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**AN ANALYSIS ABOUT NEW EUROPEAN
GEOGRAPHICAL ECONOMY WITH 25 MEMBERS**

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Introduction

European regional integration is both commercial and monetary. The Pact of Stability and Growth seeks to eliminate the volatility from the currencies which has a negative impact on the commercial flows, the FDI, like the domestic investment.

This process of regional integration implies that geographically close countries choose to manage their currencies according to a common reference (a basket of currencies or a currency). It supposes the monitoring of the level of real exchange rate (like key determinant of competitiveness) and of the volatility of the nominal exchange rate (which affects the real economy).

The stabilization of the exchange rate would increase the trade and financial integration for the economies which are geographically close, and would support in particular the intra-industry trade. The volatility of the exchange rate affects the domestic investment. It plays a role in the export of the domestic firms and the use of the imported intermediate goods.

When the trade is differentiated horizontally, this stabilization supports the investment. The regional integration of the trade with the peripheral countries is supported by the constitution of the Euro zone, ensuring the stability necessary to the development of the trade, and providing advantages to the new members in term of trade and FDI.

With medium term, the intra-industry trade will be stimulated. The positive impact of their integration at the Euro zone can be more significant *ex post* than it seems *ex ante*.

The widening of the European Union involves a modification of the economic geography. The delocalisation reinforces the competitiveness of the European Union.

They will support a reinforcement of the economy and will start again the labour market. We apply an European logic.

Our analysis is interested particularly in the new members of the East. We seek to show in which framework their integration will modify commercial flows within this new European space. Several movements of delocalisation of multinational firms were observed (FIAT in Poland, Volkswagen in Czech Republic, Renault in Hungary for example).

This regional integration of the trade leads us to analyse the new economic geography of the EU with 25 members. We present the theoretical framework of the redistribution of the economic activities in this widened Europe. Then we analyse the potential of the new members in term of attractivity.

Part I : An Theoretical Analysis about New European Geographical Economic

1. The theoretical framework of the redistribution of the economic activities in the UE with 25

The theoretical framework to explain the geographical distribution of the economic activities is composed primarily of the Traditional Trade and Geographical Economy theories.

We present the various forces pushing towards more or less agglomeration.

We study two criticize determinants leading these forces (costs of transactions and the mobility of the factors).

The study of the models of localizations of the UE will enable us to understand the economic geography of the UE.

1.1 Localization and space theories

The theorists of the traditional trade theory suppose that the economies of scale are constant and that the market is in perfect competition.

The theories of the comparative advantages allow carrying out forecasts concerning the localizations. The trade makes it possible each country to specialize in the production of the goods in which it has a comparative advantage. In « ricardians " models, the comparative advantage results from the differences in technologies exogenously, and from the endowments differences exogenously according to HECKSCHER and OHLIN.

Another approach in Geographical Economy adopts different assumptions. Technology increases the economies of scale. Competition is imperfect. The endowments are identical, but the factors can be mobile through the localizations so that incomes and prices of the factors can be led in an endogenous way by the choices of localization. The increase in the economies encourages the firms to concentrate their productions in a limited number of plants. The localization of these firms will depend on the forces of agglomeration and dispersion. The localizations in the centre give a good access to suppliers and the customers (bonds costs and requests). The localizations in the periphery avoid the competition of product and factor market.

If the forces of agglomeration dominate the forces of dispersions, the firms concentrate in some places and export towards outside. This literature refers to the geographical economy.

1.2 Agglomeration and dispersion forces

Each one of these theories contains features which explain the forces leading to the localization and thus allow us to put them in prospect for Europe at 25. We consider the principal forces which direct the distribution of the economic activities within widened Europe.

In much of models, the local endowments have a direct impact on the localization. In a broader way, they can capture the effects of the factors, technology, and physical geography (including the natural resources). The majority of the theories take into account these endowments. The physical geography is exogenous. The factors endowments are endogenous if the factors are mobile, whereas technology can depend on the composition and the size of local industries. This suggests features differences within the European zone. It is also necessary to take account of the local economic conditions.

In most theoretical models, a key factor leads the distribution of the space activity, that is the interactions between the local staff. In geographical economics models, linkages between the demand and the costs are amplified because of the presence of increasing scales economies. The technological surpluses and the externalities of the labour market can also play inside industry. Disadvantages of localization are possible when competition on the goods and factors market depends on the number and the size of the local candidates in the same industry.

1.3 Determinants of agglomeration and dispersion forces

We consider the factors which can explain the reinforcement of these forces in a particular way in the UE. We study two of them:

- * costs of transactions and,
- * the mobility of the factors.

The costs of transactions play a key role in the determination of the localization of the activity. When the costs of transaction are significant, the economic activity will be dispersed. The profits of the agglomeration are more than to compensate by the forces of dispersion. As long as the economic activities remain to disperse, the fall of the costs of transaction increases the trade level. On intermediate level of cost of transaction, the firms are urged to agglomerate despite market competition and saturation. If costs of transactions are lower, the process of concentration can be reversed because of the saturation costs induced by the space concentration. This depends on the assumptions about the nature of competition and the degree of differentiation of the products, increasing scales economies, and the factors mobility.

In Europe, the mobility of work is low. Simply let us note that the migration is encouraged by the higher real wages in the centres areas, this increases at the same time the request and attenuates competition on the market of goods and products. Though this migration can increase the

saturation of the market and the land prices, these effects can be secondary. In models where the factors are mobile, activities should be concentrated for any level of costs of transactions.

2. The logic of the intra-European delocalisation

They are carried out of a country of the old EU with 15 towards one of the new Member States. The economic analysis is in the prolongation of the studies about process advantages of regional integration. One does not limit to the effects of the customs unions on creation or the diversion of commercial flows but we take into account the effects on flows of direct investments, and flows of productive capital. The effects of the delocalisation will not be the same ones according to whether the units are delocalised towards a country of the widened UE or outside.

This logic can be analysed by taking the theory of VERNON R. It allows identifying the feed-back effects on the economies of origin of the firms which decided to move their activities towards the new members. Negative effects can occur (like increasing of surplus production capacities). We integrate globalisation within the new industrial geography of widened Europe.

The firms, from which the products did not profit any more a revenue created by the innovation and who was to face a generalized competition, turn to outside. They become multinationals and delocalise their production. Competition is now on the prices (thus on the costs) and not to the technological advantage. This situation is characteristic in the relations between the countries of the old EU with 15 and the new Member States of the European Central.

The theory about life cycle of the products seems to account for the majority of the operations of intra-European delocalisation in the sectors where the goods and services became standardized. Thus the least

developed countries could leave their specialization in the production and the export of agricultural products to industrialize themselves and become exporters of manufactured goods.

2.1 Industrial localization Approaches

We consider the explanations of the models of localization of industries. Then we consider wages and labour productivity. We choose the geographical economic approach which seems to us relevant to highlight the geographical redistribution of the economic activities.

One determinant of the industries localization is the supply. However two other factors play also a role: distribution of the request and easy trade. As we saw these two factors have a stronger impact in the models of geographical economy with the assumptions of imperfect competition and increasing economies of scale. The impact of the explanatory factors will differ through industries.

ELLISON and GLAESER (1999)¹ develop the estimate of an equation by using a simple model of localization. In their model, an industry consists of numbers of factories which choose localizations to maximize the profits.

MIDELFART-KNARVIK et al. (2002)² consider their model developed into 2000³ by using data of OECD. They analyse the interaction between six effects. Three take into account HECHSCHER OHLIN effects (agriculture, the endowments low or fairly qualified and highly qualified) and three have geographical effects (linkages costs on the intermediate

¹ ELLISON G., GLAESER E. The Geographic Concentration of Industry : Does Natural Advantage Explain Agglomeration ? American Economic Review, 1999, Volume 89 p 311 - 316

² MIDELFART - KNARVIK KH., OVERMAN HG. Delocation and European Integration : Is Structural Spending Justified ?" Economic Policy, 2002, Volume 35 p. 323 - 359

³ MIDELFART - KNARVIK KH., OVERMAN HG., VENABLES AJ. Comparative Advantage and Economic Geography : Estimating the Location of the Production in EU. CEPR Discussion Papers, 2000, n°2618

entries, the interaction between final demand / cost of transport, the sequence of the intermediate request). To study the geographical effects, we consider the market potential. The authors show that the variable "labour qualified" is always strongly significant and has an impact more raised. The intermediate costs have a positive impact on the relative share of industry.

The results on the variables of economic geography suggest that the cost and the intermediate request are significant for the localization, whereas the final request is not it.

This approach has the attractive property to give a rather simple functional form while taking account of a variety of forces of agglomeration and dispersion. The differences in the endowments and the intensities of factors induce specialization, whereas the commercial costs mean that the localization of the final and intermediate requests is significant. The model does not include the imperfect competition and the effects of increasing economies of scale.

2.2 The labour productivity and inequalities of wages

We considered the role of the forces of agglomeration by determining the share of employment which is necessary for localization. These effects of agglomeration can have an impact on the productivity and indirectly on the concentration of employment via differences in local productivity. These regional differences in productivity can be significant as we see it for the countries of the UE with 25⁴.

The approaches based on the monopolistic competition improve the analysis framework proposed by KRUGMAN (1991)⁵.

HANSON (2002)⁶ proposes a fully structural approach to consider the wages inequalities based on a geographical model of economy. These

⁴ CICCONE A. Agglomeration Effects in Europe. *European Economic Review*, 2002, Volume 46 p. 213 - 227

⁵ KRUGMAN P. Increasing Returns and Economic Geography. *Journal of Political Economy*, 1991, volume 99 p. 483 – 499

⁶ HANSON G. Market Potential, Increasing Returns, and Geographic Concentration. University of Michigan, 2002, November

structural estimates are based on the geographical economic model proposed by HELPMAN (1998)⁷. While the reduction of the cost of transaction increases the agglomeration for KRUGMAN (1991), it makes the areas more homogeneous for HELPMAN (1998). These results are not contradictory however. Each model underlines a side of the curve formed by the well-known bell on the relation between the costs of transaction and the regional inequalities. In conclusion, let us note that equilibriums in the models of HELPMAN (1998) are interiors. It is the main reason for which HANSON (2002) preferred to choose models of HELPMAN (1998) for his evaluations.

2.3 The dynamics of delocalisation in the UE with 25

The literature supposes that the local externalities affect the local growth.

We see initially the determinants of the growth on long term, and then we can concentrate on the means and the short term.

The growth of the productivity has significant consequences on employment. The positive shocks of productivity could have a negative effect on the growth of employment, if the production does not increase sufficiently. Moreover, some effects of agglomeration can be carried out directly on the labour resources without affecting the productivity. These two effects return interpretations of the growth of difficult employment and suggest that the determining causes can be different for the growth from productivity.

CINGANO and SCHIVARDI (2002)⁸ carried out two contributions. Initially, they employ the growth of the total productivity of the factors like dependent variable. They prove that the specialization and the town of establishment have a positive impact. One also observes this positive

⁷ HELPMAN E. The Size of Regions in PINES D., DADKA E., ZILCHA I., Eds., Topics in Public Economics, Cambridge University Press, 1998, p. 33 - 54

⁸ CINGANO F. SCHIVARDI F. Identifying the Sources of Local Productivity Growth. Studies of Bank of Italy, 2002

impact on the growth of the wages. On the other hand, diversity, competition, and the variables of size of factory are not significant.

In addition, by using the same sample, they study the differences which are observed while working on the growth of local employment as a dependent variable. They prove that the effects of the specialization and the size of the city are reversed, becoming negative, whereas the other local characteristics now have a significant impact on the growth of local employment. This seems to confirm that the growth of local employment and the productivity can be stimulated by various determining causes.

The delocalisation has also feedback effects. They result mainly from flows of exports of the receiving countries of delocalisation towards the countries of origin of the investors. These trades can generate the creation or the increasing capacity of production. This effect will be stronger because the delocalisation doesn't involve closings of immediate manufacturing units in the country of origin. There is an effect of shift related to the resistance of the employees, the attitude of the hostile governments. The addition of these capacities to produce is likely to involve a surplus production capacity.

Strategies followed by the firms

There are primarily three strategies: of market, minimization of the costs, and global.

For the strategy of market, the decision to invest abroad is determined by the size of the market and its growth. However the barriers to exports (protectionism), the importance of the costs of transport and the weakness of the economies of scale are also taken into account.

The establishment abroad is analysed like a substitute with exports, relevant within the framework of widening. The operations of delocalisation resulting from this strategy could involve a surplus of production capacity on the level EU widened in the sectors where the new members are more attractive. At the beginning of the years 1990, the methods of establishment are mainly made up by repurchases and fusion-acquisitions carried out within the framework of the programs of

privatisation. The purchase of the public companies by foreign investors was accompanied by investments of rehabilitation, technology transfers, staff training which resulted in an increase in the productivity and production.

The delocalisation involves a multiplication of the manufacturing units in certain sectors. The feedback effect on the markets of origin will be stronger since the latter are already saturated. This explains the weak rate of domestic investment in the countries of origin and its orientation towards the foreigner.

The minimization of the costs is another strategy. It finds a field of application privileged in the new Member States. The wage costs are much lower there than in the remainder of the Union. There is a supply of skilled workers; the costs of transport are low. These factors militate in favour of a delocalisation towards the new members going of the production of goods requiring a labour slightly qualified like clothing, the shoes, the electronic components (Bulgaria, Romania), to go back with the productions to intermediate technological intensity like the automobile components, the assembly, electronics, chemistry-pharmacy (Hungary, Czech Republic, Slovakia, Slovenia, Poland).

A strong part of the production is intended for export. Exports of the subsidiary companies of foreign firms established in these countries are intended for the countries of the old UE for 15.

The global strategy makes it possible to combine the minimization of the costs and the establishment abroad. The characteristics of the new European regional integration cumulate the advantages of the access to a vast market and minimization of the costs in an environment where the costs of transactions are increasingly weak. The phenomenon of agglomeration of the foreign investments of European or non-European origin can worsen the production surplus. That is right in the attractive sectors like the car, pharmacy, electronics and the distribution.

Part II: New economic geography of the productive activities in the UE with 25

3. The policy of attractivity

3.1 Policy of attractivity and regional development

The evolution of the labour relations in the applicant countries is related to the deep changes which accompanied the process of transition and that of adhesion. The opening of these countries, the intensification of flows of trade and capital had an impact on these economies and influenced the internal growth as well as the economic and social reforms in the field of the labour relations. This liberalization of the trades made it possible to facilitate the regional development.

The area is a significant source of comparative advantages and economic organization. The success of the dynamic regional economies and the " industrial districts " is an example. They attract the local credits for their competitiveness. KRUGMAN (1995)⁹ highlights the increasing benefit of the economies of scale associated with the space agglomeration (in particular the reduction of the costs of transport) and with specialization (partner with the technological advantages). It estimates that the external economies and the agglomeration offer certain key elements of the growth and competitiveness. The currents of the institutional and evolutionary economy show the bonds of proximity and association like a source of knowledge and training (AMIN and THRIFT 1995)¹⁰. This knowledge makes it possible the firms to begin in the competitiveness based on the training and the institutions.

The new regional theory implies actions which go beyond the traditional initiatives of the local economic development. This last

⁹ KRUGMAN, Globalisation, and the Inequality of Nations, *Quarterly Journal of Economics*, 1995, Vol. 110, p 857-880.

¹⁰ AMIN et THRIFT, Institutional Issues for the European Regions : from Markets and Plans to Socioeconomics and Power of Association, *Economies et Société*, 1995, Vol. 24, p 41-66.

concentrates on the offer and the institutional basis of the development of agencies of organization of trade and representation autonomous policies, in order to take the comparative advantages inside the industrial dies. These agencies are comparable to special interest groups.

From this point of view, there are several possible actions. We retain of them primarily two:

- * The construction of agglomeration and savings in association,
- * The training and the adaptation.

The improvement on the side of the supply (systems of transport, communications) is necessary but not sufficient to ensure regional economic competitiveness. The political action relates to the support of the agglomerations of industries interrelated, in order to ensure the international competitive advantage. The specific initiatives of firms are taken into account in the programs of agglomerations to build a local system of interdependence. They are programmes of development of companies or incentives to attract the investors.

The institutional support is particular according to the sectors. This help is targeted on the agglomeration of the firms. The construction of savings in associations inside the agglomerations makes it possible to improve the innovation of the companies, by encouraging the social dialogue and the exchange of information. The inter-firms trades are encouraged to maximize the effectiveness of the collective resources between the various sectors.

The construction of the association's economies helps the regions to overcome some of the structural obstacles, by encouraging the improvement of the sectors networks of vertical and horizontal interdependence.

The new regional economy insists on the innovation and the training like dynamic factor of competitiveness. It corroborates the experiments successful with considerable capacities of training in the economies of transition from the East. The adaptation around particular sectors and the anticipation of new commercial opportunities enable them to develop and retain the competitive advantage.

The markets increase and become more competing. The trade reduces the distortions which are associated the imperfect competition in a closed economy. The economies of scale encourage the countries to specialize in the production of a small number of differentiated products, which leads naturally towards the intra-industry trade.

The commercial opening is associated an increase in profits. The traditional benefits of the trade are the effective allowance of the resources, the existence of the economies of scale and imperfect competition market.

The decisions of FDI can be allotted to the strategy of the localization. They depend on the comparative advantages, but also on the costs of transactions / transport and the increasing sales turnovers (HORSTMAN and MARKUSEN¹¹, BRAINARD¹² or MARKUSEN¹³).

The choice of the localization abroad is justified by lower costs, a decision depending once again on the structure of the sales of the investors. The multinational firm intends to sell on the market host, because the costs of transport reinforce the incentive to produce locally.

If the production must be re-exported, the costs of transport reduce the incentive for the FDI. These expenses high limit the benefit of the concentration of the production in a small number of localizations.

The level of the real exchange rate determines the production costs in the economy host. Concerning the instability of the rate of exchange, the impact is theoretically ambiguous. A foreign firm, facing broad volatilities of the exchange rate will produce in the local country if it intends to sell on the local market, but abstains from making it if it intends to re-export.

¹¹ HORSTMAN I. J. et MARKUSEN J. Endogenous Market Structures in International Trade. *Journal of International Economics*, 1992, volume 32 pp 109-129.

¹² BRAINARD L. S. An Empirical Assessment of the Proximity-Concentration Trade off between Multinational Sales and Trade. *National Bureau of Economic Research Working Paper*, N° 458

¹³ MARKUSEN J. The Boundaries of Multinational Enterprises and the Theory of International Trade. *Journal of Economic Perspectives*, 1995, volume 9 (2), p 169-189

The FDI takes place in a context of strong uncertainty. In theory, the aversion with the risk would lead the firms to diversify through the possible localizations. According to AIZENMANN¹⁴, FDI allows to allocate the production in order to adjust itself with the varied shocks.

The increase in the exchanges with Europe modifies the conditions of the competition and reinforces the requirements as regards quality or export price. Adhesion and the commercial opening are likely to cause a shock of competition.

The regional specialization of the new members of the East can be measured the revealed comparative advantages; one has the indicator of "contribution to the commercial balance"¹⁵. The majority of the countries specialized in the manufactured goods (movable and clothing) whereas they import machines and vehicles. Certain countries are specialized in intensive goods manufactured in capital.

We compare the specialization of four of the new members of the UE; one calculates the index "contribution to the commercial balance". There has specialization or comparative advantage when a country exports a significant part of its production. The indicator takes a positive value then and conversely if there is a comparative disadvantage (in this last case, the country imports a significant share of a good for the domestic demand).

This indicator makes it possible to identify the strong and weak points for specific goods and to compare them with those its competitors.

¹⁴ AIZENMANN J. Exchange Rate Flexibility, Volatility and the Patterns of Domestic and Foreign Investment. *National Bureau of Economic Research Working Paper*, 1992, N° 3853

¹⁵ The calculation of the index of contribution to the commercial balance is necessary in order to measure the revealed comparative advantages. It is presented in an article of G LAFAY published inside the review of the CEPPII: *Economy and international futurology* 1997. This indicator compares the trade balance observed for a product with a theoretical trade balance which would exist in the absence of advantage or comparative disadvantage. The theoretical balance is calculated according to the share of such or such product in the total of the exchanges. Without specialization, the trade balance for a given product should be a function on behalf of this product in the total trade. One obtains the theoretical balance expressed as a percentage by multiplying the share of the product in question in the total trade by the total trade balance. The difference between the balance observed and the theoretical balance is calculated with the following formula:

$$\left((X_p - M_p) - \left[(X - M) * \left((X_p + M_p) / (X + M) \right) \right] \right) * 1000 / PIB$$

where Xp and Mp are exports and imports for good p.

Sectors	Hungary	Czech Republic	Poland	Romania
Raw materials except fuels				
Liege and wood	3	7	2	4
Ore metal	2	3	1	2
Energy				
Derived oil and production	3	-3	-2	-2
Chemicals				
Manure	0	1	1	0
Manufactured articles classified according to the raw material				
Rubber manufactured	1	4	1	1
Wood works	1	3	5	2
Wire, fabrics and textiles	-12	-2	-6	-31
Iron and steel	-3	1	1	5
Non-ferrous metals	2	-3	4	6
Machines and means of transport				
Machines and engines	43	0	0	1
Industrial machines	-15	-4	-7	-5
Machines of office	17	-7	-4	-3
Electrical appliance	-1	-3	1	-6
Vehicles lorry driver	-26	26	-2	-7
Other vehicles	1	2	2	3
Various manufactured articles				
Pieces of furniture	2	9	11	10
Clothing	16	6	13	55
Shoes	4	2	1	15

We take into account specializations of these four countries (Hungary, Czech Republic, Romania). For certain intensive goods

manufactured in capital factor, the analysis reveals comparative advantages and distinguishes certain countries.

The Czech republic and Slovakia have a comparative advantage for the road vehicles belonging to the Machine section and means of transport. The car manufacturers invested in several countries of Europe Central to profit from the weaker remuneration of the qualified labour. Exports to the EU strongly increased during the Nineties.

Other countries, like Hungary, have a comparative disadvantage for these products; this result does not mean that this country is not implied in the automobile trade with the EU. Hungary is specialized in the manufacture complete of cars, which is not the case of the production of the spare parts. We can suppose that these countries are workshops of assembly. The spare parts are imported then the built cars are then returned towards the EU. Poland is very committed in the trade of vehicles with the EU.

The calculation of this indicator shows a certain de-specialization of Poland, the strong increases in imports and exports tend to underline the existence of an intra-industries trade.

The section of the various manufactured articles gathers primarily intensive goods manufactured in work. There is a comparative advantage for clothing and accessories, in addition Poland specializes in the manufacture of pieces of furniture.

These characteristics can be explained by several factors, among which levels of divergent developments at the beginning of the economic transformations like the geographical or cultural proximity. Regional specialization is also determined by geographical factors. Another determinant is the sectoral composition of industries, at the same time in the significant countries exporting and, and the structure of the request. When the structure of exports by product in a country is adjusted with that of the imports in another country, the trade between the two will be more significant. According to this logic, the similarity between the models of export on a side and the models of importation of the other can be used to measure the effects of creation of trade of the EU widening.

The increase in the trade flows alone is not sufficient to judge impact on the levels of income. It could be caused by the trade of the raw materials, or by that of the intensive goods in work, requiring a simple technology and weak qualifications, and, consequently, granting of low incomes.

Exports of the EU towards the European Central Countries are made up maintaining goods of investment in which modern technologies are included. The producers of machines, products electronic and vehicles also dominate these flows. Specialization moves of a model of inter-industry exchange towards an intra-industry exchange.

The economic performances are more significant in the less developed countries which adapt quickly to technical progress. In European Central countries, the challenge is significant. The majority of the economies start from difficult conditions with sometimes-significant technological delays.

The economic analysis of the productive apparatus shows the existence of regroupings of establishments. These agglomerations modify the comparative advantages of the companies. The European investments support the convergence of the industrial structures and improve the effectiveness of the production and the organization of the activities.

The opportunities of localizations of the investments and installations of factories appear thanks to the study of the potentials of the new members. Indeed, their integration redraws the economic geography of the EU with 25 members.

4. Potential factors incentive delocalisation towards the new members of the EU with 25.

The partisans of the new economic geography suggest that increasing disparities could develop because of the cumulative processes.

This approach is based on an integration of the commercial theory and location theory. These models take account of the imperfection markets, the external effects and the economies of scale. According to

KRUGMAN, it is an interesting complement with the debate on the interregional trade of large countries, which depend on the localization of the industrial structures. Moreover, inside the systems economically and politically integrated such as the European union, it is possible that the international and interregional trade amalgamate (BATHELT H. and GLUCKLER J 2002)¹⁶.

These models suggest that the investments will concentrate in the areas most advanced in technological term and work will move towards the sectors where the potentials of career are relatively significant. Consequently, the investments and the movements of work are likely to worsen initial divergences (ROOS 2003)¹⁷.

This interpretation of the results of the integration policies, and the experiments of integration of the UE with 15, suggest that the disparities intensify because of European widening. This applies not only to the disparities in a widened European Union, but also to the disparities in the new Member States. The threat of the increasing divergence seems to be significant for two principal reasons: lack of sufficient financial resources, and the mis-allocation of the resources of the governments in the majority of the new members. We see many sectoral disparities and of income between the countries. Integration should lead to a greater agglomeration and a concentration. Under these conditions, the European policies aiming at cohesion and specialization are more significant.

4.1 The fundamental concept of the potential factors

The availability of these factors can represent a regional potential if they are largely available, or a bottleneck blocking the development if they are not available or insufficient.

¹⁶ BATHELT H. and GLUCKLER J. Wirtschaftsgeographie. Ulmer, Stuttgart, 2002.

¹⁷ ROOS M. Okonomische Agglomerationstheorien – die Neue Okonomische Geographie im Kontext. In Glaßer E. et al. (Ed.) Wirtschaftsgeographie und Wirtschaftsgeschichte, 2002, n°10, Lohmar – Köln

The concepts of the independent regional development aim at reversing these results. Consequently, these approaches seek to use the potentials of regional developments to ensure a quality of life balanced through the areas.

The indicators used are selected by laying a stress more particularly on the conditions reigning in the new Member States and are divided into eight groups. We give this typology now.

Potential labour market	Geographical Position	Environmental Quality
Capital Supply	Potential regional market	Institutional Conditions
Potential Innovation	Agglomeration and Advantages of Localisation	

Potential factors for a development for the new Member States

Strong disparities exist between agglomerations and rural areas and/or more peripherals. In fact, the disparities in " GDP per capita " seem to increase, as suggested by the models of the new geographical economy.

This is shown by the partially strong disparities between the less populated agglomerations and areas.

A first group of areas can be characterized by the cities of the capitals and the principal urban centres. These areas show the economic indicators most favourable and draw benefit from the raised investment, the qualified labour and the formation, the development of infrastructure and services. Particularly let us note the predominance of some capitals (for example Budapest, Prague, Bratislava, and Tallinn) in the national economic structures.

Some urban centres have a role principal. They have the capacity to stimulate the regional development. These centres are generally located close to the country of the UE-15. On the other hand, the agglomerations of the new members, who are located on the European periphery, particularly

those of Romania and Bulgaria, seem to have less dynamic urban centres. It is also interesting to note, the particular case of very dynamic Poland. This reflects a strong tradition of economic development with a very developed centre.

A second regional group is at the borders of the areas Western. These areas are near the EU, which encourages the investment, the trade, tourism, education and the innovations technological.

Contrary to the areas close to the Western border, a third group exists with the areas Eastern and rural peripheral; they among are handicapped economically new members. The geographical localization, the weak infrastructure, the weak investment, the worse profitability of agriculture and the rural migration are all of the factors contributing to their low levels of economic development and to high rates of unemployment.

The economic position of the Western border and the Eastern outlying areas are largely dictated by their geographical position. The great areas of Romania and Bulgaria, as well as most of the countries the Baltic ones, share the problems of the Eastern outlying areas. It is also interesting to note that a certain number of weaker outlying areas are relatively close to the urban centres, for example Budapest, Warsaw and Poznan, suggesting that the connections between these urban centres and surrounding areas can be weak.

The two economies of the islands of Cyprus and Malta are classified like a separate group.

A final group is represented by the old industrial areas. These areas had a great economic activity under the socialist mode and were dominated by heavy industry. More recently, they were affected by privatisations, the reorganizations of company or closings, the losses of subsidies and the reorientation of the market. The processes of reorganization are always in hand in much country. These areas face the high levels of unemployment, with the lack of entrepreneurship and the environmental decline. While

these old industrialized areas face considerable difficulties of economic development, they occupy a main position surrounded by a triangle of the growing points in this part of Europe. Currently, this triangle of economic development seems to reach in the west (Prague, Bratislava), in the south (it extends from Vienna in Budapest), and in north (from Krakow in Warsaw).

For the areas defining this zone, particularly the principal urban centres, several potentials of development can be identified. The majority of these areas have comparatively high incomes; very populated they have a strong density of working population.

4.2 The potential labour market

The endowment of the work factor at the regional level can be understood in both quantitative and qualitative term. The quantitative component of the endowment of work is measured in term of density of the working population. The measurement of the qualitative component takes into account the percentage of the population having followed a higher education. This measurement must be interpreted with prudence.

Concerning the quantitative aspect, except some areas in north and in the east of Austria, along the Eastern border of the UE, there is a coherent measurement of density of labour. The centre of Poland, most part southern, and the northeastern part of the Czech Republic also show relatively high measurements of density.

The same report is done for Slovakia Western and Hungary. Without surprise, they are the peripheral areas compared to the EU-15, which shows a lower density of labour.

As regards education, the differentials are particularly high along the border East German. The variations of levels of education in the new Member States are surprising. The Czech Republic, Slovakia, Hungary, Bulgaria and Romania have capitals where there is a high share of the population having levels of high educations. Shares, comparable with those raised along the German border, are found in the Baltic States and in Cyprus. The Baltic States have a strongly educated labour. These

measurements indicate that the three Baltic States must offer interesting possibilities with a labour able to work in higher sectors with added value. Cyprus reflects a similar potential, in spite of a higher density of labour.

4.3 The innovation potential

The relative expenditure of Research and Development in the new Member States is weak compared to budget devoted by some of the former members of the EU. The relative differences are particularly high along the border East German.

In the new Member States, there is a concentration of Research and Development in the areas close to the capitals, but it is still low. Prague and the surrounding area has a rate of expenditure in Research and Development higher than the other new members, by holding account particularly high level of income in this area. This measurement translates the high potential of innovation in the area of Prague coinciding with a high qualitative potential of the labour market. We can note the intensification of Research Development in the German area of Dresden with the Czech Republic. It is necessary to improve the qualification of the labour to benefit entirely from this potential from innovation. Slovenia intensifies Research Development compared to the other new members.

The more the countries are in periphery, the less there is effort engaged in this field. The weak expenditure Seeks of it Development and the low level of income is likely to mean that the innovation could be a substantial bottleneck for the future development. In Latvia, assistances for the activities of Research and Development are allotted in order to stimulate the process of reorganization.

4.4 Advantages of localization

The study of employment in the agricultural and service sectors show the stressing of the specific disadvantages of localization in the areas always dominated by the production of agricultural goods. These disadvantages of localization involved blocking effects the qualitative potentials of labour market and innovation. The growth of the sector of the services is an indication of the progress made with the process of reorganization.

The structure of employment is also closely related to the qualitative potentials of the labour market. Usually, work cannot be moved between the sectors without undergoing certain a re-qualification and formation. Consequently, an area dominated by agricultural employment will have a bottleneck concerning the qualitative structure of its labour. On the other hand, one can suppose that a great diversity of employment in the tertiary sector will probably imply a relatively high qualitative potential of labour.

In spite of these broad similarities compared to the role of agriculture, the differences in the sector tertiary are more significant. The structures of employment seem to be comparatively homogeneous along the Bavarian and Austrian borders. There are however strong intra-industries differences. Employment in the sector of the services has a great importance, disparities appear between the German and Polish or Italian and Slovenian.

However, this holds partially by observing the shares of employment in agriculture. It seems that the countries close to the borders of the West do not have the same division of the labour. For example, in Poland, the levels of employment in agriculture are higher. On the other hand, in the Baltic States, the Czech Republic and Hungary, agricultural employment is generally weak compared to the other new Member States.

The areas incorporating the national capital carry out levels of employment raised in the service sector. More generally, the shares of tertiary employment are low in the great areas of Poland, like in certain

areas of the Czech Republic and Hungary. In Poland and Romania, these low shares are combined with the predominance of agriculture. The majority of the parts of the Czech Republic, Slovakia and some areas of Hungary are dominated by industrial employment. Although the areas on the border along Austria seem to be relatively homogeneous in terms of use of the primary sectors and tertiary, of the more marked differences are obvious if types of industrial employment are taken into account.

Cyprus has much tertiary employment and few farm labourers. This can be allotted to the high number of maritime companies on the island and to the role of tourism.

The advantages of the urbanization and the localization, the disadvantages and their bottlenecks result from the respective potential of each country.

In the Eastern areas of Poland, the potential of development exists with a qualified labour which could be employed to advance the process of reorganization in the area. The process of reorganization envisaged by the political elite cannot be carried out without the effort of the population.

The emergence of a new more dynamic and more competitive European geography economic must be born.

Conclusion

The emergence of a new economic geography of the widened UE rests on two parallel movements.

* ● ● The profits of competitiveness are obtained by a greater rationalization of the structure of production which will fit in the wake of the intra-European delocalisation.

* The territory of the widened EU becomes gravitational to retain the investments originating in the zone and to attract the non-European investors.

The reinforcement of competitiveness will be produced by a movement of industrial reorganization operated by the firms in the prolongation of the delocalisation and an increase in the productivity of the new groups.

The formation of a big market resulting from the EU widening will have an effect of attraction on the non-European firms which have a strategy of market. But it will be able to slow down the investments of the European companies towards the rest of the world.

In the longer term, certain firms combining the strategies of market and minimization of the costs will change to become firm-network. The manufacturing activities in the countries of origin will be abandoned. They are transferred towards the periphery, mainly the new Member States of Central Europe.

The geographical distribution of the activities in widened Europe will be founded on the absolute advantages of localizations offered by the various territories (industrial sites, districts, clusters) which will develop by effect of agglomeration around the regional metropolises.

MICHALET C A. estimates that it is the global strategy of the multinationals and the specialization of the subsidiary companies which accompanies and underlies this dynamics.

An effective policy of attractively is designed compared to the priority requests of the investors. This point of view is imposed by the rules of the game of the globalisation which recognize the primacy of the

rationality of the investor (the choices of the localization depend on the satisfaction of its needs). The advantages of the localization offered by a territory are validated only insofar as they can contribute to the reinforcement of the competitiveness of the firm.

The policy of attractivity becomes a major component of the economic policy; it is not limited strictly to the factors which condition the localization of the foreign investors. It must take into account all dimensions of the economic activity. It extends as well to the investment from the foreign firms as to the investment from the local firms.

The policy of attractivity supposes a macroeconomic and macro-institutional framework which determines the environmental quality of the company.

The country must show its macroeconomic and political stability. Thus the evaluation of the profitability in the medium and long term of their projects of investment is facilitated. The investors are interested in the bearable character of the growth in the countries by examining their performances as regards balance of the finance public, balance of payments and inflation. They anticipate the consequences of a macroeconomic situation of imbalance for the convertibility of the local currency, the stability of the exchange rate. They privilege the countries which follow a liberal economic policy, favourable to the market economy, open on outside. The existence of programs of privatisation constitutes a positive signal, not only because they open investment opportunities but also they clearly express a favourable political orientation on the initiative private.

This one will be translated in the tax policy, in the legislation of the more flexible labour market at the time of recruitment and to the dismissal.

These conditions of choice of localization of the firms are significant in the phase of current globalisation.

The global strategies are not compatible with policies centred on the domestic market, protectionists, and framed by the plans medium term of the State.

The organisational structures which correspond to a global strategy cannot function without the subsidiary companies being narrowly connected between them. They are subsidiary company-workshops whose production is specialized and of which the products, which they are end products or of components are completely intended for the world market.

If the establishment does not take the form of a new manufacturing unit but that of a repurchase or an acquisition of a holding, the purchaser requires that the conditions of invitations to tender be transparent and that the administrative procedures are simple and expeditious. The slowness of the procedures diverts the investors towards other countries; the European Central countries accumulated many experiments of this type.

We attend a revival of regional integration in the logic of the globalisation. The concept changed since in the free trade areas are integrated unequally developed countries. Indeed, the countries of the South want to reinforce their credibility with respect to the foreign investors.

The economic and political stability of a country being acquired, the choice of a specific localization depends consequently on the existence of a certain number of factors. Those reflect the priorities of the potential investors. The most significant advantages of localization are the size of the market and its growth rate, the availability in qualified human resources, telecommunications and transports networks.

The widening of the UE is brought to continue. Indeed, in addition to the other applicant countries, like Turkey or the Mediterranean countries (Tunisia, Morocco, Egypt...) with which partnerships of exchange are already implemented. It is a new modification of the trade which is born. We can suppose that the trade will be differentiated vertically with these countries. Thus they will be able to develop and structure their economies. Significant efforts and reforms are to be engaged for these countries for a forthcoming accession.

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