

**Economic Theory**

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**INTERNATIONAL REGIONAL ECONOMICS
OF THE MODERN WORLD****Abstract**

The intensified globalization process of the XXth century resulted in the emergence of a considerable number of regions, which combine territories of different nations. The scale of this process affects substantially not only the economic and political mechanisms of international flows regulation, but also the distribution of powers and priorities of major world market participants. From this evolves an objective need to form a new research area – international regional economics.

Key words:

International region, scientific discussion, economic mechanism of international regionalization, regional integration, regional interaction, regional trade agreements, structure of international regional economics.

Introduction

The modern international economics is characterized by globalization of economic systems against the background of gradual merging of national and international policy mechanisms. At that, the traditional interpretation of the

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world economy as a combination of national economies (markets) is based on the assumption of coinciding territorial borders of countries and economic systems. Such a nationalistic paradigm suggests an orderly, symmetric and simplified vision of political and economic reality, which in the early XXIst century has seized to fit real processes. The structure of «large systems» has become more complex in the international economics.

Even though the nationalistic paradigm still prevails in the economic policies of the majority of countries, it is disputed by modern researchers. As early as in 1980-s, J. Jacobs [20] suggested the hypothesis that cities, and not countries, are economic systems and drivers of growth. Should we put the «frames of mercantilist tautology» aside, notes Jacobs, we would see an independent world of economics, not an artifact of politics. The nationalistic economic paradigm was also challenged by K. Ohmae in his books «The Borderless World: Power and Strategy in the Interlinked Economy» and «The End of the Nation State: The Rise of Regional Economics» [29, 30]. In these works, two major approaches are interconnected: first, a decreased economic role of national government and, second, the emergence of ad hoc economic areas or region-states. K. Ohmae asserts that mature economic regions, and not nation-states, are the real source of economic power under global economic conditions [30: 8]. He underscores: «Region-states are not and should not be enemies to central governments. When rationally managed according to principles of federalism, these gateways to global economy can become best friends of the governments» [30: 79–100].

The work of W. Barnes and L. Ledebur [1], who consider regional communities as the primary element of the global economy, deserves special attention. This approach allows to re-consider the concept of «gateways to global world» [10] as a tightly interconnected system of a small number of minor regions, which accumulate all major financial, intellectual, economic and communication resources, and through which pass financial, commodity and migration flows. In 1990s, A. Frank and B. Gills [41] based their elaboration of the new theory of regional systems in the world economy on the «world-systems analysis», introduced by I. Wallerstein [43], and offered a version of the «theory of the world-system». They consider the world-system to be represented by an aggregate of regions tied together by trade relations and characterized by peculiarities of the interrelation between the core and the periphery, cycles of capital accumulation and allocation, correlation between hegemony and competition.

The realities of the world practice and further expansion of globalization, on the one hand, exposed regions to world competition, while on the other, increased the degree of interdependence among separate territories. The resources of a separate (administratively defined) territory have turned out to be insufficient for organization of production and civilized life. As a consequence, according to O. Neklessa [7], emerged a «meta-economy» – a compound system of geo-economic spaces connected by strings of resource flows and geo-economic rental incomes. Another consequence of globalization was the separation of capital assets from economic management not only structurally (within respective organizations), but also territorially. The regions that accumulated in-

tellectual capital, centers of industrial management («key nodes» of financial and stock markets, centres for new technology development and logistics, etc.), managed to start receiving something what we can call «management rent» or «strategic rent».

This short review of the ongoing academic discussion proves the need to investigate a new subject matter of international economics – international region simultaneously encompassing both the states (the EU, NAFTA, etc.) and separate territories of the states (OBSC, Euro-regions, border territories, etc.), which accentuates the heterogeneity of its constituents. In view of this, the author tries to substantiate and prove necessary the formation of the new area in the theory and practice of international economics – international regional economics.

1. The Objective Conditionality of Formation of the Network of International Regions

On the verge of the new millennium, especially pronounced was the tendency to creation of international regions (mostly oriented at the global economy) or so-called «natural economic territories» in the «continuous world». Such regions are considered as «gateways» of a nation to the outside world, whereas the process of globalization is interpreted as growth of interdependence among these «gateways» [9, 10]. These regions do not necessarily possess various resources, but they managed to lock the most important economic flows in and created conditions for rapid growth of business activity. The emergence of new national and world economic region-leaders (geo-economic regions, transnational informal structures, such as the «sun belt» of France, southern Germany, and pacific coast of the USA, trans-border regions that combine territories of neighbouring countries, city agglomerations that function as international centres, etc.) has stirred up a vivid discussion about a fundamentally new, special organization of social life («Europe of regions», the «silicon Baltic sea» project, the «virtual states» project, etc.). In the modern theory of global and international economics, such processes are equated with new regionalism. But, in general, we can single out 6 directions of the debate, which interlink in order to emphasize the importance of regions and regionalization for the world economy.

1. **Geo-economics.** Since the end of the XXth century, some researchers have been accentuating the fast development of geo-economic regions and developed the idea about final transition of international relations from geo-political to geo-economic paradigm. Such researchers as Y. Kochetov, G. Chuftrin, O. Neklessa (Russia), V. Dergachov (Ukraine) adhere to the idea that the modern world, in principle, lives up to new – geo-economic, not political – laws. The geo-economic paradigm is based on promoting national interests, which consist in ensuring high economic growth rates through internationalization of economic

ties and gradual expansion of national boundaries for the benefit of free movement of goods, capital, labour, and technology. All this is inevitably accompanied by formation of the system of international regions.¹

2. **New Economic Geography.** In mid-1980s, P. Krugman and his associates in their works on trade and geography substantiated the importance of spatial factors for the dynamics of economic development, putting them on the international economics agenda. Econometric investigations supported the thesis that innovation processes prevail mainly in spatial agglomerations [11].

3. **Regional Sciences and Economic Geography.** The growing debate about industrial circuits, which emerged in the late 1980-s, reflected an increased interest of economic geographers and regional theorists in business-clusters. The discussion started with the examples known as «third Italy» and expanded to include the analysis of similar forms of regional development in other European countries. S. Sassen [37] enriched this thread of discussion with her investigation of «global cities» and central nodes of the world economy. A. Scott [39] combined the studies of regions and cities in his concept of «global city-regions». From the mid-1990s, the categories and patterns of interpretation deduced from these approaches were further developed in the works of K. Navdi and H. Schmitz [25], K. Navdi [26], E. Dussel [15], J. Humphrey and H. Schmitz [18], H. Schmitz [38, 40], R. Rabelotti [36], J. Meyer-Stamer [24], and P. Fuchs [17]. These authors lay particular emphasis on the need to develop «collective efficiency» and trust-based relations for dynamic development of local clusters.

4. **Innovation Economics.** The literature on technological development was focused on individual firms for a long time. However, from the early 1990-s, the number of studies on national or local innovation systems, which focused on the «learning-by-doing» model as a basis for innovation processes (Lundvall [22], Cassiolato and Lastres [14], Freeman [16]) has been growing. Authors argue that firms imbedded in effective local innovation systems have competitive advantages compared to isolated firms. They acknowledge that regions available for building dynamic innovation systems can strengthen their position in the world economy and increase competitiveness on the world market.

5. **Management Theories.** In his studies, M. Porter [33–35] accentuated the importance of clusters for highly-effective development processes. He argued that in the global economy, the competitive advantages are also formed through close interconnections among the firms in the region. According to his concept, competitiveness results from the interplay of the tension among local

¹ At present, 3 aspects of global community formation are studied: (1) in terms of development level, national economies are divided into countries of trans-national post-industrial North, countries of New East, countries of Raw South, conglomerate of countries of post-communist world, countries of «deep South»; (2) in terms of global spatial architecture, countries are divided into the core, the periphery, and dynamic countries; (3) in terms of global inequality, the countries are grouped according to their income levels.

competitors and the synergetic connections among core enterprises and supporting networks.

6. **Systemic Competitiveness.** The concept of systemic competitiveness focuses on the importance of network connections between the firms and their institutional environment for the development of specific competitive advantages of the firms and systemic competitiveness of the region. This discussion is centred on managerial structures (in particular, interconnection between the market and the managerial networks) and innovation processes in separate locations considered as key determinants of international competitiveness.

The commonality of all these directions consists in accentuating the intra-regional interrelations and interconnections between the firms and their institutional environment as a basis for formation of common economic space and global systems. According to this argument, the growing demand of the world economy focuses on local potential. This stipulates the «inner sovereignty» of a part of local actors, i.e. their ability to use intra-regional cooperation for responding adequately to globalization pressures.

In general, modern researchers single out 3 types of regional systems:

- *Formal, unified* – characterized by common feature, such as economic interests, identity, etc.; some of them are natural regions. They are usually oriented towards stimulation of various types of activities and development of integration processes; supported with inter-state agreements that presume clear delimitation of borders (e.g. the EU, GUAM, CIS, NAFTA, Euro-regions, etc.).
- *Informal, functional* – determined according to internal organization and centred around some key point; this can be a big company with a large number of employees, large trading, financial or other specialized area, study and research institution in academic (scientific) region, etc. Their main features are high mobility of flows, dynamism or instability of spatial localization limits. In most cases, they are not supported with inter-state agreements.
- *Perceptual* – determined by people's attitude to (perception of) districts, territories.

The concept of functional region was taken as a basis for the theory of spatial economics [12, 19, 31, 32]. A theory of the «poles of growth» links the development of cities and regions: the growth pole, as economic entity, thus changes regional structures in such a way that to increase the growth rate of total regional product. That is why the region is connected with the pole which stimulates it as long as business environment is subject to expansion. Such a scheme, for example, was laid basis for the «*milieu theory*» suggested in [23]. In integrating the innovative potential of regions and the concept of local development, the author singled out regional specifics of economic growth with its peculiar social and economic characteristics. According to this theory, every region

can offer some business-scale for integration in the context of cooperation ties that support its development.

In addition to world poles, vast opportunities for world integration are also given to trans-border territories (boundary areas). In the modern world, we usually distinguish several types of trans-border regions:

- Euro-regions (among EU countries, between the EU and other European countries);
- trans-ocean macro-regions (ATEC);
- trans-sea sub-regions (OBSC);
- special areas (the propellers of integration (Great Siangan) into the world economy within a single socio-cultural space (China) aiming to re-unite the country-civilization).

Many regional analysts consider «dead corners» in the world system a result of unequal development of the countries and marginalization of certain spaces. Such regional identity reflects collective aspects of the vital activity of civilizational substance: collective efficiency or competitiveness, social solidarity, etc. It is revealed through spatial econometrics [31], which forms methodological foundations for the study of the regionalization process at the level of supranational economics.

On the territory of Europe, there are at least four multi-functional centres of global significance: «Great London» (meaning all South-Eastern England); region of «Amsterdam-Rotterdam»; «Great Frankfurt» with adjacent Rhenish territories; and «Great Milan « (Northern Italy – from Venice to Turin to Genoa). Of course, there also are several centres of lower rank [9]. These centres ensure the formation of respective regional markets and stimulate the development of certain parts of global space. The main economic stimuli for formation of such key centres are: the accumulation of potential capacity of the region on the basis of the «gravity centre» effect², minimization of transaction costs, creation of favourable conditions for business and the corresponding possibility of gaining additional competitive advantages. In its essence, the process of regional integration is reduced to establishment of close contacts among such centres, and not to unequal distribution of communication networks within the whole space.

The author's investigation of regional dynamics of the world market proves the tendency to international trade flows concentration within the limits of separate trans-national (regional) markets rather than within national markets (countries). Thus, the total value of exports from European countries amounts to \$2910.231 bln., 84.41% (or \$2449.025 bln.) of which falls on the EU-15. External

² The «gravity centre» effect means additional inflows of investments, the possibility of receiving higher income and creating additional workplaces thanks to the development of modern infrastructure capable of servicing considerable international flows of goods, services, information, financial and technological resources.

turnover of NAFTA i FTAA reaches \$3307.99 bln. (2004), which makes 86.7% of total value of exports from and imports to American countries. For Africa, the total value of exports (a) from the countries of the continent makes \$134.881 bln., (b) from trade blocks – \$177.194 bln.; the total value of imports (a) to the countries of the continent makes \$132.008 bln., (b) to trade blocks – \$166.133 bln.. For Asia, the total value of exports (a) from the countries of the continent makes \$1995.805 bln., (b) from trade blocks – \$1256.172 bln.; the total value of imports (a) to the countries of the continent makes \$1787.596 bln., (b) to trade blocks – \$1138.442 bln. The majority of trade blocks continue to exhibit inclination to concentrate their exports at corresponding regional and intra-block markets [2: 149]. The revealed dynamics of trade flows by much exceeds the overall world and country-group indicators for both exports and imports. At the same time, the modern structure of the world market testifies to the heterogeneity of its economic space, in which the whole complicated systems of ties among actors can be conditionally divided into two types – inter-regional (trans-regional) and inter-continental (global).

The configuration of modern trade agreements is rather varied, and it is getting even more complex with the overlapping RTA networks that cover the internal continental area, as well as intercontinental relations at the regional and sub-regional levels. Geographically, RTAs more frequently link the markets of the countries with no common borders and are formed by some non-adjacent areas. Therefore, the conventional term «regional» remains to be a handy abbreviation, in no way a description of inter-regional (or cross-regional) agreements that link the countries into global trade networks [3: 402].

Already today, the matter in question is not only international regions, but the formation of a system of continental geo-economic regions³, where each region occupies large economic area (and market), which includes 30-40 countries with population from 800 to 2000 mln. people. Accordingly, every geo-economic region contains a whole network of international regions. At that, the modern practice demonstrates rather various forms of such regionalization: from micro-regions (like border territories, specialized economic areas, off-shore areas, etc.) to trans-national regions, which combine economies and markets of entire countries (trade and integration blocks, Euro-regions, international regional projects, etc.). Thus, on the modern map of Europe, one can find a whole network of international regions, which occupy 40% of its territory and 32% of residing population. That is why the realities of the world economy should be viewed in the light of fragmented (according to continental and trans-regional characteristics) economic space.

³ According to estimates, these are the 3 geo-economic blocks capable of exercising control over global processes. The first one is located in Europe and centred on the EU; the second is in America, centred on the USA or NAFTA; the third is in Asia, probably centred on Japan (see [8, 27, 42]). On the European continent: EU + EFTA + members of EU-ROMED + new EU applicant countries which will be granted the free trade regime. On the both American continents the FTAA is being formed, in Asia: ASEAN + China + Japan + South Korea + CEP (Australia and New Zealand) + New Industrial States + AFTA.

The growing complexity of ties and dependencies among the levels and spheres of the world system often makes us to consider it as a complex three-level combination of national, regional and international economic systems and respective markets, the actors of which in the process of interaction realize their interests through the dimension of regional space. Finally, the author believes that the modern world economy is a matrix created by regional spaces which interact within functional dimensions – flows (trade, financial, production, etc.).

Thus, we can single out a new direction of theoretical and applied research in international economics – international regional economics, which has its specific object – international regions – and subject matter – the system of relations among the world economic actors of different levels aiming to establish certain regional or spatial identity on the formal or informal basis.

In view of the aforementioned, we define *economic region as an economic spatial community, which combines different national territories in order to solve the tasks of socio-economic development, thus leading to increased regional interdependence and regional concentration of economic transactions*. At the micro-level, these are the areas of priority development, specialized economic areas, innovation centres, clusters, megapolices, agglomerations, «gravity centres» of various kinds; at the meso-level – trans-border associations, including Euro-regions, boundary territories, regional trade agreements, customs unions, common markets, currency unions; at the mega-level – geo-economic regions and poles, global communication, financial, information networks, economic and military associations of a larger part of the countries on the continent that form a trans-national, inter-state community with special features and characteristics. At that, depending on the size of the occupied territory and participants, such forms of regional systems are divided into sub-national and trans-national.

2. Economic Mechanisms of International Regional Economics

International regionalization is defined as the process of searching for or establishing an adequate local spatial identity by the subjects of the world economy by strengthening – within certain territory – a set of parameters of mutual dependence defined in political, economic, social and cultural categories. This process is characterized by the following features: (1) it is a natural stage in the development of the global system; (2) it contains mechanisms of redistribution of the effects of globalization among the countries and global actors; (3) it is considered as a method of formation of additional competitive or comparative advantages related to international cooperation; (4) it is multi-dimensional, i. e. its expansion field is unlimited: economics, politics, social relations, etc.; (5) its is capable of developing in a non-violent way on the basis of consensus of inter-

ests; (6) it has different forms of realization depending on the area of application; (7) it is a form of realizing social interests at the mega- and meso-levels (environmental protection; assistance to underdeveloped countries; experience, information and technology sharing; social protection; support for development of certain branches); (8) it is a way to achieve specific interests of the countries (ensuring security, economic growth, regional stability, fight against terrorism, introduction of new development model) [4].

Thus, the mechanisms of international regionalization (in contrast to regionalization at the level of national economy) are based exceptionally on the economic processes that form specific transaction patterns within the identified international space. They can be accompanied by political interaction, but the imposition of administrative borders is not considered its major goal, rather a consequence of deepening integration processes. At that, the economic interests of market participants are «separated» (specified), whereas the mechanisms of international competition shift from the dimension of national economy and market to the dimension of trans-national or international economic space and corresponding market.

The emergence of the network of international regions, growth of trans-border flows, expansion of powers of international organizational and strengthening of the influence of global and trans-border actors are changing the functions of administrative and territorial distribution and political boundaries of the countries. Thus, the loss of the ability of state boundaries to perform part of their barrier functions is viewed by some researchers as a reflection of the general crisis of the Westphal system of nation states [13, 29] or the transformation of state market regulation mechanisms [5]. Thus, the activation of the regionalization process at different levels of the world economic systems forces countries to modify their levers of economic regulation.⁴

In the literature, the problem of borders was studied from different theoretical perspectives (Table 1). But in the light of international regional economics, the matter in question should be the «markers»⁵ of economic identity, which are continuously changing depending on the configuration of the territory, within which an economic activity of the actors of various national affiliation is concentrated. In result appeared the notion of economic border, which performs the function of such a marker and delineates international economic space.

This global economic-theoretical concept produces two key consequences: (1) the borders of states do not coincide with vague lines of international economic systems; (2) the enhanced interdependence of countries transposes the mechanisms of economic interest formation and political influence onto the level of supranational economics. Thus, all the countries occupying parts of common economic space are interested in the efficiency of such large

⁴ For example, owing to partial transfer by the government of Finland of the regulatory functions regarding border cooperation to the EU's headquarters, the EU Commission is now considered as a part of the mechanism of state influence on the country's economy.

⁵ The notion of «identity marker» was first introduced by B.Jorgensen [21: 19].

economic systems; whereas globally-competitive regions think and act both locally and globally.

Table 1.

Border Studies in the Concepts of the Theory of World Systems and Territorial Identities (after 1990)

Dominant Approaches and Methods	Description	Main Concepts and Achievements	Leading Authors	Practical Applications
«World-systems-identity» approach	Investigation of borders at inter-related territorial levels depending on the evolution of identities and the role of a border in the hierarchy of political borders as a whole	Modelling the inter-relations between borders and the hierarchy of territorial identities	A. Paasi (Finland); D. Newman (Israel); J. O'Loughlin (USA); P. Taylor (Great Britain); T. Lunden (Sweden); G. Waterbury and J. Ackleson (Great Britain); and others	Using the concepts of borders and conflicts in nation- and state-building
Geo-political approaches	Impact of globalization and integration processes on political borders	Representations about processes of «de-territorisation» and «re-territorisation» and about the evolution of the system of political and administrative borders		Elaboration of the principles of border policy and cooperation, creation of Euro-regions and other trans-border regions
Borders as social representations	Research of borders as social constructs and a mirror of social relations in past and present; borders' role as a social symbol and importance in political discourse	Elaboration of approaches to investigation of borders as an important element of ethnic, national and other territorial identities		
«PPP-approach» (practice-policy-perception)	Research of interconnection between policy, which determines the transparency of a border, its per-	The analysis of interrelation between policy, regulation of border functions, perception of policy, identity of people, and activity at terri-	H. van Houtum and O. Kramsch (Netherlands); J. Scott (Germany)	Management of border regions and border cooperation; regulation of international migrations,

Dominant Approaches and Methods	Description	Main Concepts and Achievements	Leading Authors	Practical Applications
	ception by people, and the practice of various activities related with this border	torial levels; influence of the mentioned factors on management of border regions		etc.; regional policy
Eco-political approach	Investigation of relationships between political and natural borders	The analysis of functions of political and natural borders as a single system, and elaboration of methods of managing trans-border socio-political systems	O. Young, A. Westing, G. White (USA); N. Kliot (Israel); S. Dalby (Canada); J. Blake (G. Britain); and others	Solving global and regional environmental problems; management of international river basins

Source: [6].

The choice of the type of regional interaction does not have a clear logic as well. In general, this process depends on the reaction of market participants to structural pressures of globalization, on the one hand, and internal political and social factors, on the other. That is why the market logic of international regionalism is primarily the object of competitiveness and openness of national economies, which are consolidated thanks to formation of additional comparative and competitive advantages of the market which is being formed. However, the process of development of the region as a socio-economic system is generally directed towards achievement of marginal integrity of the aggregate social organism at a certain hierarchical level. This happens when the system pursues such goals as meeting the needs of the population and national socium as whole, increasing the welfare of the population, reproduction or self-reproduction, preservation of the quality of the system, survival of the community and mankind, etc. Thus, international regions have to ensure the realization of a rather complex system of interests at international, national and regional levels in terms of economic and social dimensions. All this explains the need for development of the new theory of international regional systems with its own categorical and conceptual apparatus.

3. The Structure of International Regional Economics

International regional economics should be viewed as an element of the theories of economic systems, which include the theory of markets and the theory of organizations. It becomes evident in the specifics of development of international economic relations under conditions of local space of the created region. That is why the theoretical foundation of this approach is formed by the theory of the world economy, which develops through integration with the economic theory of regions. In fact, the matter in question is the theoretical and applied research of inter-sectoral and spatial economic relations, which can be defined as meso-economics of super-national/global level. It functions as a connecting-link among mega-, macro- and micro-economics. Speaking of the meso-economic structuring as an area of development of the world economic theory, one should pay attention to its empirical and applied nature. This theory takes on the qualities of strategically-oriented practice, which takes account of not only direct connections and feedback, but also the network interrelationship of qualitatively different levels.

Proceeding from the existing elaborations, the classification of international regional economics can be presented in the following way:

A. Theoretical Fundamentals of International Regional Economics:

- 1) geo-economics and geo-politics;
- 2) the theory of world-systems analysis and international inequality;
- 3) theoretical concepts and models of international regionalization;
- 4) the theory and models of regional integration;
- 5) the theory and models of functional regionalization;
- 6) theoretical fundamentals and concepts of trans-regional and trans-border cooperation;
- 7) the theory of global cities and «centres of growth» (micro-regions).

B. Methodology of Research of International Regions:

- 1) the theory of «large systems» and spatial development;
- 2) the chaos theory;
- 3) systemic and synergetic approaches;
- 4) techniques of identification of types and phases of development of international regional markets and systems;
- 5) theoretical limology.

C. Empirical Estimates and Applied Research of International Regionalization Processes:

- 1) systemic advantages of international regionalization in the context of global and continental economies;
- 2) evaluation of comparative and competitive advantages for international regions;
- 3) technological advantages and innovative development of an international region;
- 4) evaluation of bi- and multi-lateral cooperation within international region;
- 5) empirical evaluation of international and inter-country inequality as a motivational mechanism of international regionalization;
- 6) investigation of architectonics of the modern global space;
- 7) identification of different types of international regions.

D. Managing the Development of Regional Systems in International Economics:

- 1) theoretical fundamentals of development of regional markets and their systems in international economics;
- 2) the concept and policy of spatial development of «large systems»;
- 3) the theory of development of network systems;
- 4) the theory of «collective competitiveness»;
- 5) managing the mobility of economic flows and dynamic development of international regions;
- 6) regional trade agreements and their impact on development of the space;
- 7) foreign exchange market and exchange policy in international regions; currency unions;
- 8) concepts and mechanisms of economic policy for different types of economic regions;
- 9) models of institutional interrelations among state structures in international regions;
- 10) international economic policy coordination.

However, the development of the new scientific area in international economics also calls for elaboration of its structure, including basic concepts and categories, principles and regularities of development, models of regional policy and managerial mechanisms. The conceptual apparatus of this direction also

needs to be specified. The existing literature does not give clear and stable interpretation of such notions as (1) trans-border, cross-border, boundary; (2) trans-regional, inter-regional; (3) trans-national, inter-national. There is no generally accepted notion of international region as a key category for such a direction. Therefore, we can generally assert that there is an objective need to single out such an area, there is a considerable experience of forming and developing international regions of different types, and there is the need to systematize these elaborations for both practitioners and theorists.

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