THEORETICAL PARADIGMS AND INTERNATIONAL MODELS OF IMPLEMENTING FINANCIAL-CREDIT MECHANISMS IN REGIONAL DEVELOPMENT

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Abstract. *This research comprehensively explores the theoretical foundations and international practices of utilizing financial and credit mechanisms to stimulate regional economic development. The study synthesizes classical and contemporary macroeconomic theories to demonstrate that regional development requires a multidimensional approach encompassing economic, social, and infrastructural integration. By analyzing prominent international frameworks, such as the European Cohesion Policy, the US Liberal-Market Model, the Japanese state-led approach, the Scandinavian social-investment model, and the Chinese state-investment architecture, the research identifies adaptable strategies for mitigating regional economic disparities. The findings underscore that an optimal combination of fiscal federalism principles, endogenous growth strategies, and targeted financial instruments (e.g., Local Allocation Taxes, Sovereign Wealth Funds, and Urban Enterprise Zones) is essential for transforming peripheral regions into highly competitive, self-sustaining economic zones.*

Keywords: *Regional economic development, financial-credit mechanisms, Fiscal Federalism, Endogenous Growth Theory, international economic models, fiscal equalization, Local Allocation Tax.*

Regional economic development within a national economy is a complex process directed at ensuring stable economic growth, minimizing developmental gaps between territories, and improving social welfare and ecological balance. From a theoretical standpoint, prominent economists have conceptualized regional growth through various lenses. Theoretical paradigms emphasize the creation of “clusters” and value chains to enhance regional competitiveness, while also focusing on the allocation of capital and technological advancement as primary drivers of growth. Furthermore, macroeconomic literature highlights the importance of geographical context in socio-economic transformations, advocating for viewing regional development through the expansion of human capabilities and social welfare rather than mere economic output. These diverse perspectives dictate that financial and credit mechanisms must be

employed systematically to address the unique demographic, infrastructural, and commercial potentials of each region.

Theoretical paradigms of regional financing, the academic discourse relies heavily on advanced theoretical paradigms to justify the decentralization and distribution of financial resources:

Fiscal federalism theory investigates the optimal distribution of tax authorities, budgetary expenditures, and transfers between central and local governments. It operates on the principles of subsidiarity, decentralization, and vertical/horizontal equalization. A prime application of this theory is the European Union's Cohesion Policy, which aims to reduce economic, social, and territorial disparities. This is financially supported by the European Regional Development Fund (ERDF) for infrastructure, the European Social Fund (ESF) for employment and education, and the Cohesion Fund for transport and environmental projects in less developed member states.

Endogenous growth theory diverging from traditional models that treat growth as an external outcome, this theory asserts that economic expansion is generated from within the regional system. It identifies technological progress, human capital, innovation, and knowledge accumulation as internal economic decisions rather than external variables. Thus, financial interventions should heavily target intellectual capacity and regional innovation hubs to ensure self-sustaining development.

Classification of financial-credit mechanisms, the practical application of these theories involves a structured classification of regional support mechanisms:

Financial mechanisms include state budget allocations, subventions, and fiscal transfers aimed at equalizing territorial imbalances. Tax incentives, such as tax holidays or reduced rates in Special Economic Zones (SEZs), play a critical role in minimizing corporate expenses, thereby accelerating reinvestment and technological modernization.

Credit mechanisms – commercial bank loans, preferential interest rates, and state guarantee funds provide the necessary liquidity for local enterprises. These tools are vital for small and medium-sized enterprises (SMEs) to cover operational costs, expand production, and enhance export potential.

Investment mechanisms are direct foreign and domestic investments act as the "locomotive" of regional growth, fostering the creation of new industrial sectors, diversifying the local economy, and introducing advanced foreign technologies.

Global architectures and international models, global practices demonstrate varied, highly specialized architectures for implementing these mechanisms:

The US liberal-market model is based on institutional adjustments rather than total state control, this model relies heavily on market mechanisms and private

initiative. Federal and local instruments are synergized, with institutions like the Small Business Administration (SBA) playing a pivotal role in guaranteeing 50-85% of long-term, low-interest loans to stimulate job creation in lagging regions.

The Japanese state-led model is characterized by centralized strategic planning, this model utilizes state financial institutions (such as the Development Bank of Japan) to provide long-term preferential credits for industrial diversification. A unique fiscal tool is the Local Allocation Tax (LAT) system, an automatic transfer mechanism that calculates a region's standard expenditure needs against its standard tax capacity, covering the deficit from the central budget to ensure uniform public service delivery without compromising local autonomy.

The Scandinavian social-investment model is combining a free-market economy with strong social democratic principles, this model (observed in Finland, Norway, Sweden, and Denmark) treats social spending as an economic driver. High tax revenues are reinvested into human capital, healthcare, and education. It employs a "flexicurity" (flexibility + security) system, balancing dynamic labor markets with robust social protection and retraining programs, thereby maintaining high regional competitiveness.

The Chinese state-investment architecture, China utilizes a multi-layered financial structure encompassing the state budget, policy banks, municipal targeted bonds, and state-owned enterprise (SOE) investments. Central transfers fund strategic infrastructure and innovation zones, while provincial and municipal budgets support local transport and industrial clusters, maintaining an investment rate of approximately 40% of GDP.

Urban enterprise zones and sovereign wealth funds, The UK and the US actively employ "Urban enterprise zones" to offer tax breaks and administrative simplifications in economically distressed urban areas. Additionally, Sovereign Wealth Funds are globally recognized instruments that reinvest surplus national reserves into regional infrastructure, real estate, and strategic sectors to secure long-term macroeconomic stability.The comprehensive analysis of theoretical paradigms and international models confirms that regional economic development cannot rely on a single, universal formula. Instead, it requires a hybrid integration of fiscal federalism and endogenous growth strategies. Transition economies can significantly benefit from adopting specific international instruments, such as the Japanese local allocation tax for equitable budget distribution, the Scandinavian approach to human capital investment, and the establishment of Urban enterprise zones to attract foreign direct investment. Ultimately, the precise calibration of these financial-credit mechanisms determines a region's ability to overcome structural disparities and achieve sustainable, inclusive economic growth.

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