



## PRESS RELEASE OF DELIVERABLE 1.1

### REPORT ON THE DEVELOPMENT EFFECTS OF BOTH THE EU ENLARGEMENT AND THE ENP SINCE THEIR IMPLEMENTATION IN 2004: SOCIO-ECONOMIC COHESION, REGIONAL DISPARITIES AND INTENSITIES OF ECONOMIC INTERACTIONS

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#### OBJECTIVE

The objective of this report is to provide an overview of the main research projects that examine the European Neighbourhood Policy (ENP) in the areas of trade, migration, innovation and institutional and cultural diversity, and social capital, and to provide a literature review on the topics of New Economic Geography (NEG) and regional economic development. These overviews are presented in three working papers, WP1.1, WP1.2, and WP1.3. Together with the report from deliverable 1.1, which gives an overview of the literature that has evaluated these policies and the literature that considers the political dimension, this report will support and inform further research of the SEARCH project. This press release will give a brief overview of the most important conclusions of the working papers in this report.. Since the goal of this report is only to provide an overview of existing research in order to inform the SEARCH project, policy implications of this report are not further explored.

#### MAIN RESULTS

Working paper 1.1 gives an overview of the empirical literature that studies the ENP and its impacts in the areas of trade, migration, innovation and education, and the institutional environment, social capital and cultural diversity. The main focus is

on large research projects that have resulted in multiple publications. The majority of these research projects that study the ENP have focused on trade and foreign direct investment from a macro-economic perspective. Migration has received attention to a lesser extent, there are only a few studies on innovation in the ENP countries, and no studies explicitly examine the role of the ENP on the institutional environment, cultural diversity and social capital on innovation. Although the research projects span a wide variety of themes, three key gaps in the literature are apparent. Firstly, most research does not examine the effect of specific policy measures, but only analyses the change over a period of time, often in multiple countries, which can only measure the impact of all policies that have been implemented in that period in that region. No research in this review isolates and examines a specific policy. Secondly, almost all studies focus on a national level or regional level in their analysis, and the sub-national level is rarely considered. Thirdly, most of the reforms carried out due to the ENP are very recent, and they are often phased in the same period as reforms of policies preceding the ENP are still phasing in. This means that for most studies the available data was not recent enough to evaluate the impact of these reforms.

Working paper 1.2 summarizes the main insights offered by NEG with respect to economic integration between countries and regions. What emerges from reviewing the theoretical framework of NEG is a fundamental ambiguity in the response of spatial economic processes to the gradual removal of trade barriers. Most, but not all NEG models predict a bell-shaped association between the agglomeration of economic production and welfare in a few places and the intensity of trade liberalisation. In this case barriers to trade are not only represented by ‘natural’ trade obstacles such as tariffs and quotas, but also by other elements such as different regulatory frameworks as well as different languages and cultures. Therefore, full economic integration is not possible without integration in a number of non-economic elements.

With respect to empirical research, relevant empirical studies concerned with the effect of the EU enlargement eastward are reviewed. Most of these works seem to suggest that economic integration lead to a restructuring of industry in CEECs and

that relocation patterns characterise most of the economic geography of such countries. Divergence and polarisation between regions in new EU member countries appear to be among the main consequences of enlargement, with more favoured regions (metropolitan and regions bordering EU) taking off while others stagnating or declining. It remains to be seen if the ENP has a similar divergent impact on neighbouring countries.

Working paper 1.3 explores the main concepts and ideas arising from the literature on regional economic development. It argues that geography matters for economic development in the sense that forces that lead to innovation and growth are rooted in specific places or regions (rather than countries) and they cannot be easily moved elsewhere or replicated in different contexts. Therefore, regional economic development literature focuses on the processes that favour learning and new knowledge creation at the local level. Globalisation sharpens the localised nature of innovation and development rather than alleviating it, since successful regions become able to exploit external knowledge as well as to serve international markets. Acknowledging that development is a localised process dependent on spatially-bounded elements as well as past trajectories provides an explanation for inequalities between regions within countries.

The paper further argues that the pattern of regional disparities is more evident in developing countries due to the scarcity of locations that are able to absorb external knowledge in these areas. Bottom-up policies are precisely designed to take into consideration forces that influence innovation and development in specific locations. Such policies are in contrast with traditional top-down strategies that basically offer the same general measures of economic policy regardless of local conditions and characteristics, which is why, based on literature, a reconciliation of top-down and bottom-up policies is proposed in order to approach regional development issues from a meso-level perspective. This ‘integrated framework’ makes it possible to analyse with the same conceptual tool different regions and to identify, on the one hand, regularities across space in the development trajectories of different locations and, on the other hand, specificities in the functioning of the economic system related to particular places.

The growing awareness about the relevance of local forces in shaping regional economic development path is reinforced by the increasing demand for power decentralisation from national to regional governments in the last decades. Decision-making at the local level could be extremely positive for regional development by encouraging collective action and tailoring strategies to local needs, although some drawbacks also exist in terms of equity and efficiency. In general, regional economic development theories highlight that development potential and competitive advantage are strongly localised elements. Therefore, what development strategies should aim at is to adopt balanced policies which build upon local strengths and try to alleviate local weaknesses as the way to root economic activity in territories in a sustainable manner.