



PRESS RELEASE OF WORKING PAPER 1.2

NEW ECONOMIC GEOGRAPHY AND ECONOMIC INTEGRATION: a REVIEW

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OBJECTIVE

This working paper explores the main contributions to New Economic Geography (NEG) with a particular focus on the effects of economic integration on spatial development. By offering both an overview of the theoretical literature on NEG, and an overview of the empirical NEG literature on the expansion of the EU with 10 Central and Eastern European Countries in 2004 and 2007, this working paper aims to provide a theoretical perspective which can provide a backdrop for the further SEARCH project in understanding the impact of the ENP. This press release will give a brief overview of the most important conclusions of working paper 1.2 of the SEARCH project. Since the goal of this working paper is only to provide an overview of existing research in order to inform the SEARCH project, policy implications of this working paper are not further explored.

MAIN RESULTS

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. As such, with low economic integration the spatial distribution of industry and income is dispersed, with each market served locally. However, the gradual removal of trade constraints triggers self-reinforcing agglomeration processes: as a result, industry tends to concentrate in few places. Finally, when economic integration is extremely strong, dispersion forces prevail and factor and product market competition basically drive the geographical distribution of production. 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.