



PRESS RELEASE OF THE WORKING PAPER 2/16

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

September 2013

OBJECTIVE

The European Neighbourhood Countries (ENC) start from different backgrounds and origins that affect in a number of ways their adjustment in the new era. The legacy of the planned economy during the Soviet period, on the one hand, and the legacy of colonial past and the authoritarian regimes in the other make reforms and economic, social and institutional change a path-dependent process. One of the main drivers of change in these countries is their openness to international trade and capital movements, and their partnership with the EU that sets a long-term goal of deeper economic integration and institutional convergence. This paper investigates the patterns of spatial inequality in the ENC and the driving forces behind these processes, paying a special attention on the impact of economic growth and deeper integration into the European economy. To our knowledge, this is the first time that such an analysis takes place. Given that the previous experience of regional adjustment in the EU New Member States is not encouraging and given that in most of these countries a sound regional policy is far from being formulated, the results of the analysis of the paper may have serious policy implications for both the ENC and the EU.

MAIN RESULTS

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 the paper investigates 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.