

# “International integration in innovative development of economy”

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## International integration in innovative development of economy

### Abstract

Globalization is one of the key processes that are shaping the modern world. There are different often quite opposite attitudes toward globalization. However, it is impossible to avoid the effects of international integration, and they should be addressed in the process of formation and development of the national industrial sector.

**Keywords:** globalization, national industrial sector, international integration, integrated structures, transnational companies.

**JEL Classification:** O14, O33, O38.

### Introduction

Expansion is the priority goal for leading technological states, hence there is the question whether a favorable development scenario is possible for countries that are trying to speed up their economic growth.

The second half of the 19th century is characterized by the rapid increase of globalization, the growing role of international economic organizations.

However, globalization has significantly weakened traditional national system of state regulation of the economy, and international is still not quite perfect.

Globalization leads to the fact that no state can exist without the active cooperation of the international system. Enhancing interaction of limiting their freedom of choice in methods of foreign and domestic policy.

Thus, for countries in need of financial assistance from international organizations currently offer the same conditions that do not take into account the peculiarities of the country, their level of development.

This underlines the role of state in the management of structural changes of national industry with due consideration of regional and international trends.

### 1. Formulation of the problem

In the modern constantly changing world, the management of regional development becomes more and more important. If in 1940-60 there were large countries that practically could provide themselves with all necessary goods (e.g. USSR), now this is fundamentally impossible. The process of gradual erasing of economic borders between states becomes more intensified, and this gives a special international touch to the regional development. Therefore the regulation of such development should consider not only specific traits

of a region or country, but also the impact of global international trends.

Globalization is a pronounced and very important process for economies of specific countries. It is also one of the most important social processes of the period from the end of the XX to the beginning of the XXI century, and it includes:

1. International division of labor – which, however, first historically appeared long ago. Presently, the intersectoral division of labor is being substituted by international division of labor.
2. International production, which is characterized by fast growth and has a value of approximately from 4 to 14 trillion dollars.
3. International political relations – globalization depends largely on international institutions such as IMF, IBRD, different intersectoral unions, UN, etc.

In practice, globalization is supported by such factors as liberalization of domestic and international legislation that regulates trade, production of goods and services and monetary relations, as well as privatization of government property.

The theoretical basis of globalization consists of the neoliberal theory developed in the works by F. Hayek, M. Friedman and later in the publications of the Organization for Economic Cooperation and Development (OECD), GATT, IMF.

The purpose of the article – the investigation of factors that affect households and other stakeholders at international integration in the innovation area.

### 2. Analysis of research and publications

The world's scholars and politicians subsequently developed an idea that the globalization process acquired a truly all-encompassing character, and all countries participating in globalization undoubtedly receive profits, and that globalization influences all social spheres. However, the existing in the literature opinions on the neoliberal development model and relevant globalization can be diametrically opposite.

There are the following positions, which can be designated as: 1) optimists (D. Bell, J. Naisbitt, the Tofflers, etc.); 2) pessimists (J. Buchanan); 3) moderate line (Fukuyama, S. Huntington).

The supporters of globalization think that this process is caused by self-development of economy. Liberalization of international trade, integration of national form have transformed into super-national form. Transnational corporations control up to one quarter of the world's GDP.

J. Galbraith states that "... the market power available for a giant corporation is a basis not only for economical, but also for considerable political power" (Galbraith, 1969).

Consequently a number of economists took an adversary position toward globalization and explained their position by the argument that the state should first of all be the instrument to implement social agreement and develop rules, that would ensure social interaction with profits for all, but not to be a mitigator of market collapses.

Adversaries of globalization note that globalization and integration of international economic space goes together with its fragmentation, and globalization is essentially a process in which developed countries consolidate to oppose the rest of the world.

M. Castells states that "the main agents in the development of global economy were the governments of primarily the G7 countries and their international institutions" (Castells, 2001). This allowed large corporations of developed countries that surpassed their competitors in industrial capacity, technology, organization and financial resources, etc. to enter new markets easily. Cancelling of legislative limits and regulation of all international economical relations was to prevent any possible reduction of foreign firms' activities. Additionally, the particular interests of the most powerful corporations that did

not account for the goals of companies working for the domestic market were positioned as the interests of the global community.

### 3. Results

Considering all the advantages and disadvantages of globalization in 2002 at the Swiss Economic Institute and the Swiss Federal Institute of Technology was established index of globalization.

According to the globalization index ranking position is determined after ascertaining position of the country on 24 indicators, which are grouped in three categories – economic globalization (trade, investment barriers on imports, the average level of tariffs, taxes on international trade restrictions account), social globalization (telephone traffic, sending money, international tourism, foreign population, international letters, the number of Internet users, television, trade newspapers, trade books) and political globalization (embassies in the country, membership in international organizations participation in UN Security Council missions, international agreements) (Fig. 1).

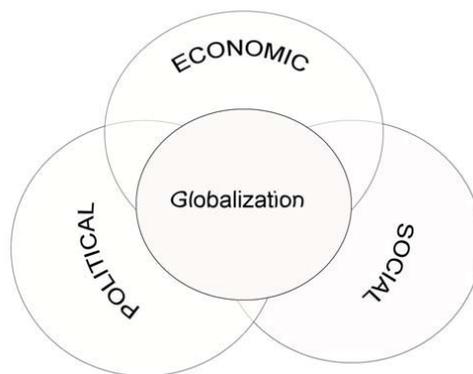


Fig.1. Investigation of globalization in three aspects.

On the basis of this index we studied the overall index of globalization and the economic component of the two countries (Ukraine and Russian Federation) (Fig. 2).

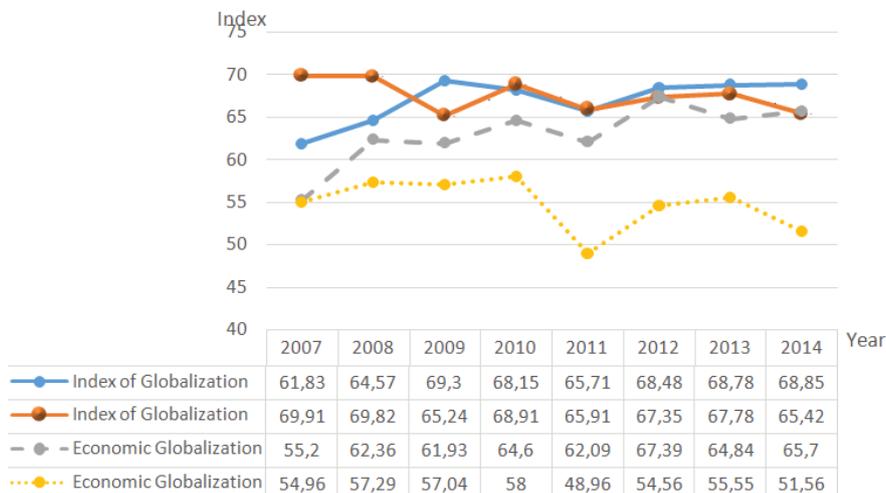


Fig. 2. Globalization index dynamics and economic globalization of Ukraine and Russian Federation

The analysis shows that the overall globalization index of Ukraine and the Russian Federation has a strong tendency (50th place in the overall ranking of countries). However, the index of economic globalization has a different tendency for Ukraine – it is growing, and for the Russian Federation – a tendency to decline.

This could explain some of the adverse effects of economic globalization. Namely: the government to reduce the possibility of maneuvering, transfer of control of the individual economies of sovereign governments to other hands, including the most powerful states, multinational or global corporations and international organizations. Was brought forward to the forefront of TNCs often put their own interests above the public, with the result that the role of the state is weakened and some of the functions transferred to various organizations and associations, etc.

We can suppose that a national industry can develop in the globalized world by various scenarios (Fig. 3).

The first one is an increase of production by the companies that have the most productive equipment; a rise of sales at the domestic market will cause a reduction of counterparts' production and considerable negative effects for the national economy.

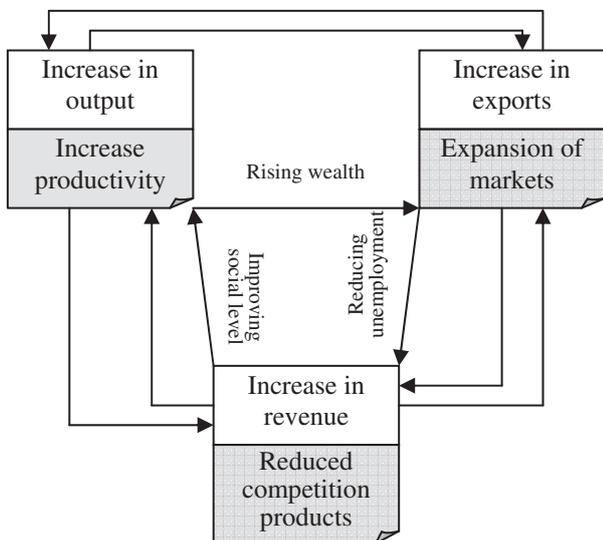


Fig. 3. Scenarios for the development of industry

The second one: companies will be able to enlarge their market by enhancement of export, which will promote a growth of employment, revenues and scientific and technological potential of the county, and will cause a curtailment of production in other countries and considerable adverse effects for their economies (Fig. 4).

The first variant would mean for a state a higher unemployment and more social tensions. The second

variant is more agreeable since it means that workplaces will be preserved and the domestic production companies will receive higher revenues, and the revenues from taxation will increase together with the overall wealth of the country.

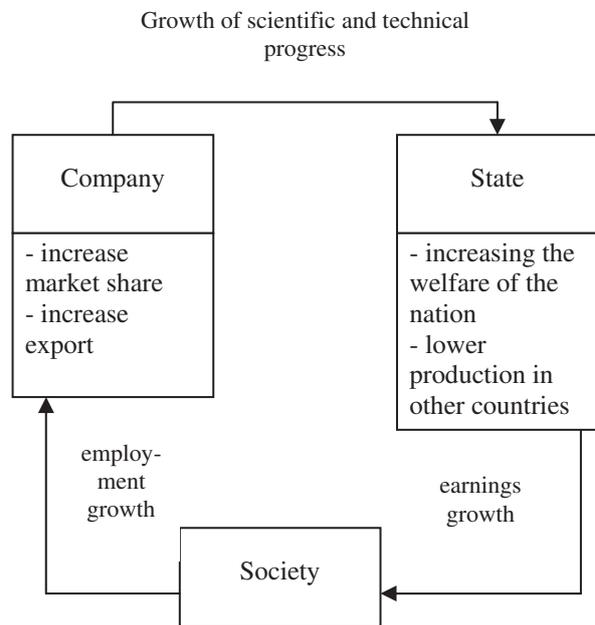


Fig. 4. Scenarios of interaction between public structures

This system will increase the welfare of the individual states. The current situation when developed countries promote globalization, meaning also liberalization of laws and opening of internal markets of the developing countries (it should be noted that only transnational companies have resources for entering these markets) is the consequence of an objective technological regularity.

At the same time, based on the hypothesis of growth of economically reasonable volumes of production, the only possible option for development of transnational companies is to enhance the production volumes which would mean also international expansion.

However, in terms of increased exports, it is important to keep in mind the development capabilities of particular firms. It is evident that it is very difficult for a small-scale producer to purchase new expensive equipment. It is clear also that such competitive market is not the market where the second scenario can work, since the small businesses will not produce for export.

Beneficiary in this case is the state as receiving high labor and increase production and society in a case of high-quality product.

It is not simply different from commercial production, but it is in concept not compatible with such a system where companies oppose each other and would not unite their capacities. This system

requires an integration of “knots” of companies into vertically organized consortiums and transnational companies, a development of a state-corporation system and neoindustrialization – the only possible way of effective development.

In countries with developed technology, the governments actively help businesses improve their marketability and create the necessary infrastructure: science, communications, information systems; the taxation system is being significantly changed in the way that gives incentives to competitive companies. Almost in all Western countries, the limits for migration of foreign work force are continuously becoming tougher. All this stimulates employment and maintains revenues at a high level, i.e. it serves to implement the second scenario stated above.

Discussed factors facilitate the separation of various countries and peoples, entail the erosion of national sovereignty and territorial principle of political organization. Under these conditions, increased uncertainty and risk economic environment, and their

destabilizing effects felt by equally all subjects of economic life.

It is possible to reveal objective rules that govern the formation and development of economic systems by using vertically-integrated structures.

Hence the necessity to develop a national industrial model. The idea of the model is to create large local centres in the country with high concentration of financial and intellectual resources. Semi-peripheral and peripheral districts will self-organize around these centres, which will result in a larger semi-peripheral zone within the country and a higher average wealthiness of the country’s citizens. Creation of such centres should go together with the building of highly integrated modern transnational companies.

Based on the analysis of factors that influence the behavior of entities in the globalization process, we proposed the following scheme of strategic action state (Fig. 5).

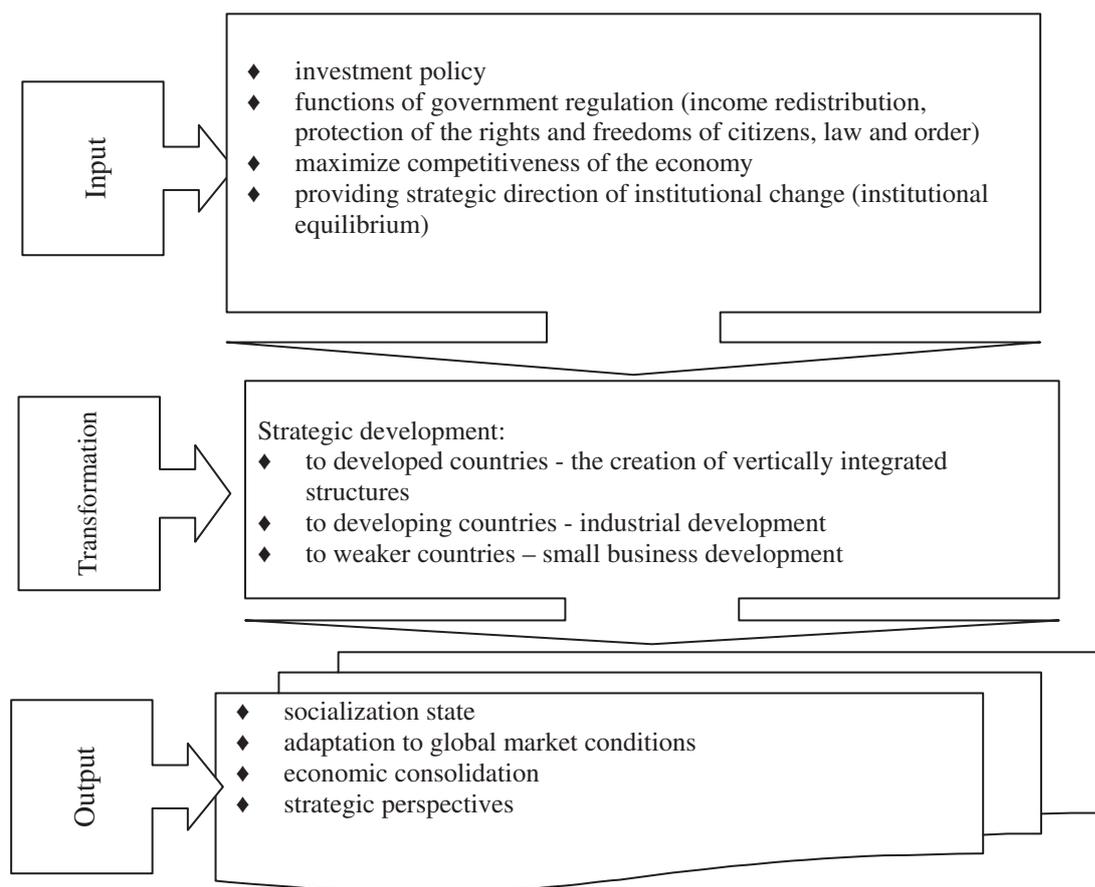


Fig. 5. Strategic policy in the context of globalization

The mechanism of action based on the proposed scheme is that most state institutions work closely with households. This in turn allows society to consolidate, intensify the creative power of the nation at various levels, balanced approach to addressing various social issues, carry out effective monitoring.

### Conclusions

Certainly today’s economy must take the path of active cooperation with international organizations. GDP growth is not a mechanical process. It follows the changes in the structure of economy, and types and quality of production and services.

Today for the development of a strategy for socio-economic development, it is important to address the evaluation of the economy's development and find contradictions in this development. The current situation in the national economy is characterized by contradictions between: national interests of the country and corporate interests; real and financial sectors of economy; export-oriented and domestic market-oriented sectors; interests of the general public and interests of financial oligarchy. These contradictions degrade the structure of the market-based economy, and if they are not adequately and timely solved they could cause disproportions and deficits. Self-regulated mechanisms of the market do not always work fast, that is why the equilibrium is restored by abrupt price rises, which do not automatically result in an increase in supply of goods.

When assessing possible strategies and their implementation scenarios it is necessary to find how they help solve these contradictions. The results of the period from 2000 to 2011 should be assessed from this viewpoint. The year of 2007 was the most successful: GDP growth rate went up to 8.1%, and investments augmented by 21%, there were formidable steps to diversify the production, and a quicker growth in

machinery production, implementation of national projects, a breakthrough in housing construction.

The modern economy is burdened by structural disbalances and deficits in fuel-and-energy sector, civil engineering, agriculture and in the consumer sector. These disbalances are the main cause for a constant increase of prices. The most serious disproportion is the deficit of highly qualified workers and engineers. Economic growth will be more and more dependent on the training and re-training of the workforce.

One of the most difficult tasks is to create a long-term socio-economic development strategy for the developing countries. To solve it, we need not only different scenarios of development with different variants, but also to find answers to the questions regarding the ways to overcome the contradictions. A strategy can be an effective document, provided that a special institutional units are organized to perform strategic planning and generate ideas and to act as systemic integrators and coordinators of all this complicated work in the regions and in large state companies. Some of the indicators should become directives of the government to be mandatorily complied with.

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