

ECONOMIC AGGLOMERATION AND THE REGIONAL DISPARITIES

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The regional scale of the economic research approach is relatively recent, although the traditional schools of economic thought treated indirectly the regional symmetries topic, identifying in this way the development potential of trade as a follow of the cost differential for a wide range of commodities and services and also the importance of the spatial economical issues. The space started to be perceived as an essential aspect of the economy and it creates some outstanding opportunities by stimulating international trade, but on the other hand it can produce a great hindrance in the way of economic development, by means of occurring severe structural problems.

In this paper, the author propose to explain the role of EU regional policies. In this sense, we will use the new economic geography theory, in order to point out the exogen aspect of economic growth, which contributes to the achievement of regional growth. This represents a benchmark in regional economic thought evolution, which creates a new approach about some much disputed issues like economic agglomeration, regional marketing strategies and regional asymmetries.

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1. Introduction

Agglomeration economies can appear as the result of the geographical association of a large number of economical activities which may not be part of the same sector. Therefore, in many cases, we can notice the focus on certain elements which can become advantages for firms in many sectors: urban transport and the possibilities offered for transport; work markets which are better organized, with work force resources which has diverse qualifications; social management expenses and governmental services; a large array of commercial, financial and juridical assistance.

Growth centers are dominated by sectors which are based on high intensity of capital and high technologies. At the beginning, the regions with a rapid growth rate can go around the less developed regions and maintain commercial relations with up and rising regions. During this time, as interregional exchanges develop, the regions which are less developed will be highly drawn into exchange relations, with many positive effects upon their economy. Of course, there will be some cases where less effective firm, which would only survive in the virtue of their isolation, will be eliminated from the competition by the firms with high efficiency, which come from the other growth centers, but this will only happen when the interregional changes will start to get more important.

During the discussions regarding the growth centers, special attention is being given to the effects of diffusion or "leakage" which come from these centers. As the economy of a country develops, improvement possibilities for the transport connections are being created, thus expansions firms will search for favorable conditions for investing in regions which fell behind.

In this theory, as Fr. Perroux says, the important part is represented by the exterior scale economies. The exterior scale economies appear as a result of the spatial nearness of certain interdependent activities. We can therefore distinguish two times of exterior scale economies: economies which exist because of their placement (placement economies) and economies which exist because of the agglomeration (agglomeration economies).²⁹⁷

²⁹⁷Baldwin, Richard E., Martin, Philippe (2002)– "Agglomeration and regional growth", Handbook of Regional and Urban Economics: Cities and Geography; p. 485.

Placement economies represent the result of the geographical nearness of some enterprises which are part of the same sector. They also include the transfer economies which are manifested as a result of geographical nearness of firms between we can notice input-output connections. These connection economies explain why the nodal points of the transport networks are those places where the costs of distributions and assembling for certain sectors can be diminished. Placement economies are based on a series of reasons. The most important advantages come from the nearness of firms which are part of the same sector, which allows a larger degree of expertise. As a result, costs will be reduced on the long run. For example, specialized firms can set headquarters within an industrial complex or groups of firms can establish certain cooperation relations, such as subcontracting. Besides this, the placement economies also appear from the fact that the geographic proximity of certain which come from the same sector will be great for growth, an innovative activity in that industry. It can lead to the appearance of workforce resources which are qualified and have the necessary experience for that certain sector.

Specialists think that *regional development* is a concept which has started to become known recently in economics literature as well as in state policy. If economical literature managed to explain the main causes of economic disparities between different regions of the European Union, this problem has started to become the main economic policy in the EU in the last two decades, especially after the adherence of Greece, Spain and Portugal, counties which were known for a lower development level when it comes to economy, compared with other countries from the EU and states which are marked by regional lack of equilibrium. Because of this, the stages of growth and economic development which were elaborated by the EU are permanently associated with the complex process of expanding the EU and of eliminating the gaps between the different levels of growth of each country.

The problem of quantifying and emphasizing the imbalance between the levels of development of each country or region is still highly noticeable. We can assume that the best way to put an accent on the problem is through macroeconomic indicators, like the Internal Brute Product or the Internal Brut Product/person, adapted at a regional level. The digression of these regional indicators from the state average can partially quantify the degree of economical development of all regions, and it can also quantify the magnitude of regional disparities. Other indicators can be utilized, such as these ones: the gap between revenue, between the levels of work productivity, between the degree of work force availability, and when it comes to the equipment and access to natural resources, the density of the infrastructure, unemployment rate and so on. The most utilized indicator from these ones is the Internal Brute Product per person because of at least two different reasons: it can show us the volume of the results of the economical activity and it will properly express the revenue (salaries, profit) which was cashed in by those who participated in the economic activity of a certain region.

In conclusion, with all of these side effects, the process of cumulative causality is a reality which is confirmed by the diverse evolution in regional plan, models which were built for the recreation of this process which still need to be perfected for obtaining a clear image and explanation over the causes which determine regional disparities.

2. Putting an accent and characterizing the regional gaps from the European Union

In the Rome Convention, the implementation of a regional policy was not mentioned directly. Even so, we can notice the degree of involvement of EU countries when it comes to strengthening the *unity of their economies and make sure that a steady process of development will take place, and that it will reduce the differences between regions and the delays caused by less developed areas*. The convention mentioned the creation of an European Social Fond which was supposed to help occupy the workforce and the stabilization of workers within the community.

When it comes to regional development within the European Union, two tendencies are obvious: the attenuating of regional disparities (development convergence) and the accentuation of regional disparities (divergence in regional development). These tendencies took place at different moments in time. Until the years 1975, the regional convergence tendency was highlighted and it was manifested through the attenuation of the differences between the Internal Brute Product/capita. The regional convergence was noticed in the frame of every state, but it was also obvious in the regions which were part of different European states. After 1975, an accentuation of the differences between the Internal Brute Product/capita was noticed between countries and areas, accompanied by a worsening unemployment rate. The tendency of regional divergence caused doubts because it can take place even in the high state of development of the EU, when assets, workforce, capital and services have no borders.

After 1990, through the introduction of a policy for regional development by the EU, an attenuation of disparities begun to be noticeable when it comes to the Internal Brute Product/capita and the difference between this indicator in Greece, Ireland, Spain, Portugal and the community average was attenuated by 25%. Strong regional disparities are encountered when you look at the unemployment rate, which used to vary between 4,6% in highly developed areas and 22,5% in less developed areas from Spain, Southern Italy and Greece.

These disparities exist and are highlighted especially between urbanized areas and rural regions. The performances which are most obvious when it comes to economical development and eliminating discrepancies are those from highly urbanized regions. In fact, there is a close connection between the degree of economical development and the degree of urbanization of a region. Rural regions from the EU are characterized through a lower production level and national revenue. It is thought that rural areas from the EU are formed by 20% of the population and can offer 17% of the Internal Brute Product of the entire community. In rural areas, the Internal Brute Product per capita represents 80% of the Internal Brute Product of the community and only 1/6 of the population works in agriculture, the rest being involved in other sectors, especially rural industry.

The regions with a higher degree of urbanization are those areas in which the highest importance within the regional economy is set upon the third sector, prior to the secondary sector. Even if the urbanized areas are sometimes considered to be prosperous regions, they are also the parts of a country which have to deal with the most problems, at least in when it comes to EU countries. At the moment, they have a high pollution degree, poverty, unemployment, dividing the population based on revenue and so on.

The regional disparities from the EU can be noticed from the point of view of the infrastructure. The countries which have the highest problems in this field are Spain, Portugal, Greece and Ireland, for which a new financial instrument has been created in 1988: "the cohesion fund", which offers regional assistance to these countries for financing the projects which have connections with the infrastructure or environment protection.

In 2008, The European Union was expected to reach a level of 1,4% of economical growth and 1,3% in the euro area, with approximately half of point less based on the predictions from April. The main risks which were identified have become a realist, on the base of accentuating financial turbulences, price growth on raw material and large scale propagation of the shocks which were noticed on real estate markets. The rate of inflation was at an average of 3,8% in the EU and 3,6% in the euro area, as a result of the strong and constant growth of the prices for raw materials. On the base of the intensification of global turbulences, during the second trimester of 2008, production has started to get lower in many countries which had strong economies, in some of which the phenomenon was caused by the recession of the real estate sector. The Internal Brute Product was lowered with 0,1% in the EU and with 0,2% in the euro area. This fact mainly represents a consequence of the unexpected growth from the first trimester, which was basically caused by some temporary factors. Besides this, the noticed growth of the price on raw materials,

the persistence of financial turbulences and, in some cases, the shock on the real estate market have lowered the confidence, increased capital costs and they also caused inflation when it comes to consumption prices, fact which affected the internal demand. The economical situation and the global perspectives remain unusually uncertain. After one year from the first financial turbulences, the situation of the international financial systems is still fragile and many credit markets are still seriously affected. Even so, on the best of the intensification of these financial turbulences in the last trimesters of 2008, the decrease of confidence indicators was generalized in many sectors and member states (with a visible decline of the indicator of general perception upon the economy in Spain and the United Kingdom)²⁹⁸.

Table 1- The matched index of consumption prices in 2008

	Quarterly HICP forecast (%, year-on-year) 2008				Annual HICP forecast (%, year-on-year) 2008	
	2008/1	2008/2	2008/3	2008/4	<i>Spring forecast April 2008</i>	<i>Interim forecast Sept. 2008</i>
Germany	3.1	3.0	3.3	2.7	2.9	3.0
Spain	4.5	4.7	5.0	4.0	3.8	4.5
France	3.3	3.7	3.8	3.3	3.0	3.5
Italy	3.3	3.8	4.1	3.6	3.0	3.7
Netherlands	1.9	2.0	3.6	3.5	2.7	2.8
Euro area	3.4	3.6	3.9	3.4	3.1	3.6
Poland	4.5	4.3	4.8	4.4	4.3	4.5
United Kingdom	2.4	3.4	4.4	4.3	2.8	3.6
EU27	3.6	3.9	4.2	3.7	3.6	3.8

Several indicators, like industrial production, orders and en detail sales indicate, for the last few months, a decrease in the growth rate, in the EU and euro area alike. The anticipated diminishing of the inflation, which should mainly sustain the available revenue of families and the consumption in the course of the forth trimesters, represents one of the factors which could determine a tendency switch.²⁹⁹ The regional development made the implementation of a statistic system of NUTSII level in the EUROSTAT list necessary, with the purpose of analyzing and monitoring the disparity in regional development which is still in the course of enhancement. The statistical data show that Romania has entered the transition process having a relatively small level of regional disparity, when compared with other states.

3. Regional Growth and the new economic geografic

The theories regarding regional growth have known a gradual evolution, which was at first marked by treating regions as non spatial elements of the national economy, and after that, by taking into consideration space explicitly.

From the comparative approach of these two large current, a large theoretical problem has appeared, of which practical implications in the regional sphere of policies are obvious. It refers to the rivalry or generative character of the regional growth.

298 Inforegio (http://europa.eu.int/comm/regional_policy/intro/regions5_en.htm).

299 http://ec.europa.eu/economy_finance/thematic_articles/article12054_en.htm.

A consequence of treating regions as non-spatial subdivisions of the national economy is that the regional growth rates are looked upon as being derived from the national economical growth rate, while the possibility of a propulsive impact of the growth of each region upon the rate of national growth is ignored.

The importance of this spatial impact upon regional growth is minimal in the case of the models which are based on the rivalry growth. This phenomenon, in which the inter-regional spatial efficiency of one region can have a feedback effect on the aggregate economical growth rate, is called generative growth.³⁰⁰

The importance of this distinction, besides showing the fact that spatial distribution of resources within the national economy has a significant impact upon the dynamic efficiency, is based in focusing the attention upon the intra-regional efficacy in a more significant way: while the rivalry growth models state that, if production factors are distributed efficiently between regions, the economical growth rate should be maximal, the generative economical growth models strengthen the necessity of the commitment for stimulating the favorable conditions of economical growth in the frame of each region, instead of taking resources from other places, which might be more productive, in other regions.

A function of flat preferences implies a society which is orientated towards economical growth. If the preference functions are abrupt, the society is more receptive to regional redistribution methods. It is possible that even the tangent point can be registered in the frame in which the indifference curve is the correspondent of a negative economical growth rate. Even so, in such scenarios, the circumstances which make the choice of a positive growth rate possible need to be identified along with the cases in which setting an ex-post redistribution of the results of the economical growth.

Traditionally, the economical theory explains the difference of the production structures mainly through its base particularities (geographical placement, vendors, technology) which create special characteristics. In this situation, economical integration will force regions into getting specialized according to the comparative advantages.

Paul Krugman and Anthony J. Venables thought of two production sectors. One of them is with perfect competition and produces perfectly negotiable merchandise, with a constant income level, while the other sector has to deal with imperfect competition, monopoly where firms produce merchandise with rising incomes.³⁰¹

The model with imperfect competition is based on the fundamental duality of the effects of the economical integration upon the rivalry of the main regions and the periphery ones. The main regions utilize productive factors on a large scale, unlike periphery ones, even if both of them have almost equal possibilities (there is no comparative advantage).

The difference of results is caused by the fact that the base regions have access on the market better than periphery ones because of the competition factors, the growth of revenue and the presence of high costs are forcing workers and firms to settle as close as they can to the large markets from the country. It should be noticed that the minds of the 50s (Hirshman, Myrdal, Perroux) were very insistent when it came to the fact that large markets are those where many firms and workers are present.

The new geographic economy has formalized these factors as a casual and cumulative mechanism, showing that, at the base of the structure and interior particularities, similar regions and even ones that look alike can be differentiated into main rich regions and periphery poor regions. In the beginning, the agglomeration will manifest itself as the preferences of consumers have increased for a large variety of substantial products on the local market. This contributes to

300 Richardson H. (2000), *Regional and Urban Economics*, Edition Pitman Publishing Ltd., London, p. 412.

301 Fujita, M., Krugman, P., Venables, A.J. (1999) – *The spatial economy: cities, regions and international trade*, MIT Press, Cambridge, Mass., 193

the growth of the monopolistic power of local firms in the base of the variety which they offer, diminishing local rivals and stimulating agglomeration.

The growth of the local production gravity in the total of consumer expenses is beneficial for agglomeration because it diminishes the impact of foreign products on the local market. Also, the growth of the real income of firms contributes to the growth of real salaries and allows firms from regions which produce a large variety of interchangeable products to attract workforce without paying for large salaries.

4. Conclusions

The agglomeration economies appear as a result of the geographical association of a large number of economical activities. The attraction in the existent growth of regional center growth leads to a series of anti-current effects which operate in the disadvantage of less developed regions. Besides this, they tend to attract the most valuable elements of work force resource from the less developed regions.

The generative growth models are based on dimension, treating economic national growth rate as the result of growth rates from the region. In this conception, the entire growth is spatially orientated, in other words, it was growing in the frame of any part of the national economy and it comes from a certain place. The performances in the matter of regional growth can be enhanced without causing side effects upon the growth rate of the surrounding regions. The growth rate induced by the innovative process can be put into this context: agglomerations and spatial proximity for any activity in certain cities and regions can induce a rate of innovations higher than the one which would be noticed without agglomerations; similarly, the changes which can appear in the intra-regional distribution of production factors, such as facility, of an efficient intra-regional system can also increase the production efficiency and regional growth rate. The spatial mobility of production factors and the direction of the interregional fluxes determined by the gaps between regions explain the problem of long term convergence of the economical development on a regional plan.

Placement economies represent the result of the geographical compression of certain enterprises which belong to the same sector. They include transfer economies (of connection) which are manifested as a result of geographic proximity of the firms between which input-output connection exists. These connection economies explain why the main points of the transport networks are those placements in which some distribution and assembly costs can be minimized. The new geographic economy shows that at the base of the structure and on the interior particularities, similar regions can be differentiated in main rich regions and poor periphery regions. In the beginning, the agglomeration is manifested based on the growth of consumer's preferences for a wide variety of interchangeable products on the local market. This contributes to the growth of the monopolistic power of local firms in the base of the varieties which they offer, diminishing local competition and stimulating agglomeration.

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