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FORMATION OF FOREIGN ECONOMIC POTENTIAL OF THE REGION AS A FACTOR OF COMPETITIVE DEVELOPMENT OF THE TERRITORY

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ABSTRACT

The article considers the main aspects of the formation of the foreign economic potential of the region as a factor of competitive development of the territory. The method of assessment of competitive development of the area and principles of realization of the foreign economic potential of the region is offered. To predict the structure of the region's foreign trade turnover is proposed to use the gravitational models of J. Tinbergen and H. Linneman. The article considers and defines the nature and prospects of the region's foreign economic relations with partner countries. It is shown that the use of the gravitational model to calculate the foreign trade turnover of

the region provides an opportunity not only to forecast its future indicators, but also to determine areas for export-import relations and development of the region, which affects the level of the economic potential of the region and, consequently, its competitiveness.

Key words: Region's Economic Potential, Region's Competitiveness, Competitive Development of the Territory, Foreign Trade Turnover of the Region

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1. INTRODUCTION

Analysis and assessment of regional competitiveness (regional competitive advantages) have become relevant in a market economy in connection with the increasing activity of the regions' competition for limited resources (financial, material, human). The evolution of theories of regional growth is a regularity - through the prism of changing the role and place of the processes of economic development of territories in the system of state regulation.

In the conditions of financial and economic crisis, fewer resources of regions are involved in the system of the international division of labour. This is evidenced by the reduction of the growth rate of regional exports and the growth rate of the gross regional product in all regions. The realization of foreign economic potential is essential for the development of the region's competitiveness. To this end, it is essential to develop mutually beneficial trade relations in the region. In this regard, the issue of forecasting and determining the effectiveness of the integration process becomes especially relevant from both scientific and practical points of view. An important task is the formation of economic and mathematical tools for modelling the operations of foreign economic activity of enterprises and the region as a whole. The use of adequate methodological tools will assess the effectiveness of trade and economic relations, taking into account the critical factors of regional development or local growth of the territory. Corrective tools for forecasting the foreign economic potential of the region provide opportunities to make timely changes in the foreign economic policy of the region, which will contribute to the sustainable development of mutually beneficial cooperation and competitive development of the territory.

2. OBJECTIVES OF THE STUDY

In the framework of this study, the following problematic issues are identified:

- to determine the components and features of the formation of the foreign economic potential of the region;
- to develop a methodology for assessing the competitive development of the territory and the principles of realization of the foreign economic potential of the region.

3. THEORETICAL SECTION.

3.1. The Main Determinants of Regional Growth and the Factor of Competitive Development of the Territory

The problem of regional competitiveness was first identified by M. Porter (Porter M., 1979). Today there are about a dozen approaches to assessing the competitiveness of the region (Borts G.H., Stein J.I., 1964; Danylyshyn B. et al., 2019; Duiskenova R., Dzwigol H., 2019;

Olshanska O., 2011; Zhumaxanova K., 2020), but the exact situation is evolving rapidly, changing research objects: from the analysis and assessment of the competitiveness of goods and firms (micro-level) to the study of the competitiveness of countries (macro level) and, further, the competitiveness of regions (meso level). At present, the tendency to move away from the attitudes of the classics (Porter M., 1979) is clearly traced in scientific research, which indicated that it is not countries that enter into competitive relations, but specific firms. The state serves only as an environment that creates or does not create conditions for increasing the competitiveness of firms. In this approach, the application of the categories "competitiveness", "competitive advantage", "competitive position" in relation to countries (regions) is entirely conditional, because in the territorial aspect of resources and production conditions are localized (except for the "management" factor) and focused on levels of populated areas of the region. That is, the requirements for increasing the competitiveness of firms are formed at the level of settlements (cities, towns), and not in a specific area (region).

Thus, the assessment of the competitiveness of the region, the identification of its competitive advantages should be manifested in the following moments:

- to determine what M. Porter called the "nature of competition" (which industries, segments of the regional economy are competitive);
- to specify concerning which market (interregional, national, world) the competitiveness of the region is assessed;
- distinguish between existing and potential competitive advantages of the region;
- clarify the competitive advantages (nominal or real) used by enterprises in the region to increase competitiveness;
- highlight as the most critical competitive advantage of the region the integration of intra-regional space/territory (the degree of differences between the individual elements of the region as a system, and the degree of interconnectedness).

The main determinants of the development of regional systems are the factors of regional development or local growth (Fig. 1).

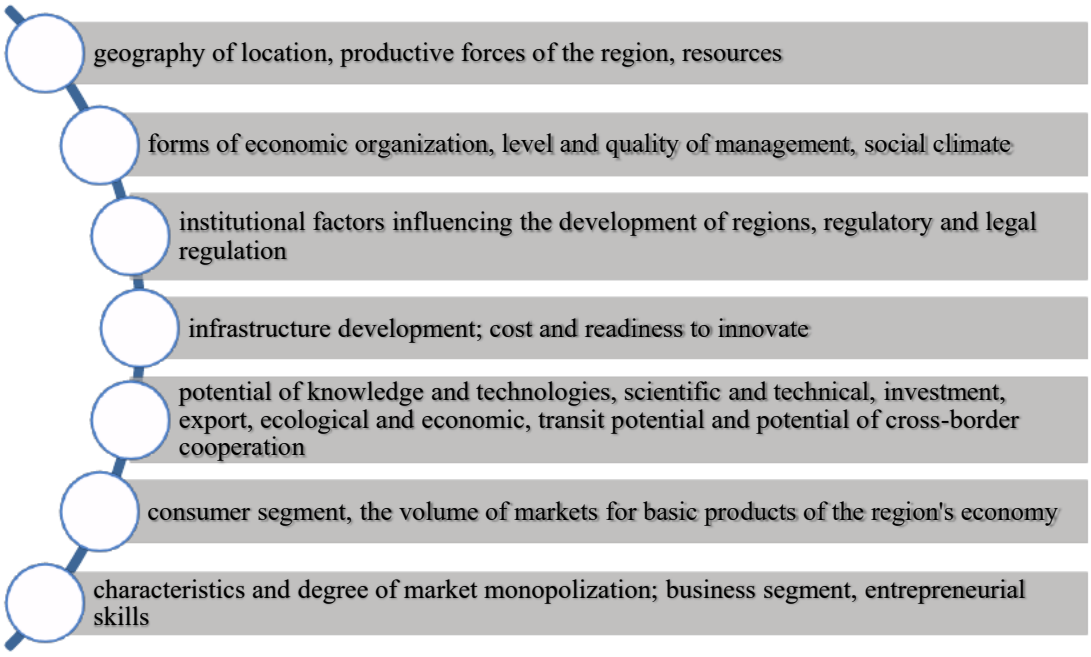

Figure 1 Key factors of regional development or local growth of the territory

Understanding the determinants of regional development has evolved in scientific views. We can distinguish the following theories of regional growth:

- neoclassical theories based on the production function of regional development (Siebert H., 1969; Borts G.H., Stein J.I., 1964). The determinants of economic growth of the regional system are its production potential, and the parameters of regional development are natural resources, labour resources, capital, technology, a combination of these resources, the degree of their coordinated, purposeful use.
- Theories of cumulative growth (neo-Keynesianism, institutionalism, economic-geographical models and methods of regional agglomeration). The determinants of the region's development are the effects of agglomeration, the presence of "growth poles" and "axes of development", as well as the diffusion of innovations (Myrdal G., 1957; Richardson H., 1973; Schumpeter J.A., 1983).
- theories of state regulation of regional growth / economic policy. The determinants of regional prosperity are the depth of state regulation of economic development of regions: from "soft" state influence to intensive regulation (Hoover E., 1948; Hägerstrand T., 1953).

According to research, Fig. 2 presents the main determinants of competitive development of the region, based on a set of properties that are competitive advantages of the territory.

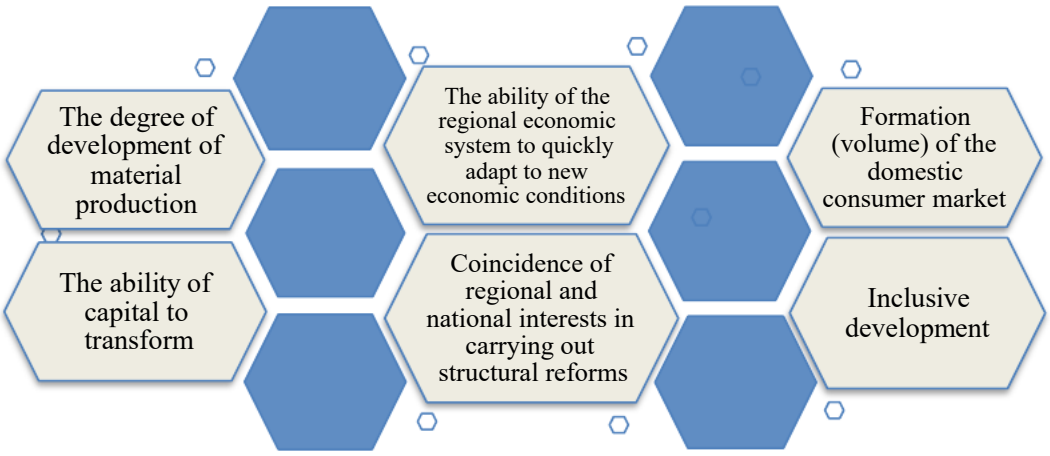

Figure 2 Determinants of competitive development of the territory

The current model of "new regionalism" (European regional policy, 2009) is based on levelling the concept of national borders and transforming regional development into new opportunities, based on existing regional potential, its practical use. The implementation of the "model of new regionalism" is based on the principles of institutionalization; levelling national borders to expand opportunities for cooperation; reducing the dependence of regional production on the territorial division of productive forces; the growing role of capital flows in the location of the productive forces of the regions; strengthening of structural disproportions of regional development due to territorial concentration of productive forces; transformation of territorial investment activity into objectivity; network production structures; the subjectivity of regions; transformation of the nature of connections between global and local systems; multilevel regional development management system; inclusiveness and holistic nature of regional development, etc. It is the use of the potential of regional development that becomes the basis for the formation and provision of competitive advantages of the territory, the creation of opportunities for the development of the region in the future.

3.2. The essence and components of the foreign economic potential of the region

An important factor and, at the same time, an indicator of the region's competitiveness is the development of foreign economic activity (FEA). To identify the competitive opportunities of the region, it is necessary to take into account its competitive potential, competitive advantages, competitive position, as well as its real (current) competitiveness.

The competitive potential is a component of the economic potential of the region. The economic potential of a region is a set of resources localized on its territory: natural, resource-raw material, material-technical, scientific-technical, labour and information - which, if necessary, can be involved in solving specific tasks. In this case, the competitive potential of the region is a set of components of its economic potential, which are actually used in economic activities. The use of the region's competitive potential is influenced by a combination of external and internal (territorial) factors. Moreover, the same elements have different effects on different regions.

Competitive advantages of the region are a set of favourable internal and external factors that become the basis for sustainable development of the region, solving its socio-economic and environmental problems.

The competitive position of the region is determined by a set of its competitive advantages and current limitations, taking into account the current economic situation, the state of the markets of the relevant industries, which determine the specialization of the region. The competitive position of the region determines the competitiveness of its economy in the current conditions. Thus, the competitive position of the region is a reflection of its competitive opportunities.

The competitiveness of the region's economy reflects the level of realization of the region's competitive position in the global, national and regional markets and characterizes the effectiveness of the region's competitive advantages.

The following criteria for the region's competitiveness can be identified:

- realization of the economic potential of the region;
- formation of investment attractiveness of the region;
- production of goods and services competitive in the markets;
- creating favourable conditions for the activities of economic entities in the region to maintain their competitive advantages.

An essential component of the realization of the economic potential of the region is foreign economic potential. From the economic point of view, the foreign economic potential of the region represents the maximum possible volume of foreign economic connections of the region, the sale of competitive goods and services on the world market, based on the existing regional sectoral structure. The foreign economic potential of the region is the total ability of economic entities of the region to carry out the foreign economic activity to ensure socio-economic development of the territory, based on internal and external resources of the region, provided the effectiveness of external relations management system, information base. A critical component of the region's foreign economic potential is its export potential, which is the combined ability of the regional economic system to produce goods, technologies and services that meet international standards, provided the rational use of natural resources of the region. Realization and development of the export potential of the region are provided by the economic potential of the region. The leading economic indicators of export potential at the regional level are:

- gross regional product (GRP) per capita;
- the share of exports of goods and services in GRP;

- the volume of exports per capita;
- the share of exports of industrial goods (services) in total exports of goods (services);
- rates of change and indicators of advancement, which characterize the dynamics of development of the above indicators.

The concept of "foreign economic potential of the region" is complex and multifactorial. Complexity is reflected in the correlation of production opportunities and practical sales on the foreign market in the chain "resources - reserves - opportunities". The components of the foreign economic potential of the region are presented in the form of a model in Fig. 3.

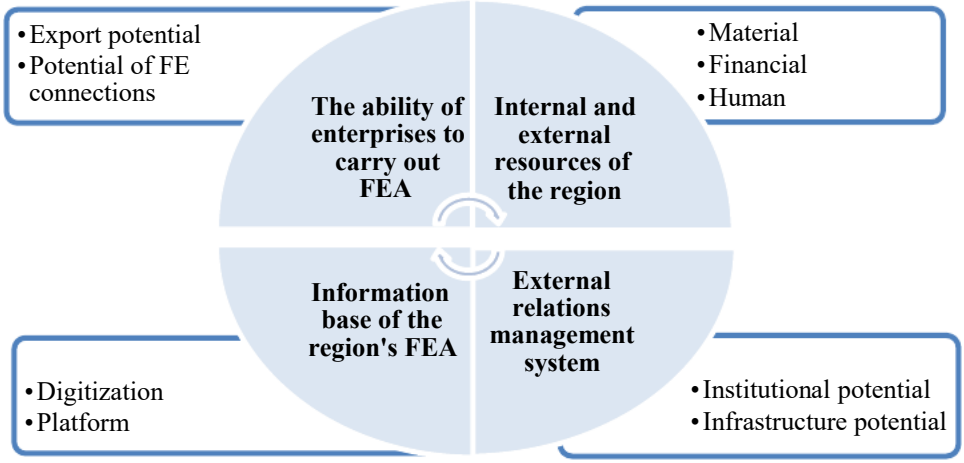

Figure 3 Model of the foreign economic potential of the region

Thus, the foreign economic potential of the region includes:

- the ability of enterprises in the region to carry out foreign economic activity, which is expressed in export potential and the potential of foreign economic relations;
- internal and external resources of the region (material, financial, human), which together contribute to the development of foreign economic activity;
- system of management and provision of external relations, including institutional and infrastructural potentials;
- information base of foreign economic activity of the region, based on digitalization and platform – to access the necessary information and provide communication opportunities for participants at each stage of foreign economic connections.

The development of the foreign economic potential of the region is associated with the use of the advantages of the region within the available natural resource potential for production for export. And the development of competitive advantages of the region is possible only on the basis of innovative, scientific and technical activities, the results of which should be applied in the production process.

4. METHODOLOGY

An important methodological task is the modelling of trade and economic integration in the implementation of foreign economic activity of enterprises in the region, which can be done using gravitational models. Gravitational models allow predicting potential long-term trade flows in the region and give a qualitative description of the factors influencing the size and structure of foreign trade: the possibility of exports and imports, expressed in the supply of

some goods in foreign markets and demand for others; accounting for factors that constrain the foreign trade turnover of the region (transport costs, tariff system, etc.). The impact of these factors, in turn, is assessed on the basis of data on the actual size of trade in the region using regression analysis. The obtained parameters of the gravitational model characterize the elasticity of factors and show how the turnover of the region will change when the corresponding factor changes by 1%.

To predict the turnover of economic entities in the region, we use the gravitational models of J. Tinbergen and H. Linneman (Tamirisa Natalia, 1999). Based on the obtained models, it is possible to predict the foreign economic potential of the region.

The method of expert assessments and subsequent ranking is used to determine the competitiveness of the region. Correlation of indicators of foreign economic potential and competitiveness will make it possible to determine the degree of influence of the value of foreign economic potential on the competitiveness of the territory.

5. RESULTS AND DISCUSSION

5.1. Modelling of the Foreign Economic Potential of the Region

J. Tinbergen's model has the following form:

$$X_{ij} = a_0(Y_i)^{a_1}(Y_j)^{a_2}(D_{ij})^{a_5} = \varepsilon \quad (1)$$

H. Linneman's model has a more general appearance:

$$X_{ij} = a_0(Y_i)^{a_1}(Y_j)^{a_2}(N_i)^{a_3}(N_j)^{a_4}(D_{ij})^{a_5}(A_{ij})^{a_6}(P_{ij})^{a_7} + \varepsilon \quad (2)$$

where X_{ij} – the value of trade flow from country/region$_i$ to country/region$_j$;

Y_i, Y_j – indicators characterizing the nominal GDP of the respective countries / GRP regions, in the national currency;

D_{ij}– physical distance of economic centers of countries/regions *i* and *j*, km;

N_i, N_j – population in a given country/region;

A_{ij} – any other factor that facilitates or hinders trade (for example, the existence of borders or anti-dumping regimes in one of the countries);

P_{ij} – trade preferences that exist between states (in the absence of preferential agreements P_{ij} = 1; otherwise P_{ij} = 2);

α_1, α_2, α_3, α_4, α_5, α_6, α_7 – export elasticity coefficients according to the GDP of the exporting country / GRP of the exporting region, GDP of the importing country / GRP of the importing region, the population of the country/region$_i$, the population of the country/region$_j$, distances between countries/regions, any other factor and trade preferences;

α_0– the free term of the equation;

ε – random error.

It is proposed to consider the example of the Black Sea region, as it is a cross-border area, the most successful example for consideration of foreign economic activity. Using official statistics on export-import activities, let us verify the effect of the above models on the example of the Black Sea region for the essential partner-countries. The results obtained are presented in Table 1.

Table 1 Gravitational models of foreign trade turnover for the Black Sea region are calculated according to the models of J. Tinbergen and H. Linneman.

Country	J. Tinbergen's model	H. Linneman's model
Republic of Belarus	$X_{ij} = 0{,}018(Y_i)^{0{,}5548}(Y_j)^{1{,}108}$ $R^2 = 0{,}847;$ $F_{fact}(16{,}48) > F_{table}(44{,}74)$	$X_{ij} = 1{,}221\text{E} + 59(Y_i)^{-0{,}235}(Y_j)^{1{,}088}(N_i)^{-34{,}208}(N_j)^{-41{,}642}$ $R^2 = 0{,}957;$ $F_{fact}(26{,}28) > F_{table}(5{,}19)$
Poland	$X_{ij} = 0{,}028(Y_i)^{0{,}701}(Y_j)^{0{,}818}$ $R^2 = 0{,}943;$ $F_{fact}(76{,}34) > F_{table}(4{,}74)$	$X_{ij} = 3{,}361\text{E} - 109(Y_i)^{1{,}116}(Y_j)^{0{,}677}(N_i)^{-13{,}987}(N_j)^{7{,}706}$ $R^2 = 0{,}967;$ $F_{fact}(38{,}18) > F_{table}(5{,}19)$
Turkey	$X_{ij} = 42{,}208(Y_i)^{-0{,}411}(Y_j)^{1{,}415}$ $R^2 = 0{,}971;$ $F_{fact}(136{,}37) > F_{table}(4{,}74)$	$X_{ij} = 2{,}301\text{E} - 29(Y_i)^{0{,}785}(Y_j)^{1{,}088}(N_i)^{-1{,}387}(N_j)^{7{,}046}$ $R^2 = 0{,}987;$ $F_{fact}(138{,}08) > F_{table}(5{,}19)$

The accuracy of the presented models is high, which is confirmed by the value of the coefficient of determination. These models characterize the influence of selected factors on the foreign trade turnover of the region, and, consequently, on its foreign economic potential. The value of the degree to which the chosen indicator rises characterizes the impact on the final result. Thus, according to trade turnover with the Republic of Belarus, with an increase in GDP of the latter by 1%, foreign trade turnover increased by 0.57% (according to the model of J. Tinbergen). H. Linneman's model indicates that if the value of the GDP of the Republic of Belarus increases by 1%, the result will decrease by 0.24%. This shows that with different choices of calculation factors, the final indicators will be significantly different. According to Fisher's test, the equality $F_{fact} > F_{table}$ is fulfilled, which confirms the existence of causal relationships of the models. With the help of specific models, it is possible to develop a forecast of foreign trade turnover of the region, based on the extrapolation of trends. Forecasting based on gravitational models makes it possible to predict the development of economic events and adjust regional policy to diversify foreign economic activity for more rational use of the potential of international economic activity and increase the competitiveness of the territory. The development of foreign trade turnover of the region is characterized by a possible scenario: as projected; for intensive trade; for extensive trade. According to the scenarios, the vector of change of the foreign economic potential of the region for the development of competitiveness is chosen. The projected direction is characterized by the identified trends and the existing structure of export-import relations of the region with the partner country. Thus, the level of increasing the foreign economic potential of the region and competitive foreign economic activity are directly dependent. Strengthening the competitiveness of the region is possible through the inclusion of reserves for the development of foreign economic potential. Under the scenario of intensive trade, with the deepening of trade between specific entities, this is possible provided that the competitiveness of products and sales, as well as the constant modernization of export-oriented sectors of the economy. At the same time, the foreign economic potential of the region will grow due to the increase of the investment potential of the region's enterprises and the attraction of foreign capital. The pessimistic scenario is the development of extensive trade, i.e. reorientation of trade and economic relations, the search for new markets. In this case, there will be no increase in the foreign economic potential of the region; on the contrary, the potential will be reduced for each of the structural elements.

5.2. Characteristics of the Competitiveness of the Regions of Ukraine

The basis of the region's competitiveness is its economic potential, which is characterized by the development of industrial complexes in some geographical regions, the availability of resources, minerals, the level of scientific and technical potential, characteristic processes and more. The share of a particular region in the country's GDP varies. The level of competitiveness of the regions of Ukraine was determined by ranking according to the level of industrial development in the region. The method is based on the methods of modes, medians and arithmetic mean. As a result of the calculations obtained the result (Fig. 5).

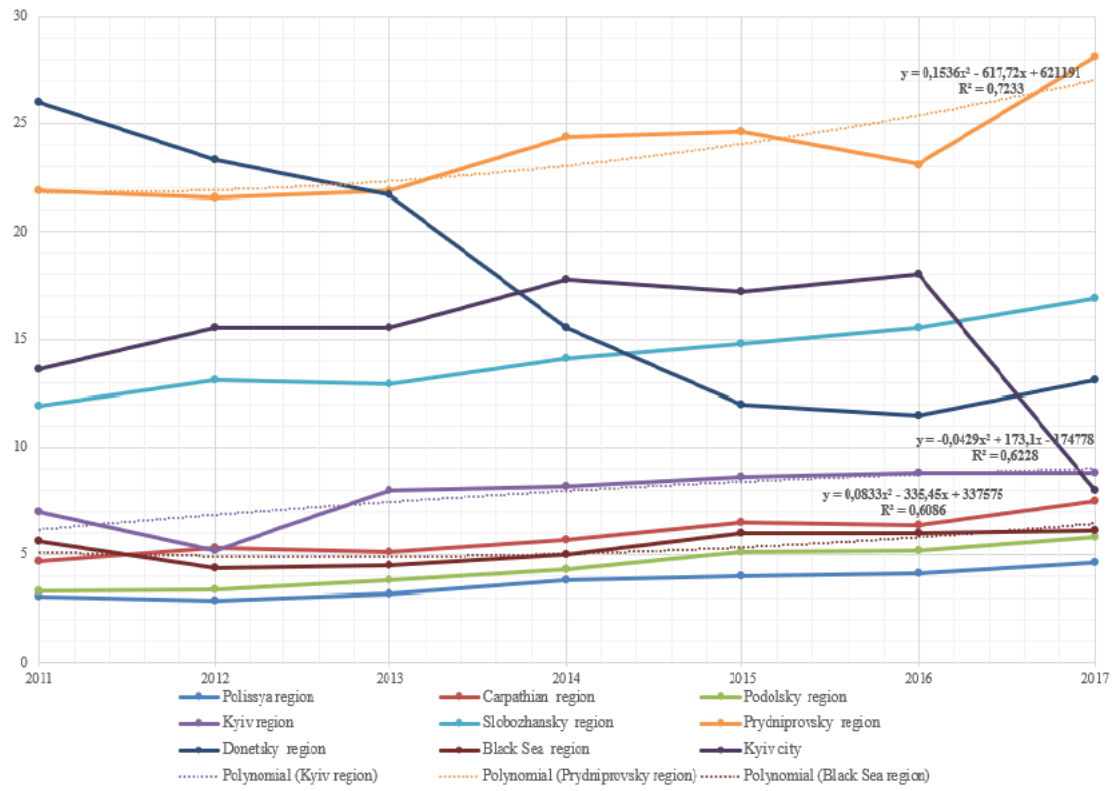

Figure 4 Rating assessment of the regions of Ukraine by the development of the industrial sector

It is proposed to allocate a separate region of Kyiv, the results of economic activity of industrial enterprises which exceed the corresponding indicators of many of these regions (Obolentseva L., 2019). Consolidation of the city of Kyiv into the Kyiv region is also considered inappropriate because the city of Kyiv has special conditions and peculiarities of development of industrial complexes. According to the State Statistics Service of Ukraine, the shares of regions in the total volume of sold industrial products, goods and services were calculated.

As can be seen from the figure, *the Black Sea region*, which includes the Odessa region, occupies a low rating position among the regions of Ukraine. The highest step in the ranking belongs to *the Dnieper region*, which includes Zaporizhzhia and Dnipropetrovsk regions. And this is understandable because the Dnieper region is a developed industrial region, in which there are innovative enterprises that are able to offer competitive products on the market.

The Kyiv region (Kyiv, Zhytomyr, Chernihiv regions) without the inclusion of Kyiv City does not occupy a very high place, because it does not have a convenient transport and geographical position due to the crossing of the district by the navigable Dnieper, access to Kyiv major state highways and not so high level of educational and professional training of

the able-bodied population, especially in cities and a significant concentration of scientific potential.

The Podolsk region (Ternopil, Khmelnytsky and Vinnytsia regions) also occupies a low, competitive position. The main problems of the region are the relatively low level of industrial production development compared to other regions. This leads to very high unemployment and low living standards in Ternopil and Khmelnytsky areas, especially in rural areas.

The lowest ranking position is occupied by *the Polissya region*, which includes four regions of Ukraine: Volyn, Zhytomyr, Rivne and Chernihiv.

Identification and assessment of the impact of critical factors on the competitiveness of the region are proposed to determine based on normalized weights. Factors whose change in indicators may affect the economic potential of the region, expressed by many gradations of factors in the level of competitiveness of the region:

$$K_f = f(x) = \begin{cases} -x, & x < 0 \\ x, & x \geq 0 \end{cases} \quad (3)$$

where K_f – factor that affects the competitiveness of the region. A positive value of x indicates a favourable impact of the selected factor on competitiveness, a negative value indicates that the factor hinders the region's development.

It is proposed to consider the influence of the following factors:

where x_1 – capital investment;

x_2 – the innovative activity of industrial enterprises;

x_3 – financial results of industrial enterprises;

x_4 – average monthly salary of industrial workers;

x_5 – the value of non-current assets of industrial enterprises in the region;

x_6 – the value of current assets of industrial enterprises in the region;

x_7 – equity of industrial enterprises of the region;

x_8 – the export activity of enterprises;

x_9 – the quality of management system of foreign economic activity of enterprises;

x_{10} – information support of foreign economic activity of enterprises.

Most of the selected factors are indicators that are determined by the statistics of the State Statistics Office of Ukraine. Qualitative indicators x_9 and x_{10} are determined by the method of expert assessments and translated by the linguistic approach to a single measurable indicator.

The results of calculations for pairs (K_f, x_i) on the example of the Black Sea region with the calculated values of normalized weights are given in Table. 2.

Table 2 Estimation of weighting factors of competitiveness factors of the Black Sea region of Ukraine

Influencing factors, x_i	K_f	$K_{f\ critical}$	$\frac{K_f}{K_{f\ critical}}$	k_i
capital Investments	35,28576734	5,306854955	6,65	13,37
innovative activity of industrial enterprises	37,27566932		7,03	13,33
financial results of industrial enterprises	38,25576731		7,21	13,21
the average monthly salary of industry workers	37,25576336		7,02	13,24
the value of non-current assets of industrial enterprises in the region	18,22576937		3,43	7,01
the value of current assets of industrial enterprises in the region	9,29586937		1,75	3,71
equity of industrial enterprises in the region	24,29546942		4,58	12,32
export activity of enterprises	17,23577731		3,25	8,87
the quality of the management system of foreign economic activity of enterprises	14,26576734		2,69	10,74
information support of foreign economic activity of enterprises	9,29566837		1,75	3,45

According to calculations, the most influential factors in the competitiveness of industrial enterprises of the Black Sea region of Ukraine are capital investment, innovation, average wages of industrial workers, pre-tax financial results, equity of industrial enterprises in the region; the least influential are current assets of industrial enterprises and activities of enterprises.

According to the results of the study, during a crisis or decline in production, the values of all indicators change unpredictably, with the stabilization of the economic potential of the region, almost all factors tend to grow slowly.

The study confirms the hypothesis that the level of the economic potential of the region has the most significant impact on its competitiveness, as it increases the foreign economic potential as a critical factor in the competitive development of the territory.

6. CONCLUSION

This study describes a methodological approach to the formation of the foreign economic potential of the region. The method of assessment of competitive development of the territory and principles of realization of the foreign economic potential of the region is offered. The structure of the foreign trade turnover of the region is analyzed. It is proposed to use the gravitational models of J. Tinbergen and H. Linneman for forecasting. The method of expert assessments and subsequent ranking is used to determine the competitiveness of the region. The correlation of indicators of foreign economic potential and competitiveness will make it possible to decide on the degree of influence of the value of foreign economic potential on the competitiveness of the territory. The nature and prospects of the region's foreign economic relations with partner countries are considered and determined. It is proved that the use of the gravitational model to calculate the foreign trade turnover of the region provides an opportunity not only to forecast its future indicators but also to determine areas for diversification of export-import relations and development of the region. And this directly or indirectly affects the level of the economic potential of the region, and, consequently, its

competitiveness. Further research should clarify the nature and density of the relationship between the individual structural elements of the economic potential of the territory and foreign trade turnover. In addition, the use of the gravitational model as a means of forecasting the foreign economic potential of the region is a relevant and promising area of further research.

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