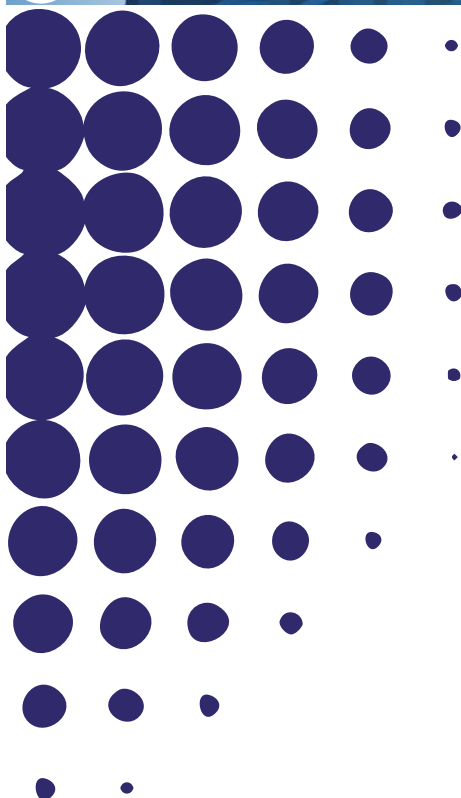


## D2.3 SEARCH DERIVERABLE

Trade flows and localization choices: Policy aspects of the research findings.

November 2013



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## DELIVERABLE 2.3

### Trade flows and localization choices: Policy aspects of the research findings

November 2013

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## 1. SETTING THE SCENE

The recent (i.e. years 2004, 2007, and 2013) EU enlargements brought the borders of the EU to a set of countries in the East with historically less intensive economic relations. These countries have been part of the (former) Soviet Union and are characterized by lower development levels and significant institutional and structural differences. At the same time, in the Southern and the Eastern rim of the Mediterranean Sea, the EU is faced with countries that are linked to individual EU countries through their colonial past. Both bordering areas, in the EU East and the EU South, have been gaining significance as they include emerging economies, energy suppliers, or, simply, a large neighboring market, which is crucial for the EU economy. Thus, the EU launched, in 2004, the European Neighborhood Policy (ENP), a unified policy framework towards its neighboring countries (the ENP countries). The objective of the ENP is to strengthen the prosperity, stability and security of the EU, creating a “ring of friends” around the EU political borders. The ENP framework applies to Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine (the ENP East countries) as well as to Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Occupied Palestinian Territory, Syria and Tunisia (the ENP South countries). The ENP is synergic to other EU initiatives in this area such as the Eastern Partnership (launched in 2009), the Euro-Mediterranean Partnership or Union for the Mediterranean (re-launched in 2008), and the Black Sea Synergy (launched in 2008).

The ENP is a distinct and separate process from the EU enlargement; however, the ENP countries operate under conditions of “neighborhood Europeanization”. This indicates an apparent mismatch – the so-called “capabilities-expectations” gap – between the ENP requirements/demands, on the one hand, and the ENP potential gains/rewards, on the other. To put it simply, on the one hand, the EU has designed the ENP, for its neighboring countries, aiming to expand relations and strengthen prosperity, stability and security in its external borders. On the other hand, the neighboring countries understand the ENP as a first step in a long road that will end-up with full membership. Such an expectation is, partly, justified on the historical record of the EU formation, which, in a series of enlargements, has managed to expand, first southwards and then eastwards, and integrate countries with different development levels and institutional endowments. Despite the fact that the proper “membership anchor” is missing, the progressive compliance with the *acquis communautaire* (i.e. the corpus of the EU laws and policies) is a necessary condition for the ENP countries in order to increase their “weight” on the EU market. This is so, since according to the Treaty of Lisbon, forced in 2009, EU policies with a bearing on relations to third countries (such as the ENP countries) should be guided by a common set of principles and objectives such as the consolidation and support of democracy and the preservation of peace. Thereof, the ENP offers conditional preferential economic and political relations in exchange of the recipient countries’ adherence to the ENP principles. In particular, the EU pursues the implementation of Deep and Comprehensive Free Trade Agreements (DCFTAs) with its neighboring countries. DCFTAs are the main policy thrust of the ENP, involving tailor-made agreements and conditions (in contrast to the rigid Copenhagen criteria that characterize the EU eastwards enlargement) aiming at bringing the EU neighbors gradually closer to the Single Market. Hence, in practice, the ENP countries operate, within the ENP framework, under conditions tantamount to economic integration.

## 2. OBJECTIVES OF SEARCH PROJECT

SEARCH (“Sharing Knowledge Assets: InteRregionally Cohesive NeighBorhoods”) Project, being implemented within the 7th European Community Framework Programme (FP7-SSH-2010.2.2-1(266834) European Commission), analyses the impact of the ENP on the integration of neighboring countries and the EU in the areas of trade and capital flows, mobility and human capital, technological activities and innovation diffusion, and the institutional environment. In particular, the 2nd Work Package (WP2)

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of SEARCH Project, titled “Trade Flows and Localization Choices” had the general objective to study, both theoretically and empirically, the patterns of economic interaction between the EU and its neighboring countries, to project future trends and identify the effects of higher levels of economic integration to the growth, competitiveness and cohesion prospects of the two areas. WP2 was carried out in parallel to WP3 (“People Mobility and Human Capital”), WP4 (“Technological Activities and Innovation Diffusion in the EU and Interaction with Neighboring Countries”), and WP5 (“Institutional Environment”). Hence, a strong cooperation methodology has been established among the WP leaders, ensuring the progressive coordination and alignment of the research activities. Building on the relevant findings, this allows for cross-fertilization and strengthening of the existing interrelation among the WPs of SEARCH Project. Given that SEARCH Project places strong emphasis on the policy dimension, research results of WP2 – as well as of WP3, WP4, and WP5 – were closely monitored and assessed as they emerged from WP6 (“Policy Issues and Research Implications: Toward an integrated European Research Neighborhood Policy Posture”) in order for their relevance for the formulation of policy recommendations to be ensured.

The specific objectives of WP2 were: a) the analysis of the trade patterns between the EU and its neighboring countries and their possible effects on growth, structural change and cohesion in both areas; b) the analysis of the locational choices of EU mobile investment, the direction and drivers of capital mobility and its effects on the EU new member states and its neighboring countries; c) the assessment of the efforts made by domestic and foreign firms to invest in technological and organizational capacities with a special focus on the impact of localized institutional environments; d) the analysis of the spatial intra-country effects of higher levels of trade and investment interaction in both the EU and its neighboring countries; and e) the discussion of the policy options at the EU level that take into consideration the effects of integration and attempt to increase and spread its benefits on both sides of the external EU borders. Towards the successful achievement of the objectives of WP2, a number of research Tasks had to be accomplished. These Tasks were: a) Task 2.1: Analysis of trade patterns over time in EU and neighboring countries; b) Task 2.2: Capital mobility among EU and neighboring countries; c) Task 2.3: Spatial implications of integration and expansion of capital flows in and out of the EU borders; and d) Task 2.4: Policy implications. The general objective of Task 2.1 was to conduct an in-depth study of the ENP trade flows to and from the EU, and world-wide, in order to provide a thorough insight into the evolution, over time, of their direction, size and composition as well as into the impact of trade activity on the growth performance of the ENP. The general objective of Task 2.2 was to undertake a theoretical discussion and an empirical analysis of capital mobility from the EU to the ENP countries in order to provide an assessment of the role of firms’ localization decisions on the economic social divide between the enlarged EU and its neighbors. The general objective of Task 2.3 was to investigate the spatial implications of trade and FDI flows between the EU and the ENP countries in order to shed light on a wide set of countries that has remained, largely, unexplored (not only at the regional level but also at the national one). The general objective of Task 2.4 was to recommend a number of policy targets in order to strengthen the ENP process and, possibly, spread its benefits, reducing the, possible, adverse effects of integration.

The present Deliverable presents the main findings of WP2 and discusses the main policy aspects of these findings.

### 3. MAIN FINDINGS: A SUMMARY

It is widely accepted that the European perspective acts as a very strong stimulus for – and facilitator of – economic, political and institutional development by providing not only the incentives but also the (financial) resources to promote economic restructuring and institutional capacity-building. It is, thus, no surprise that especially for countries that are in dire need for economic restructuring, socio-political transformation and development, the process of European integration, in all of its facets (i.e. economic integration, political approximation and policy harmonization), has largely gone unquestioned. Indeed, deeper

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association with the EU brings a number of political and economic benefits at the domestic national level, strengthening domestic policies and, thus, facilitating political reforms that consolidate the process of political transition, democratization and, in some cases, conflict resolution and normalization of external relations. The paradigm of the European communities indicates that the process of integration, although it does not stem solely from economic incentives, is realized, first and foremost, in the economic field, as economic integration. Economic integration denotes a state of affairs or process which involves the amalgamation of separate economies into larger free trade regions. Indeed, international trade is usually the first type of linkage between independent economic units, and one of the most expedient (economic) factors in pushing economies into integration. Economic integration reduces the role of national borders as barriers to factor mobility, and is, further, reinforced (self-sustained process) by the reduction of trade costs. "Closed" borders distort market size, whereas the removal of economic barriers generates (releases) a number of spatial dynamics linked to better access to foreign markets and import competition. Therefore, even if there is, almost, unanimous consensus in the economic literature that the (market-based) process of economic integration is a positive-sum game, an on-going debate is currently taking place concerning the distribution of its overall welfare gains.

The pre-accession experience of the new EU member-states provides a quasi-laboratory environment (or, to put it differently, natural experiment-like conditions) for the examination of the spatial and the structural impact of the EU economic integration process. The experience of the new EU member-states is a unique situation, where relatively closed economic systems opened, almost at once, to the world economy and, at the same time, market mechanisms replaced central planning. Indeed, in the 1990s, the new EU countries (i.e. acceded in 2004 and 2007) have experienced the processes of transition, from central planning to a free market economy, and integration, into the European economic space. The dynamics of these interacting processes have generated unprecedented pressures and have upset the structural bases of these countries. In particular, the new EU countries experienced a major decline in their GDP levels during the early transition period. Despite the partial reversal of this trend in the late 1990s, the new EU countries were still, at the time of accession, significantly behind not only from the respective figures of the EU-15 countries (i.e. the old EU countries) but also from their own earlier figures. This is so as the new environment has significantly affected the economic structures of the new EU countries. Market forces and transition policies of openness, privatization and deregulation changed the old internal organization of activities in ways that were often painful and forceful. The impact was recorded on the secondary sector of production, and especially on the sector of manufacturing. The recorded de-industrialization in the new EU countries is the combined outcome of market forces and transition policies, which led to an abrupt exposure of poorly organized domestic activities to external competition. Overall, the process and the policies of transition in EU NMS have led to a concentration of industrial activities in labor-intensive and resource-intensive sectors. The shares of capital-intensive sectors were reduced significantly, indicating a structural deviation from the corresponding pattern of the EU-15 countries.

The examination of the EU-ENP trade activity reveals that for the vast majority of the EU-ENP country pairs either there is a neutral relation or the EU countries dominate over the ENP countries. Such finding provides strong support to the argument that the DCFTAs contribute to the "reproduction" of the well-established "core-periphery" EU spatial pattern of development in the EU-ENP economic space. Clearly, the EU-ENP trading area reminds of a "hub-and-spoke" system that consolidates a spatial pattern of unequal (trade) relations between the EU and its neighbors. This makes evident that the neoclassical-type position that the market forces released in the process of economic integration (or even under the tantamount conditions of "neighborhood" Europeanization) are, overall, beneficial for the least developed economies, leading, thus, to greater cohesion, is difficult to verify. Examining the geography (i.e. size, direction, composition) of the EU-ENP trade relations, the diminishing



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importance of the EU in the ENP trade shares (even though the EU remains the main trade partner of the ENP countries), the low importance of the ENP countries in the EU trade shares (the vast majority of the EU trade is intra-EU) as well as the low intra-ENP trade shares (an indication that the ENP area is still fragmented with weak demand-supply chain links) can be observed. These trends may attribute to the fact that the EU-ENP trade relations have been evolved in a rather uneven, unbalanced and asymmetric way. This is so as the ENP countries are locked-in an inter-industry type of trade integration with their more advanced EU counterparts. This type of trade relation, an outcome of the inability of the ENP countries to compete in markets for capital-intensive and/or knowledge-intensive activities, even though it provides an alternative (and perhaps the only feasible) route for the exploitation of the locally available skills, is not in a position to guarantee (generate) prospects for long-term income convergence. Especially for the ENP countries that do not exhibit comparative advantage in the sector of fuel primary commodities, this type of trade relations provides strong implications (given the recent experience of the Southern EU member-states) that trade deficits may be, quickly, “converted” into fiscal deficits. Hence, considering the fact that the ENP area is sensitive in economic (i.e. low welfare level) and in demographic (i.e. high presence of rural population) terms, the current perspective of the ENP may push the (non-fuel producing) ENP countries to gravitate towards different trade poles (e.g. the BRICs) that offer less uneven, less unbalanced and less asymmetric trade relations. It turns out that trade is not always beneficial, and this provides support to non-conventional theories relating trade outcomes on structural and development gaps, initial conditions, market size, scale effects and geographical coordinates.

Nevertheless, it is profound that the ENP countries are linked inexorably with the EU. Besides trade activity, off-shoring (firms’ localization, in general) provides another channel of interaction between the EU and the ENP countries. While the EU increases its interaction with the ENP countries, the EU multinational companies (MNCs) have the opportunity to exploit a larger number of markets, having a wider set of locations where to invest and set up their foreign operations. From the EU side, the ENP provides an institutional framework of association which, arguably, gives EU firms a relative advantage at least in the sense of reducing entry costs and uncertainties (such as information asymmetries and legal barriers). If, as it is believed to have happened in the new EU member-states, the framework of association facilitates less speculative and more long-term strategic investments, then EU-originating investments are likely to be more organically linked to the local economies of the host countries, thus, possibly, generating larger spillovers for domestic firms. Within the ENP context, the paradigm of the ENP countries suggests that EU-originating foreign direct investments (FDIs) appear, indeed, to have a “productivity advantage” over investments from other parts of the world, in the sense that it tend to generate greater productivity spillovers for domestic firms or, at least, less significant negative effects. Although theoretically it is possible that this result may emanate purely from technology and other advantages possessed by EU firms relative to other investors, in practice it is difficult to argue that EU MNCs would be systematically more advanced than MNCs of other origins. If this is true, then it can be argued that at least part of this productivity advantage must be related to the process of EU association, which gives a preferential access to EU firms in the host economies and harmonises their institutional and legal environment. Of course, foreign direct investment (FDI) spillovers, including EU ones, have not reached their maximum value in the ENP region. The paradigm of Southeastern European countries, where the involvement of the EU is magnified, indicates that such spillovers are very positive and strong, despite the fact that the recipient countries sharing similar problems of institutional quality and absorptive capacity with many of the ENP countries. This, in turn, suggests that further approximation with the countries of the ENP region and further intensification of economic links and capital flows may prove to be increasingly beneficial for the domestic economies.

Of course, at this point it has to be stressed out that regional dynamics in the external EU periphery are characterized by spatial selectivity and an, overall, unfavorable environment for lagging-behind regions. Over the last decade, regional inequalities have

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increased significantly in most of the ENP countries to levels that are unusually high by European standards. Some countries (such as Azerbaijan and Georgia), have experienced a “core-periphery” pattern of development, with metropolitan regions dominating the national economy and lagging-behind regions being in a great difficulty to catch-up. Notwithstanding that long-term processes embodied in the level of development tend to favor a more equal allocation of activities and resources over space (i.e. pro-cyclical pattern), this balancing effect will take place after a level of development that most ENP countries will not attain in the near future. Currently, with the exception of public policy, all drivers of regional growth (i.e. growth level, per capita GDP level, integration with the EU in terms of trade and FDI) tend to favour the metropolitan and the more advanced regions. The peripheral, structurally weak and lagging-behind regions are expected to experience an inferior growth performance and a pressure in their productive bases arising from integration and competition from the more advanced EU partners.

#### 4. POLICY ASPECTS OF THE RESEARCH FINDINGS

The ENP, despite its foreign-policy origins, has become one of the main EU economic-policy instruments and has accelerated and intensified economic flows and interactions between the EU and the ENP countries as well as between the corresponding businesses. Yet, despite the increased interaction – if not integration – between the two regional blocks, there are concerns about the progress of the DCFTAs and, consequently, about the success of the overall ENP undertaking. The political upheaval in the ENP South and the slow reforms in the ENP East “legitimize” such concerns. Given that, up to now, the ENP has not produced the anticipated results, a discussion about a possible reinvigoration of the current ENP perspective is *ante portas*. Such a discussion (if and when, eventually, it is made) should take into a consideration a couple of extremely important remarks. The first remark is that the pattern of integration between the EU and the ENP countries is uneven, unbalanced and asymmetric. This, inter-industry, type of integration is not in a position to narrow the welfare gap between the EU and the ENP countries. The second remark is that the interaction between the EU and ENP countries generates spatial side-effects (imbalances), favoring, mostly, the capital and the most dynamic regions in the ENP countries. Should they take these remarks into consideration, the ENP may pave the ground for deeper and more sustainable integration between the EU and its neighbors. To do so, the EU policy towards the ENP countries needs to obtain a deeper level of understanding of the interactions between the international and the regional dynamics in the latter. This is, definitely, not an easy task. Challenging mainstream policy perspective, the research team, after setting a number of (uncomfortable) policy dilemmas, offers a set of delicate policy recommendations to this direction.

Overall, policy-makers might examine the possibility that mandatory *acquis communautaire* compliance related to political requirements should not be a precondition for trade negotiations and (agreements) but for further financial and technical support. This means that a possible ENP review should consider a further (even unilateral) liberalization of trade and a stronger financial support mechanism as a reward for reforms. If the EU is only interested for partnership (not membership) with its trade partners in the East and the South, it is not totally understandable why it imposes conditionalities related to regulatory issues such as investment protection, public procurement and competition policy. Considering that the ENP area is sensitive in economic (i.e. low welfare level) and in demographic (i.e. high presence of rural population) terms, the current perspective of the ENP faces the danger for the ENP countries to “export” people instead of (agricultural) products to the EU market. Eventually, this may push the (non-fuel producing) ENP countries to gravitate towards different trade poles (i.e. BRICs) that offer less uneven, less unbalanced and less asymmetric trade relations.

Even under the current ENP perspective, however, policy-makers might consider the ENP countries’ trade flows as a whole: sectors opening to international imports should also be opened very soon to opportunities in exports, so to have the possibility

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to grow and support the diversification process of the ENP countries. Currently, the EU imposes relatively high (simple) average tariffs to trade with the ENP countries, especially on agricultural goods, making it difficult to achieve conditions of trade creation. The reluctance on behalf of the EU to remove its (agricultural) tariff (and, also, non-tariff) barriers to trade activity with the ENP countries leads to deadlock as it raises major hurdles for the ENP countries to export, to the EU market, the products on which they, mainly, specialize. At the same time, aim at improving and speeding up the diversification process in the ENP countries, policy-makers might consider that this could be obtained mostly by favouring the development of nearby sectors. Directly favouring the creation of very distant industries might result in severe failures, since the lack of necessary supporting infrastructure and institutions may doom these initiatives before positive diffusion effects may occur.

For the time being, under the existing production possibilities, and within the current ENP perspective, it turns out that trade among “unequal” partners can be beneficial for the growth of developing or emerging economies only when it takes place within some limits that should not be exceeded. This means that the ENP trade with the advanced EU economies should be an important part of their total trade, but it should not dominate their overall trade relations. Such trade is, typically, uneven, unbalanced and asymmetric and does not allow for the diversification of the productive bases of the less developed countries, which is necessary for long-term growth. Furthermore, as the geographical allocation of trade relations affects, in an important way, the growth potential of the developing or emerging economies in the external European periphery, improving the participation of the EU countries that are, in many ways, closer to the ENP countries is beneficial for the long-term growth of the latter. It appears that finding trade partners with a geographical, but also economic and cultural, proximity is a necessary ingredient for a successful integration experience for the ENP countries. Policy-makers might aim at developing, along the EU-ENP frontiers, trade among neighbors (which is dominant among the advanced EU countries) in order to balance the (otherwise necessary, within reasonable limits) “core-periphery” EU-ENP trade activity. The idea that the EU can integrate to its core productive system successive homocentric rounds of geographically more and more dispersed and economically less and less developed areas without altering the basic model of integration and without incurring any costs for anyone, needs to be re-examined. The EU policy towards ENP countries needs to obtain a deeper level of understanding of the interactions between trade relations and development prospects in both sides of the external borders. Helping the EU South and the EU East (that is the internal EU periphery) to establish deeper and broader economic relations with the ENP South and the ENP East (that is the external EU periphery) is a feasible way to support growth in the (hit by the crisis) internal European periphery and promote EU cohesion. This may be an urgent assignment in the face of the evidence that the EU-ENP trade is declining over time, in relative terms, as new competitors (i.e. BRICs), arise.

In any case, the ENP undertaking has a limited room for success if not combined with proactive industrial and development policies. The EU has an expertise in such policies, gaining, also, some experience (and drawn some lessons) from the early stages of restructuring in transition countries (i.e. the new EU countries). Policy-makers need to find the will to allocate sufficient and, largely unconditional, resources for the implementation of such policies in the ENP countries. These policies will help to develop cross-border multiplier effects that will be mutually beneficial for both sides of the external borders of the EU, promoting, at the same time, a balanced EU-ENP integration and a balanced intra-EU development. These policies, however, given that the ENP area is still fragmented, with weak demand-supply chain links, need to assume active and coordinated plans not only at the national but also at the macro-regional level. This means that policy-makers might adopt a new perspective, taking into consideration the specificities of the ENP countries, their initial constraints and the ensuing competitive pressures that EU association brings. This is a salient issue as, despite their current fragmentation, (many of) the ENP countries have many common historical, political and cultural elements, and, most importantly, common future trajectories.



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Besides the aforementioned common characteristics, the ENP countries have, unfortunately, another common element: with the possible exception of Israel, the ENP countries exhibit major differences, comparing to the EU countries, with respect to institutions. Institutions refer to how societies are organized at all levels, including laws, customs, habits and traditions, and how this has an impact on the incentives, frameworks, ideas and behaviours of individuals and social entities. There is, actually, a strong consensus on the role that institutions play in determining innovation and competitiveness of countries. Some institutions directly favour or hinder the emergence of innovations; moreover, they interact at different levels, generating complex structures such as national, regional or sectoral systems of innovation. Thus, policy-makers might consider taking actions aim at improving the quality of institutions in the ENP countries. This is the main reason why policy-makers need to consider the establishment of a strong – and disconnected from trade agreements – financial support mechanism as a reward for reforms.

Improving economic institutions, is very likely to be evaluated as a positive signal by foreign investors. This is even more relevant in the case of developing and transition economies, where economic institutions are frequently poor, whilst MNCs are increasingly interested in expanding into the new markets that they represent. Although some MNCs appear to be attracted by less good economic institutions, it is not suggested that replicating flawed institutional environment is an adequate policy option. In fact, weak institutions imply distortions in the system of incentives within an economy that are not counterbalanced by more FDIs. Furthermore, FDIs attracted by institutional weakness are more likely to benefit local elites than the aggregate recipient economy. In contrast, improving economic institutions is relevant not only to attract global capital but also to stimulate the domestic capacity (i.e. local firms, new innovators) of the local economies.

Doing so, policy-makers might consider taking actions in order to encourage investing firms to serve the local market rather than use the regional economic systems as solemnly resource bases. This could be possibly achieved by the targeted development of local infrastructures, especially in areas where the tendency of incoming investors is to re-import manufactured goods abroad. Targeted development of local infrastructures refers to the support of local SMEs in building customer-supplier networks and clusters of sector-specific firms by the national (and regional) governments as well as by public institutional centers. Moreover, policy-makers might consider taking actions in order to support domestic firms so that the technological gap between foreign-owned and domestic firms decreases. In particular, there is a need to provide financial incentives especially to domestic new private firms, which will enable them to innovate and become competitive enough towards their foreign counterparts. Providing sufficient financial support for innovation activities, will allow domestic firms to invest more in research and development (R&D) activities. In order to increase the absorptive capacity of domestic firms, policy-makers might, also, consider introducing more research-based education programs at the universities so that local human capital is skilled enough to enable innovations. Moreover, policy-makers might take actions to create high quality labor conditions for local personnel so that employees get motivated to work in tech-related industries as highly competitive and prestigious work environments.

Closing the discussion about the policy aspects of the research findings, it should not be forgotten that interaction, with respect to trade and capital flows, generates spatial side-effects. Economic growth, achieved through interaction, is a spatially selective process, favoring, mostly, the capital and the most dynamic regions in the ENP countries, in particular. It turns out, that despite the wide-held belief, economic growth is not the main medicine for the reduction of regional imbalances. This hands-free and policy-free understanding of the spatial economy, irrespective of the level of development, the macro-geographical coordinates and the response plan of the country under consideration is not supported by the evidence. In contrast, the evidence that regional disparities in the ENP countries have a pro-cyclical character and that economic growth always generates new imbalances, while long-term development favours cumulative processes, set a new framework for the discussion of regional

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policy in countries of low- and middle-level of development. Through its policy of approximation and conditionality, the EU has affected in fundamental ways the market orientation and external political and economic relations of the countries in its neighborhood. This influence, and the very gravitational pull of the EU economy (even during the time of the Eurozone crisis), makes the countries in the external EU periphery unable to choose or control the pace at, and areas in, which processes of integration and market openness take place. In this sense, policy-makers might realize that the EU shares a responsibility, together with the countries concerned, to address any adverse consequences and any imbalances generated by these processes of approximation and openness.

Policy-makers might take action in support of public policy in the confrontation of regional inequalities and imbalances in the ENP countries. Given that in most ENP countries the public sector is limited in size, compared to the EU standards, the active involvement of the State in pursuing a more balanced economy should be a main policy priority. With the exception of Israel, however, the ENP countries' national or regional administrations do not appear to have the required experience in setting-up and implementing an effective regional policy. Policy-makers might take actions to upgrade the technical and the financial support on behalf of the EU, transmitting the EU's know-how and, also, sufficient funding for the design and implementation of regional development programs that will (at least partially) ameliorate the impact of internationalization on the spatial balances of the ENP countries. Policy-makers might need to obtain a deeper level of understanding of the interactions between the international and the regional dynamics in the ENP countries. A further upsetting of spatial balances in the ENP countries may be the ground for either political unrest or a population exodus from poor rural areas, where currently reside over 100 million people. A migration leak (or tide) to the relatively more advanced urban centers or the core EU countries is more likely to fuel further internal and external imbalances, than operate as a safety valve to the pressures exerted.



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