foundation:

"Regions are the scale where we compete globally. The ingredients for successful economic development are: access to labor, education, innovation, finance, housing, specialized infrastructure and quality of life. When these inputs are strong, the region's industry clusters thrive and grow.

Maintaining a strong region requires coordination of major systems – like transportation and natural resources – that cut across jurisdictional boundaries. Planning and preserving key corridors for highways, rail lines, power lines, water pipes and goods movement requires effective regional planning. So too does planning to maintain and preserve natural systems like shorelines, waterways, habitats and air basins. Resources like food, energy and water are also generated and supplied regionally."[49]

This pattern of development can be picked also by policy makers in other parts of the world – particularly in Central and Eastern Europe – to use the resources and opportunities as engine for growth and sustainable development and also as competitiveness generator within the global and regional economy. The examples presented in the paper show that developing countries, like China and India, have implemented the state–region model with notable results, representing today poles of attraction for foreign investment, employment creation and for technological development. Based on the experiences of these countries, together with those of developed countries or regions, we believe that the solutions of this type can be taken into account by the European countries with economies in transition, under development, given that CBC programs implemented so far did not occurr in all regions at the desired level of development.

The starting point for the introduction of these mechanisms is to identify appropriate resources in order to become the center of development of that region and the source of attracting foreign capital. To do this, public and private actors who have decision–making capacity should focus their efforts to achieve and especially to maintain excellence in areas such as education, research, IT, clean energy, organic farming. These sectors have a high growth potential in the Central and Eastern Europe, containing factors generating innovation, but they have to be helped to transform into real opportunities which would gather around them the elements needed to create a successful region–state.

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[1] The present paper continues and develops the author's study on the relationship between globalization and economic frontier [Luminița Șoproni, "The Economic Borders in the Age of Globalization", in *The frontier worker – new perspectives on the labor market in the border regions*, ed. Adrian-Claudiu Popoviciu and Dana Cigan (Bucharest: C.H.Beck, 2013), 53-62]
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