

D1.3 SEARCH DELIVERABLE

Conceptual framework for the assessment of the impact of differentiated/incomplete integration on both the new member states and the Neighbouring Countries (NCs).

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**Deliverable 1.3: Conceptual Framework for the
Assessment of the Impact of
Differentiated/Incomplete Integration
on Both the New Member States and the Neighbouring Countries**

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1. Introduction

After the fifth enlargement round of the European Union in 2004 its external borders shifted drastically. Suddenly a range of poorer, economically and politically less stable and less democratic countries bordered the EU. In response to these changing circumstances the need was felt to create a unified policy to deal with neighbouring countries. This unified policy, the European Neighbourhood Policy (ENP), subsumed the patchwork of existing policy instruments. Its goal is to create a ring of countries around the EU with which the EU has close, peaceful and co-operative relations (COM 373 final, 2004).

The Search project will analyze the impact of this new policy on the integration of neighbouring countries and the EU in the areas of trade flows, mobility and human capital, technological activities and innovation diffusion, and the institutional environment. Work package 1 provides a baseline for these analyses, by offering both theoretical and empirical research overviews that deal with the European Neighbourhood Policy. The goal of these reports is to support and inform further research of the SEARCH project.

This deliverable, number 1.3, provides a conceptual framework that illuminates the connections between the various working papers of deliverable 1.1 and 1.2 and the tasks of the other work packages. This conceptual framework thus draws together the breadth of theoretical and empirical material that has been reviewed in deliverable 1.1 and 1.2 and provides a reference work for the SEARCH project on the relevance of work package 1. Figure 1 presents the linkages between the working papers of work package 1 and the tasks of work package 2 up to 5. The following sections detail the specifics of the linkages of the various working papers.

Figure 1. Conceptual Model linking the various working papers of deliverables 1.1 and 1.2 to the tasks of work package 2, 3, 4 and 5.

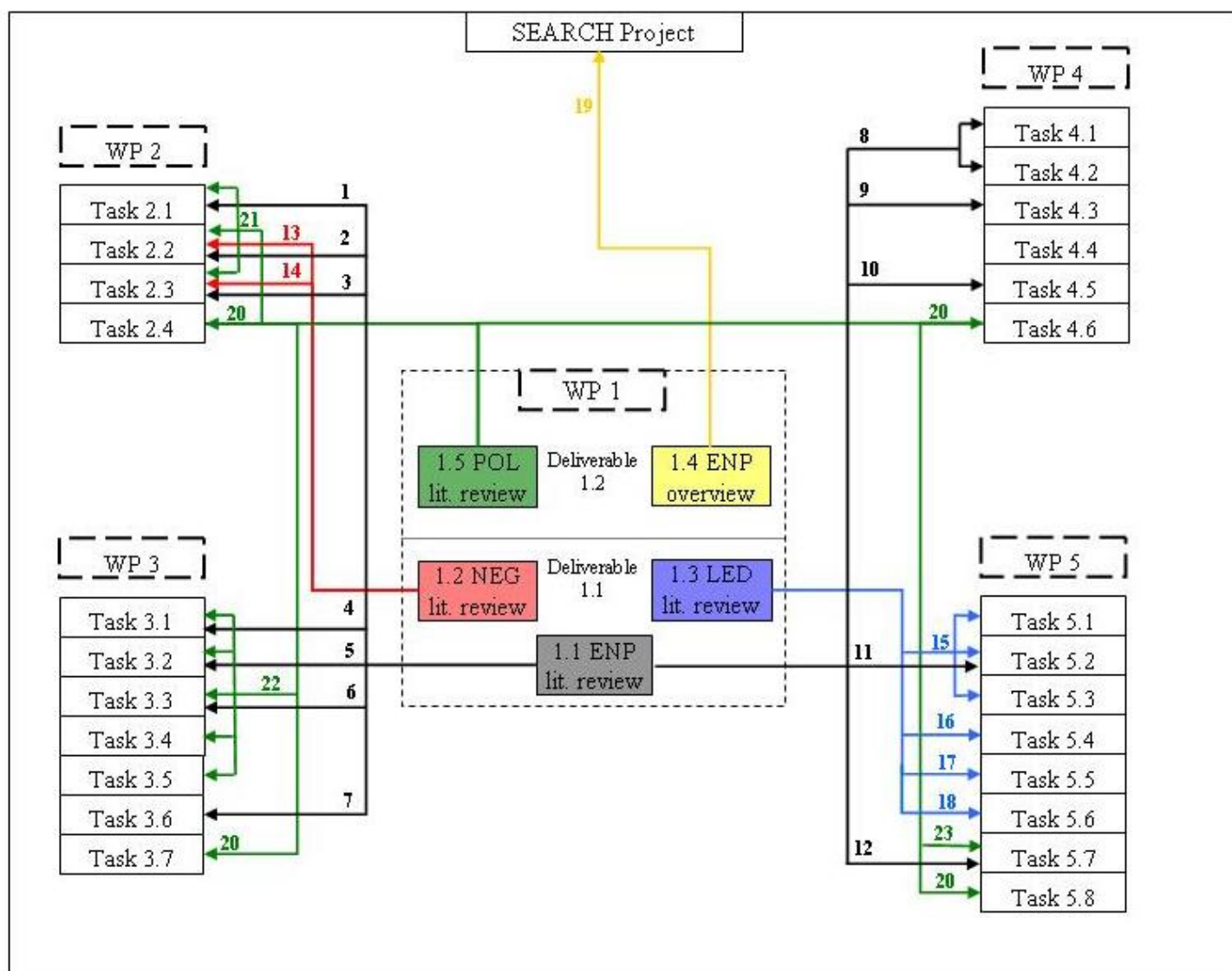


Table 1. List of links between working papers of work package 1 and the tasks of work package 2, 3, 4 and 5.

Task	Working Paper	Link number
Task 2.1	WP 1.1	1
	WP 1.5	21
Task 2.2	WP 1.1	2
	WP 1.2	13
	WP 1.5	21
Task 2.3	WP 1.1	3
	WP 1.2	14
	WP 1.5	21
Task 2.4	WP 1.5	20
Task 3.1	WP 1.1	4
	WP 1.5	22
Task 3.2	WP 1.1	5
	WP 1.5	22
Task 3.3	WP 1.1	6
	WP 1.5	22
Task 3.4	WP 1.5	22
Task 3.5	WP 1.5	22
Task 3.6	WP 1.1	7
Task 3.7	WP 1.5	20
Task 4.1	WP 1.1	8
Task 4.2	WP 1.1	8
Task 4.3	WP 1.1	9
Task 4.5	WP 1.1	10
Task 4.6	WP 1.5	20
Task 5.1	WP 1.3	15
Task 5.2	WP 1.1	11
	WP 1.3	15
Task 5.3	WP 1.3	15
Task 5.4	WP 1.3	16
Task 5.5	WP 1.3	17
Task 5.6	WP 1.3	18
Task 5.7	WP 1.1	12
	WP 1.5	23
Task 5.8	WP 1.5	20

1.1 Overview of research projects on the European Neighbourhood Policy

This paper offers an overview of the key research projects that have examined the various impacts of the European Neighbourhood Policy (ENP). The paper focuses on the impact of the ENP on the different themes that are studied by the SEARCH project: trade, migration, innovation and institutional and cultural diversity, and social capital. This means that this working paper is relevant for all other work packages, as it identifies specific gaps in the empirical research literature on these topics. The specific relevance of this working paper for the different tasks is identified below.

1. Task 2.1 will give an overview of the development of trade between ENP countries and the European Union, in order to provide a baseline for the other tasks of WP2. Section 3.1 of WP 1.1 gives an overview of a number of articles that analyze the ENP and trade. These articles all try to measure or predict the impact of specific policy measures on trade, but they also use baseline data on the development of trade between ENP countries and the EU. The overview shows that reports focus on either the southern ENP countries (2, CASE, 2009), or the eastern ENP countries (1, CASE, 2006), or on single ENP countries. However, no report provides a coherent overview of the development of trade from all ENP countries to the EU, which is what task 2.1 can offer.

2. Task 2.2 will focus on the shifting patterns of FDI in the EU and ENP countries on an empirical and theoretical level. Section 3.2 of WP 1.1 gives an overview of projects that empirically describe FDI in ENP countries and try to model FDI flows using a number of econometric models. The two main projects focus respectively on eastern (1, CASE, 2006) and southern ENP countries (18, FEMISE, 2009), but no integrated overview has been given up to now, which is what task 2.2 can contribute.

3. Task 2.3 examines the spatial implications of integration and expansion of capital flows in and out of the EU borders. The literature on localization choices of firms and on capital flows has been discussed separately in WP 1.1. Section 3.2 examines capital flows, and section 3.3 examines localization choices of firms in ENP countries. WP1.1 concludes that the empirical literature on localization choices is sparse, especially in ENP countries, except for one major project which has tried to develop an integrated theoretical perspective on localization choices and has carried out several case studies within the EU (20, MOVE, 2007). Empirical or theoretical research on localization in the ENP could fill important gaps in our understanding.

4. Task 3.1 uses a gravity model to explore the impact of specific policies on migration flows, and to examine the importance of labour market institutions for migration. Section 4.1 of WP 1.1 gives an overview of a range of articles that use a number of econometric models, including gravity models, to estimate migration flows. Some of these articles also examine the influence of specific policy regimes on migration. The impact of labour market institutions is not explicitly examined, except for one article which examines the impact of pension reforms on migration. However, all these projects either study the eastern (21, CASE, 2011) or the southern ENP countries (7, FEMISE, 2010), and do not give an integrated perspective of the whole ENP.

5. Task 3.2 will examine the returns to human capital of labour mobility from and to neighbouring regions. Section 4.1 of WP 1.1 shows that academic literature suggests a connection between migration and the development of human capital which can be both positive and negative. Migration can positively affect human capital formation due to the premium placed on education because of migration opportunities, but it can negatively affect human capital formation due to brain drain (25, CREMed, 2010). To date no specific studies have examined this effect empirically in ENP countries.

6. Task 3.3 will identify the factors that account for variation in remittance flows, analyse the effect of remittances from abroad on households' schooling decision in sending regions, and assess the different policy options regarding taxation on remittances in ENP countries/regions. Section 4.2 gives an overview of the literature on remittances in ENP countries, which is relatively limited. One study has examined remittances to four eastern ENP countries (1, CASE, 2009). It is shown that remittances are a large percentage of GDP in these countries, which suggests sensitivity of these economies to factors that disturb the remittance flows. A different project has studied a range of factors that contribute to remittances in the flow from Germany to Turkey (22, FEMISE, 2007). Although Turkey is not an ENP country, it could still be used as a model for studies into remittance flows in the ENP. In this literature the factors that contribute to remittances have been explored relatively extensively, but the effects of remittances on receiving countries have not been explored thoroughly.

7. Task 3.6 will analyze the impact of tourism on human mobility in the ENP region, and carry out an analysis of the social and economic integration effects of tourism. Section 4.1 of WP 1.1 describes one study on mobility that has specifically examined tourism (7, FEMISE, 2010), studying the effect of various policy regimes and levels of political stability on tourism flows

to southern ENP countries. However, the impact of these tourism flows on the reduction of social and economic inequality was not assessed, which is where Task 3.6 can contribute.

8. Task 4.1, 4.2 and 4.5 will give a descriptive analysis of respectively the technological activities, and knowledge diffusion and research networks in the EU and neighbouring countries at a regional level. Task 4.2 will use this data to do research on innovation diffusion in a number of ways. Section 5.1 shows that two overview studies have been done which give insight into the innovation systems in southern ENP countries, by providing both an overview of research activities in southern ENP countries and their relation with innovation policies (27, ESTIME, 2007), and an overview of the research networks between southern ENP countries and EU countries, the impact of bilateral innovation policies, and the strength of bilateral research collaboration (28, ASBIMED, 2006). However, these two projects do not give information on the eastern ENP countries. Also, they do not assess how these research activities and collaborations influence the diffusion of innovation.

9. Task 4.3 analyzes the effects of the internal market and intangible assets on innovation diffusion. Whilst the WP1.1 does not review a project that draws direct links between innovation diffusion and either the internal market or intangible assets, it does describe a project in section 6 that has developed a method to quantify intangible assets, a database with data on intangible assets in the EU, and that has intensively studied the effects of intangible assets on innovation. This project might offer a relevant starting point for task 4.3 in terms of the data it provides on intangible assets in the EU, the method it has developed to measure intangible assets which could also be applied in ENP countries, and the literature it has published on the effects of intangible assets on innovation (32, Vaasa university, 2011).

10. Task 4.5 will provide an overview of the spatial and temporal evolution of research networks under the European Framework programmes, and try to project trends of the evolution of these networks under an expanded European Research Area (ERA). One project has mapped research networks between southern ENP countries and the EU (28, ASBIMED, 2006). This study has also examined the impact of current policies on these networks, but has not projected the possible impact of future policies. Research has not specifically examined the influence of the ERA on research networks, as proposed by task 4.5.

11. Task 5.2 will explore the link between cultural diversity and innovation in the EU and ENP countries. Section 6 in WP1.1 describes one project that has researched a related topic (31, TRANSFORM, 2006). This project derives a method to quantify the culture of innovativeness

and uses it to develop a dataset of the culture of innovation within the EU. However, this project does not explicitly link variations in this culture of innovation to cultural diversity, and it is also limited to the EU.

12. Task 5.7 will explore the legal framework for intangible assets in the ENP countries. Section 6 of WP1.1 shows that the Innodrive project gives an overview of intangible capital in EU countries. Whilst this project does not explicitly refer to the legal framework and does not deal with ENP countries, it does provide a wealth of information on intangible capital, its distribution throughout the EU and its effects on innovation (32, Vaasa university, 2011).

1.2 New Economic Geography

New Economic Geography (NEG) offers a framework where the variation in the level of economic integration between regions or countries has relevant implications in terms of spatial clustering or dispersion of economic activity, factors of production and, ultimately, welfare levels. As such, NEG provides a solid theoretical basis for “WP2-Trade Flows and Localization Choices” since this WP deals with the effects of economic integration on capital mobility and how capital flows impact on ENP countries’ economic performance and spatial development.

13. Task 2.2 will generally undertake a theoretical discussion and an empirical analysis of the locational choices of EU FDI in both the EU new member states and Neighboring countries (NCs). As suggested by NEG theory, the interaction between increasing returns to scale, externalities and transaction costs may give rise to agglomeration forces that affect the location decisions of firms as well as capital mobility patterns. For instance, the importance of market access considerations by European MNEs may drive their location decisions towards regions with larger demand (Krugman and Venables, 1990). Similarly, the centripetal pull created by vertical linkages among suppliers and customers may attract investment where these inter-firm relationships are more effective, as a way for European MNEs to access inputs at a lower price (Venables, 1996). Existing empirical evidence suggests that demand matters for the location of production confirming that market access considerations represent a strong driver of capital mobility (Head and Mayer 2004a; Crozet et al., 2004; LaFountain, 2005). Furthermore, more recent contributions argue that the centripetal pull of economic integration tends to attract most efficient firms while less efficient producers concentrate in the periphery (Okubo et al., 2010). In this respect, agglomeration forces interact with firms’ heterogeneity and might give rise to specific geographical patterns of capital mobility according to the level of firms’ competitiveness.

14. Task 2.3 aims at investigating the effects of integration and expansion of trade and capital flows on the economic geography of both EU new member countries and NCs. In this respect, NEG theory provides useful insights on the effects of falling trade costs on the unevenness of development prospects between regions. In fact, in most NEG models a bell-shaped association between economic integration and the concentration of welfare and production in few regions is envisaged (Krugman and Venables, 1990; Puga, 2002). More particularly, with increasing integration it is expected that regional disparities within NCs countries will widen because of the importance of agglomeration forces. However, as integration is further reinforced, dispersion forces dominate and the geographical distribution of production becomes more even. The most relevant empirical evidence is that of the EU Enlargement to Central Eastern European Countries (CEECs). In this respect, the integration of such countries in the EU has had notable spatial implications. Indeed, regional polarization has occurred within most CEECs favoring regions bordering the EU due to better market access as well as capital regions due to agglomeration economies (Petrakos, 1996; 2000; Petrakos and Economou, 2002; Traistaru et al., 2003; Bradley et al., 2005).

1.3 Local and Regional Development Literature.

Local and regional development literature highlights that development and innovation are not linear processes where an increase of investment brings higher growth rates. By contrast, these processes are multidimensional phenomena encompassing non-market elements as well as social, political and institutional factors. As such, “WP5– Institutional Environment” aims at analyzing the role of these characteristics in the process of economic development of ENP countries and how institutional change and transformation affect both development prospects and stronger integration with the EU.

15. Tasks 5.1 to 5.3 will provide a framework where social, cultural and institutional features are taken into account as relevant factors playing a primary role in innovation dynamics and development. As suggested by the large literature on local and regional economic development the relevance of such factors lies in the favorable conditions that they provide for economic agents to interact among each other in an economically productive way. These interactions allow actors to lower uncertainty in economic transactions, to tackle opportunistic behaviors and to embed their activities and capabilities into a structured set of network and relations. In this respect, the existence and balance between formal (societal) and informal (communitarian) institutions appear to be a key element in shaping the development potential of regions (Rodríguez-Pose and Storper, 2006). The literature review

further points out that regional economic development processes are supported by context-specific social and institutional factors. In this respect, Task 5.3 studies the quality of institutions in two ENP countries, Moldova and Ukraine and comparator countries in the Western Balkans. It investigates the relationships between local institutions and supranational institutions such as the Black Sea Cooperation Area and the impact of EU pre-accession and neighbourhood programmes on the evolution of institutions in the region.

16. Task 5.4: Globalisation emphasises the importance of regions and the role of local actors in shaping development trajectories. Key local actors in this respect are small and medium sized firms. In fast growth regions and localities, embedded and place-specific linkages and networks between SMEs can be a vital source of endogenous growth, especially where these link into global supply chains through links with MNEs. The Task will investigate the ways in which local economic development in different regions in the case study countries is shaped by the institutional and network relations between local SMEs, between SMEs and MNEs, both within regions and across borders. Institutions fostering cross-border relations between SMEs and MNEs will also be the subject of investigation for their ability to enhance endogenous local development.

17. Task 5.6: Local economic development depends critically on the skills and knowledge of the workforce and the entrepreneurs who manage local SMEs. In addition to spatial proximity which supports inter-firm networks and supply relations, cognitive proximity provides firms with the necessary absorptive capacity to exchange knowledge and make it economically useful. The Task studies the way in which practical knowledge is generated in the local workforce through the institutions of vocational education and training systems at the local level in different regions and localities of the case study countries. It aims to assess the relation between local skills production and local economic development and the extent and nature of skills gaps which may block local economic development in specific regional and local contexts.

18. Task 5.7: The key role of local institutions and spatial proximity in determining the nature of regional and local economic development has increasingly led to an emphasis on decentralisation and on the quality of local governance as a key facilitator of local economic development. The equity and efficiency aspects of decentralisation are however contested. This Task therefore studies the degree of social cohesion within the local community and the quality of the institutions of decentralised regional and local governance in the case study countries in order to assess the relationship between the institutions of local governance

and the mobilisation of endogenous potential of the community including local entrepreneurship and skills capacities.

1.4 Overview of ENP.

In this working paper an overview is provided of the European Neighbourhood Policy (ENP). Focus is on the history of the ENP and its goals, the institutional structure of the ENP, and the policy measures that have been carried out through the ENP. The institutional dimension of the ENP, with both its thematic and spatial elements, on a subnational, national, regional and interregional level, is thoroughly explored, and an overview is presented of the specific policy measures that have been implemented on an interregional, regional, and national level.

19. This working paper provides the factual background for the SEARCH project by providing a reference work on the institutions and instruments that form the ENP, and relevant policies that have been carried out from this context. As such it does not directly influence specific tasks, but provides a backdrop for these tasks. It can further inform specific tasks that need to identify countries as case studies to carry out policy evaluations, because it provides a clear overview of the specific policies that have been implemented so far in the different countries and regions of the ENP.

1.5 Political and Political Economy Literature.

This working paper deals with the political dimension of the ENP. It analyses the rationale and motives behind the establishment of the ENP and the historical and political-economic dynamics that have shaped its structure, priorities and instruments. Through a critical review of the political and international relations literature on the topic, it reviews a number of issues that have been addressed in the academic debate. The purpose of this review, and its relevance for the other work packages, is to bring out with clarity the underlying rationale of the ENP as an EU policy framework, from the part of the EU, for engaging with its immediate neighbours and managing their aspirations (e.g., for enlargement, for market access) and their negative spillovers (e.g., in relation to security, energy, etc), as well as a strategy for democratization and development in its external periphery. Although the working paper does not provide a definitive assessment of the ENP and of the EU approach as suggested above, it nevertheless informs the reader (and thus, work conducted in the other work packages), through its discussion of the literature, about the motives, multiplicity of targets, (in)compatibility of instruments, limitations, and potential (un)intended consequences of the

policy framework that is the ENP. This is done by bringing out three main policy tensions: (a) between a realist safeguarding of EU-centred interests (on energy, security, etc) and a normative-constructivist projection of European values and economic development efforts; (b) between the containment of accession aspirations and the management of the process of (future) enlargement(s); and (c) between the objectives of the policy and the instruments that it has in its disposal (more generally, the tensions inherent in the policy's means and ends, which may raise questions about coherence, consistency and effectiveness).

20. Task 2.4, 3.7, 4.6 and 5.8. These tasks develop policy implications of the respective work packages. The overview of the political literature on the ENP and the three dilemmas that are inherent in this policy are expected to be crucial here in allowing work in these work-packages to arrive at the formulation of effective policy advice.

21. Tasks 2.1 – 2.3. These tasks examine the economic and spatial implications of the economic approximation of the ENP countries with the EU. The analysis provided in this working paper allows to place the results deriving from these examinations into the wider context of the multiple, and at times contradictory, objectives of the ENP and thus to examine policy proposals for the amelioration of spatio-economic outcomes relating to this process of approximation in an informed, constructive and context-relevant way.

22. Tasks 3.1 – 3.5. These tasks look in particular in the role of, and constraints to, mobility and human capital formation. They thus touch upon important security and social / labour market issues, including questions of return migration, cross-border worker flows, remittances, and the mobility of entrepreneurs. This working papers also provides a framework for contextualizing the policy analysis of these tasks, as issues of migration link evidently to questions of security, both in a human (e.g., human trafficking, terrorism, organized crime, etc) and in a pecuniary sense (money laundering, etc).

23. Task 5.7. This task will carry out a number of analyses. The final analysis in this task is based on the assumption that the approximation of laws under the ENP is a process in which the EU exports its norms to the ENP countries. That is why this task will explore more cooperative manners of to implement further reforms. WP1.5 succinctly analyses the literature on the EU as a normative hegemon, and the literature that takes a different position. The debate in the literature on the understanding of the ENP policy can be used to inform Task 5.7.

2. General conclusions

The main goal of the SEARCH project is to contribute to the understanding of the impact of the European Neighbourhood policy on a range of themes, like trade, migration, research and innovation, and social cohesion, cultural diversity and the institutional dimension. Work package one serves as a baseline for this goal, by offering a range of working papers that contribute to research in the further working packages in different ways. In order to draw these diverse working papers together deliverable 1.3 has developed a conceptual framework. In this conceptual framework the connections between the different working papers and the tasks of the further work packages of the SEARCH project are illuminated. This will enable researchers of these other work packages to quickly see which working papers are most relevant to their research.

Working paper 1.1 offers an overview of the key research projects that have examined the various impacts of the European Neighbourhood Policy (ENP). The paper focuses on the impact of the ENP on the different themes that are studied by the SEARCH project: trade, migration, innovation and institutional and cultural diversity, and social capital. This means that this working paper is relevant for all other work packages, as it identifies specific gaps in the empirical research literature on these topics. The specific relevance of this working paper for the different tasks is identified in the report.

Working paper 1.2 gives a theoretical overview of New Economic Geography (NEG). NEG offers a framework where the variation in the level of economic integration between regions or countries has relevant implications in terms of spatial clustering or dispersion of economic activity, factors of production and, ultimately, welfare levels. As such, NEG provides a solid theoretical basis for work package two, since this WP deals with the effects of economic integration on capital mobility and how capital flows impact on ENP countries' economic performance and spatial development.

Working paper 1.3 gives an overview of local and regional development literature, which highlights that development and innovation are not linear processes where an increase of investment brings higher growth rates. By contrast, these processes are multidimensional phenomena encompassing non-market elements as well as social, political and institutional factors. As such, it is most relevant for work package 5, which aims at analyzing the role of these characteristics in the process of economic development of ENP countries and how institutional change and transformation affect both development prospects and stronger integration with the EU.

Working paper 1.4 gives an overview of the ENP. Focus is on the history of the ENP and its goals, the institutional structure of the ENP, and the policy measures that have been carried out through the ENP. The institutional dimension of the ENP, with both its thematic and spatial elements, on a

subnational, national, regional and interregional level, is thoroughly explored, and an overview is presented of the specific policy measures that have been implemented on an interregional, regional, and national level. This working paper provides the empirical backdrop against which all research is carried out. As such, it is relevant for all working papers as a reference work on the specific institutions that the ENP consists of, and the specific reforms and policies that have been implemented due to the ENP.

Working paper 1.5 deals with the political dimension of the ENP. It analyses the rationale and motives behind the establishment of the ENP and the historical and political-economic dynamics that have shaped its structure, priorities and instruments. Through a critical review of the political and international relations literature on the topic, it reviews a number of issues that have been addressed in the academic debate. The purpose of this review, and its relevance for the other work packages, is to bring out with clarity the underlying rationale of the ENP as an EU policy framework, from the part of the EU, for engaging with its immediate neighbours and managing their aspirations (e.g., for enlargement, for market access) and their negative spillovers (e.g., in relation to security, energy, etc), as well as a strategy for democratization and development in its external periphery. Although the working paper does not provide a definitive assessment of the ENP and of the EU approach as suggested above, it nevertheless informs the reader (and thus, work conducted in the other work packages), through its discussion of the literature, about the motives, multiplicity of targets, (in)compatibility of instruments, limitations, and potential (un)intended consequences of the policy framework that is the ENP.

Together these working papers provide a broad and comprehensive framework for further research in the SEARCH project.



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