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The Future of CENTROPE*

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The Future of the Central European Region:

CENTROPE

Welcome Address

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Ladies and Gentlemen:

It is a great pleasure to welcome you to this workshop which was coorganized by the Institute for Advanced Studies (IHS) and the Oesterreichische Nationalbank (OeNB).

Since the late 1980s, we have been witnessing a growing economic globalization and regionalization process. As a result of it, spatial economic issues have regained importance in the fields of politics, social sciences and economics. “Lost and found” is the metaphor economist Paul Krugman¹ uses to aptly describe this renaissance of regional issues.

As a result of this trend, whole new branches of – sometimes contradictory – spatial economic theories have been formed and numerous empirical studies² have been written by the academic world. Especially the concept of New Economic Geography has stirred a debate within the economic community.³ This concept tries to answer the core questions⁴ of regional and urban economics: Why is economic activity usually concentrated in a certain geographical area? How has the spatial distribution of economic activity evolved, and how can it be expected to develop in the future?

The central idea of this approach is that production patterns result from the interaction between centripetal and centrifugal forces. Furthermore, the concept of New Economic Geography suggests that economic integration does not necessarily lead to a convergence of per-capita income or an even distribution of economic

¹ Krugman (1995).

² Brakman, Garretsen and van Marrewijk (2001).

³ Ottaviano and Thisse (2004).

⁴ Simonis (2002), Neary (2001).

activity in the long run. Instead, this agglomeration theory argues that core-periphery patterns may persist and even intensify despite economic integration.

Not surprisingly, the increased interest in geography is mainly attributable to the process of EU integration and enlargement, as it is the perfect case study⁵ for such research activities. Will the old European spatial division of labor persist or will we witness the emergence of a new European economic geography? How does integration impact on the distribution of industries? Will we see a development similar to that of the U.S. economy in the past century?⁶ Will the EU and the European and Monetary Union (EMU) foster the formation of a “bunch of grapes” in Europe? This image describes the focus on regional convergence and polycentrism by the European Commission and many European national governments in their regional policy programs. It mirrors the European Community’s commitment to economic and social cohesion as laid down in the preamble to the Treaty of Rome.

The enlargement of the EU to 25 Member States has created an economic area inhabited by 450 million people. As a consequence of the Single Market and EMU, national borders will doubtlessly further lose significance, thus opening up a number of opportunities in particular for the Central European countries. The formation of a transnational economic region in the heart of Europe may cause the European economic core area to expand toward the east, along the former East-West border (“Iron Curtain”), to the “new economic powerhouse” of Europe.⁷

The Central European Region (CENTROPE) is currently situated outside the European economic core area, which spans from southern England via Belgium, the Rhine-Ruhr, Rhine-Main and Main-Neckar areas to Switzerland, western Austria and northern Italy. This so-called “blue banana”, which has existed since the 13th century, is characterized by very high per-capita income and a high density of urban areas.

Many analysts argue that, as a result of European integration, the blue banana has been complemented by a so-called “sun belt” or “golden banana”, extending from Valencia via Barcelona and the Provence to northern Italy. The creation of a thriving Central European Region (and subsequently of a “Danube Basin Region”) may well expand the European economic core area.

CENTROPE, which comprises the neighboring border regions of Austria, the Czech Republic, Hungary and Slovakia, once was a major transport hub where the river Danube intersected with the ancient amber road. CENTROPE shared a common history for many centuries before it was split up by the political events after World War II. “Lost and found” seems, once again, a fitting metaphor for this phenomenon.

⁵ Resmini (2003).

⁶ Martin (2001).

⁷ Business Week (2005).

At the core of the Central European Region – CENTROPE – are the two capital cities of Vienna and Bratislava. Taken together, these cities have a population of almost three million, thus ranking among the largest conurbations in Europe. Nowhere else in the Western world are two capitals (and consequently also two national central banks) located so close to each other (55 km as the crow flies).

The EU's eastward expansion may revive the vast economic, scientific and cultural potential of this region. It encompasses 48 cities with around 10,000 inhabitants and includes a number of transregional cities. Its total population comes to approximately 7 million.

Numerous projects and initiatives have been launched to help realize the region's enormous potential: The term "Central European Region" (Europa Region Mitte) was coined in connection with an initiative launched by the Federation of Austrian Industries in 1997. The CENTROPE project, which promotes economic development in the Central European Region, was initiated by regional politicians. The "BAER – Building a European Region" project, which is carried out within the framework of the EU's Interreg III A program, was designed to implement several steps that are necessary for establishing CENTROPE as a transnational region. The Direct Investment Agency Net (DIANE) is an initiative to attract international investors to CENTROPE, undertaken by the regional investment promotion organizations of the Austrian provinces of Lower Austria, Burgenland and Vienna as well as the federal investment organization Austrian Business Agency and various sister institutions in the Czech Republic, Hungary and Slovakia.

Despite the increased interest in regional issues, our knowledge of specialization patterns and agglomeration phenomena in Europe in general⁸ and especially in CENTROPE is still limited. Obviously, there are good reasons to explore the implications of the future development in greater detail.

There are at least two valid reasons why a national central bank should be interested to know more about regional issues:

- A central bank's role, function and size depend (at least to a certain extent) on its geographical location – e.g. the dimensions of the surrounding banking and financial markets have a strong impact on the complexity of the central bank's operational and analytical structures.
- The research interest in the impact of geographical issues on monetary and financial stability in a multinational, multicultural and multilingual Europe is increasing.⁹

For these reasons, the OeNB has launched a research program in 2004. The primary goals of this project are

- assessing CENTROPE's economic outlook,
- filling some of the diagnosed research gaps and

⁸ Brühlhart (2001).

⁹ Berger, Ehrmann and Fratzscher (2006).

- promoting institutional cooperation within the region.

The project comprised the following aspects:

- organizing lead discussions and lectures with national experts,
- holding interviews with national and international experts,
- commissioning research papers from national experts,
- organizing this workshop and
- publishing its results.

The workshop program, as I am sure you will agree, is both exciting and attractive. This afternoon, we will concentrate on theoretical issues in regional economics. Tomorrow morning, we will focus on CENTROPE. The first five (out of six) presentations will highlight the outcome of the OeNB's project. We will finish our workshop with a panel discussion.

Before I hand the floor over to Professor Polasek from the Institute for Advanced Studies, who will chair the afternoon session, let me express special thanks to all those who have accepted our invitation to act as speakers or discussants. I would also like to thank the organizers of the workshop for their excellent preparation work, especially our joint organizer, the Institute for Advanced Studies.

I wish you a stimulating and interesting workshop.

Thank you very much.

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