ABSTRACT WORKING PAPER 2.16

Regional Inequalities in the European Neighbourhood Countries: The Effects of Growth and Integration

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This paper explores the spatial dynamics in the European Neighbourhood Countries (ENC) in a period of significant transformations in their internal and external economic environment. The analysis reveals a significant increase in regional inequalities and a dramatic increase of polarization in most of these countries. With the use of panel data for five ENC countries we investigate the drivers of spatial inequality taking into consideration the internal and external dynamics of the economies. The results of the model show that the Neoclassical (NC) convergence processes are counterbalanced by Cumulative Causation (CC) divergence dynamics and the spatially unbalancing effects of economic integration with the EU. Regional disparities are reported to be the net outcome of two opposite dynamics: a pro-cyclical pattern on the one hand, with dynamic and developed regions growing faster in periods of expansion and slower in periods of recession, and long-term spread effects on the other hand, partly offsetting the cumulative impact of growth on space after some critical level of development. In this framework, expanding trade relations with the EU advanced countries may be an additional source of spatially unbalanced growth, as the costs and benefits of integration prove to be unevenly allocated in space. To the extent that growth and integration dynamics tend to polarize the ENC economic space, a set of critical policy questions arise for the EU neighbouring policies and the ENC ability to design and implement effective regional policies.